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Of course, you know war means *this*

A brief look at wartime fiscal deficits

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Summary

- The world has declared war on COVID-19: this has major implications for markets.
- War and economics have history; before there was economics there was political-economy, and the development of central banking is rooted in war.
- A key lesson is that major wars are staggeringly expensive – this one will be too.
- Fiscal measures so far are huge, but they arguably underestimate what is required.
- Under a fiat money system everything is affordable – central banks will help fight this war in the same way they helped fight the last world war.
- Nonetheless, there are still real-world resource restraints – we cannot expect supply of key goods to flow faster than demand for them will grow as we battle the virus
- Markets are also going to ask how we get out of this: either we embrace austerity and repeat historical errors; or we embrace a new economic reality and make new errors
- No monetary constraint does not remove resource constraints - and the geopolitical clashes over which economy/currency does and does not face them. However, one war at a time

"*Of course, you know* ***this*** *means war.*" – Bugs Bunny

Nasty Bugs

As we move rapidly into "The Ugly" (global pandemic) of our four virus scenarios (which, if readers recall, just weeks ago were "Bad, Worse, Ugly, and Unthinkable") there is open recognition that, for all of us, this is now a war.

Almost every major politician has used the exact word "war", not a milder synonym like "struggle" or "battle" or fight", to justify their actions taken against the virus, which in turn has been labelled as an "invisible enemy" by US President Trump.

In this case, language matters. In short, **governments have made clear they have declared war on this virus**.

This is no small matter. **A war--*and in this case a major war that impacts the home economy*--is not something most countries have experienced since WW2**.

A declaration of war, even if against a non-human opponent, will have profound consequences on many fronts. Indeed, as we already see around us, as economies are locked down, borders close, and policies are changed on a daily basis, the use of that special word "war" opens the doors to economic, financial, and political-economy outcomes that would have seemed unimaginable just weeks ago.

This report will examine:

- The historical pattern of links between major wars and the economy and markets;
- The scale and breadth of policy responses seen during major wars;
- How such wars were financed, and how this one is likely to be;
- What the results of major war are on output/production; and
- How we return to normal again when war is finally over.

We draw some key lessons and conclusions from this exercise – many of which may be extremely uncomfortable, or shocking.

Nonetheless, war *is* shocking: and we want to be able to help readers understand that if indeed "*This* means war", then they also need to be cognisant that "war means *this*."

Please note the disclaimer at the end of this document.

This Means War!

To begin let's underline a few key points to illustrate how central war has been to economics. These are by no means complete, or even linear, but attempt to capture the essence of a relationship that most contemporary economic commentary tries to overlook.

Long before there was economics there was political-economy, of which statecraft and war, either the execution or prevention of, was always a major component. (In today's increasingly-uncertain world, political-economy is making a rapid comeback over "apolitical" economics.)

The development of central banking is rooted in war. The world's first central bank, the Bank of England, was founded in 1694. Although its remit is to "*promote the public Good and Benefit of our People*", its website states that it *"…was primarily founded to fund the war effort against France."*

Likewise, the US Federal Reserve was created in 1913. Some regional Reserve Boards were still swearing in their first board members in August 1914, when World War 1 started. It may sound unbelievable today, but the first few years of the existence of the Fed were problematic, with many banks not interested in using its rediscounting facilities, and regional Reserve Banks struggling to find a role or cover their costs. **It was the US entry into World War 1 in 1917 which jumpstarted the Federal Reserve system into what we know it as today** via the flood of federal government securities into the financial system.

The previously local USD emerged from World War 1 as a major international currency; and from World War 2 as the major global reserve currency – a role it still holds.

The concept of GNP (Gross National Product, the precursor of the GDP, which we still rely on today) originated with William Perry during the Anglo-Dutch wars of the 17th century. However, it was crystalized by Kuznets in 1937 – who then went on to serve the US from 1942-44 in helping measure and direct US output using this new metric. He played a key role in determining if the US was capable of producing enough for a successful invasion of Europe.

