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**Article**

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Ansgar Belke\*

# Helicopter Money: Should Central Banks Rain Money from the Sky?

Ultra-low interest rates have become an endemic and potentially problematic characteristic of the global economy. Central banks in the euro area, the United States, Japan and Australia have bet on lowering interest rates to increase inflation, but despite their efforts, core inflation remains stubbornly below the desired two per cent. However, central banks have another tool at their disposal that has the potential to stimulate inflation: helicopter money.

Imagine a helicopter is flying over a community and drops a load of money. People scramble to pick up as much of it as they can. What will they do with that extra money? They will spend it, in turn boosting the economy and stimulating inflation. This thought experiment was proposed by Milton Friedman in order to elucidate the effect of money injections into the economy over time.<sup>1</sup> Ultimately, it inadvertently demonstrates the limits to central banks' influence and reduces monetary policy to near absurdity.<sup>2</sup> Nevertheless, many economists are now defending the use of helicopter money or the printing of money to artificially raise inflation.<sup>3</sup> Since, for instance, the European Central Bank (ECB) cannot lower interest rates any further without abolishing cash, some observers argue that it should use helicopter money as a "nuclear option".<sup>4</sup> Hence, they put pressure on central banks to directly distribute money to consumers. So why are

the Fed, the ECB, the Bank of Japan and the Reserve Bank of Australia not printing money to revive their economies? Presumably this is because this tactic has been employed before – in countries like Argentina, Zimbabwe and in 1920s Germany – with disastrous outcomes in each case.

## What is helicopter money?

While helicopter money has for decades been regarded as merely an academic thought experiment, some commentators now see it as a plausible last resort for monetary policy in practice.<sup>5</sup> It is sometimes also called monetary financing, implying overt monetary financing of government deficits.<sup>6</sup> In order to assess the costs and benefits of helicopter money, it is important to start from a benchmark, which is given by Friedman's work on the subject.

Friedman stresses the important proviso that the money drop is a one-time, never-to-be-repeated event. However, Peter Praet, a member of the ECB's Executive Board, asserted that "all central banks can do it" if needed.<sup>7</sup> In addition, close observers of the debate on the euro area's future governance have noticed that permanent quantitative easing (QE) is seen by some governments in the euro area periphery to an increasing extent as a constitutional element of this future governance. So it is not unrealistic that we will see some sort of a permanent helicopter money programme implemented after the next credit crisis.

\* I gratefully acknowledge the comments received from participants at the conference "Notenbanken auf dem Prüfstand", Volkswirtschaftliche Bankenrunde, Kreditanstalt für Wiederaufbau, Frankfurt, 19 April 2016, and from my students in monetary economics at the University of Duisburg-Essen in the summer terms 2016 and 2017.

1 See M. Friedman: The Optimum Quantity of Money and other Essays, Chicago 1969, Aldine Transaction. For further facets of Friedman's work, such as the differentiation between a one-time drop and permanent drops and the distributional consequences of the helicopter drop, see A. Belke: After the Bazooka a Bonanza from Heaven – „Helicopter Money“ Now?, forthcoming.

2 See the papers presented at the conference "Zero Interest Rate Policy and Economic Order", Leipzig, 20-21 June 2016; see also A. Belke, G. Schnabl: Zero Interest Rate Policy and Economic Order 2016, in: Credit and Capital Markets, Vol. 50, No. 2, 2017, pp. 101-103.

3 See K. Derviş: Time for Helicopter Money?, Project Syndicate, 3 March 2016; and A. Turner: The Case for Monetary Finance – An Essentially Political Issue, Paper presented at the 16th Jacques Polak Annual Research Conference, International Monetary Fund, Washington DC, 5-6 November 2015.

4 See C. Borio, P. Disyatat, A. Zabai: Helicopter Money: The Illusion of a Free Lunch, VoxEU, 24 May 2016, available at <http://voxeu.org/article/helicopter-money-illusion-free-lunch>.

5 See L. Reichlin, A. Turner, M. Woodford: Helicopter Money as a Policy Option, VoxEU, 20 May 2013, available at <http://voxeu.org/article/helicopter-money-policy-option>; and A. Turner: Between Debt and the Devil, Princeton 2016, Princeton University Press.

