Against Helicopter Money

Kevin Dowd

Back in 1969, Milton Friedman proposed an interesting thought experiment that has since become famous:

> Let us suppose now that one day a helicopter flies over this community and drops an additional $1,000 in bills from the sky, which is, of course, hastily collected by members of the community. Let us suppose further that everyone is convinced that this is a unique event which will never be repeated [Friedman 1969].

Friedman did not intend his suggestion as a serious policy proposal. Instead, he intended it as a classroom device to illustrate the consequences of changes in the stock of base money. The idea then stayed in the classroom for many years, virtually unknown to all except academic monetary economists.

In the late 1990s, it began to be reinvented as a serious policy proposal. People first began to think it might be a useful instrument to combat deflation in Japan. The idea then hit the headlines in 2002 when then–Fed governor Ben Bernanke suggested that it might be used to combat possible deflation in the United States too:

> The U.S. government has a technology, called a printing press (or, today, its electronic equivalent), that allows it to produce as many U.S. dollars as it wishes at essentially no cost.

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> By increasing the number of U.S. dollars in circulation, or even by credibly threatening to do so, the U.S. government can also reduce the value of a dollar in terms of goods and services, which is equivalent to raising the prices in dollars of those goods and services. We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation [Bernanke 2002].

He went on to make a passing reference to Friedman's helicopter money idea: "A money-financed tax cut is essentially equivalent to Milton Friedman's 'helicopter drop' of money," he said. That passing reference was enough to saddle him with a nickname—"Helicopter Ben"—which he has been stuck with ever since.[1]

The attraction of the idea to its proponents is the promise of being able to deliver monetary stimulus in circumstances in which interest rates are low or zero and in which the traditional tools of monetary stimulus might be ineffective or infeasible.

Then came the financial crisis, and one unconventional stimulus policy after another—quantitative easing (QE), zero interest rate policy, and, in some countries, negative interest rate policy—failed to deliver the desired results. As a consequence, helicopter money is enjoying a new revival.

For some of its advocates, the core argument is that we have tried everything else to boost the economy and helicopter money is or might be the only instrument of stimulus left in the central bank's toolbox (see, e.g., Perotti 2014; Turner 2015). Others argue that helicopter money should be considered if fiscal stimulus is politically inexpedient (e.g., Brittan 2012), as a tool to counter income inequality (Muellbauer 2014) or a blocked transmission mechanism (see Durden 2015), or to pull the economy out of deflation (e.g., Bernanke 2002; Selgin 2016), secular stagnation (e.g., Buiter, Rahbari, and Seydl 2015), or a liquidity trap (e.g., Caballero 2010). Some advocates of helicopter money combine a number of these arguments. A prominent example is financial journalist Martin Wolf,

[1]In his memoirs, Bernanke (2015: 64) comes close to suggesting that he might have made a mistake in using the helicopter label: "Dave Skidmore, the media relations officer . . . had advised me to delete the helicopter-drop metaphor. . . . 'It's just not the sort of thing a central banker says,' he told me. I replied, 'Everybody knows Milton Friedman said it.' As it turned out, many Wall Street bond traders . . . apparently [did] not."

who suggests that in the absence of more fiscal stimulus, which would be politically problematic, "central banks are the only players" left:

> policymakers must prepare for a new "new normal" in which policy becomes more uncomfortable, more unconventional, or both. Can the world escape from the chronic demand weakness? Absolutely, yes. Will it? That demands greater boldness. When one has exhausted the just about possible, what remains, however improbable, must be the answer [Wolf 2016].

The "what remains" he had in mind is helicopter money. Yet the idea appalls critics. Helicopter money breaks the ultimate monetary taboo against the wanton overissue of base money. It harnesses central bankers' most primitive power, their unique ability to create base money at will and at negligible cost, and proposes to create as much base money as it takes to achieve the desired boost to spending. It is the monetary weapon of last resort—a weapon so potent that central bankers have traditionally feared to deploy it lest it destroy the currency and potentially much else besides. To quote the British journalist Ambrose Evans-Pritchard (2013): "A great many readers in Britain and the U.S. will be horrified that this helicopter debate is taking place at all, as if the QE virus is mutating into ever more deadly strains."

I begin this article by explaining how helicopter money should be accounted for on the central bank's balance sheet. I then explain the basics of helicopter money and compare it to some alternatives. After that, I give some examples of helicopter money, explain how it impacts the central bank's balance sheet, and point out that—appearances notwithstanding—helicopter money is not a "free lunch." Finally, I discuss the (significant) problems entailed by helicopter money, concluding that traditional monetary economists were right to warn against it.