The economist Keynes, whom most name-drop in terms of government pump-priming, has among his seminal works "The Economic Consequences of the Peace", which argued that the failure to deal with the legacy of World War 1 debt would inevitably lead to World War 2. After his warnings were ignored, Keynes was then the primary architect of the UK government's next war-financing plans.

War Means This!

In short, war and economics/markets have always been deeply entwined, historically. Today, all of us are seeing this joined-at-the-hip relationship up close. As such, surely it would help us to look at previous wars to try to learn some of their key lessons.

The first and most important lesson is this: wars are staggeringly expensive. The cost of war can destroy governments, economies, and markets just like guns and bombs (and viruses) can.

Part of the market volatility we have just started to see, at least in terms of long bond yields, is arguably a partial recognition of that dynamic.

After all, the scale of the fiscal packages that various governments are now rolling out, and updating seemingly on a weekly basis, is totally out of keeping with anything resembling normal peace time.

Here are just some examples of the global fiscal swing which is now taking place, which are not by any means exhaustive, and which may already be out of date within days:

- Hong Kong is to spend around 3% of GDP;
- Canada is to spend 3% of GDP on stimulus;
- New Zealand has pledged fiscal support worth 4% of GDP, whilst the RBNZ joined the QE club;
- Poland has advanced a fiscal stimulus worth 9% of GDP;
- Germany is rumoured to be about to shift to a fiscal stimulus worth 10% of GDP, the first such step undertaken since unification at the start of the 1990s;
- The US virus-fighting package has rapidly escalated to around USD2 trillion from USD1.3 trillion, up from 5.6% to nearly 10% of GDP;
- France has announced economic support measures equal to 15% of GDP; and
- The UK has *already* pledged more than 15% of GDP in support, with more likely to come as soon as this week.

Clearly, these kind of spending packages, coming this rapidly, and in such a co-ordinated fashion, are unprecedented – at least in peacetime, as we just noted.

The Home Front

However, incredible as these fiscal figures already sound, for several reasons we would contest that **the total cost of fighting this virus is likely to be significantly higher than those numbers just listed.**

Firstly this due to another key lesson from war: one cannot hope to win one without sacrifice.

A war on the home front, which is the case for all of us today, rather than a war fought on a limited scale out of sight and out of mind overseas, means significant pain.

Here it means economic pain, of course, as a trade-off for the cost in lives we are trying to prevent. Yet few countries appear willing to embrace that 'stay ahead of the curve' strategy, and instead are playing catch-up with the virus's rapid spread.

There are clear examples from Taiwan, Singapore, China, and South Korea that rapid and widespread virus testing is needed; that response is only just starting in many Western economies, and is not happening at all in most emerging markets.

Moreover, Bar-Yam and Taleb argue here that a total lockdown is required too in order to break the chain of transmission. Yet almost nobody has been prepared to go that route so far for fear of the economic damage. Instead we have seen an incremental approach of rolling and/or partial restrictions, for example that still allow people to travel to work and back. Even the WHO argued consistently--and quite incredibly--from the start of this health crisis that there should be no restrictions on international travel "for fear of stigma".

In military terms, that is a strategy which usually ends in defeat – or at least in a far more costly victory. In virus terms, the current consensus approach puts most countries *behind* the curve in their aims of 'flattening the curve' of the peak of virus infections.

There is now a significant risk that health services will soon be overloaded *and* that a complete economic shutdown, as seen in Wuhan, will have to be imposed anyway, and perhaps for longer than would otherwise have been the case.

Indicatively, the travel restrictions the WHO said were not helpful have arrived everywhere, and on a far larger scale than would otherwise have been necessary if economically painful action had been taken earlier on a far smaller scale.

In short, we aren't fighting the war the right way – and that will mean a far higher fiscal cost to us all.

The Fog of War

The second reason to assume that the fiscal cost will be even higher than assumed so far is to stress the 'fog of war'. This is an incredibly fast-moving situation, and nobody knows how long the war against the virus will last.