6 See A. Turner: Debt, Money and Mephistopheles: How Do We Get Out of This Mess?, Lecture at the Cass Business School, London, 6 February 2013.

7 See F. Giugliano, T. Mastrobuoni: ECB open-minded about more rate cuts, chief economist says, La Repubblica, 17 March 2016, available at [http://www.repubblica.it/economia/2016/03/17/news/peter\\_praet\\_interview\\_deposit\\_rate\\_cuts\\_still\\_possible\\_ecb\\_s\\_chief\\_economist\\_says-135733082/](http://www.repubblica.it/economia/2016/03/17/news/peter_praet_interview_deposit_rate_cuts_still_possible_ecb_s_chief_economist_says-135733082/).

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## Helicopter money vs quantitative easing

The major difference between QE as it has been carried out and helicopter drops as envisaged by Friedman is that the vast majority of QE purchases have been asset swaps, through which a government bond is exchanged for bank reserves. While this alleviates reserve constraints in the banking sector and has lowered government borrowing costs, its transmission to the real economy has been indirect and underwhelming.<sup>8</sup>

With helicopter money, the boost to demand is said to materialise through a perceived wealth gain by households. The traditional ways of supplying central bank money would not create this same effect, because the newly created money is usually extended to the commercial banks merely as a credit or is used to purchase marketable assets from them.<sup>9</sup> However, this differentiation is not convincing and might even be considered misleading, because it suggests a policy regime change. But as long as the ECB continues to buy sovereign bonds (“permanent QE”) – whether through its Securities Market Programme<sup>10</sup> or via QE – a shift to helicopter money will not represent a true policy regime change. The money created in this way can already be considered helicopter money, because the euro area governments have already financed transfers to their citizens or have eschewed tax increases through government income from the increases in government debt, which in turn have been financed by the printing press. For this assessment, it does not play any role that the governments have to pay interest on their emitted debt securities, because these interest payments to the ECB flow back to the governments via the ECB’s distributions of profit.<sup>11</sup>

According to some economists, it is an economic truism that the issuance of helicopter money is equivalent to the combination of an expansionary fiscal policy with an expansionary monetary policy. Consequently, the economic effects must also be the same, i.e. similarly underwhelming. Major economies have not yet adopted coherent expansionary fiscal policies as a response to the crisis. The US initially passed a large stimulus bill, but this was quickly followed by “austerity” at the state level, and soon thereafter at the federal level as well. Things have changed again in the first year of President Trump’s term. Meanwhile, the euro area has been marked by

contractionary to neutral fiscal policies for nearly a decade now. In that sense, helicopter money is envisaged by some to prepare and support a path back towards more expansionary fiscal policies. The only difference between the “old” and the “new” version of helicopter money seems to be of a legal nature: whereas in today’s world democratic governments determine the extent of public debt and the receivers of transfers or the beneficiaries of tax cuts, it is the ECB itself which makes the decisions regarding new helicopter money.<sup>12</sup>

Direct transfers into people’s bank accounts, or monetary-financed tax breaks and government spending would increase the effectiveness of the policy by directly influencing aggregate demand rather than hoping for a trickle-down effect from financial markets. Helicopter money is used to purchase goods and services. With QE, however, the newly created money is used to buy government bonds. This pushes down bond yields, which should prompt consumers to borrow and spend more – as interest rate cuts do in normal times. But that may not work if people are so risk-averse that they are willing to hold Treasury bills or cash with no return whatsoever rather than spend.<sup>13</sup>

## Helicopter money vs traditional fiscal stimulus

Helicopter money is also different from a traditional fiscal stimulus, in which the government sells bonds to the public and uses the proceeds to directly stimulate demand, for example by building highways, hiring teachers or cutting taxes. Eventually, more government borrowing will push up interest rates, hurting private investment and raising solvency worries. Households, expecting their taxes to rise, may spend less (a phenomenon called Ricardian equivalence). From a theoretical perspective, the appealing aspect of a monetary-financed fiscal programme (MFFP) is that it should influence the economy through a number of channels, making it extremely likely to be effective – even if existing government debt is already high and/or interest rates are zero or negative. These channels include:<sup>14</sup>

- the direct effects of the public works spending on GDP, jobs and income;
- the increase in household income from the tax cut, which should induce greater consumer spending;

8 See A. Belke, D. Gros, T. Osowski: The Effectiveness of the Fed’s Quantitative Easing Policy: New Evidence Based on Interest Rate Differentials, in: *Journal of International Money and Finance*, Vol. 73, No. PB, 2017, pp. 335-349.

