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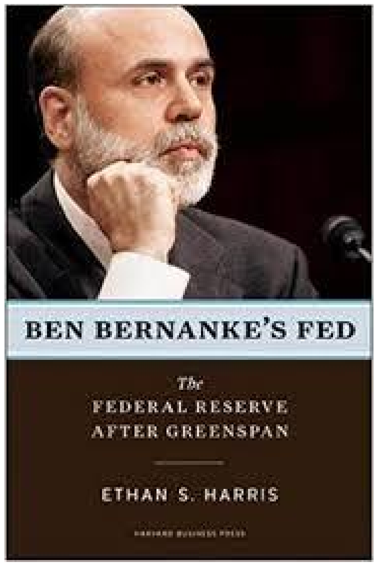
HELICOPTER DROP: An expansionary fiscal policy that is financed by an increase in an economy's money supply.



What Is Helicopter Drop (Helicopter Money)?
Helicopter drop, a term coined by Milton Friedman, refers to a last resort type of monetary stimulus strategy to spur inflation and economic output. Though it would appear to be theoretically feasible, from a practical standpoint, it is considered to be a hypothetical, unconventional monetary policy tool whose implementation is highly improbable.

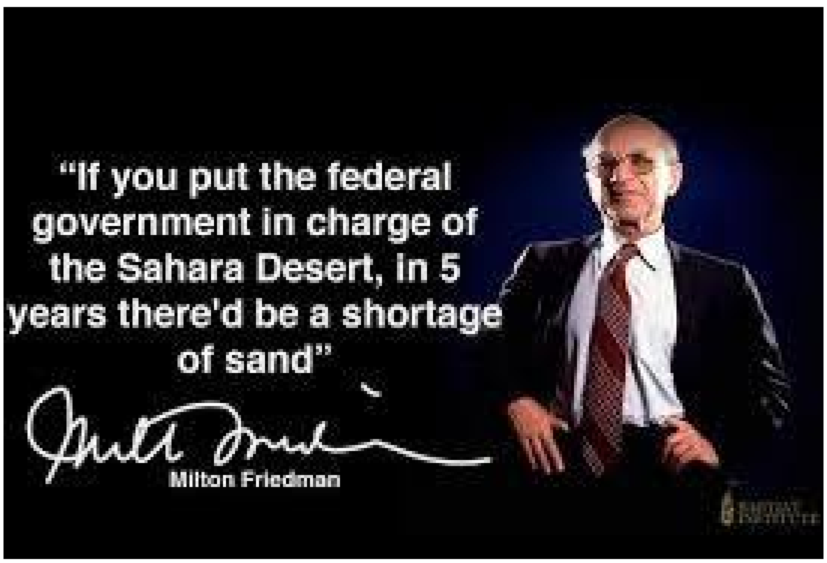
Helicopter drop is an expansionary fiscal policy that is financed by an increase in an economy's money supply.
Mostly, the term 'helicopter drop' is largely a metaphor for unconventional measures to jump start the economy during deflationary periods.
It could be an increase in spending or a tax cut, but it involves printing large sums of money and distributing it to the public in order to stimulate the economy.

While 'helicopter drop' was first mentioned by noted economist Milton Friedman, it gained popularity after Ben Bernanke made a passing reference to it in a November 2002 speech, when he was a new Federal Reserve governor. That single reference earned Bernanke the sobriquet of **'Helicopter Ben'**, a nickname that stayed with him during much of his tenure as a Fed member and Fed chairman.

Bernanke's reference to 'helicopter drop' occurred in a speech that he made to the National Economists Club, about measures that could be used to combat deflation. In that speech, Bernanke defined deflation as a side effect of a collapse in aggregate demand, or such a severe curtailment in consumer spending that producers would have to cut prices on an ongoing basis to find buyers. He also said the effectiveness of anti-deflation policy could be enhanced by cooperation between monetary and fiscal authorities, and referred to a broad-based tax cut as “essentially equivalent to Milton Friedman’s famous ‘helicopter drop’ of money.”