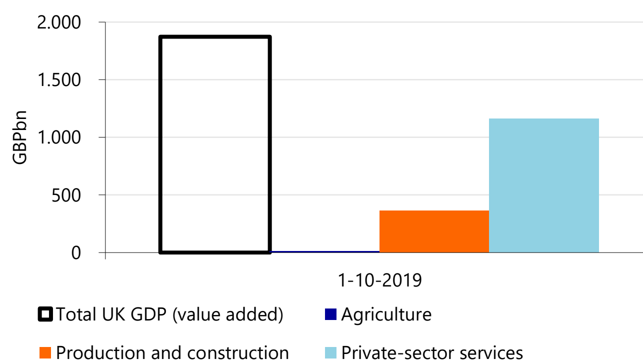
Might we see a vaccine in months? Might a new drug combination work? Will a partial lockdown work as well as a full one? Could hot weather bring things under control by summer? These would all reduce the fiscal cost significantly.

Equally, however, have we already moved too late in too many countries – as the Italian crisis worryingly suggests may be the case? Will the refusal of a significant percentage of the population to comply with key virus-fighting measures, such as social distancing, undermine efforts to control the disease? Do we need a real, Wuhan-style martial law shutdown of the economy for weeks? Might a vaccine take 18 months? Will the virus mutate? Could the autumn bring another round of worse infection, as was the case with Spanish Flu? How do we deal with those countries which cannot deal with COVID-19 successfully: how do we keep their citizens out while allowing the economy to function? Any and all of these questions imply a far, far higher fiscal cost than anyone has projected so far.

In a military parallel to COVID-19, as the US finally withdraws its remaining troops from Afghanistan in 2020, did anyone involved think that it would take *two decades* and USD2 trillion to fight (and lose) that particular campaign?

In terms of the economic damage, however, **some of the fog is lifting: and what we can see on the economic ground is terrifying**. Figure 1 shows the UK GDP and those parts provided by agriculture, production and construction, and services (excluding government).

Figure 1: Too many to fail?



Source: Macrobond

It should be immediately obvious that if private-sector services--airlines, travel, hotels, restaurants, pubs, clubs, wholesale, retail, fashion, events, sports, etc.--see a

synchronised collapse then the economic downturn is likely to be unprecedented. For example, total UK employment of 31m is dominated by areas most vulnerable to the impact of both panic about the virus and of fighting the virus via lockdowns and social distancing.

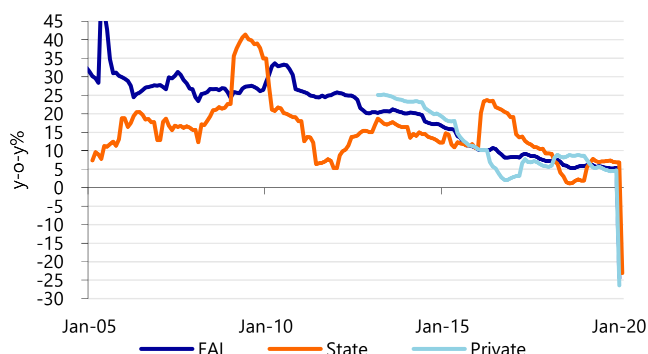
Table 1: In the Firing Line

UK sector	*% total employment*
Wholesale/retail	15.2
Administration	9.0
Accommodation/hospitality	7.5
Information/Communications	4.5
Finance/insurance	3.4
Real Estate	1.7

Source: ONS, Workforce Jobs Figures:

As can be seen in Table 1, over 40% of the UK workforce has a job in a sector that could easily take a direct hit; moreover, a further 14.8% are self-employed or freelance. Even though not *all* retail jobs, for example, can be assumed to be lost, this equally does not account for the domino effect of a drop in demand in other sectors as jobs are shed. In short, the impact could be catastrophic.

Figure 2: Shocking double digit declines in China. Expect more of this – everywhere



Source: Macrobond

Indicatively, Israel--ahead of most Western economies in its travel bans and lockdowns--has seen **unemployment surge from 3.6% in Q4 2019 to 17.6% in March to date, and the government fears this could reach 25%. That is a Great Depression, not a recession level collapse**. US weekly jobless claims to be released on 26 March will also be crucial in pointing to how severe the upswing in unemployment is likely to be.