9 See, for instance, H.-W. Sinn: Helicopter Money, in: B. Frey, D. Iselin (eds.): *Economic Ideas You Should Forget*, Heidelberg 2017, Springer, pp. 129-130.

10 See A. Belke: Driven by the Markets? ECB Sovereign Bond Purchases and the Securities Markets Programme, in: *Intereconomics*, Vol. 45, No. 6, 2010, pp. 357-363.

11 H.-W. Sinn, op. cit.

12 Ibid. This may only be interpreted as an advantage, given that the new form of helicopter money will help to surmount the democratic hurdles and legal brakes for public debt which have been erected by the parliamentary democracies in the euro area.

13 M. van Rooij, J. de Haan: Will Helicopter Money Be Spent? New Evidence, DNB Working Paper No. 538, 2016.

14 See B. Bernanke: What tools does the Fed have left? Part 3: Helicopter money, Brookings, 11 April 2016, available at <https://www.brookings.edu/blog/ben-bernanke/2016/04/11/what-tools-does-the-fed-have-left-part-3-helicopter-money/>.

- a temporary increase in expected inflation, due to the increase in the money supply; assuming that nominal interest rates are near zero,<sup>15</sup> higher expected inflation implies lower real interest rates, which in turn should incentivise capital investments and other spending;
- the fact that, unlike debt-financed fiscal programmes, a monetary-financed programme does not increase future tax burdens.<sup>16</sup>

Standard (debt-financed) fiscal programmes also work through the first two channels. However, when a spending increase or tax cut is paid for by debt issuance, future debt service costs and thus future tax burdens rise. To the extent that households today anticipate that increase in taxes – or if they simply become more cautious when they hear that the national debt has increased – they will spend less today, offsetting some of the programme's expansionary effect.

In contrast, according to proponents of helicopter money, a fiscal expansion financed by money creation does not increase the government debt or households' future tax payments and so should provide a greater impetus to household spending, all else equal.<sup>17</sup> Moreover, the increase in the money supply associated with the MFFP should lead to higher expected inflation – a desirable outcome, in this context – than would be the case with debt-financed fiscal policies.<sup>18</sup>

The assumption that helicopter money would avoid any increase in government debt is not uncontested, however. This is because the issuance of helicopter money implies, from the perspective of the ECB and the euro area member states, the waiver of the perpetual flow of interest income which would emerge under traditional money creation. This waiver is equivalent to a permanent obligation to pay interest as it would emerge under an open accumulation of debt.<sup>19</sup> However, one may argue that the waiver is only hypothetical, because the helicopter adds on to the existing amount of money.

However, the hypothetical loss, as compared to ordinary money creation via open market operations, will turn into a true loss if the amount of money must be reduced to its normal level once the inflation target is reached. Since it will be rarely possible to recollect the helicopter money, the ECB will have to withdraw its credit money from circulation. This in turn will lead the ECB to distribute smaller profits to the governments of the euro area member states.<sup>20</sup> This is similar to the situation with QE in the US, where the Fed has consistently and transparently planned to eventually return its balance sheet and thus the monetary base back to their prevailing trend paths prior to its QE programmes. But the Fed was also implicitly committing to a mere temporary expansion of the monetary base by not raising its inflation target.<sup>21</sup>

The standard view in modern macroeconomics is that, in order for QE to make a meaningful difference, the associated monetary base growth needs to be permanent.<sup>22</sup> This is because a permanent expansion of the monetary base leads in the long run to a permanent rise in the price level. This mechanism in turn creates an incentive to start spending more in the present period when goods are still cheaper. According to Krugman,<sup>23</sup> based on his now-famous 1998 model applied to a zero-lower bound scenario, "Anything you do – monetary or fiscal – affects current consumption to the extent, and only to the extent, that it moves the expected future price level." In other words, lowering real interest rates to their market clearing level would imply a temporary surge in expected inflation.<sup>24</sup>

### Further developments of the helicopter money idea

Helicopter money merges QE and fiscal policy while, at least in theory, getting around limitations on both. The government issues bonds to the central bank, which pays for them with newly created money. The government uses that money to invest, to hire and to send people checks or cut taxes, virtually guaranteeing that total spending will go up. Because the central bank, not the public, is buying the bonds, private investment is not crowded out.