Accounting for Helicopter Money

We should first consider how to account for helicopter money on the central bank's balance sheet. In conducting helicopter money operations, the central bank issues additional base money that it gives away: it increases its liabilities without receiving any valuable asset in return. At the same time, its balance sheet must always balance. So how do we reconcile these statements? The most natural way to do so is to imagine that in conducting helicopter money operations the central bank receives a hypothetical asset that has a book value equal to the amount of newly issued base money but that has a market value of zero.

An asset that meets these requirements is a perpetual bond with a zero coupon. Perpetual means that the bond will never mature, and the zero coupon implies that there will be no regular coupon payments—that is, the bond promises no payments at all. The book value of the bond must be equal to the amount of newly issued base money in order for the central bank balance sheet to balance, but its market value will be zero because no one would pay anything for a bond that offers no future payments.

We can then think of helicopter money as an operation in which the central bank issues additional base money in return for which it receives a zero-coupon perpetual bond, and it helps to think of this bond as being issued by or on behalf of the recipients of the central bank's newly issued base money. Of course, such a bond is a fiction, but it is an illuminating one as we shall see.

The Basics of Helicopter Money

Helicopter money is often described as the central bank "printing" money and giving it away. This description captures the essence of the idea but is a little misleading. Most proposals would involve the central bank issuing and giving away not physical cash, but a digital equivalent. The central bank might issue every citizen with the digital or credit equivalent of $500 or whatever, which might be delivered directly to individuals' bank accounts. The key point is that the newly issued base money would be issued directly to the beneficiaries.

Those beneficiaries might be members of the public, but under some helicopter money proposals the "helicopter drops" might be targeted toward approved projects—in infrastructure, for example.

From the beneficiaries' perspective, the payments are free and therefore naturally welcome. However, decisions need to be made over who the beneficiaries should be and how much they should be paid. These considerations imply that helicopter money has a redistributive element, but redistribution is traditionally regarded as falling under the domain of *fiscal* policy. I will return to this issue below.

In its typical forms, helicopter money works to increase aggregate demand: people pick up the dollar bills and spend some of them. We should not assume, however, that all the helicoptered money would be spent: according to standard models of consumption and saving, individuals' marginal propensities to spend will typically be less than 100 percent, and will also depend on factors such as their expectations of future income and inflation. The likely impact would then be some increase in aggregate demand, which would produce some increase in output and some increase in prices. In the longer term, the output stimulus is likely to wear off and the long-run outcome would be a higher price level. Repeated helicopter money operations would then take us into the familiar world of the expectations-augmented Philips curve set out by Friedman (1968) in his presidential address to the American Economic Association.

The success or otherwise of helicopter money operations depends, therefore, on their purpose. If their purpose is to stimulate output, they would likely only have some short-term success. But if their purpose is to increase aggregate demand or prices (or, if applied in repeated doses, inflation), then helicopter money could be a potent monetary policy instrument—for better or for worse. To illustrate: Willem Buiter (2014: 2) demonstrates that under very general conditions, including a permanent liquidity trap and even Ricardian Equivalence,

> there always exists a combined monetary and fiscal policy action that boosts private demand—in principle without limit. Deflation, inflation below target, "lowflation," "subflation" and the deficient demand-driven version of secular stagnation are therefore unnecessary. They are policy choices. This effectiveness result holds when the economy is away from the zero lower bound (ZLB), at the ZLB for a limited time period or at the ZLB forever.

This suggests that the policy question is not whether helicopter money *would* increase demand or prices, but instead whether we should ever *want* to use it to achieve those outcomes.

Helicopter Money Compared to Alternatives

We can gain further insights into helicopter money by comparing it to several familiar alternatives—QE and debt monetization—as well as to a less familiar alternative, gold stock revaluation.

Helicopter Money Compared to Quantitative Easing

QE is the policy of issuing base money to finance large-scale purchases of financial assets. QE is meant to support the banking system and to reduce interest rates. Payments are typically to financial institutions and not directly to members of the public. By contrast, helicopter money typically involves payments to the public or, in some cases, payments to finance specific projects. It is not usually (if ever) proposed to support the banking system or to reduce interest rates.

Helicopter Money Compared to Debt Monetization

Debt monetization occurs when the Treasury issues a bond that it sells to the central bank, which in turn pays for the bond with newly issued base money. The bond is then used by the Treasury to make payments in pursuance of government fiscal policy objectives.

In both helicopter money and debt monetization operations, the central bank issues new base money and acquires a bond, at least hypothetically. However, these operations differ in three important respects.

First, under debt monetization the bond must promise at least one future repayment and have a positive market value; in contrast, the hypothetical "bond" that the central bank obtains under helicopter money provides for no future payments whatsoever and has a market value of zero.