We also have economic indicators from China, which was first into a lockdown. Retail sales, fixed asset investment, and industrial production released for January and February (see Figure 2), despite being flattered by being rolled into one data point, showed shocking double digit declines.

It would seem inevitable that similar data or worse will be recorded for countries under lockdown, and that such weakness will remain for as long as it lasts – and even after if confidence does not return quickly. All of this implies the need for a huge fiscal support package while simultaneously lowering the denominator of the fiscal deficit as a percentage of GDP.

The Price of War

Let's now take a brief look at the (sparse) details of the virus-fighting fiscal packages on offer. Worryingly, just as we arguably aren't fighting the virus right, **it's far from certain we are going about things the right way fiscally either.** What we see in most of the fiscal packages offered so far is a combination of:

- Higher direct spending;
- Tax deferrals; and, for the lion's share
- The offer of emergency loans for impacted businesses.

Let's consider the efficacy of each, and in reverse order.

The provision of loans and or debt-for-equity swaps for businesses presumes that the battle we are fighting is short, and that they just need liquidity support. "It will be over by Christmas," as they said in the UK at the start of WW1. **Yet what if this a 12-18 month struggle?** Will businesses, particularly SMEs that make up the bulk of GDP and employment, want to increase their debt load in order to restart operations in 2021 with a lower return on capital? Would it not be more beneficial to declare bankruptcy now and reopen debt-free in the future? Or, more cynically, to borrow the funds, hoard them, and *then* close down?

The fundamental issue is that *stimulus that relies on private borrowing relies on the private sector doing that borrowing: if they don't, there is no stimulus – as we have already seen with central banks and monetary policy.*

Tax deferrals presume firms will still be in business to pay that tax: if they aren't then these are not deferrals but rather recognition those revenues have been lost. Yes, this is a counter-cyclical fiscal measure in terms of an automatic stabilizer as revenues fall – but state spending stays the same.

Direct spending is the most efficient use of fiscal resources that can be found – even though it is not the largest share of the fiscal packages (yet).

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In some countries we already see plans of direct payments to households being announced. Denmark and the Netherlands are two examples, and Hong Kong has made a one-off hand-out. **The UK has also made the shocking political decision to underwrite 80% of monthly salary, up to a maximum of GBP2,500 per month, for an initial three months**--though notably not time limited--for all firms that apply for state help, in return for retaining their employees. There is also suggestion this policy will be expanded to cover 4.6m self-employed UK workers, perhaps based on an average of the last three years' earnings, and presumably with the same GBP2,500 cap.

Even the US fiscal stimulus package is to take the radical step of directly mailing cheques for USD1,200 to each adult and USD500 per child. This is being called a tax credit but clearly is far more than that.

Of course, such **cash cannot be easily spent while people are locked down. However, it will ensure the public does not starve or lose their homes, and can afford to self-quarantine**. Moreover, money can still be spent on-line: one can imagine that with the help of the armed forces and/or specially-equipped staff, food deliveries, etc., may still be made. Businesses will also know that demand is there for them as soon as the virus is gone, rather than destroyed for good in a downwards spiral.

Here things get really expensive for the government, however, and we have to readdress the point about **the unknown length and cost of war.**

Let's start with the UK. Presume *all* self-employed require the GB2,500 per month. Assume *half* of the service sector does, so another 20% of the work force: and why wouldn't firms apply for the money when it is free and saves them 80% of their direct-cost wage bill?

The above numbers would imply 10m people each getting GBP2,500 a month – or GBP25bn. That would already be an annual budget deficit in some fiscal years; and yet this would be just for *one month*. Imagine if it were for a year, as some suggest may be needed to beat the virus: that is GBP250bn when UK GDP was GBP2,210 before this recession hit.