15 See e.g. P. Krugman: The Simple Analytics of Monetary Impotence (Wonkish), The Conscience of a Liberal, 19 December 2014, available at <https://krugman.blogs.nytimes.com/2014/12/19/the-simple-analytics-of-monetary-impotence-wonkish/>; and A. Turner, op. cit.

16 See C. Borio, A. Zabai: Unconventional Monetary Policies: a Re-appraisal, BIS Working Papers No. 570, July 2016.

17 Krugman comments on this popular argument quite ironically: "(I)t's certainly something I've heard from helicopter money types, who warn that something like Ricardian equivalence will undermine fiscal expansion unless it's money-financed." See P. Krugman: Chris and the Ricardianoids (Wonkish), The Conscience of a Liberal, 30 August 2016, available at <https://krugman.blogs.nytimes.com/2016/08/30/chris-and-the-ricardianoids-wonkish/>.

18 B. Bernanke, op. cit.

19 See C. Borio, A. Zabai, op. cit., Box 2; C. Borio, P. Distayat, A. Zabai, op. cit.; and H.-W. Sinn, op. cit.

20 See H.-W. Sinn, op. cit. This can be interpreted as the "true" problem of helicopter money. The governments of the euro area member countries become impoverished because their citizens receive donations which in turn imply a permanent burden for the budget at the amount of the interest payments on these donations and, thus, a corresponding disadvantage for future generations of taxpayers.

21 See J. Cohen-Setton: Permanent QE and Helicopter Money, Blog post, Bruegel, 5 January 2015; and M. Woodford, op. cit. After all, the same was true of Japan's QE policy in the period 2001-06.

22 See D. Beckworth: The Federal Reserve's Dirty Little Secret, Macro Musings Blog, 22 December 2014, which presents a useful compilation of corresponding citations by Woodford, Svensson and Obstfeld among others which support this view. See also C. Borio, P. Distayat, A. Zabai, op. cit.

23 P. Krugman: The Simple ..., op. cit.

24 See J. Cohen-Setton, op. cit.

Unlike with QE, the central bank promises never to sell the bonds or withdraw from circulation the money it created. It returns the interest earned on the bonds to the government. That means households will not expect their taxes to go up to repay the bonds. It also means they should expect prices eventually to rise. As spending and prices rise, nominal GDP goes up, so the debt-to-GDP ratio can remain stable.

In practice, there are basically three variants of helicopter money available to the ECB, which are described in the following.<sup>25</sup>

#### Variant 1: The ECB prints money, the government distributes it

The first option is a “broad-based tax cut combined with money creation by the central bank to finance the cut”.<sup>26</sup> This method is inspired by a concrete United States precedent. During the Great Recession, the US government spent \$100 billion that it borrowed from the Fed. 70 million households received tax cuts via checks which on average were worth \$950.<sup>27</sup>

In accordance with this approach, the central bank would have to cooperate with the government authorities. For example, the tax authorities could pass the funds to taxpayers. The success of this approach depends crucially on how credibly the government is able to communicate that the money spent will not be recovered via future tax increases. Sims has argued that monetary-financed tax cuts would only work if fiscal authorities obliged the government not to introduce new taxes.<sup>28</sup> If citizens anticipate that they eventually have to pay for the tax cuts, they will save most of the money to cope with future tax increases, severely limiting the impact of the tax cuts.

#### Variant 2: The ECB transfers money to the private sector

A second approach would be that the central bank makes the money directly available to citizens. For example, the ECB could open up an account for each EU citizen and provide it with a fixed amount. A specific and binding expiration date could force citizens to spend the money quickly. In or-

der to balance out the ECB's balance sheet according to the principles of double bookkeeping, it could at the same time take virtual debts onto its books, for example bonds which do not have to be repaid and for which interest is not due.

Contrary to government tax refunds, citizens could thus be sure that the money will not be recovered from them, and they would be likely to spend a greater share of the money. In the medium term, however, this variant would weaken the balance sheet of the central bank: as citizens transferred the money to their own accounts and their claims on the commercial banks increased, the latter would have to increase their minimum reserves at the ECB accordingly. The central bank would then have to pay interest on these reserves without receiving interest on its own debts. This would make it more difficult for the central bank to raise interest rates again, because it would lose money in doing so.

