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# Helicopter money: Panacea, shell game or Faustian pact?

*Since the GFC, proposals for economic stimulus through the recourse to helicopter money have multiplied. Recently, the measure has been associated with the issuance of a central bank digital currency or the fight against the Covid-19 epidemic. It is thus seen as a panacea. This piece is meant to be factual. It describes the concept and the advantages it is supposed to bring, to show that it is more akin to a shell game, if not a Faustian pact.*

**The concept of helicopter money**

The concept of helicopter money is old. It already appeared in Friedman's essay The Optimum Quantity of Money (1969). Friedman describes it as a "thought experiment" in which a helicopter flies over a society that has reached a state of economic equilibrium and drops bills that are hastily collected by members of the community. He also assumes that everyone is convinced that this experiment will never be repeated. Within this framework, he shows that the measure has no long-term effect on the level of output, only on the level of prices. In the short to medium term, output can rise or fall, due to opposite effects on demand (part of the helicopter money is spent) and supply (labour supply is reduced). On the other hand, a continuous repetition of the experiment has only an impact on inflation, whatever the time horizon, since its effects are anticipated.

Only much later did Bernanke (2003) suggest that Japan could combat deflation by pursuing a policy of public deficits financed by permanent purchases of public securities by the central bank. These permanent purchases should make it possible to avoid Ricardian equivalence effects, where private agents react to a deterioration of public finances by increasing their savings in anticipation of debt repayment, thereby hampering the expected recovery. Bernanke (2003) stresses that the central bank's balance sheet is protected, since it holds a claim on the Treasury. However, this protection precisely prevents the measure he suggests from being regarded as helicopter money stricto sensu. Indeed, helicopter money is a gift on the part of the central bank: bills are dropped from the helicopter without the central bank acquiring a counterpart and thus correspond to a loss on its books. The gift approach has been rationalized by many, eg Caballero (2010), making it acceptable to the central bank without reducing its expected benefits for public finances.

**Helicopter money and public finances**

On public finance side, helicopter money in this latter sense shares many advantages. First, public debt does not increase. In accounting terms, that is true but, since the aim is to have a public deficit financed by the creation of central bank money, it is the total made up of the general government and the central bank balance sheets that must be taken into account. Indeed, the increase in the Treasury's account at the central bank in the first instance, and the increase in banks' accounts at the central banks in the second instance, following expenditure by the Treasury, increases the liabilities of the central bank by the amount of the creation of helicopter money (Cecchetti and Schoenholz, 2016). The consolidated debt of the central government and the central bank thus increases. In fact, this reasoning is perfectly understood when the central bank purchases government securities. In the latter case, no one contends that this reduces government debt but rather that a substitution occurs on this occasion in the consolidated balance sheet of the central bank and the government between the government securities held by the central bank and the reserves it issues to finance its purchases. The difference is that, in the case of helicopter money, there is no financing as such but only a loss.

There is a second way by which helicopter money has advantages from a public finances point of view: the money created has no cost for public finance. Again, that is accountingly true, at least in the very short term. From this point of view, it is even possible for the central bank to acquire a claim on the Treasury, provided it is not remunerated or, as proposed by Pâris and Wyplosz (2013), to write off part of the debt of the Treasury by cancelling securities held by the central bank on it. However, in all cases, the seigniorage of the central bank, and thus the profits it can pay to the State, are permanently reduced. Indeed, the increase in reserves held by the banks would entail a fall in banks' refinancing and/or an increase in banks' excess reserves, which are remunerated. To do otherwise, the interest rate on the excess reserves (the deposit facility rate in the case of the Eurosystem) would for example have to be set permanently at zero, which would be tantamount to abandoning any monetary policy (Borio et al. 2018). Even if the central bank "sterilized" its creation of helicopter money by increasing required reserves without remunerating them or if, as suggested by Bernanke (2016), it levied a tax on banks to offset the interests paid to them on their excess reserves, the measure would have a cost. Indeed, banks would pass on the cost of having to hold a non-interest bearing claim.

It therefore seems that presenting helicopter money as having no impact on public debt and deficit thus boils down to a shell game. It is the "free lunch" where Borio et al. (2016) see an illusion.

**Helicopter money and the Central Bank**

On the central bank side, the consequences of such a measure are manyfold, but simple. We should all keep them in mind.

First, it would de facto circumvent banking intermediation. This seems self-evident but it would clearly be a "second best" compared to relying on the banking system to transmit monetary policy impulses, as central banks usually do. Indeed, banks have a better knowledge of their customers' finances than public authorities of their taxpayers.

But second, helicopter money would have a substantial impact on demand. In fact, much would depend on how the measure is perceived by the public. In particular, if it were seen to reflect a diminished ability of public issuers to access capital markets, the public might become concerned and increase their savings. In this regard, Bernanke (2016) proposes that the central bank itself should decide, on a legislative basis, on the appropriateness and the amount of helicopter money, in order to achieve its statutory objectives. However, even under the difficult conditions associated with the Covid-19 epidemic, no government has considered establishing such a legislative framework, perhaps precisely for fear of damaging its reputation.

Third, seen from an ex ante perspective, it should be easy to withdraw once the economic recovery objective is achieved. This presupposes that the measure is effective, contrary to Friedman (1969). But its withdrawal should then produce the opposite effect to its implementation. If the measure were to become permanent to avoid this circularity, monetary policy and the central bank's balance sheet would be permanently affected. A Faustian pact would thus have been signed. ●

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