



21<sup>st</sup> November 2011

## Splendid isolation ?

“Clearly, Field Marshal Haig is about to make yet another gargantuan effort to move his drinks cabinet six inches closer to Berlin.”

- Captain Blackadder [Rowan Atkinson], from ‘Blackadder Goes Forth’, written by Richard Curtis and Ben Elton.

**By some accounts**, the general populace in Europe during July 1914 was largely unaware of the imminence of war until the end of the month. “Enjoying the warmth of a golden summer, Europe’s citizens turned their attention chiefly to news of more local importance.” And then a network of alliances, and events, exerted their inexorable gravitational pull, drawing what would become millions into a pan-Continental mincing machine. Archduke Franz Ferdinand had been assassinated on 28 June. Austria-Hungary issued an ultimatum to Serbia on 23 July, and issued a formal declaration of war on 28 July. Russia and Austria-Hungary mobilised on 30 July. Germany demanded that Russia demobilise on 31 July. Germany and France ordered mobilisation on 1 August. By way of response, “Stock exchanges panicked and many were closed.” But it was a bit late by then. As the saying goes, if you’re going to panic, panic early.

The definitive text that addresses this human frailty is Irving Janis’ ‘[Groupthink](#)’ (Houghton Mifflin, 2<sup>nd</sup> revised edition 1982). Janis examined a number of US foreign policy disasters, including failure to anticipate the Japanese attack on Pearl Harbour; the Bay of Pigs fiasco; the decision to escalate the Vietnam War, and concluded that all of these decisions had incorporated groupthink, “a mode of thinking that people engage in when they are deeply involved in a cohesive ingroup, when the members’ strivings for unanimity override their motivation to realistically appraise alternative courses of action”. William H. Whyte apparently first used the term in 1952:

“Groupthink being a coinage – and, admittedly, a loaded one – a working definition is in order. We are not talking about mere instinctive conformity – it is, after all, a perennial failing of mankind. What we are talking about is a rationalized conformity – an open, articulate philosophy which holds that group values are not only expedient but right and good as well.”

Janis went on to develop the theory, stating that

“The more amiability and esprit de corps there is among the members of a policy-making ingroup, the greater the danger that independent critical thinking will be replaced by groupthink, which is likely to result in irrational and dehumanizing actions against outgroups.”

Here are some suggestions. The great euro project itself was a creation of groupthink (sparked by “illusions of invulnerability creating excessive optimism and encouraging risk-taking”). It was reinforced by “unquestioned belief in the morality [primacy in political and economic theory] of the group [primarily and initially France and Germany], causing members [other, later euro adopters] to ignore the consequences of their actions.”

We can laugh now..

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# WAR DECLARED BY ALL

**AUSTRIA DECLARES WAR ON SERBIA DECLARES WAR ON GERMANY DECLARES WAR ON FRANCE DECLARES WAR ON TURKEY DECLARES WAR ON RUSSIA DECLARES WAR ON BULGARIA DECLARES WAR ON BRITAIN**

**OTTOMAN EMPIRE ALMOST DECLARES WAR ON ITSELF**  
**NATIONS STRUGGLE TO REMEMBER ALLIES**

From the London and Washington Bureaus, Aug. 4.—After weeks of unrelenting tension following the assassination of the heir to the Austro-Hungarian throne, the great European powers have declared war on one another in a bitter struggle for something that is sure to be determined by war's end. Tomorrow is a confusing string of rivalries and alliances, diplomats, politicians, and military leaders



President Wilson, who has vowed to maintain U.S. neutrality, expects to wage tireless battles through the course of the war without any knowledge of the reasons why. “We are all idiots,” said one Bulgarian official. “We are most likely fighting about something, but we’re not exactly certain what that is.” “Crush the demon Frenchman!” the diplomat added. “We are all idiots, but we’re not exactly certain what that is.” Millions of troops from the nations and their respective colonies are marching off, prepared to pay the ultimate price for the Central Powers’ noble cause, which remains unclear as of this date, or that of the



**ASSASSINATION OF ARCHDUKE SPREADS FEAR AT ARCHDUKE CONVENTION**  
 The Hague, Netherlands, Aug. 4.—European archdukes attending their annual convention expressed alarm at the assassination of fellow aristocrat Archduke Franz Ferdinand, whose end came at the hand of a Serbian nationalist in Sarajevo several weeks ago. Archdukes attending the convention expressed concern for the issue of nobleman safety, once considered a birthright. Most also claimed they had no knowledge of the Serbian demand for independence from Austria. “Could it be that the oppressed minority peoples in our own provinces are weary of centuries of authoritarian rule, as well?” asked Archduke Karl von Krenfeldt, who cut short a month-long fox-hunting jaunt to attend the convention. The convention, held yearly since 1871, gives archdukes of diverse backgrounds an opportunity to get acquainted, exchange archduke ideas, and purchase special archduke-only notions and effects, most of a commercial nature. This year’s convention included such notables as the Archduke of Baden-Baden-Geschlossenbach, the Archduke of Stockholm, and the Archduke of Lower Palatinate, who gave a special talk on the proper maintenance of monochromes. The panel discussion “Coping with Genetic Homophobia,” “During Pined Bert Boys,” and “Putting the ‘Happy’ Back in ‘Hapsburg’ were canceled due to the year’s grave occurrence.

**AREA DRUNKARD DECLARES WAR ON IRELAND**  
**ALE-HOUSE PEERS FALL IN AS ALLIES**

Davenport, Iowa, Aug. 4.—As bloody conflict rages throughout Europe, Oswald Bruwald, a drunkard of many years’ experience, declared war on Ireland Friday evening. A RESOUNDING DECLARATION “Curses over you of sin to damnation,” Bruwald stated over a mug of porter at Quigley’s Ale House in Davenport. “I’ll let you all to death!” he said. “Fishy potato-eating Papists, they are.”