#### Variant 3: The ECB prints and the government invests

The third variant of helicopter money represents a strategy in which a central bank prints money and transfers it directly to the government, which in turn spends it immediately – a variant much closer to traditional Keynesian models. In this case, too, the euro area member countries could issue bonds in exchange for freshly printed money; the bonds would not bear interest and would not have to be repaid to the ECB. This would only happen in order to guarantee that the ECB's balance sheet still meets the usual requirements. In other words, the ECB would buy government debt titles and substitute them with non-interest-bearing bank reserves, i.e. loans of unlimited duration.<sup>29</sup> Or, as a standard case, the central bank acquires assets but rebates the interest paid on the government bonds back to the national treasuries, so that the budgets of all parties remain the same, as if no government bonds were actually acquired – as is explicitly the case with helicopter money.<sup>30</sup>

In addition, the central bank could take over the debt service of the government, pay the interest and, if a government bond expires, disburse the owners of the bonds without a new government bond being issued for this purpose. The government's absolute debt would thus be reduced. And less debt finance means lower interest payments, forever.<sup>31</sup> Turner pleads for this form of helicopter money, even

25 See, for instance, G. Saravelos, D. Brehon, R. Winkler: Helicopters 101: Your Guide to Monetary Financing, Special Report, 15 April 2016, Deutsche Bank Research.

26 See B. Bernanke, op. cit., 2002.

27 See J.A. Parker, N.S. Souleles, D.S. Johnson, R. McClelland: Consumer Spending and the Economic Stimulus Payments of 2008, NBER Working Paper No. 16684, 2011.

28 As summarised by C. Sims: Fiscal Policy, Monetary Policy and Central Bank Independence, Paper presented at the Jackson Hole Economic Policy Symposium, Federal Reserve Bank of Kansas City, Jackson Hole, Wyoming, 25-27 August 2016, and critically discussed with respect to the helicopter money issue by P. Krugman: Chris and ..., op. cit.

29 See P. Pâris, C. Wyplosz: To end the Eurozone Crisis, bury the debt forever, VoxEU, 6 August 2013, available at <http://voxeu.org/article/end-eurozone-crisis-bury-debt-forever>; P. de Grauwe, Y. Ji: Fiscal implications of the ECB's bond-buying programme, VoxEU, 14 June 2013, available at <http://voxeu.org/article/fiscal-implications-ecb-s-bond-buying-programme>; and C. Borio, A. Zabai, op. cit., Box 2.

30 See M. Woodford, op. cit.

31 C. Borio, A. Zabai, op. cit., Box 2.



if it would not represent helicopter money in its pure form anymore.<sup>32</sup>

While private households would still use a portion of the helicopter money to save or pay off their debts, the government would completely spend it, according to this variant. In addition, money could flow into sustainable investment, for example schools, streets or data lines. However, it may take some time before the money actually reaches the economic cycle, due to the strict rules of awarding contracts.

It does not come as a surprise that this third variant is discussed primarily in the US and the UK. Given the strict ban on the funding of government deficits and the de facto absence of fiscal policy coordination in the euro area, the ECB would hardly be in a position to inject money through government accounts.<sup>33</sup>

### The upshot

These programmes should only run until the desired inflation rate of two per cent is reached. Their main purpose is to guide the global economy back onto its normal path with normal interest rates and normal growth. It is crucial that the money issued by the helicopter does not have to be repaid. Any demand for regular helicopter money distributed by central banks is, however, misguided. Helicopter money would instead be a one-off monetary policy impulse, and it should not be viewed as a means to guarantee basic income or long-term social protection.<sup>34</sup>

### Helicopter money: pros

Friedman used the helicopter as a metaphor to argue that the central bank could always create inflation by printing enough money. As people spent the money, nominal GDP would rise, either through the production of more goods and services, higher prices, or both. As Bernanke points out, however,

the use of helicopter money would involve some difficult issues of implementation. These include (1) the need to integrate the approach with standard monetary policy frameworks and (2) the challenge of achieving the necessary coordination between fiscal and monetary policymakers, without compromising central bank independence or long-run fiscal discipline.<sup>35</sup>

Bernanke proposes some tentative solutions for these problems. The central bank's inflation target could be temporarily increased. Payment of interest on reserves could either be eliminated or at least be set at a rate lower than the interest paid by the Treasury on government debt. What is more, a special account at the Fed to be filled at emergency times could be created. The US Congress could decide how – or whether – to spend the funds.

