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Saved by helicopter money?

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At a time when COVID-19 is causing a shock of almost unprecedented violence and raising the spectre of another Great Depression, the idea of "helicopter money" is back in force in the public debate. The term "helicopter money" was coined by economist Milton Friedman, who sought to illustrate his theory of the neutrality of money with a metaphor. What would happen, asked Friedman, if a helicopter flew over a country and dropped banknotes from the sky? He held that the money would be picked up immediately by citizens and then spent, leading to a general increase in the price level in the long term.

Exceptional times call for exceptional measures. With more than half of the world's population in lockdown and a looming global recession that may echo the Great Depression of the 1930s, economic taboos are falling one after the other. **Helicopter money is no longer taboo.**

To cope with the economic crisis caused by COVID-19, the US has adopted an "historic" stimulus package totalling 2 trillion dollars (i.e. nearly 10% of US GDP), **with an unprecedented measure: making cash payments directly to families**. Distributing money to citizens, without intermediaries or asset purchases in return, is the principle behind helicopter money.

What is helicopter money?

The term "helicopter money" was coined by US economist Milton Friedman in 1969, when he used the image of a helicopter dropping banknotes over a country to describe a situation where economic agents would be left with newly created money without any other variable having fundamentally changed.

Helicopter money is the idea of a central bank distributing "free money" to all households (or only to the poorest households more liable to consume this newly created money) **in order to boost consumption and fight deflation.**

Whether this money comes directly from the central bank, and without transfers of funds to the government budget (the central bank transfers the money directly to citizens' bank accounts) **or whether it goes through the State with the cooperation of the central bank** to conduct an expansionary fiscal policy (income transfers to the population or tax cuts) financed entirely by the central bank **via debt monetization is equivalent from an economic point of view**.

Helicopter money and quantitative easing (QE) differ in that the former distributes the newly created money directly to the population whereas the latter channelled it through the sole interbank market, which led economist John Muellbauer to call helicopter money **"quantitative easing for the people**".

Because each citizen would receive direct, unrepayable funding (no subsequent tax increase), **this policy could prove to be very effective in stimulating consumption**.

Why use helicopter money?

The debate over helicopter money, which until recently seemed to be a far-fetched idea, is coming back in force today. **The expected benefits are threefold:**

- Fighting against the recession triggered by the combined supply and demand shock created by the COVID-19 pandemic and averting the danger of seeing the recession turn into a self-sustaining downward spiral.
- Overcoming the dangerously reduced menu of fiscal and monetary options to stimulate economic activity.
- Limiting the increase in public debt.

The urgency today is to curb a domino effect by which the many sectors of the economy affected by the pandemic would drag most of the economy along in their fall. With companies at a standstill or facing bankruptcy, carrying an unprecedented explosion of unemployment in their wake, lending financial institutions (bank and non-bank) will suffer losses. And **the States are at the end of the chain**.

Indeed, **the States have no other choice but to support the economy** – weakened companies (reduction of social charges, tax relief, financing of premiums, debt restructuring, guarantees on credits…), households in difficulty (partial unemployment, distribution of checks…), or even systemically important financial institutions –, **which could bring them into dangerous territory**.

To prevent the crisis from being magnified by sovereign defaults, **more and more voices are being raised** today **to call for helicopter money**.

Because any new debt generated by the "fiscal bazooka" currently implemented would be monetized, the COVID-19 crisis would not lead to an increase in the public debt-to-GDP ratios.

What are the main objections of helicopter money?

The main objections are threefold:

- Legal difficulties. For example, the Treaty on the Functioning of the European Union prohibits the ECB from directly financing Government bodies.
- Concerns that the book capital of central banks could become negative (due to the increase in their liabilities – the increase in the money supply – without a corresponding increase in their assets), which could ultimately lead to a loss of their credibility, even their independence.
- A risk of inflation, and even hyperinflation.

Today, however, **it is rather a risk of a deflationary spiral that the world is facing**. And central banks could put an end to their monetary financing of budget deficits as soon as any (possible) excessive increase in prices occurs.

This is to an "out-of-the-box thinking" that COVID -19 invites us at present.

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