Even though Bernanke’s critics subsequently used this reference to disparage his economic policies, they were effectively silenced by his adroit handling of the U.S. economy during and after the Great Recession of 2008-09. Faced with the biggest recession since the 1930s, and with the U.S. economy on the brink of catastrophe, Bernanke used some of the very same methods outlined in his 2002 speech to combat the slowdown, such as expanding the scale and scope of the Fed’s asset purchases.
(Investopedia.com 5.29.19)

Helicopter



Monetarism
As we go to print on this missive, between the U.S. Treasury and the Federal Reserve, a massive amount of cash is being pumped into the system. This recent article by Steven Pearlstein of The Washington Post (4.5.20) raises pertinent issues on the monetary path the U.S. is taking to prop up the economy during this unprecedented global pandemic.

Economists tell us that there is no such thing as a free lunch — that you

must always give up something of value to get something you value more.

But Americans may be getting something close to a free lunch in the $2 trillion economic rescue package, thanks to an accommodating Federal Reserve and a financial slight-of-hand known as “monetizing the debt.”

Here’s how
To get the money promised to businesses, households, hospitals and local governments, the Treasury will have to borrow it over the coming months by selling IOUs of various durations to investors in the Treasury bond market.

But at the same time that the Treasury is selling trillions of dollars of these short-term notes and longer-term bonds, the Fed will be buying up a roughly equal amount from the Treasury market (though not necessarily the exact same IOUs), making good on its recent promise to provide whatever “liquidity” the economy needs to get through the pandemic.

And where will the Fed get these trillions of dollars? That’s easy. All it has to do is print as much money as it needs by increasing the balance that banks have “on reserve” at the Fed. That power to print money is engraved at the top of every bill in your wallet, in the words “Federal Reserve Note.”

In other words, one arm of the government will create $2 trillion out of thin air and then lend it to another government agency, which will turn around and give or lend it to households, businesses, hospitals and local governments.

The Fed rejects the idea that it is engaged in anything so sketchy as monetizing the national debt. It sees itself as merely fulfilling its mandate to promote full employment and price stability. And in good times and bad, the way the Fed accomplishes this mission is by buying and selling Treasury notes in the open market.

When you hear that the Fed has lowered interest rates by 0.25 percent, that’s how it does it. The only difference now is that it’s not just the usual short-term notes the Fed is buying, but the full range of Treasury instruments, and doing it in greater quantity than at any time in its history. It prefers to call this more aggressive bond buying “quantitative easing.”

Whatever you call it, however, it amounts to much the same thing. If the government can spend more than it takes in simply by creating money out of thin air, you might ask why it doesn’t do it all the time and spare us the endless hand-wringing over budget deficits and the national debt.

For most governments at most times, the simple answer is that it wouldn’t take very long before the price of everything would rise sharply, the value of its currency markets would fall, other countries would be reluctant to sell it goods and investors would refuse to buy its bonds.

Rather than a free lunch, debt monetization would be an extravagantly expensive repast paid in the form of hyperinflation, massive unemployment, an epidemic of bank and business failures. Just ask the folks in Argentina.
But for the United States at this moment of the pandemic, that risk is pretty low.

For starters, the United States has what has been called the “exorbitant privilege” of having the world’s reserve currency. That’s the currency held in large quantities by central banks around the world to use whenever they need to prop up their own currency on foreign exchange markets or pay the country’s international debt.
And because the dollar is the reserve currency, it is also used to price and pay for most globally traded commodities — oil and minerals but also illicit drugs and weapons.

Of course, those central banks and global traders don’t actually put dollars in a vault. Rather they use them to buy U.S. Treasury bonds, which pay interest and can be quickly turned back into dollars by selling them back in the Treasury market. And by buying all these bonds, they lower the rate at which the Treasury can borrow, allowing the United States to run large and persistent trade and budget deficits without suffering a dramatic fall in the value of its currency.