An argument in favour of helicopter money is that it would enable the central bank to inject money directly into the real economy in order to overcome the deflationary phase that has prevailed since the financial crisis. After all, leading central banks have not yet achieved their desired inflation levels through their use of previous exceptional instruments. However, this argument may be less valid today, with a headline inflation rate of around two per cent in the euro area, assuming one disregards the fact that the core inflation rate is much lower and that the current headline inflation rate might not be sustainable due to its dependence on oil price developments. Regardless, since the financial crisis, prices in the euro area have been falling (or increasing at a slower rate) in many sectors and for many products. This deflation (disinflation) is alleged to be bad for companies, because they take on too little credit and are too cautious with their investments. Helicopter money could quickly change this dynamic.

At the same time, the commercial banks continue to allocate only small quantities of the money made available to them by the ECB to companies and citizens. This has been especially relevant for Greece, but also for Italy.<sup>36</sup> Since the financial crisis, the banking system in Europe has no longer functioned as it should.<sup>37</sup> Zero interest rates, negative interest rates and quantitative easing have not worked to a sufficient extent. This explains the appeal of helicopter money as a means to bypass banks and provide central bank money directly to citizens. Proponents hope that the additional demand stimulated by helicopter money acts as an impetus for higher prices and more growth.

Under helicopter money, the ECB could buy government debt and replace it with interest-free and indefinite loans without causing inflation to overshoot the target.<sup>38</sup> This is because the increase in the monetary base is not overly inflationary under the current low-inflation conditions. In

32 A. Turner, *op. cit.*

33 See T. Mayer: From Zirp, Nirp, QE, and helicopter money to a better monetary system, Economic Policy Note 16/3/2016, Flossbach von Storch Research Institute, 2016.

34 For further important facets of the debate, such as the not entirely successful communication of helicopter money by ECB President Mario Draghi, see A. Belke: After the ..., *op. cit.*

35 B. Bernanke: What tools ..., *op. cit.*

36 See A. Belke, F. Verheyen: The European Central Bank and the Financing Conditions of Small and Medium-Sized Enterprises in Europe, in: *Rivista di Politica Economica*, Vol. 103, No. 2, 2014, pp. 199–215.

37 See Mayer's comments on the "Impossible Trinity of bank policy", in T. Mayer, *op. cit.*

38 See P. Pâris, C. Wyplosz, *op. cit.*, 2013.

addition, the central bank could always offer its own debt securities and absorb excess money.<sup>39</sup>

Some argue that helicopter money is not a structural solution, but that one of its basic ideas is at least debatable: in order to finance a short-term stimulus to increase inflation, the European national central banks could increase their payouts to the governments so that the public sector would have room for additional expenditure. This would not represent a monetary financing of public debt if the central bank operated on its own initiative and in order to achieve its inflation target.<sup>40</sup>

In addition, some specific variants of helicopter money are clearly legal. Among the large central banks, the ECB “faces the strictest legal obstacle” to helicopter money, according to Saravelos et al. However, “the Treaties leave considerable more leeway than first meets the eye.”<sup>41</sup> The transfer of freshly printed cash to private individuals (i.e. variants 1 and 2) does not contradict EU legislation (Article 20 of the Statute of the ESCB and the ECB on other instruments of monetary control).<sup>42</sup>

Furthermore, the mainstream view is that central banks can work with negative equity capital for an unlimited period of time without the need to compensate for this by means of a cash injection. The government would thus not even have to pay for the helicopter money through the back door.<sup>43</sup>

### Helicopter money: cons

As Ip rightly points out, one obstacle to helicopter money is

the institutional separation between monetary and fiscal policy. That separation exists for a good reason: Central banks were granted independence so that they would not become the printing press for feckless politicians.<sup>44</sup>