A second difference relates to who makes the decisions about who the beneficiaries should be and how much they should be paid. Under debt monetization, these decisions are always made by the government or by its fiscal agents in the pursuit of government fiscal policy objectives; under many (though not all) versions of helicopter money, such decisions are made by the central bank.

Finally, debt monetization and helicopter money face different political and legal constraints. There are political costs to advocating expansionary policies such as large-scale debt monetization, which can be criticized as fiscally irresponsible. There are also constraints against fiscal expansion (such as the United States' federal debt ceiling) that might scupper debt monetization, but can be circumvented by using helicopter money. That ability of helicopter money to circumvent political and legal constraints is a key argument used by both proponents and opponents of helicopter money. The issue here is whether one sees such constraints as inconvenient barriers to be overcome or as important bulwarks to be protected.

Helicopter Money Compared to Gold Stock Revaluation

The Fed currently values its gold stock—which was equal to about 13.5 million fine Troy ounces of gold as of September 16, 2016—at $42.22 per ounce. If it wished to, the Fed could revalue these at a price closer to the current market price, which was about $1,312 an ounce at that same date. As Jerry Jordan (2016) points out, the Fed carried out such operations twice more than four decades ago. At the end of 1971, the "official" price of the U.S. stock of gold in Fort Knox was raised from $35 an ounce to $38 an ounce, and two years later it was raised again to $42.22 an ounce, a value that still stands. On both occasions, the asset value of the "gold certificates" held by the Fed—its claims to the gold held in Fort Knox—was increased, so its liabilities had to rise by the same amount. The U.S. Treasury "General Account" at the Fed was then credited with the amount of the increase in the value of U.S. gold holdings, so that the Treasury could spend that amount without having to collect taxes or sell bonds. Earlier still, the Gold Reserve Act of 1934 had raised the official price of gold from $20.67 to $35 per Troy ounce and produced a similar "windfall gain" for the government.

Such operations meet Jordan's definition of helicopter money as an increase in central bank liabilities without an open market purchase of securities by the central bank. However, in this gold revaluation operation there is only one beneficiary— the Treasury— whereas under my definition of helicopter money the beneficiaries are the public or some set of private-sector parties.

There is also another difference: under helicopter money by my definition, the Fed's assets do not increase in value, whereas, under an upward gold revaluation of the sort Jordan discusses, the Fed's asset holdings increase in value.

Examples of Helicopter Money

Helicopter money can take many different forms. Leaving aside Friedman's famous helicopter drop, obvious examples include direct cash handouts to the public, sending people checks in the mail, or making direct payments to people's bank accounts. A variation on this theme would be to issue tax rebates: the Fed might issue vouchers to taxpayers that they could redeem with the IRS and that the IRS could redeem at the Fed for newly issued base money.

An earlier example comes from Keynes's *General Theory*, which suggested that the central bank should print money that would be used to finance housing projects:

> If the Treasury were to fill old bottles with banknotes, bury them at suitable depths in disused coalmines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried principles of laissez-faire to dig the notes up again (the right to do so being obtained, of course, by tendering for leases of the note-bearing territory), there need be no more unemployment and, with the help of the repercussions, the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is. It would, indeed, be more sensible to build houses and the like; but if there are political and practical difficulties in the way of this, the above would be better than nothing [Keynes 1936: 129].

Keynes's proposal illustrates that helicopter money can be used to finance "worthwhile" projects, however those might be defined. More precisely, it shows that helicopter money can be used to finance projects that *somebody important* regards as worth financing, but that presumably would not otherwise obtain finance.

A more recent example of a helicopter money proposal to finance infrastructure projects is the pan-European "QE for the People" campaign, which proposes "that the money currently being created by the European Central Bank should be given directly to eurozone citizens and/or spent on much needed public investment such as green infrastructure, affordable housing—or in any other way which would contribute to the genuine development of the real economy."[2] Despite the presence of the term "QE" in the title, this proposal is classic helicopter money, and not QE in the usual sense of a program of large-scale asset purchases from the banks.

Such proposals should be distinguished from superficially similar-sounding proposals such as "Green QE" or "People's QE." The former term is usually used to refer to bond-financed infrastructure projects, especially those advocated by environmentalist groups

[2] See www.qe4people.eu/about. See also Muellbauer (2014).

