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Money from heaven

To get out of a slump, the world's central banks consider handing out cash

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"HELICOPTER money" sounds like an item on an expense claim at a hedge fund. In fact, it is shorthand for a daring approach to monetary policy: printing money to fund government spending or to give people cash. Some central bankers seem to be preparing their whirlybirds (and their printing presses). In March Mario Draghi, the president of the European Central Bank, described helicopter money as a "very interesting concept". Ardent supporters see it as a foolproof way to perk up slumping economies. Yet helicopter money is a less radical departure from the norm than it sounds. What is more, it fails to remove the political constraints that have been the biggest drag on recovery.

The evocative concept of helicopter money comes from Milton Friedman, the father of monetarism, who mused in 1969 that central bankers could never fail to boost the money supply since they could always drop newly printed bills from the sky onto the cash-starved economy below. The idea cropped up again in the early 2000s, as economists puzzled over how to spring the Japanese economy from its deflationary trap. Ben Bernanke, at the time a new governor at the Federal Reserve, made reference to Friedman's conceit in speeches about dispelling deflation, earning himself the nickname "Helicopter Ben".

Helicopter money provokes fewer chuckles today. The world's big, rich economies have all joined Japan in a rut of chronically low inflation and interest rates. Growth in nominal GDP has been pitifully low in the aftermath of the financial crisis: especially in Europe and Japan, the top candidates for a dose of helicopter money. The weakness persists despite central banks' vigorous attempts to get their economies moving, by cutting rates into negative territory and printing trillions to buy government bonds (a policy known as quantitative easing, or QE). A new strategy does indeed seem overdue.

Advocates of helicopter money do not really intend to throw money out of aircraft. Broadly speaking, they argue for fiscal stimulus—in the form of government spending, tax cuts or direct payments to citizens—financed with newly printed money rather than through borrowing or taxation. QE qualifies, so long as the central bank buying the government bonds promises to hold them to maturity, with interest payments and principal remitted back to the government like most central-bank profits. (The central banks now buying government bonds insist they will sell them at some point.) Bolder versions of the strategy make the central bank's largesse more explicit. It could, for instance, hand newly printed money directly to citizens. Jeremy Corbyn, leader of Britain's Labour Party, has proposed "people's QE" of this sort.

The advantages of helicopter money are clear. Unlike changes to interest rates, stimulus paid for by the central bank does not rely on increased borrowing to work. This reduces the risk that central banks help inflate new bubbles, and adds to their potency when crisis or uncertainty make the banking system unreliable. Fiscal stimulus financed by borrowing provides similar benefits, but these could be blunted if consumers think taxes must eventually go up to pay off the accumulated debts—a problem helicopter money flies around.

A paper published in 2014 by Jordi Galí, an economist at the CREi, an economics-research centre in Barcelona, reckoned that money from the sky could have "strong effects" on a slumping economy with only mildly inflationary consequences. A recent analysis by economists at Deutsche Bank points out that most rich economies have turned to central-bank-financed spending in past emergencies, especially during the world wars, when America and Britain were notable enthusiasts. In some cases, this led to hyperinflation. Yet printing money to escape a slump should pose less risk than printing money to fund a state too weakened by war to raise taxes, particularly if control of the presses is left in the hands of independent central banks.

The real problem with helicopter money is that it is a technical solution to a political problem. Europe's economic slump has been worse than those in America and Britain partly because the ECB has been slower to use policies like QE, for instance. That is because European law forbids the central bank from financing governments. Only last year did the spectre of deepening deflation allow Mr Draghi to argue there was an urgent monetary-policy justification for bond-buying. For the ECB to pursue helicopter money, European governments would have to amend the treaty that created it. But if they were willing to give the ECB that kind of leeway, things would never have got to this point.

Money isn't everything

Similarly, many euro-area governments face borrowing costs close to zero for durations of up to 30 years; even longer in Japan. Thanks in part to QE, debt-financed government spending costs little more than stimulus paid for by central banks. Yet European governments continue to work to cut their deficits. Even in spendthrift Japan, the recovery plan of Shinzo Abe, the prime minister, is threatened by his determination to raise the rate of consumption tax in order to reduce the deficit. Free money is already available: what is missing is political consensus on whether and how to use it. To think helicopter money can help now, you must believe that it would close differences of political opinion in places like the euro area. Given worries in Germany (and elsewhere) about inflation and moral hazard, the opposite seems as likely.

It would be a good thing if governments began building frameworks for the use of helicopter money. When the next crisis strikes, central banks will almost certainly have little room to reduce interest rates. The ability quickly to credit individual bank accounts with cash, for example, would render shocks more manageable. But there is no way without a will.

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