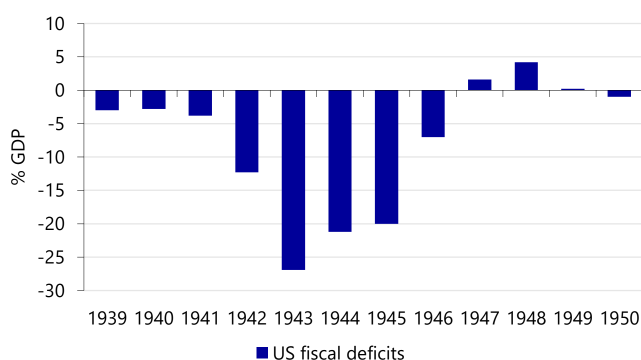
Likewise, in the US the cheques being sent out will cost USD250bn a month and are budgeted for two months at USD500bn. What if it takes six months at a cost of USD1.5 trillion, or a year at USD3 trillion? The US has not made the same open-ended no limits promise that the UK has – but presuming that the alternative is an economic collapse or social breakdown, to say nothing of the outcome of the November 2020 presidential and congressional elections, then we are still looking at the same kind of potential fiscal cost as the 20-year war in Afghanistan, crammed in a year.

Keep Calm and Carry On

As already noted, this is likely to mean a record US fiscal deficit as a percentage of GDP. If US GDP were to shrink 5% q-o-q annualised in Q1, for example, and a further 25% in Q2, it would temporarily take GDP down to USD15.3 trillion. That would coincide with an existing USD1 trillion fiscal deficit joining a USD2 trillion stimulus package, implying a USD3 trillion deficit equal to **nearly 20% of GDP, at least for one quarter.** That is equivalent to a year of fighting World War 2 (see Figure 3).

Again, we underline our earlier point: **major wars are mind-blowingly expensive.**

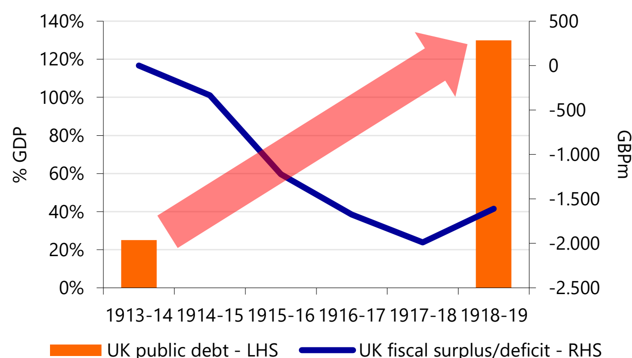
Figure 3: How to fight and win a war



Source: OMB

Importantly, the US fiscal experience in World War 2 is not an exception: it is the rule. When the UK fought World War 1, it also saw its fiscal position swing from narrow surplus to huge deficit, and British public debt soar from 25% to 130% of GDP (see Figure 4).

Figure 4: This sadly wasn't a (World War) One-off

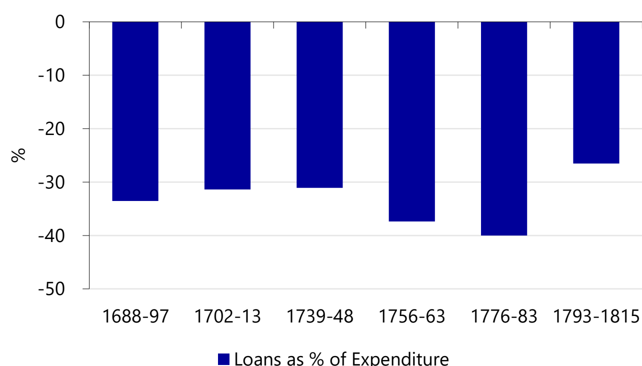


Source: International Encyclopaedia of the First World War

Moreover, while it is impossible to show accurate fiscal deficits-to-GDP prior to the start of proper national accounts data, one can show the share of borrowing in English/UK public spending during the major wars fought

from 1688 to 1815: borrowing regularly exceeded 30% of total public spending.