(e.g., Murphy and Hines 2010). The latter refers to U.K. Labour Party leader Jeremy Corbyn's proposal for a bond-financed U.K. National Investment Bank that would invest in politically favored projects. If we categorize these proposals using the QE vs. debt monetization vs. helicopter money trichotomy set out earlier, proposals for "Green QE" and "People's QE" are essentially proposals to use debt monetization to finance approved infrastructure projects.[3]

Helicopter Money and the Fed's Balance Sheet

Helicopter money has important implications for the Fed's balance sheet. As of September 16, 2016, the Fed's equity capital was $40.2 billion and its total liabilities (which are also equal to its total assets) were $4,441.5 billion—or almost $4.5 trillion. Its capital to assets ratio was therefore 0.9 percent and its leverage was 4,441.5/40.2 = 110.5. The former would be regarded as extremely low and the latter extremely high for any financial institution other than a central bank.[4]

Suppose the Fed engaged in a helicopter money operation in which it issued $1 billion. Its liabilities—the supply of base money—would increase by $1 billion, but the (market) value of its assets would remain the same. The (market) value of the Fed's capital, the difference between the value of its liabilities and the (market) value of its assets, would then fall by $1 billion.[5]

[3]Those who advocate using helicopter money to finance pet projects generally fail to address the question of why their preferred "socially worthwhile" projects are not already receiving funding. That is, they fail to demonstrate how their proposals would improve investment decisionmaking, they fail to address the knowledge and incentive problems faced by government-funded bureaucrats making investment decisions, and so on. For more on these problems, see Lacalle (2017).

[4]A caveat, however: Recall that the official price of gold is still only $42.22 an ounce, and yet the market price at the same date was about $1,312 an ounce. This price difference implies that the Fed's gold certificates were undervalued relative to market valuations. Since each ounce of gold was undervalued by almost $1,270 and the Fed had certificates to claim 13,452,810.53 ounces, the Fed's gold certificates were undervalued by almost $17.1 billion. If we apply this revaluation, then the Fed's capital would have been about $57.3 billion, its assets would have been $4,441.5 billion + $17.1 billion = $4,458.6 billion, and its leverage would have been 77.8, a level which is still high by the standards of other financial institutions.

[5]The book value of the Fed's assets would presumably increase by $1 billion to balance the Fed's books, but the book value is essentially irrelevant and in the text below I use the term "capital" to refer to market-value capital only.

Now suppose that the Fed engaged in a helicopter money operation on a scale approaching $40.2 billion. Its capital and therefore its capital to assets ratio would then approach zero, while its leverage would soar toward infinity. If the helicopter money operation exceeded $40.2 billion, then the Fed's capital would become negative and the Fed would be technically insolvent.

However, $40.2 billion is a relatively small amount in central banking terms. To have a major impact, any Fed helicopter money operation would need to be on a much bigger scale. Given the scale of its QE operations—these amounted to more than $3.7 trillion—we could envisage helicopter money also on a scale of trillions. For example, with a helicopter money operation of $1 trillion, say, the Fed's capital would fall to about *minus* $960 billion. The question then is whether the impact of helicopter money on a central bank's capital or leverage really matters.

Now, for any commercial bank—or indeed, any firm other than the central bank itself—the size of its capital relative to its assets (or the inverse, the ratio of assets to capital, i.e. leverage) matters greatly. Suppose a commercial bank embarked on a policy of repeatedly purchasing assets that then lost all their value. Each additional loss is a deduction from its assets and (therefore) an equal deduction from its capital as well. Since capital is less than assets, the bank's capital to assets ratio would keep falling and the bank's leverage would keep rising. A point would eventually come when the bank would lose the confidence of its creditors, who would then run it out of business.

However, under a monetary regime in which a central bank issues an irredeemable fiat currency, there is a sense in which central bank leverage does not matter. In principle, a central bank can issue as much helicopter money as it likes, take the losses on its balance sheet, and allow its capital to go far into negative territory. What matters here is that when a central bank that issues irredeemable currency takes ever-mounting losses, there is no mechanism equivalent to a bank run to force it to change its policy, let alone run it out of business, because its currency is irredeemable and it can issue more at will. From this perspective, a central bank's capital or leverage numbers are operationally irrelevant. Unlike any other financial institution, a central bank can have arbitrarily high leverage and even negative capital without any impairment to its normal operational functions.

Does this mean that central bank capital and leverage *never* matter? Not at all. The Fed's having negative capital would likely have some adverse impact on public trust in the Fed, and one could imagine awkward questions from critical members of Congress.[6] It would further erode international confidence in the dollar too. Consider also two hypothetical examples:

Imagine that the Fed had been stripped of its currency issue privileges and the United States had returned to a gold standard. The Fed would now issue a redeemable currency and face competition from other banks that would be free to issue their own gold-backed currency. Under these circumstances, the Fed would be no different from other banks and would need to maintain a competitive capital position to survive in the long term. Its current high leverage would then be a substantive concern.

As a second example, suppose the Fed issued trillions in helicopter money but later decided to peg the dollar to some other currency or to gold, and to convert the Fed into a currency board. The currency board arrangement would require the Fed to maintain a reserve ratio of at least 100 percent against its base money issue. However, the Fed would now be trillions short in assets, and the only feasible way in which that shortfall could be made good would be for the government to recapitalize the Fed at public expense.