These days, however, it’s not just central banks that want to buy Treasury bonds. In times of crisis, global stock and bond investors also take refuge in Treasury bonds. Lucky for us, a surge in demand has come at precisely the moment the Treasury is about to issue trillions of new bonds for them to buy.
You can already see this dynamic playing out in global financial markets. The dollar has risen sharply, while interest rates on Treasury bonds have fallen to record lows. And central banks are now so desperate for dollars that the Fed has had to set up special programs to swap freshly printed dollars for other currencies.

The fundamental reason for all this — the reason the dollar is the world's reserve currency and the United States remains a financial safe haven — is that our economy remains the world's largest, most productive and most resilient. A lot of that has to do with the confidence the rest of the world has in our public institutions. Monetizing debt to stabilize an economy during a once-in-a-century pandemic is what you might expect from a competent government. Routinely monetizing debt because political leaders want to avoid making hard choices is not.

Some might worry that even if the new bonds are bought by the Fed, taxpayers will still be on the hook for the annual interest payments and for repaying the full $2 trillion when the bonds come due. Even that, however, is a shell game.
By law, any interest the Federal Reserve earns on its bonds is returned right back to the Treasury.

And if history is any guide, the $2 trillion will never be repaid. Instead, it will be forever "rolled over" as the Treasury issues $2 trillion in new bonds and notes to pay off the old ones. To actually pay down the debt, the federal government would have to run an annual budget surplus, which given the current state of our politics, isn't likely.
Here's a better way to get the economy through the coronavirus shutdown

It is possible that some day the bill for all this borrowing and spending will eventually become due. That could happen once the economy has recovered and the Fed decides having so much money still sloshing around the economy poses the risk of triggering inflation.

In that case, it might try to unwind its "quantitative easing" by selling those bonds into the Treasury market, effectively "unprinting" the money it created. That would not only raise the interest rates that the Treasury would have to pay to roll over its enormous debt, but could raise interest rates in the economy generally, slowing economic growth.

That's exactly what happened on several occasions when the Fed sensed the economy had recovered from the Great Recessions and tried a bit of "quantitative tightening." Each time, Wall Street threw a hissy fit and stock prices fell. And each time the Fed backed off, declaring that the inflation risk had passed.

Indeed, recent experience suggests that in a globalized economy characterized by slower growth and an excess of savings, the link between any country's money supply and its inflation rate has been

broken. The most compelling evidence comes from Japan, where the government has been monetizing debt like crazy for more than a decade but still worries more about deflation than inflation. And there's Europe, where despite years of bond-buying by the central bank that generated negative interest rates, there is no inflation.

But recent experience also shows something else: While the Fed's bond buying and money printing don't always lead to general inflation, it does lead to excessive borrowing and inflation in asset prices — stocks, bonds, real estate and other investments. And when those bubbles finally burst, they result in significant losses of wealth, income, jobs and income security for millions of people who suffer the full impact from the busts without reaping much benefit from the booms.

In the end, the real cost of printing and spending trillions of dollars to rescue the economy is not likely to come in the form of higher taxes to pay debt service or higher inflation that reduces our standard of living. Instead, the price will be paid by having a boom-and-bust economy in which the level of indebtedness, the depth of the recession and the size of the government rescue increase with each cycle, until the world finally loses faith and we are forced to give up our exorbitant privilege, much as Britain did a century ago.

Nobody knows when that tipping point might be reached. But it is worth noting that the United States has already gone from being the world's largest creditor to the world's largest debtor, and our lead in that dubious category is widening by the day.