Figure 5: How we *don't* want to fight a war



Source: The Rise and Fall of the Great Powers, Kennedy

So what does history tell us about how such crippling-expensive wars were financed, and what ?

First, **that the cost of borrowing needs to be as low as possible**. **He who borrows cheaper usually wins the war.** In that respect, it is no surprise that we have seen a series of extraordinary rate cuts from global central banks, such that we are close to a world in which the key cost of borrowing is close to zero almost everywhere.

Second, **that one needs to keep the confidence of global markets** in terms of the combination of the only three tools that can be employed: taxation and borrowing, and monetization. This is a test we might be about to face.

In World War 1, the UK raised income tax to 40%, introduced an excess profits tax to stop profiteering and revenue-raising tariffs, while relying on borrowing and asset sales from the vast stock that it had built up under its empire. Yet it also allowed the money supply to double relative to its pre-war level.

Germany, by contrast, was ultimately forced to resort far more to outright monetization, quadrupling its own money supply. Of course, **there were then problems with inflation and the balance of payments as more currency was pushed into the economy than it could physically deal with.**

Things changed significantly in some key respects in World War 2 after gold standards had been suspended. Normal market forces were suspended and there was wide-spread reliance on fiat money. Tellingly, when the US entered World War 2, the Board of Governors of the Fed issued a statement indicating that the Federal Reserve System was "*prepared to use its powers to assure at all times an ample supply of funds for financing the war effort.*" It happily concurred when the Treasury asked it to peg interest rates at low levels, and to purchase T-bills at a fixed rate of 0.375%, vs. the 2-4% prevailing pre-war, which it did from July 1942 to June 1947 (two years after the war ended).

Likewise, in the UK World War 2 saw the Bank of England step in to ensure that Britain could fight a "3% War" fiscally. However, this could not overcome the fundamental problem of resource constraints and inflation. The UK was increasingly reliant on USD borrowing to finance vital imports from the US.

So what are the key lessons from this war history for us today?

Arguably, that we are in a position where **central banks are going to step in and finance extraordinary government expenditures**. There is no alternative. (For example, please see our recent report on 'helicopter money' in the US.) Recall **we are "at war", and central banks are already far from laissez-faire**.

Indicatively, US Treasury Secretary Mnuchin has announced that he will be invoking section 13(3) of the Federal Reserve's charter allowing it "in exigent circumstances" to rediscount a very broad range of paper, with the sole provisos that the beneficiary is not able to obtain this facility elsewhere from other banks, that the entity is not insolvent, and that no single items can be deliberately lifted from balance sheets. The Fed's Kashkari has already added publicly that the Fed has "infinite" cash, which it creates electronically.

In this case, **Mnuchin has stated he will allow the Fed to use this facility to extend up to USD4 trillion in loans across federal agencies and the economy.** THAT is a truly war-time level of fiscal-monetary co-operation. But the buck didn't stop there. Earlier today, the Fed even went all in on an open-ended QE, buying a wide range of assets and effectively backstopping the entire economy.

However, *even that does not solve our underlying problems.*

As with the British and Americans in World War 2, one still has to defeat the enemy first; and as with the British then, and emerging markets today, many will still have to deal with physical supply-side constraints that over-ride central-bank largesse - as well as the recognition that they are dwarfed by US political and financial power.

Please note the disclaimer at the end of this document.

Bucks and bangs

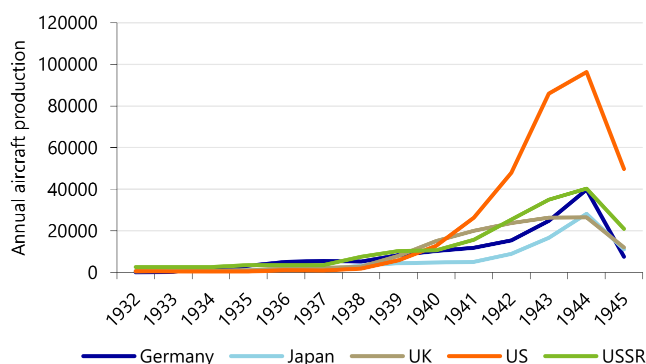
So what are the implications for output during a war? Put simply, while history shows how destructive wars can be, it also shows they can rapidly engender transformative change.