I don't wish to argue the merits, demerits, or likelihood of such reforms here. My point is merely that while central bank capital and leverage might not affect the way that a central bank operates under current institutional arrangements, they have major implications under alternative institutional arrangements.

Is Helicopter Money "Free"?

It is often suggested that helicopter money is somehow "free." Now, helicopter money is obviously "free" as far as its recipients

[6]The Fed would appear to have anticipated this problem. Writing on April 8, 2011, John P. Hussman (2011) stated: "To avoid the potentially untidy embarrassment of being insolvent on paper, the Fed quietly made an accounting change several weeks ago that will allow any losses to be reported as a new line item—a 'negative liability' to the Treasury—rather than being deducted from its capital. Now, technically, a negative liability to the Treasury would mean that the Treasury owes the Fed money, which would be, well, a fraudulent claim, and certainly not a budget item approved by Congress, but we've established in recent quarters that nobody cares about misleading balance sheets, Constitutional prerogative, or the rule of law as long as speculators can get a rally going, so I'll leave it at that."

are concerned: they get something for nothing. However, to say that something is "free" is to suggest that a valuable asset can be conjured up out of nothing—that is, it has no opportunity cost. But in the case of helicopter money, the opportunity cost is lost seigniorage—the forgone profits from the issue of base money.

To appreciate this point, consider that when a central bank engages in a helicopter money operation it acquires a notional bond "asset"—our earlier zero-coupon perpetual bond—that promises no future payments. However, the central bank could instead have issued the same amount of additional base money to acquire a bond that did promise future payments. For example, the central bank could have acquired a conventional bond issued by a private-sector institution. The payments from this bond are forgone seigniorage profits from helicopter money.

One might object that these forgone seigniorage profits do not matter to the central bank because it hands over its profits to the Treasury. This claim is true but merely confirms my argument. Those forgone seigniorage profits would still matter because they would be lost to the Treasury. Therefore helicopter money has an opportunity cost and is not "free."[7]

That helicopter money is not "free" can also be seen by comparing the impact of debt monetization and helicopter money on the consolidated government balance sheet, which considers the Fed as part of the government. Consider two cases:

Case 1 (debt monetization) is where the government runs a fiscal deficit that it finances by selling a perpetual coupon-paying bond, or Consols bond, to the central bank, which issues base money to purchase it.[8]

[7]This argument about helicopter money not being free holds true even if interest rates are zero or negative. Suppose that we have zero interest rates and these lead to bonds having zero coupons. In this case, the forgone opportunity is for the central bank to have acquired a zero-coupon bond that repays its face value on its maturity date. That terminal payment is forgone seigniorage. In the case of bonds with negative coupons, the same terminal payment will still be forgone seigniorage, albeit now offset somewhat by the negative coupon payments. However, it would still be the case that the present value of the terminal payment would outweigh the (negative) present value of the coupon payments—otherwise the bond would have no positive price—and so those forgone payments would still have a positive present value. In other words, there is still forgone seigniorage.

[8]These bonds were used by British governments to finance their 18th century and Napoleonic wars. For more on this subject, see Hutchinson and Dowd (2017).

Case 2 (helicopter money) is where the government runs a fiscal deficit that is financed by the central bank issuing base money. This operation involves the central bank's making a credit transfer to the Treasury's central bank account. This case is equivalent to the government's running a deficit that it finances by "selling" the central bank a zero-coupon perpetual bond at its market value of zero.

The only difference is that in Case 1 the government makes subsequent coupon payments to the central bank, whereas in Case 2 it does not. In Case 1, the government makes the coupon payments to the central bank and the central bank remits its seigniorage profits to the government. In Case 2, the government makes no coupon payments to the central bank and the central bank remits its profits to the government, but those profits are less by exactly the amount of the coupon payments in Case 1. Consequently, both operations have an identical impact on the consolidated government balance sheet.

No one would argue that Case 1 involved "free" money or a zero opportunity cost, but since the two cases are functionally indistinguishable, one cannot argue that the former has an opportunity cost but the latter does not.

To repeat: helicopter money is not a free lunch because it has a tangible opportunity cost—the cost of the seigniorage forgone.

John Kay (2016) offers a complementary explanation for why helicopter money is not a free lunch:

> For every credit there is a corresponding debit; for every financial asset there is a corresponding liability. The double entry principle is [as] immutable as the first law of thermodynamics, to which it bears a certain resemblance.
>
> You cannot create financial assets out of nothing, just as you cannot create energy out of nothing. There is no financial free lunch, just as there is no perpetual motion. The laws of thermodynamics render perpetual motion machines impossible, though it may be hard to identify the defect in any particular device. And similarly, schemes which purport to fund government spending or tax cuts at no cost to present or future taxpayers are necessarily fatally flawed, even if it requires a little effort to work out the flaw.

