Monetary Massacre Theory

"A deeply disturbing account of the destructive potential of belief."

- Ammar Kalia, reviewing BBC Four's *Storyville: Jonestown – Terror in the Jungle*.

When it's not trying to overturn legitimate plebiscites or shoving woke propaganda down the throats of its reluctant viewers, the BBC is still capable of showing half-decent documentaries. This correspondent recently caught the tail end of one such piece, *Storyville: Jonestown – Terror in the Jungle*. Being nine at the time of the original atrocity, we don't remember any coverage of the story being aired, but 1978 was a different age, and wary parents might well have suppressed the news in any case.

Here are the facts. In 1974, the cult leader Jim Jones established the Peoples Temple Agricultural Project ("Jonestown") in northwestern Guyana. The organisation purported to practise what it termed "apostolic socialism". What became known as Jonestown would represent, to its believers, a socialist paradise and a haven from media scrutiny.

Temple members were originally worked six days a week, between 6:30 a.m. and 6:00 p.m., but after Jones' health began to deteriorate, the schedule was relaxed to eight hours a day for five days a week – a regime adopted from North Korea. The settlers' Hollywood movies were replaced by Soviet propaganda and documentaries about American social problems. Jones himself would often read to his parishioners news items from Radio Moscow and Radio Havana. Temple staff would "interpret" other material and help the congregation to "appreciate" Marxist-Leninist messages. Parishioners who misbehaved would be consigned to a 6 x 4 x 3 foot plywood box. Errant children would be consigned to the bottom of a well, sometimes upside down.

In 1977, former Temple members Tim and Grace Stoen began a campaign seeking custody of their five-year-old son, John. Eventually, Congressman Leo Ryan offered to assist them. By 1978, Jones was apparently taking significant quantities of Valium, Quaaludes, stimulants and other drugs. He was probably also suffering from chronic insomnia.

On November 14, 1978, Congressman Ryan arrived at Jonestown with a delegation that included representatives from the US embassy to Guyana, a number of journalists including NBC reporter Don Harris, and representatives from the 'Concerned Relatives' pressure group, including Tim and Grace Stoen.

After a few days at the site, the Ryan delegation left for the Port Kaituma airstrip with a small number of defectors from the Temple. They were intercepted by Temple members. A number of NBC employees were shot dead. Congressman Ryan was shot dead. A damaged Twin Otter plane and the survivors from the delegation were left behind on the airstrip.

Aides at the compound meanwhile prepared a large barrel of grape-flavoured Flavor Aid, a cheap knock-off of Kool-Aid, tainted with Valium, cyanide, chloral hydrate and Phenergan. Jones then urged Temple members to commit "revolutionary suicide". Parents were encouraged to dose their children, then take the poison themselves. Reluctant parishioners were dispatched by armed guards. A total of 918 people, including many children, died, "voluntarily" or otherwise. Jim Jones was among them; he shot himself in the head.

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Attending the recent *MoneyWeek* annual investor conference, this correspondent was struck by the apparent consensus amongst the event's panellists that the world's central banks were highly likely in 2020 to start implementing what is known as Modern Monetary Theory (MMT). MMT holds that any government that issues its own money can pay for goods, services and financial assets without a need to raise taxes or issue debt. It also holds that governments cannot be forced to default on debt denominated in their own currency.

It seems increasingly plausible that MMT will be the next iteration of macroeconomic planning from our monetary authorities, the central banks. We would argue that their previous policies of QE (Quantitative Easing) and especially ZIRP (Zero Interest Rate Policy) have led their respective economies into something of a dead end. Perhaps "Jonestowns" would be an appropriate analogy. With the cost of capital effectively at zero, profitless 'concept stocks' can secure almost unlimited funding, driving down profit margins for competitors that actually have credible and sustainable business models. Eventually the entire economy and financial system becomes zombified.

As Adam Smith could easily have said, there's a great deal of ruin in a fiat money system. The rot has been setting in for years. Here, for example, is what the John Wilkes Club wrote about the system ***seven years ago***:

> ..this shadowy financial engineering, eye-watering price volatility and the foisting of our debt on unborn generations seem to share some nebulous characteristic which is as instantly recognisable as it is hard to define – a certain grubbiness, the quality of something unpleasant that we have become resigned to living with.
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> The sense that the whole economy is a hostile and dishonest place, that there is no pleasure or virtue to be found in it, is so much a hallmark of the modern world that it might almost be its distinguishing feature. If there is a single culprit, the smoking gun is surely grasped in the pallid talons of the monetary system, now so far from being an

organic social convention, evolved to meet real human needs, that we should hardly be surprised that we no longer expect it to promote basic social decency.

During the twentieth century, the nature of money itself was remorselessly inched away from being a real monetary commodity – the honest and logical medium of exchange which it had been since the very dawn of *homo œconomicus* – to being an arbitrary and elastic pile of government promissory notes backed by nothing at all. This was not brought about by our changing preferences as money users, but by a series of planned changes conceived on our behalf by progressive folk with reassuring credentials.