Right now governments in most countries face two contrasting struggles: one old and one very new (and very unusual).

The old struggle is that of any war economy: to produce key goods. In the past, this was ammunition, guns, ships, tanks, or aeroplanes. In the present it is medical equipment such as ventilators and masks, or even hand gel sanitizer.

We are already seeing governments send ventilator blueprints to manufacturers; to say they will buy as many as produced; to requisition supply of other key goods such as masks; or to ban their export. In the US, we have also seen the White House compel medical firms to provide free virus tests when the cost had been up to USD1,600, and the Defence Production Act (1950) invoked, Korean-war era legislation that allows the government to order firms to produce goods, and allocate resources, as required.

Figure 6: Up, up, and away...*eventually*



Source: The Rise and Fall of the Great Powers, Kennedy

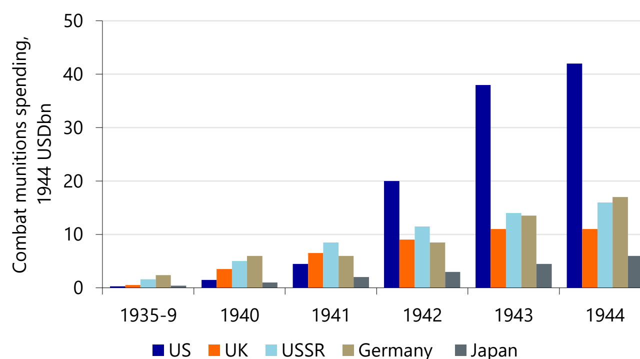
We are also seeing European and US firms scramble to reorder their supply chains and production lines: the former mainly away from China; the latter towards immediate production of medical goods, both to help society and to ensure they have cash flow.

For example, perfume makers Givenchy and Christian Dior have switched to production of hand sanitizers, as have some firms making alcohol; Spanish fashion retailer Zara is sourcing and producing anti-virus masks; Dyson, Jaguar Land Rover, JCB, McLaren, and Nissan, among others, are also offering staff and facilities as required.

All of these are war-time measures that have nothing to do with normal globalised free markets.

Yet what are the messages from the shift from peace-time to World War 2 arms production? It goes without saying that the just-in-time, networked global economy of today is a world away from the simple manufacturing base of 1939. However, pre-war and war-time production of aircraft and munitions (Figures 6 and 7) show us something arguably as important today as then.

Figure 7: From last to first



NB: 1935-39 data are cumulative

Source: Goldsmith, Power of Victory

Specifically:

- US arms production went from almost nothing in the mid-1930s to a staggering level by its peak in 1944 as US defence spending soared from 1.4% of GDP to over 37%;
- The UK started to rearm in 1934 after defence spending had fallen from GBP766m in 1920 to GBP102m in 1932. Even so, political opposition and strategic indecision meant it was not until the 1938 Munich crisis that the UK began to rearm in earnest – and too late;
- The USSR was less successful than the US despite ignoring consumer good production (the US did both simultaneously), but still saw rapid output gains; and
- Both Germany and Japan started ahead of the Allies, but rapidly fell behind all of them.

The key lesson here is that **even when the economic fight was existential; when all available resources were thrown at it; and when production was simpler in terms of bureaucracy, length of supply chains, and production processes, it *still* took years before output reached the desired level.** Put simply, if Germany could have produced 20,000 planes in 1941, it would have - but it couldn't.

In short, there are limits to what one can achieve in any space of time – and even central banks supporting government fiscal policy will not make them go away. Doing so involves solving lots of real world problems to

ensure resources can flow – at a time when supply chains and workforces are fracturing due to lockdowns.

In the specific case of COVID-19, and yet in a parallel to the 1930s/40s arms race, it is unclear if the likes of ventilator production can be on-shored and maximized, and staff to use them trained, faster than demand is set to grow as the virus enters its most dangerous phase in Europe, the US, and the rest of the world outside China.

