Helicopter Money—An Antiquated Notion

Modern payments systems and associated straight-through accounting software enable governments to distribute money simultaneously and safely to millions of persons simultaneously. For example, the US Social Security Administration distributes benefits to more than 60 million persons either on the 2nd, 3rd or 4th Wednesday of every month, depending on their birthdates. The same technology is enabling many countries to rapidly transfer money to those most in need of COVID 19 assistance (19ers). This could save lives and certainly will ameliorate hardship.

Though we typically take payments infrastructure for granted, and implicitly trust governments to source the funds they distribute daily, the surge in 19er payments and loans has led to many impromptu well-intentioned suggestions as to where national treasuries might find additional funds quickly.

Treasuries fund expenditures with taxes or borrowing. Taxes are unrequited permanent receipts of money from the public. Borrowings are receipts of money that will be returned to the borrower at a future date. Explicit taxes are, by definition, mandatory. Borrowing is typically done at rates of interest that lead lenders to voluntarily part with their money now in exchange for money in the future.

Given the nature of the COVID 19 response, many economists have rightly argued that 19er payments should not be financed with taxes. Obviously, the 19er payments themselves should not be taxed—that would be a policy "own-goal". Similarly, the recipients of 19er spending—the bakers, grocers, millers, workers, and farmers are more likely to spend their income if they see not higher taxes on the horizon.

Beyond the sound theory-based arguments in favor of borrowing vs. taxation, many economists have offered advice on *how* treasuries should borrow now. Yet the world's national treasuries have thousands of years collective experience borrowing, including through numerous wars and natural catastrophes, so it is worth considering "best practice" before deviating from their ample playbook.

Modern treasuries operate within clearly articulated medium term debt management strategies, aiming to minimize long run financing costs with due attention to risk. Significant changes to strategy are always fully discussed in advance with the market, their relationship being symbiotic. Tactical deviations are rare but do happen. A scant 3 days after the Lehman debacle, the US Treasury announced a Supplementary Financing Program (SPF) to assist the Fed to manage the fallout. Within 33 calendar days, the Treasury borrowed $560 billion *in addition to* its announced auction schedule. The market well absorbed this stunning supplemental issuance in 2008 and could do so again.

The US SPF and debt management innovations in the UK, Europe, and Japan following massive expansions in central bank balance sheets are central to sorting out the controversy surrounding proposals to increase reliance on *permanent monetary finance*, (PMF) aka "helicopter money" (HM).

Setting aside the complexities of internal treasury and central bank accounting, the controversy centers on the appropriate role central bank money[1] should play in medium term debt management strategies.

HM advocates want more PMF than the "status quo", though they are hazy on just how much more.

---

[1] Direct liabilities in the form of circulating paper money and banks' deposits held at the central bank.

Money comprised 16 percent of total US Federal finance during 1957-2007. Not negligible. In numbers, the Fed "monetized", or converted into money, $778 billion of US Treasury debt, responding to an increased demand for currency ($788 billion) and a modest decline in reserves held ($10 billion).[2]

Increasing the *proportion* of PMF is a swim against the strong tide of technological innovation. Yes, metal objects bearing a sovereign's visage still procure snacks at Old Trafford just as they did in Rome's Colosseum—but e-payments are in the ascendance while metal and paper dwindle.

One might think increasing e-payments leads to increased demand for bank "e-reserves". Quite the contrary. From 1957 to 2007, interbank funds transfers handled by the Fed rose by 50,000 percent, to $670.7 trillion, despite a fall in reserves held at the Fed during that time from $19 billion to $9 billion.

Dim prospects for modern money suggest countries worldwide have been prescient to rely *more*—not less—on bond financing during the past 75 years. These countries include many who, in the 1980s, chose money finance in the midst of crises as the best among bad alternatives yet subsequently took great pains to develop domestic debt markets and have witnessed a stunning reversal in their reliance on money finance as well as foreign exchange denominated debt—Brazil, Chile, Israel, Mexico, Peru, to name a few. This is not to deny, during a financial crisis, that a healthy dose of temporary money finance is not strong effective medicine. But that is not HM.

HM is not about crisis tactics; it is a recommendation to *permanently* turn the dial toward money finance in a modern world increasingly dispensing with central bank money.

It is an antiquated notion.

Central Bank Archaeology
December 2020

[2] The components of the calculation are: Federal debt in the hands of the public minus such debt held by the Fed; currency in circulation; and total reserves held at the Fed.