Get to the chopper !

"'Get to da choppa !'

"Short for the whole phrase that Dutch (played by Arnold Schwarzenegger) says in the movie *Predator*, which goes: "RUN! GO! GET TO DA CHOPPA !"

"This can mean any number or things, or mean nothing at all. Frequently it is used when something exciting is happening or will happen and they need to be going someplace. It's used when there is no need to mention where you're going, you all already know where you're going. So you just yell GET TO DA CHOPPA!!!! Friends get in their separate cars, about to leave school and meet up at the diner, but before leaving they roll down their windows and one yells "GET TO DA CHOPPA!!" before they all speed off."

- Definition for 'Get to da choppa !' from Urban Dictionary.

"You know, if baseball umpires were on the front page of the sports section every week, you'd know something was desperately wrong with the game."

- Jim Grant, on central bankers.

The director John McTiernan made two of the best action films of the 1980s. *Die Hard* surely needs little introduction – completists of the film can see its backstory in the series *The Movies That Made Us* on Netflix. The other is 1987's *Predator*, with Arnie in one of his most memorable roles, as Major "Dutch" Schaefer, sent into the jungles of Latin America ostensibly to rescue some CIA folk, only to end up doing battle with a murderous monster from another planet.

Speaking of monsters from another world takes us neatly to Christine Lagarde, the lawyer who has been President of the European Central Bank since November. We have written before of our surprise at the unanimity of views – first heard expressed at *MoneyWeek*'s annual investor conference in November – that Modern Monetary Theory (MMT) was about to be unleashed on the world, perhaps first in Europe. In his latest *The Solid Ground* piece, accessible via the ERIC website, analyst Russell Napier – also a speaker at the MoneyWeek event – puts forward his thesis that the MMT is about to hit the fan:

> Whether a money-financed tax cut or a money-financed government spend, the modern helicopter money takes the form of the central bank creating new money and crediting it to the government. Lagarde's monetary policy review is aimed at creating a new inflation target that would justify resorting to such a policy to attain the new goals. Agreeing a higher inflation target or a 'make up' strategy, in which previous shortfalls in inflation below target are added to future inflation targets, will go a long way to justifying a move to helicopter money. There may be other more radical new targets for inflation. As *The Solid Ground* has argued before, the money-financed government spend is likely to be focused on green investment initiatives. All pills, particularly political ones, are best sugar-coated. Few know this better than the arch politician now running the ECB.
>
> Not surprisingly, such a radical policy is likely to meet with considerable resistance in Germany and the other so-called 'frugal' states of the Eurozone. That resistance will ultimately crumble but how long will it last? For your analyst the question is not **if** helicopter money will be launched in the Eurozone but **when**. Can it be implemented proactively, as part of a response to the continued failure to meet inflation targets, or will it need a crisis in the Eurozone to get all nineteen governments to agree to the radical new steps that Christine Lagarde put before the European Parliament in September 2019? Financial markets have begun to bet that a proactive move to helicopter money is now possible.

Financial historians like Napier know that there is nothing new under the sun, and MMT is just yet another 'vintage' of old wine in new bottles. Previous iterations of governmental inflationism did not end well, and neither will MMT, if it is encouraged out of its own new bottle. This correspondent's favourite ironic commentary on the previous efficacy of governmental inflationism comes via a letter to the *Financial Times* of November 2014:

> Sir, 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..

If it hadn't been for the hyperinflation, the policy would have worked ! If the patient hadn't died, the procedure would have been a success !

As Russell Napier points out, MMT – or "helicopter money", if you prefer – comes with any amount of proven historical baggage. Hyperinflation is just one component. There is also the general systemic poison known as "financial repression". Napier cites L. Randall Wray, the author of *Modern Monetary Theory: A Primer on Macroeconomics for Sovereign Monetary Systems* (which can be presumably be found in the Witchcraft section of modern bookshops, whether digital or otherwise):

> These principles also do not deny that too much spending by government would be inflationary. Further, there can be exchange rate implications..

> What if markets react against budget deficits, so the bond market "vigilantes" demand higher rates?..... As discussed, the central bank can set the overnight rate, plus the rate on any other financial assets it stands ready to buy and sell. It can peg the 10-year government bond rate, or the 30-year bond rate….. In the United States, policy used to set saving and demand deposit rates. (This was called Regulation Q, which imposed a zero interest rate on demand deposits…)
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> We conclude that shifting portfolio preferences of foreign holders can indeed lead to a currency depreciation. But so long as the currency is floating, the government does not have to take further action if this happens.
>
> OK, if that happened there could be depreciation pressure on the dollar, in which case China loses since its dollar assets decline in value relative to the RMB. Fortunately, China does not want the dollar to crash.
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> Capital controls offer an alternative method of protecting an exchange rate while pursuing domestic policy independence.
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> Yes, Congress could have decided not to raise the debt limit. Default on commitments appeared to be quite close. There was no good economic reason to do it - but politics can lead to some crazy results.
>
> One solution for a troubled country is to leave the EMU and return to a sovereign currency issued by the government….. Default on euro-denominated debt would be necessary.
>
> In other words, there is no scientific basis for the claim that "free markets" are best. (That doesn't "prove" it is impossible for the "invisible hand" to work - we simply do not know - but we should be highly sceptical of the possibility). In any case, these claims that free markets are best - even if true in some hypothesized economy - are irrelevant for the modern capitalist economies that actually exist..