Bernanke argues similarly that the

most difficult practical issues surrounding MFFPs involve their governance – who decides, and how? Unlike orthodox fiscal and monetary policies, MFFPs would seem to require close coordination of the legislature and the central bank, which may be difficult to manage in practice. To the extent that coordination is successful, some worry, it might put at risk the longer-term independence of the central bank. Another concern is that the option of using money finance might be a “slippery slope” for legislators, who might be tempted to use it to facilitate spending or tax cuts when such actions no longer make macroeconomic sense.<sup>45</sup>

Krugman explains that

a deficit ultimately financed by inflation is just as much of a burden on households as one ultimately financed by ordinary taxes, because inflation is a kind of tax on money holders. From a Ricardian point of view, there’s no difference.<sup>46</sup>

Turner, however, disagrees: “There is no technical reason money finance should produce excessive inflation.”<sup>47</sup> Ip paraphrases Turner’s argument thusly:

The government could require banks to hold more of the newly created cash as reserves at the Fed. By limiting how much banks can lend, the government would limit how fast nominal GDP would rise.<sup>48</sup>

Another argument against the use of helicopter money is that it “would rip huge holes in central bank balance sheets”.<sup>49</sup> Ultimately, euro area member states and their taxpayers would have to bear the costs of helicopter money because central bank profits would fail to materialise for a long time. In addition, governments and parliaments are the institutions which would have to make this decision. Central banks would have no mandate in this respect, and hence, the ECB may exceed its mandate if it attempted to implement helicopter money.

What is more, it seems straightforward that it would be extremely dangerous if a central bank just gave money away, as the chief economists of Berenberg Bank and Commerz-

39 See L. Bini Smaghi: Conventional and Unconventional Monetary Policy, Keynote lecture at the International Center for Monetary and Banking Studies, Geneva, 28 April 2009; and A. Belke, op. cit., 2010.

40 See K. Adam in: P. Plickert: Wenn es Geld vom Himmel regnet, Frankfurter Allgemeine, 11 March 2016, available at <http://www.faz.net/aktuell/wirtschaft/wirtschaftspolitik/geldpolitik-mit-helikopter-geld-wenn-es-geld-vom-himmel-regnet-14101989.html>.

41 See G. Saravelos et al., op. cit., pp. 7 f.

42 See also T. Mayer, op. cit., p. 2.

43 For a different view, see A. Belke, T. Polleit: How Much Fiscal Backing Must the ECB Have? The Euro Area Is Not the Philippines, in: *économie Internationale*, Vol. 124, No. 4, 2010, pp. 5-30.

44 G. Ip: The Time and Place for ‘Helicopter Money’, *The Wall Street Journal*, 21 March 2016, available at <https://blogs.wsj.com/economics/2016/03/21/the-time-and-place-for-helicopter-money/>.

45 See B. Bernanke: What tools ..., op. cit.

46 P. Krugman: Chris and ..., op. cit.

47 A. Turner, op. cit., p. 214.

48 G. Ip, op. cit.

49 See J. Weidmann: Weidmann mag kein „Helikoptergeld“ – Bundesbank-Chef widerspricht Draghi und EZB-Chefökonom, *Handelsblatt*, 21 March 2016, p. 29.

bank both assert.<sup>50</sup> In economic terms, it may not be necessary, and politically it would create a dangerous precedent. It would nourish the illusion that central banks could simply print more and more money for their citizens in order to solve their problems.

People would learn that they would not have to earn money through work, and in the next crisis voters (or politicians) would demand that the central bank once again fire up the rotors. There are concerns that if governments become used to being able to fund tax breaks or investment projects with newly printed money, they might decide that the tool is too useful to be given up, even in good times.<sup>51</sup> Even Turner points to the risk that governments that use this instrument once will run the risk of using it again and again.<sup>52</sup> This would lead to huge uncertainty regarding future inflation. The consequences for savings, investments and growth prospects would be dramatic. In an extreme case, citizens could lose confidence in the monetary system. People would realise that the central bank could simply print money, and they would no longer believe in the stability of their currency. If such a loss of confidence occurs, even hyperinflation would be a possibility.<sup>53</sup>

Bundesbank President Jens Weidmann was adamant that helicopter money

would be nothing more than the complete confusion of monetary policy and fiscal policy, and incompatible with central bank independence. Instead of bringing ever more daring monetary policy experiments into play, it would make sense to stop once. Monetary policy is neither a panacea, nor a replacement for necessary reforms in individual countries, nor does it solve Europe's growth problems. Those who see monetary policy as the solution to these problems are asking too much of it and will ultimately be disappointed.<sup>54</sup>