These were intelligent, often brilliant people whose misguided faith in the ability of human genius to transcend the limitations of inherited behaviours made them tragically susceptible to the insane schemes which so characterised the last century. At its least harmful, this ambition brought us those planned urban communities which seem to be based on *Lord of the Flies*; at its most, it brought us millions of corpses. Somewhere in between these two on the list of twentieth century mistakes lies the global non-system of fiat money which developed between 1913 and 1971.

We do not often quote Lord Keynes at the JWC, but here he is in 1923: "[t]he individualistic capitalism of today…presumes a stable measuring rod of value and can not be efficient – perhaps can not survive – without one." It was the economists of his generation, however, who decided that they alone could calculate the correct monetary balance to ensure non-inflationary growth and implement it though the central bank, just as they alone could determine the just and efficient allocation of scarce resources and implement it through licensing, regulations and subsidies. The gold standard was out, and what Detlev Schlichter has wittily called the 'PhD Standard' was in.

They seem to have been glacially unconcerned that modern economic life – indeed, any social organisation more sophisticated than a primitive barter society – needs a sound accounting unit in order for long-term obligations or depreciation schedules to have any meaning at all, let alone to be accurately calculable. An exponentially expanding stock of paper or electronic units does not contain the information needed for any large or lasting enterprise to match off values, any more than jelly can be nailed to the wall.

Before, when money was a gold derivative, a pound note or dollar bill had been a kind of short position against a physical asset. Gradually, this easy calculation was replaced by a labyrinth of paper claims against paper whose expansion was not even readily susceptible to measurement, because the definitions of money and credit were now so close as to be virtually indistinguishable. How can the value of a money-market fund be anything but arbitrary when it becomes nothing more than an aggregation of short-term credit obligations?

Nevertheless, governments leapt at the new economic orthodoxy like pirates on an unexpected chest of doubloons. Here at last was the story they needed in order to float as much debt as they wanted: risk-averse savers holding money-balances were now effectively lending money to their governments rather than hoarding precious metals. The fiscal discipline which the successful system of commodity money had imposed on greedy and ambitious politicians was broken. Moreover, their weapons have become more sophisticated over time: any attempt to bet against government policy can now be taken down by unleashing irresistible firepower through the derivatives markets.

The automatic stabilising effects of inelastic commodity money are well known and need not be rehearsed here – suffice it to say that the inability to create more money makes the kind of trade and fiscal imbalances of 2013 self-correcting. Our main point here is that honesty and honour in contractual relationships is dependent on trust and therefore on certainty. The monetary system is a moral as well as an accounting frame of reference.

The three examples with which we began this post are merely topical instances of a much broader decline of social virtues in economic behaviour: manufacturers seeking profits in financial engineering instead of product sales, stock markets which seem to have nothing to do with the boring process of channelling savings into productive investments, and whole societies transferring to themselves the wealth of people who are unable to consent.

Our entire culture is pervaded by a moral turpitude in financial matters. Whereas in a hard money system the amount of savings sets an upper limit to the amount of borrowing, today's imbalance between savers and would-be borrowers can be simply circumvented by governments and banks siphoning off purchasing power from others by inflating the currency. Never mind credit expansion and the business cycle: it is simply unethical to use human patrimony, built over years or generations of hard work, without the freely negotiated agreement of those who have built it.

Another imbalance – our multi-decadal trade deficits – shows how addicted first world countries have become to having prosperous lifestyles despite negative savings rates: a narcissistic, self-indulgent culture of entitlement by which the richest people in the world live beyond their means by forever extending the games they play with their elastic currencies, paying for foreign work with newly-created irredeemable paper.

Harry Schultz was surely right that the deterioration in economic attitudes in our society – indebtedness, lack of respect of the system and lazy moral relativism – is related to the meaninglessness of our medium of exchange. In contrast, a commodity money system limits debt, the scope for financial dishonesty and the ability to use currency and credit expansion to establish political control over others. Those limitations foster sound and ethical economic behaviour.

Our Georgian and Victorian ancestors correctly held commerce to be amongst the highest of the social virtues.. Not understanding that the monetary system in the twenty-first century is qualitatively different as well as quantitatively debased, we see the corruption and involuntary transfers all around us and feel grateful that the economic bureaucracy has the power to step in. Truly, it is the cure that is making us sick.

We give the last word on the intellectual credibility of MMT this week to Mr. George Hatjoullis who wrote the following to the editor of the Financial Times in November 2014:

> Sir,
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> Adair Turner suggests some version of monetary financing is the only way to break Japan's deflation and deal with the debt overhang ('Print money to fund the deficit – that is the fastest way to raise rates', Comment, November 11). This was precisely how Korekiyo Takahashi, Japanese finance minister from 1931 to 1936, broke the deflation of the 1930s. The policy was discredited because of the hyperinflation that followed.

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