

Helicopter Money

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» *Forget about manna from heaven in form of helicopter money. It wrongly assumes that too little money is in circulation or that there is an inefficient starting position. The first claim is plain wrong and the second could already be tackled via traditional lending.*

Monetary policy has lost its effectiveness in the last crisis. For this reason, some economists argue that the central bank should increase its clout by distributing helicopter money, transferring money to all its citizens to be used at their own discretion. Unlike the loans normally issued by the central bank, this money would actually make people richer without harming anyone, they claim.

In their view, helicopter money is like manna from heaven. Citizens could buy more goods and the state would not be burdened. Even prominent economists have argued in favor of this idea.

However, issuing helicopter money is the same as the monetization of public debt. Whether the state posts a promissory note to its central bank and then distributes the new money to its citizens or whether the ECB distributes the money makes no difference with respect to the question of

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whether any gains would accrue to the citizens. And although the state must pay interest on its loans, these payments flow back to the state in the form of profit distribution by the central bank itself. In this respect, the manna argument, if it were correct, would also be a justification for the ECB's QE policy, which consists of purchasing government securities that previously went into circulation via the debt financing of budget deficits.

But the argument is wrong and should be quickly laid aside. It assumes that too little money is in circulation or that there is an inefficient starting position, in which a Pareto improvement is possible without rivalry for resources. Conversely, if the money supply is already appropriately sized, increasing this supply always means additional inflation that takes away the same amount of real wealth from existing money holders as the beneficiaries received in additional funds from this policy.

To be sure, the proponents of the manna theory may argue that precisely such an inefficient starting position is what we have today. But even if they were correct, it does not follow that helicopter money would have the manna advantage. The wealth effects of monetary expansion via the traditional means of the central bank lending fresh money to banks are in fact identical. With the creation of money from loans, the central bank and the state receive permanent, additional interest income flows, whose present value corresponds to the increasing money supply. If this interest income is used for transfers to citizens, exactly the same benefits are created as from helicopter money. The only difference would be that the government, a democratically elected body, decides who gets the resources rather than the ECB council, a technocratic body without a democratic mandate for fiscal policy measures.