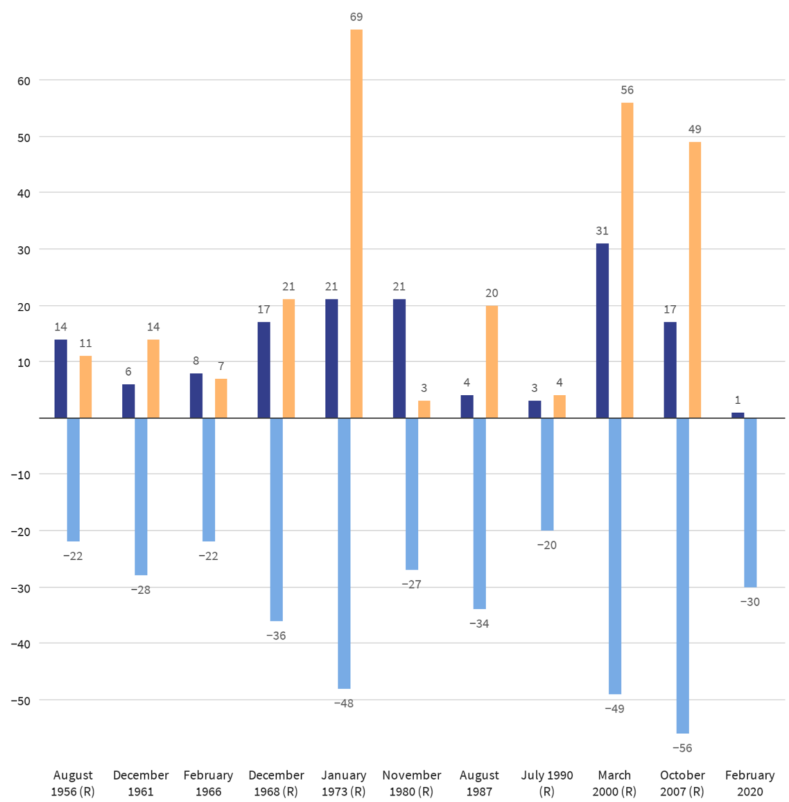
So as we enjoy the benefits of our $2 trillion free lunch, we might do well to remember the advice of a wise economist, Herb Stein, who famously reminded us that "if something can't go on forever, it will stop."
Perlstein

Now, you may not be a big fan of Alexandria Ocasio-Cortez (a.k.a. AOC) who is an ardent supporter of Modern Monetary Theory (MMT-see link).
MMT Nonetheless, the fiscal policy of the U.S.

The U.S. Treasury and Federal Reserves monetary actions in relation to the COVID 19 crisis; is exactly the definition of Modern Monetary Theory. **DEBT, WE DON'T CARE ABOUT ANY STINKING DEBT.**

PRINT, BABY, PRINT THOSE GREENBACKS

I understand the investors concern with the dramatic decline in the stock market. To provide some perspective on the current "Correction or Bear Market", I have included this chart (investopedia.com), below that shows on the S&P 500 Index has reacted and recovered Bear Markets since 1950.



I doubt that the vast majority of my retirement plan participants give a "Rat's Ass" about monetary policy (nor should they). Their main concern is the performance of their mutual funds (or lack thereof) and the decline of their account balances. The investment business is a curious animal as it is always **"What Have You Done For Me Today"** if you are an investor. Forgotten are the 11 years of the **Longest Bull Market in History**!
Bull Market

Unquestionably, these are difficult times. However, the U.S. stock market has been on one hell of a ride for over a decade and **"What Goes Up, Must Come Down."** We, at **The Prizant Group**, are always available to offer our thoughts on the state of the economy, interest rates, equity/bond market, and the effect of the COVID 19 pandemic. We have seen many sunrises, lived through multiple economic crises, weathered several social upheavals and survived Bear Markets. Rest assured, we are not going anywhere and will answer the call. Alas, all this talk of "Helicopter Money" reminds me of the chopper attack led my the narcisstic Lieutenant Colonel Bill Kilgore (aptly played by Robert Duvall) in Francis Ford Coppola's brilliantly directed movie **"Apocalypse Now"**

Apocalypse Now

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