**ALLIES HALF DEAD OVER**  
 Two gentlemen assembled with Bruwald at Quigley’s Ale House tonight fell in as allies. They are Archibald Johnson, 28, and Samuel Nubakstan, 36, both of Davenport. **WAGONS WERE WRECKED**  
 The Department of War has been alerted to Bruwald’s declaration. President Wilson, upon hearing of Bruwald’s statement, called the drunkard to the Capital building for an emergency session. Wilson also discussed tactical matters with the drunkard “Sack over” last one of ‘em in the chaps, I say,” Bruwald advised the president.

Source: [The Onion](http://TheOnion.com).

As tensions and obvious fault-lines started to develop in the common currency zone, groupthink was there to ignore them. Closed-mindedness on the part of the euro zone’s political leaders “rationalized warnings that might challenge the group’s assumptions” and “stereotyped those opposed to the group [not least among which, the UK] as weak, evil, spiteful, impotent or stupid.”

Groupthink continued to exert its pressure toward uniformity, incorporating the “Self-censorship of ideas that deviate from the apparent group consensus”, together with “illusions of unanimity among group members, where silence is viewed as agreement”. There was “direct pressure to conform placed on any member [of the EU] who questions the group, couched in terms of ‘disloyalty’.” And there were “*mind guards* – self-appointed members [the European Commission among them] who shield the group from dissenting information.”

Consensus-driven decisions [the adoption of a common currency without a common Treasury or unified tax-raising authority and the abandonment of rigorous selection criteria for the adopters] caused the establishment of a unified currency bloc destined for failure, fuelled by the groupthink practices of

- Incomplete survey of alternatives
- Incomplete survey of objectives
- Failure to examine risks of preferred choice
- Failure to reevaluate previously rejected alternatives
- Poor information search
- Selection bias in collecting information

..and not least,

- ***Failure to work out contingency plans.***

Another suggestion: just as they lost the plot in the run-up to war in 1914, the stock markets have been largely absent without leave of their senses as the euro zone moves inexorably toward explosion in 2011. Groupthinkers – Keynesians, more or less to a man – continue to believe that this is a problem that can be solved by the ‘big bazooka’ deployment of yet more money, more taxpayer milk dispensed from the giant teat of government. The reality is more prosaic, and more worrisome. Last week, the BBC’s Sarah Montague interviewed [Kyle Bass](#), one of the relatively few investors who not only identified the sovereign debt crisis ahead of time but was able to profit from it. She resorted to the standard, lazy canard of citing speculation for the downfall of governments when the reality is that if governments don’t like the message they’re hearing from the bond markets, then they shouldn’t borrow more than they can afford from them. Or in Kyle Bass’ terms,

“Don’t hate the mirror because you’re ugly.”

The problem is two-fold but not distinctly so in that the culprits – ill-disciplined, over-indebted governments; and ill-disciplined, under-capitalised banks – are really joined at the hip,

“two spent swimmers, that do cling together

And choke their art..”

Forget bail-outs (although the euro zone authorities are unlikely to). The only ultimate resolution can be, in Bass’ words, **massive debt restructurings and write-downs**. Countries that have “sailed into a zone of insolvency” cannot be ‘resolved’. Their debts have to be written down. He also points out the inconvenient fact that only the UK and the US have made any progress in recapitalising their banks. But before we get to the fun of the debt restructuring endgame, we are likely to have to endure more fatuous money-printing at the behest of economically illiterate politicians and policy-makers. So there are two actionable conclusions: one is to maintain a

defensive posture with regard to both debt and equity investments, especially in a European context. The second is to take advantage of any sell-offs to rebuild exposure to the one asset that is being fundamentally supported in this environment, namely monetary metal (gold and silver – and the mining companies represent arguably an even more attractive method than the physical of gaining inflation and currency insurance, given the unfolding macro outlook).

Or you could pin your hopes on wishful thinking. The eurocrats certainly are.

In explaining the conventional thinking behind ‘Why there could never be a war’, Captain Blackadder explains to Private Baldrick that

“..in order to prevent war in Europe, two superblocs developed: us, the French and the Russians on one side, and the Germans and Austro-Hungary on the other. The idea was to have two vast, opposing armies, each acting as each other’s deterrent. That way there could never be a war.. [but] You see, there was a tiny flaw in the plan.. It was bollocks.”

Before what came to be known as the Great War, Britain was the leading power in Europe. Many expected her to wait on the sidelines as the various power blocs clashed. Britain finally entered the war on 4 August 1914 on the back of a guarantee to maintain Belgian neutrality dating back to the 1839 Treaty of London. By 1945 and after two world wars and over a million of its servicemen and servicewomen dead, Britain had passed on the baton to the United States, and was inevitably diminished on the global stage. A policy of splendid isolation did not prevent her entry into hostilities in 1914. One can only hope that its equivalent today, in the form of our non-participation in the euro zone, will lead to a somewhat better relative and absolute outcome. It is quite clear that our current *entente* with the French is not entirely *cordiale*. Somebody should gently suggest to M. Sarkozy (and Frau Merkel for that matter) that when it comes to Europe, Britain has already done enough. If you break it, **you** pay for it.

Tim Price  
Director of Investment  
PFP Wealth Management  
21<sup>st</sup> November 2011.

Email: [tim.price@pfp.co.uk](mailto:tim.price@pfp.co.uk)

Twitter: @timfprice

Weblog: <http://thepriceofeverything.typepad.com> Group homepage: <http://www.pfp.co.uk>

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