To cut to the chase, if we think of the central bank as consolidated within the government, the issue of base money is not a "free" good for the government, because base money can always be used to discharge one's obligations *to* the government—for example, to pay taxes.

However, an objection should be considered: namely, that helicopter money is "free" because it produces some net benefit. Bossone (2016) offers an example of this reasoning, arguing that helicopter money "is a free lunch in the simple sense that, if it works and succeeds in closing the output gap, people won't have to repay it through higher taxes or undesired (above optimal) inflation."

I do not buy this argument. The problem with it is apparent from the word "if": it presupposes that helicopter money *will* have the effects hoped for by its proponents, when in fact no such certainty exists. As a counterexample, consider John Law's Mississippi scheme, which produced a short-term boom but had ruinous long-term effects; it might have looked like a free lunch while it was in play, but with the benefit of hindsight we see things very differently (see, e.g., Hutchinson 2017). Put more broadly, Bossone's argument could be used to justify any macroeconomic policy as providing a free lunch, so long as the advocates of that policy merely assert that it will produce some net benefit. Every economic policy ever proposed would then become a free lunch, however destructive it later turned out to be.

More specifically, this argument confuses a genuine free lunch with a questionable net benefit, and these are not the same. The one is tangible and quantifiable; the other involves a speculative projection and may not even exist. To confuse the two involves a category mistake, a logical fallacy.

Problems with Helicopter Money

Helicopter money and debt monetization policies are very similar: they both involve increases in base money, and they have the same impact on the consolidated government balance sheet. Yet there are also differences that are important to note.

Helicopter Money Is Dominated by Debt Monetization

Comparing the two, advocates of helicopter money sometimes argue that it is politically easier to sell when there is a Republican administration, an argument that questionably assumes that a Republican administration is more averse to fiscal stimulus, or that helicopter money is to be preferred because it gets around the constraint of a federal debt ceiling. Such arguments are merely ones of political convenience and are not based on any underlying principle of political economy. Those who make such arguments also tend to emphasize that helicopter money is “just” a helpful “technical” policy instrument that can be finely calibrated by expert central bankers and their advisors. They play down fears of uncontrolled “money printing” as atavistic and exaggerated.

There are a number of counterconsiderations, however. Such arguments for helicopter money depend on an underlying presumption that central bankers can be trusted to know what they are doing; yet central bankers’ performance over the last decade must surely call their credibility into question. One can also argue that, of the two, debt monetization is to be preferred for reasons of transparency and government fiscal accountability, and that there are no good (e.g., economic or institutional) arguments to prefer helicopter money to debt monetization, as opposed to mere arguments of expediency. Above all, such arguments for helicopter money ignore the reasons fiscal and monetary institutions were designed to have inbuilt constraints in the first place: the terms “division of powers” and “rule of law” come to mind. These helicopter money arguments ignore the reasons why monetary and fiscal functions were intended to be separated, why Congress legislated a debt ceiling, and so forth. Such institutional arrangements were designed to protect the checks and balances in the system. Those who wish to overturn them seek to ride roughshod over the economic constitution, as it were, as if it served no purpose worth defending.

To say that debt monetization is to be preferred to helicopter money is by no means to endorse debt monetization. Large-scale debt monetization has a bad reputation itself, and for good reason: it conjures up images of the Weimar Republic and other slides into hyperinflation, where the failure to respect institutional constraints led to disaster.

Let’s return to the difference between the two policies. The difference is that debt monetization involves an explicit increase in the federal government’s indebtedness, whereas under helicopter money that same increased indebtedness is written off by the Fed. But that difference also has a name: the trillion dollar coin, the proposal that the Mint issue a trillion dollar coin and hand it over to the Fed, which would credit the Treasury’s account with a trillion dollars to spend.[9] The most prominent advocate of the trillion dollar

[9] The trillion dollar coin proposal seeks to exploit a legal loophole that allows the Treasury to mint platinum coins in any denominations it chooses.

coin is Paul Krugman, who supports it as a means to get around the federal debt ceiling and assures us that it would do "no economic harm at all" (Krugman 2013). Note the underlying assumptions: (1) that the debt ceiling serves no useful purpose; and (2) that allowing greater government deficit spending does absolutely no harm. If one agreed with those assumptions, then Krugman's argument would be hard to fault. I am inclined myself to agree with the Bank of America analyst who described the proposal as "the latest bad idea," a "trillion dollar tooth fairy" straight from "the land of fiscal make believe" (quoted in Durden 2013). Krugman is however to be commended for openly acknowledging that the argument for the trillion dollar coin is purely one of political convenience.