So apart from financial repression, capital controls, currency depreciation, selective debt default and the possibility of runaway hyperinflation, what will MMT ever really ***do*** for ***us*** ?

It's not really about "us", unless by "us" you mean monstrously indebted governments keen to wave some seemingly magic wand that will inflate away all those accumulated debts. Politicians have convenient "useful idiots" to assist in this exercise, and they're called central bankers.

Russell Napier, again:

> In the world of MMT, helicopter money drops while savers remain immobile or perhaps deliberately immobilised. Proponents of MMT gaze heavenwards at the beauty of the descending snow of money, seemingly unaware of the rumbling noise behind them as the accumulated years of chilled precipitation rushes upon them in an avalanche. The focus on the flow of the falling monetary snow simply ignores the scale of shift in savings' balances that this policy change has always brought. Savers will move

their savings when helicopter money is dropping from the sky and the impact of such a shift in stock will almost certainly swamp the impact of the increase in the money flow.

Savers will seek to exit government securities as helicopter money seeks to destroy real returns from such investments. Savers will seek to exit local currency assets, for foreign currency assets, as they realise that the purchasing power of the local currency is being undermined as a matter of policy. As L. Randall Wray makes clear, any such shifts will ultimately have to be stopped, with savers penned into the killing zone of local currency assets and, in particular, in fixed-interest securities. In a new system where 'public purpose will continually expand', what room is there for the private enterprise that generates the corporate profits that drive higher dividends and higher share prices? Given the scale of the likely decline in the euro exchange rate that follows helicopter money, what are the consequences for global policy and economic growth when the Eurozone embarks upon its new, but really rather old, monetary experiment.

"You are one ugly central banker.."

(Source: Twentieth Century Fox)

Russell Napier points out, as our earlier FT letter writer does, that MMT is not new. It was tried in 1930s Japan by Viscount Takahashi Korekiyo in a desperate attempt to lift Japan out of its deflationary malaise. Takahashi launched the monetary helicopter; the central bank began to credit government accounts with newly minted money; the government spent it.

Within a year the yen had fallen 44% against sterling, a currency itself newly floating, and 60% against the US dollar, which was still linked to gold. That depreciation

> occurred despite the enactment of the Capital Flight Protection Act of July 1932 and the further capital controls that followed.

The Japanese experiment did not end well, least of all for Takahashi himself:

> On February 26th 1936 Takahashi was assassinated. Modern readers might think that he was murdered by savers aggrieved at their losses through a pernicious combination of the decline in the exchange rate, rising inflation and enforced lower yields. However, Takahashi was not murdered by savers suffering from the introduction of helicopter money. He was murdered because he stopped helicopter money. Those recipients of the continually expanding 'public purpose', most noticeably but not exclusively the military, wanted Takahashi dead because he had landed the monetary helicopter. A policy initially disastrous for just savers, proved impossible to stop and soon it had taken flight again to finance the 'public purpose' of the subjugation of the peoples of Asia to Japanese rule.

It currently seems unclear as to whether we get MMT before or after the next euro zone crisis. Liam Halligan for the Daily Telegraph makes a decent case for arguing that a political spat over EU member budgets, triggered in no small part by Britain's departure from this rancid and failing protectionist bloc, will accelerate said crisis.

For the rest of us, it is fast becoming impossible to distinguish between the immorality of European self-perpetuating technocracy and any realistic way out of this murderous maze. As the investor and business developer Sir Steven Wilkinson nicely writes,

> I am currently unsure of whether I have manoeuvred myself into an echo chamber of a clique of like-minded value investors who can see clearly that we are in "Fergie time" and thus close to a cataclysmic popping of the Everything Bubble (including money) **or** whether the current narrative (dangerously close to the end of the Everything Bubble, so man the life-boats) is now the popular view and therefore discounted? My view is coloured strongly by a moral conviction that what we have now (broken money, punishment of savers, risk free reward for insiders etc) is simply wrong and possibly even evil at a societal level, so what I think **will happen** and what I believe **should happen** (to purge the system of moral turpitude) are conflated at the margin. The technocratic disregard of the concerns and values of the saving classes personified in the ghastly Ms. Lagarde's most recent comments* disgust me personally.

*Reminder: Ms Lagarde recently commented,

> We should be happier to have a job than to have our savings protected … I think that it is in this spirit that monetary policy has been decided by my predecessors and I think they made quite a beneficial choice.

Euro zone savers and investors: don't say you weren't warned.

Great Britain has twice gone into battle to help save Europe from itself. The last time, the iconic vehicle that assisted in the cause of salvation was the Supermarine Spitfire. If there ***is*** to be a next time, it is unlikely to be a helicopter.

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