

## **MBS Mantra's view of Economics, Finance and MBS Markets**

### **Helicopter Money**

Helicopter Money – and whether Japan will use this speculative form of money creation - has become the talk of the financial media recently, on the heels of a meeting between Helicopter Ben Bernanke and BOJ Governor Kuroda, where Bernanke proposed the idea.

This phrase appears to have been coined by Milton Friedman in 1969, and can refer to 2 things – a direct distribution to citizens, or a permanent monetization of budget deficits, for example, by the Central bank purchasing zero coupon perpetual bonds issued by the Treasury.

Japan's goal for the past 20 years has been to create inflation, and it has tried everything that economists can come up with, with no positive impact on the local economy. This has been described in detail in 'The Failure of Macro Economics', available on MBS Mantra's web site.

Like QE and other forms of attempted stimulus, Helicopter Money has one fatal flaw that will prevent it from

working in Japan – the open doors that Japan has to capital movements.

As long as investment returns (and interest rates) in Japan (or in any other country or zone attempting stimulus, like the EU), are repressed, investible assets will flee to economies that offer positive returns and yields, even if speculative (primarily the US, and peripherally, EMG countries). **This capital flight will continue to generate asset inflation in capital recipient countries, and deflation in capital exporting countries.** This recursive and vicious cycle will continue, as long as economists and central bankers do not recognize the role played by capital flows, and restructure their policies and structures.

Without barriers to capital exports for Japan, Helicopter Money, if implemented in Japan, will fail to deliver on its promise, as it too will be exported.

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