Meanwhile, central banks and government face a new enemy. War efforts are usually centred on maximizing output; but this time one of the key attacks against the virus is to do nothing.

The more economic activity there is, the more virus-spreading there will be.

Consequently, authorities are again hampered by real-world limitations that transcend even the generosity of fiat money: how are we going to produce key goods without key workers or transportation? What is the correct ratio of production to lock-down? How is it to be achieved – and sustained socially, if not economically?

Is the solution for the central bank to support the government to pay everyone except a few key workers to stay at home for up to 18 months? Is it really the case that we need to "Sit For Victory" rather than "Dig For Victory"?

Demob Happy

When we have the UK's Daily Telegraph openly declaring that Boris Johnson needs to embrace socialism to save the economy, we are obviously in an entirely new world. Yet even so, the market will soon be asking how public debt can be brought back under control once this is all over.

The answer actually doesn't need too much thought.

Public debt is rarely, if ever, paid back if owed to oneself. It is merely rolled over, while nominal GDP growth deflates it away in relative terms over time. Look at the long-run stock of public debt in most countries and see that this is true: it rarely goes down. Foreign debt is another matter: in December 2006, the UK made a final payment of USD83m (then GBP46m), the last tranche of USD21bn in World War 2-era loans from the US. That is why one wants to fight a war with a sovereign currency.

Of course, it is extremely hard to imagine that a US or global economy already staggering under a high debt load, and with slumping productivity, could replicate the post-war population, investment, productivity, and investment boom seen from the late 1940s onwards. The constant failure to raise nominal GDP growth rates since the end of the global financial crisis in 2008 means **no post-World War 2 recovery is likely this time**, and if we see a surge in unemployment and a domino collapse in SMEs, things would be even more worrying. We arguably won't be able to quickly reduce the scale of public debts like we did in the 1950s.

Even so, that does not mean there would be an immediate debt crisis. From current debt-to-GDP levels (based on US national debt of USD23.3 trillion as of February 2020, or over 105% of GDP) even a hypothetical 25-percentage point surge in US public debt to 130%-plus would arguably not trigger a debt crisis; for other countries with lower debt levels it would be even more manageable. That said, it would push US national debt above its World War 2 peak as a share of GDP--which is ironically appropriate--without any likelihood of it coming down again.

Yet **the key variable to sustaining such a debt load is the cost of borrowing**. If that continues to drift down then even a far higher debt-to-GDP ratio is sustainable. For clear proof of that ability to survive with such high debts just look at Japan with a debt-to-GDP ratio around 240%.

Of course, the prospect of everyone looking Japanese in economic terms is hardly welcoming. Yet this overlooks that we are not predetermined to enter into a sluggish state after the war is over.

One War at a Time

That does not mean there is a happy ending ahead – but wars rarely have happy endings. The primary thing it to survive them first.

Indeed, **if we emerge from this crisis and immediately try to go back to austerity and tight monetary policy then we not only risk repeating the errors of the post-global financial crisis era; rather, we risk repeating the errors of the post-World War 1 era**. (Time for the authorities to re-read 'The Economic Consequences of the Peace', please!)

Yet if we emerge from this and *maintain* extraordinary fiscal-monetary policy then we enter an entirely new economic landscape: money is no longer a constraint. We can be assured of growth – but probably of inflation too, unless bond yields continue to be capped by helpful central banks – which they probably will be. After all, what is the alternative? And how does one sell that to the public? Note that post-World War 1, the kings and emperors of Europe were mostly swept away; and post-World War 2, Winston Churchill was kicked out and a Labour government introduced the NHS and nationalised key industries.

Of course, even if money is no longer a constraint, resources still are - and therefore so is *whose* money is no longer a constraint. Modern Monetary Theory (or MMT) leads to some very old problems in that regard – as we have argued before. Equally, the USD is going to emerge looking very strong – everyone else, far less so.

However, let's fight one war at a time, eh?

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