Essentially, the critics are concerned about the fact that the ECB has to obey the prohibition on the monetary financing of public debt – probably for good reason. Countries that

used to print money from nothing in the past to finance government spending were plagued by hyperinflation quite quickly.<sup>55</sup> Moreover, IMF Chief Economist Maurice Obstfeld argued that the recent sustained drop in the price of oil, a real situation analogous in its impact to a helicopter money drop, has not led to the desired result of more economic growth and inflation. Instead, consumers have saved more or deleveraged on their debts.<sup>56</sup>

The most important caveat is that helicopter money risks blurring the boundary between monetary and fiscal policy. As Benoît Cœuré, a member of the ECB Executive Board, put it, "To be honest, I do not see how helicopter money could work without government risk sharing which is problematic for practical and legal reasons."<sup>57</sup> In his view, the ECB has no mandate to support the financing of individual projects. And, as Mayer argued, "In the times of Friedman, the distribution of cash may well have created positive feelings. Today, politicians and economists want to abolish cash. So helicopter money may not be efficient."<sup>58</sup>

## Outlook

A big risk for the sustainability of the euro area would arise if some member states considered permanent QE, which is equivalent to helicopter money, as a central ingredient of the new euro area governance structure. A problem that has not been solved by interest rates at the zero lower-bound will also not be solved by monetary gifts distributed by the ECB. Helicopter money would impose a heavy price, as it more or less implies the permanent abandonment of monetary policy discretion. Future research should thus attempt to identify policies that might deliver the same effect as helicopter money, but that would be able to preserve the traditional separation between monetary and fiscal policy. For instance, Woodford argues that one could achieve a similar effect through a bond-financed fiscal transfer, combined with a commitment by the central bank to a nominal GDP target path.<sup>59</sup> The perfect foresight equilibrium would be exactly the same in this case, but this policy alternative would not involve the central bank in making transfers to private parties.

50 See T. Kaiser: So könnte das Konzept "Helikoptergeld" funktionieren, *Welt*, 21 March 2016, available at <https://www.welt.de/wirtschaft/article153499288/So-koennte-das-Konzept-Helikoptergeld-funktionieren.html>; and "Helikoptergeld ist Quatsch", *Frankfurter Allgemeine*, 21 March 2016, available at <http://www.faz.net/aktuell/finanzen/anleihen-zinsen/chef-volkswirt-der-berenberg-bank-gegen-helikoptergeld-14137226.html>.

51 T. Hirst: What is helicopter money, *World Economic Forum*, 13 August 2015, available at <https://www.weforum.org/agenda/2015/08/what-is-helicopter-money/>.

52 A. Turner, *op. cit.*

53 T. Kaiser, *op. cit.*

54 A. Oswald: Wird Japan Geld vom Himmel regnen lassen? Was ist mit dem Konzept "Helikoptergeld" gemeint?, *Handelsblatt*, 16 July 2016, available at <http://www.handelsblatt.com/finanzen/vorsorge/altersvorsorge-sparen/helikoptergeld-was-ist-mit-dem-konzept-helikoptergeld-gemeint/13882640-2.html>.

55 A. Oswald: "Helikoptergeld" – wie die EZB die Inflation befeuern könnte, *Handelsblatt*, 9 April 2016, available at <http://www.handelsblatt.com/finanzen/maerkte/devisen-rohstoffe/5000-euro-fuer-jeden-helikoptergeld-wie-die-ezb-die-inflation-befeuern-koennte/13422680.html>.

56 G. Hosp: Perverse Geldpolitik, *Neue Zürcher Zeitung*, 11 April 2016, available at <https://www.nzz.ch/wirtschaft/wirtschaftspolitik/perverse-geldpolitik-wenn-notenbanken-sich-hoehere-erdoelpreise-wuenschen-ld.12726>.

57 See P. Briannon: No 'absurd' negative interest rates: ECB executive board member, *Politico*, 30 March 2016, available at <https://www.politico.eu/article/qa-with-benoit-coeure-european-central-bank-executive-board-member/>.

58 T. Mayer, *op. cit.*

59 M. Woodford, *op. cit.*