Is Helicopter Money on Its Way?

The rise of populism may eventually lead to unconventional monetary policies.

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There is a view that central banks do not have the tools to respond effectively to the next economic slowdown, and that radical new measures may be required. This has reignited talk about "helicopter money," through which a central bank, at the behest of its government, makes a one-off, permanent injection of cash into the economy. But how does helicopter money differ from the measures already taken under quantitative easing (QE), and what would helicopter money imply for central bank independence?

Helicopter money and QE have something in common in that they both rely on central bank "money printing." But this is where the similarities end. Under QE, the central bank purchases assets, government-issued or otherwise, to push down interest rates. In doing so, it expands both its assets and its liabilities. The decision to pursue a QE strategy is made by the central bank independent of the government's fiscal policies.

Helicopter money is different in that it is simultaneously a fiscal and a monetary operation. Under helicopter money, the central bank prints money and donates the newly created funds, free of charge, to the population. That is, it expands its liabilities, but it does not acquire any assets. Consequently, under helicopter money the central bank's equity position is eroded and it loses operational independence as the money printing exercise is driven by politicians.

In most developed economies, it is generally accepted that central banks should remain independent to prevent monetary policy from falling victim to the electoral cycle—in other words, to stop politicians from trying to win elections by making short-term decisions that have negative consequences later.

The times, however, are changing. The rapid growth of populist movements in many countries suggest that large numbers of people are not happy with the way their economies are run, and, in particular, do not see how central bank independence has any tangible benefit for them. In response, some populist politicians have argued that central bank balance sheets should be put to work to provide tangible goods for the people

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in the form of fiscal handouts. Modern Monetary Theory, which holds that governments should use fiscal policy to generate full employment, is one variation on this line of thought. What seemed completely unthinkable not too long ago is beginning to gain traction.

It remains some way from becoming reality. Nobody has yet demonstrated that delegating monetary policy to elected politicians will bring about better economic outcomes than the current method of allowing central banks to manage it. As such, there is currently very little support for helicopter money among central bankers and academics. However, we need to acknowledge that popular sentiment is changing and that changes in popular sentiment may eventually lead to changes in policy. The rise of populism and the gradual erosion of central bank independence—if it continues—mean that the environment we live in is probably more conducive to helicopter money than it was just a few years ago.

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