Fiscal Problems of Helicopter Money

I have already noted that, in conducting helicopter money operations, the central bank would be making redistribution decisions that are fiscal in nature and therefore more properly belong under the domain of the government. David Stockman (2016) goes further and suggests that helicopter money is

> a central bank power grab like no other because it insinuates our unelected central bankers into the very heart of the fiscal process.
>
> Needless to say, the framers delegated the powers of the purse—spending, taxing and borrowing—to the elected branch of government, and not because they were wild-eyed idealists smitten by a naïve faith in the prudence of the demos.
>
> To the contrary, they did so because the decision to spend, tax and borrow is the very essence of state power. There is no possibility of democracy—for better or worse—if these fundamental powers are removed from popular control.

Helicopter money thus raises issues of profound constitutional importance. Bundesbank President Jens Weidmann (2016) expresses similar concerns but also warns that helicopter money could rebound on the central bank itself:

> The question of whether and how money is given away to the general public is a highly political one that would need to be addressed by governments and parliaments. Central banks don't have a mandate to do so, not least because it would

> mean redistributing assets on a huge scale. It would be nothing short of unreservedly commingling monetary and fiscal policy, a step which would be incompatible with the notion of central bank independence.

Having the central bank make fiscal policy decisions is to disturb a delicate balance and sow the seeds of conflict between the fiscal and monetary arms of government. A likely consequence is a reaction by Congress that could eventually lead to greater government control over the Fed and the potential end of its independence.

Most proponents of helicopter money acknowledge this monetary/fiscal overlap issue but tend to see it merely as a "coordination" problem.[10] However, such acknowledgements misdescribe the underlying problem as a technical one and in any case do not offer any practical solution to it. The problem is not so much "coordination" as power, because there are underlying issues of control at stake in a four-way turf war between the administration, Congress, the Treasury, and the Fed.

One "technical" solution to this problem, considered merely as a coordination issue, is proposed by Bernanke (2016) himself:

> Ask Congress to create, by statute, a special Treasury account at the Fed, and to give the Fed (specifically, the Federal Open Market Committee) the sole authority to "fill" the account, perhaps up to some prespecified limit. At almost all times, the account would be empty; the Fed would use its authority to add funds to the account only when the FOMC assessed that an MFFP [Money-Financed Fiscal Program, i.e., helicopter money] of specified size was needed to achieve the Fed's employment and inflation goals.

[10]There are also other problems with this fiscal/monetary "coordination" issue. The first are legal impediments to central banks financing their governments. Brehon and Winkler (2016) provide an overview of these barriers across the major western economies and conclude that these barriers are not as difficult to surmount as they might appear to be on paper—hardly a reassuring conclusion for those concerned about the protections against abuse that those legal barriers were meant to provide. Another problem is that the Bernanke solution of a designated Treasury account at the central bank is not always easily transferable to other countries. A case in point is Europe: if the ECB were to attempt to implement such a solution, it would soon provoke a major argument over which government or governments should have access to it—the EU Commission, the national governments of the EU, or the eurozone member states.

> Should the Fed act, under this proposal, the next step would be for the Congress and the Administration—through the usual, but possibly expedited, legislative process—to determine how to spend the funds (for example, on a tax rebate or on public works). . . . Importantly, the Congress and Administration would have the option to leave the funds unspent. If the funds were not used within a specified time, the Fed would be empowered to withdraw them.

Bernanke's proposal would work as a technical means of implementing helicopter money, although whether it would deliver the results he desires is a different matter.

The idea is that the Fed sets out the size and terms of the operation and the grateful Treasury decides how the helicopter money is to be spent. Yet this proposal is naïve in a number of respects. First, it envisages Congress granting the Fed sole authority to fill the account; however, one can imagine debates in Congress in which it is proposed that Congress should have at least some say and perhaps the ultimate say in this matter. We would then have the potential for a major clash of control between Congress and the Fed that would likely end in the Fed losing power to Congress.

Second, it envisages the possibility of Congress and the administration leaving the funds unspent. But under what circumstances can we plausibly imagine the cash-strapped government *not* making full use of "free" helicopter money provided by the Fed? Let's face it: whatever "free" money the Fed creates for Congress, Congress will spend it all and then come back for more.

Instead, the Bernanke proposal provides Congress with what Stockman describes as "a purportedly scientific monetary cover story" that amounts to a license to spend without having to go through the hassle and unpopularity of voting for taxes to finance it. As he puts it:

> The peoples' elected representatives would relish this "expert" cover for ever bigger deficits and the opportunity to wallow in the pork barrel allocation of the targeted tax cuts and spending increases. There is not a hard core New Dealer turning in his grave who could have imagined a better scheme for priming the pump. . . . What makes helicopter money so positively insidious is that it relieves elected politicians entirely from their vestigial fears of the public debt and from accountability for the burdens it imposes on future generations [Stockman 2016].

