On monetary terrorism

"Darling..

So No. 3 Commando were very anxious to be chums with Lord Glasgow so they offered to blow up an old tree stump for him and he was very grateful and he said don't spoil the plantation of young trees near it because that is the apple of my eye and they said no of course not, we can blow a tree down so that it falls on a sixpence; and Lord Glasgow said goodness you are clever, and he asked them all to luncheon for the great explosion. So Col. Durnford-Slater D.S.O. said to his subaltern, have you put enough explosive in the tree ? Yes sir, 75 lbs. Is that enough? Yes sir, I worked it out by mathematics, it is exactly right. Well better put a bit more. Very good sir.

"And when Col. D. Slater D.S.O. had had his port he sent for the subaltern and said subaltern better put a bit more explosive in that tree. I don't want to disappoint Lord Glasgow. Very good sir.

"Then they all went out to see the explosion and Col. D-S D.S.O. said you will see that tree fall flat at just that angle where it will hurt no young trees and Lord Glasgow said goodness you are clever.

"So soon they lit the fuse and waited for the explosion and presently the tree, instead of falling quietly sideways, rose 50 feet into the air taking with it half an acre of soil and the whole of the young plantation.

"And the subaltern said Sir I made a mistake, it should have been 7.5 lbs not 75.

"Lord Glasgow was so upset he walked in dead silence back to his castle and when they came to the turn of the drive in sight of his castle what should they find but that every pane of glass in the building was broken.

"So Lord Glasgow gave a little cry and ran to hide his emotion in the lavatory and there when he pulled the plug the entire ceiling, loosened by the explosion, fell on his head.

This is quite true."

- Extract from a letter from the author Evelyn Waugh to his wife Laura, 31 May 1942.

Tricky things, numbers. Even when you do manage to calculate them correctly. What, for example, is the "correct" number for base rates ? ~~Goldman Sachs employee~~ Bank of England Governor Mark Carney thinks that here in the UK they should be at 0.5% - for the time being, at least. What about the euro zone ? ~~Goldman Sachs employee~~ European Central Bank Governor Mario Draghi thinks that they should be at -0.4%. And what about Japan ? Bank of Japan Governor Haruhiko Kuroda, who by way of some administrative error hasn't yet worked for Goldman Sachs, believes that they should be at -0.1%.

Has the Bank of England finished its campaign of driving down UK base rates and forcibly impoverishing savers ? On the evidence of last week's Radio 4 programme 'How low can rates go ?' hosted by my dear and highly valued friend Martin Wolf, the answer is unclear. But a host of government-appointed technocrats from around the world, including Mr. Kuroda, were wheeled out in defence of a monetary policy that severed any ties it might once have had with the real world quite some time ago. (Victor Hill, reviewing the programme, calls it 'Alice in Wonderland' economics.)

Financial markets have been relatively resilient in the face of this year's, how could we call them, *events*. But there's a good reason for that. ***They're all rigged***. The commentariat seized on lower UK Gilt yields in the aftermath of Brexit as a sign of the impending apocalypse, conveniently overlooking the fact that central banks have been driving down global government bond yields for years. Interest rates, basically, cannot be allowed to rise by any demonstrable margin – or most western governments, and many of the banks and pension funds holding so much of their debt, will become instantly insolvent. And with $12 trillion of bonds yielding less than nothing, a Gadarene flood of investors into higher-yielding equities is not exactly surprising.

"Welcome to the era of investing in an earthquake zone," writes Michael Mackenzie in the Financial Times. The title of his piece ? 'Why the end of austerity would be an earthquake for markets'. And he may be right. Not that there's been that much austerity, given that global debt levels have risen, according to McKinsey, by some $57 ***trillion*** since the height of the crisis. Give me austerity, governments seem to have all said, just not yet.

There will come a point (and it is a "will" and not a "may" outcome) when bond "investors" will suddenly realise that they have followed Wile E. Coyote over the cliff and the only thing preventing them from a sudden and painful reacquaintance with reality is: thin air. The only thing we don't know about that outcome is when it will occur. Since the world's major central banks – monetary terrorists, all – have been fiddling with a machine they do not understand for nine years, they can probably buy themselves a little more time even as they incinerate more savers' capital in the process. Being well out over the cliff edge, Wile E. Coyote would no doubt welcome a helicopter. But the associated money would be somewhat superfluous.

Genuine investors, as opposed to asset-gathering economic agents, may wish to consider which asset offers better protection against a sudden inflationary shock: bonds issued by insolvent governments offering a derisory income and the prospect of a guaranteed capital loss, or ownership interests in real companies with real cash flows run by disciplined and shareholder-friendly management, ***especially*** when those interests can be purchased at a discount to those businesses' inherent value.

Brexit gives the UK government an opportunity to reset things economically. The new government, admittedly with a full plate, might wish to continue its reset by launching a full inquiry into the precise monetary role of the Bank of England and dispensing with the services of Mark Carney, with a view to removing altogether the Bank's ability to set interest rates. (Its longstanding role in helping to supervise the banking and financial sector could remain.) Those who support centrally planned interest rates should consider what has happened to Sterling's purchasing power over the last century, and why the principle of central planning has been discarded practically everywhere in the world – except at Cambridge and the London School of Economics.

In a speech given to the Committee for Monetary Research and Education in New York in October 2011, Alasdair Macleod summarised the importance of a stable monetary system:

"I support sound money for two very good reasons. Firstly, it is a basic human right to choose to save, without our savings being debased by the tax of monetary inflation. Those who are worst affected by this inflation tax are not the rich, they benefit; but the poor and the barely well-off, which is why monetary inflation undermines society and why the right to sound money should be respected. If government gives itself a monopoly over money, it has a duty to protect the property rights vested in it. Secondly, it is a basic right for us to own our own money rather than have it owned by the banks. For them to take our money and expand credit on the back of it debases it. It is an abuse of an individual's property rights and a banking licence is a government licence to do so. If anyone else was to do this, they would be guilty of fraud..

"Sound money guarantees a stable yet progressive economy where people are truly equal. It allows people to save properly for their retirement so that they will not become a burden on the state. It leads to democracy voting for small governments. It encourages peaceful trade and discourages war. It is the only path, after this mess, that leads us to long-lasting and peaceful prosperity. We really need everyone to understand this for the sake of our future."

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