Under the Constitution, Congress—and only Congress—is authorized to make decisions about fiscal policy. Government spending is constrained by the need for Congress to find some means to finance its spending decisions. It is politically costly for Congress to raise taxes: legislators get flak and they can lose their seats. And so it should be: to finance any government spending, resources have to be extracted—directly via taxation or indirectly via helicopter money—from the public using the coercive powers of the state. It is therefore important that that power not be overused.

But under helicopter money legislators would face the prospect of being able to finance their favorite projects at no political cost to themselves. Since that finance does have a cost, helicopter money would further increase the incentive to generate excessive government spending. Indeed, since helicopter money finance appears to be free and would in fact be free to the legislators who make the key decisions, there would potentially be no limit to the demand for such finance: the supply of (supposedly) worthwhile projects to be financed at (supposedly) zero cost would be infinite.

You cannot have rational spending decisions in a system in which finance appears to be free and legislators are spending money like it grows on trees: rational fiscal policy is impossible when legislators operate under the illusion of a free lunch.

Put it this way: throughout history, governments have faced the problem that taxes were unpopular—poll taxes provoked the Peasants' Revolt, tea taxes provoked the Boston Tea Party, and so on; then someone comes along who offers them a tax-free solution that enables them to spend as they wish, a fiscal Holy Grail. Do we really expect those in Congress to pass that up because they prefer the unpopularity of taxation? Well, even if they did, they surely would not stay elected for long.

Dangers of Unconstrained Base Money Creation

We should also consider what is likely to happen if helicopter money were implemented. If the policy is perceived to have been successful, then there would be pressure to repeat the operation in order to repeat the "success." If the policy is perceived to have failed, there would be calls to escalate the program, on the grounds that it only failed because it was not implemented on a grand enough scale.

It gets worse. A new political constituency would have been created—one that realizes that there is "free money" to be had and *all they need to do is lobby for it*. From their perspective, the money *would* be free, as they wouldn't bear the costs. The most obvious such constituency would be Congress itself, but one also has to think of the special interest groups that might lobby Congress—that is, everyone who might want "free" money. It is easy to imagine what would happen next. If there were free money to be had, there would be enormous demand for it and there would be corresponding pressure on the Fed to repeat and expand the helicopter money program. The sluice gates would be opened and the remaining constraints against the overissue of base money would be severely, even irremediably, weakened.

Weidmann (2016) also warns of the dangers of uncontrolled monetary activism:

> Instead of raising the prospect of ever more daredevil feats, it would actually be wiser to pause for thought. Monetary policy isn't a panacea—it can't replace urgently needed reforms in individual countries, nor can it solve Europe's growth problems. That would simply be too much of a tall order, and it would most certainly end in tears.

Otmar Issing (2016) is even more emphatic. "*Helikopter-Geld ist keine Wunderwaffe*," he said in a recent interview: "Helicopter money is no wonder weapon."

> I see the entire idea of helicopter money as worrisome, even devastating . . . it is nothing else than a monetary policy declaration of bankruptcy. . . . A central bank that is throwing out money for free, will hardly be able to regain control of the printing-press. . . . I see [this debate] as total intellectual confusion. The economic condition of the world is being meddled into chaos that can't be described [my translation].

Conclusion

Inconvertible fiat currency is unique in that it has a positive exchange value against valuable goods and services, but can be produced at essentially zero cost. The potential temptation for the issuer of fiat currency—the Fed—is to issue unlimited amounts of it, in effect to issue so much of it that its exchange value falls to its intrinsic commodity value, zero. The fundamental problem in monetary governance is to impose constraints against the overissue of fiat currency in order to preserve its value.

Proposals for helicopter money are the latest in a long line of attempts to kick away constraints against the overissue of fiat currency. They are especially dangerous, however, because they feed the illusion that monetary magic can conjure up real goods and services out of nothing. If this notion takes hold—especially if it takes hold among those who can influence monetary policy, and one thinks especially of Congress—then rational economic policymaking will become impossible. The danger is that the policymaking process will become addicted to helicopter money and that any remaining constraints against the overissue of fiat currency will be thrown out of the window. It is not as if we haven't seen this process play out before. Think of John Law, the Continentals, the Assignats, Weimar, or, more recently, Venezuela or Zimbabwe.

There is a good reason why the issue of paper money has traditionally been subject to tight constraints: it is a dangerous power that once unleashed can easily get out of control. History teaches that we ignore that lesson at our peril, but that from time to time we do so all the same.

Milton Friedman would be horrified at what Keynesians have done to his innocent classroom experiment. John Law, I suspect, would heartily approve.

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