The New York Times

The Opinion Pages

# Helicopters Don’t Help (Wonkish)

December 9, 2013 8:14 am

David Beckworth has a good piece on a point I’ve also tried to make: the irrelevance of “helicopter money”, and in particular the irrelevance of the decision to finance budget deficits by printing money as opposed to selling bonds.

Why is this an issue? Because a fair number of people have in fact argued that we can get extra bang for the stimulus buck if we pay for infrastructure investment and so on through the printing press rather than conventional finance. Now, the truth is that this would do no harm — but it would also do no good.

It doesn’t take fancy analysis to make this point — just an acknowledgement that in financial terms, at least, the central bank is part of the government. The Fed, for example, remits the interest it earns on government debt to the government proper, keeping only that amount it needs for operations. So for the purpose of our analysis right now, we can use the term “the government” to include the central bank.

So, compare two cases. In case 1, the government runs a budget deficit, which it finances by selling bonds to banks (it could be anyone, but let’s assume that banks are the buyers.) At the same time, the central bank — an arm of the government — is engaged in quantitative easing, buying bonds from banks with newly created monetary base.

I think we’re all agreed that the second part of this story isn’t very effective in a liquidity trap; the limitations of QE are why we’re even talking about helicopter money.

But now consider case 2, in which the government pays for deficits simply by "printing money", that is, adding to the monetary base.

How do these cases differ?

At the end of the day, the government's financial position is exactly the same: debt held by the private sector is the same, and so is the monetary base. The private sector's balance sheet is the same too. The only difference is that in case 1 banks briefly hold some government bonds, before selling them back to the government via the central bank. Why should this matter for, well, anything?

You may say that this isn't what you had in mind; you wanted an *increase* in government spending financed by the printing press. But why couldn't you do that same increase in spending financed by bonds that the central bank promptly buys back? The result is the same — and to the extent that anything good happens, it's the spending increase, not the printing press, that does it. As Voltaire said, you can kill sheep with witchcraft if you also feed them arsenic.

What you need to get monetary traction, as I pointed out long ago (and for the record, I do think I was the first to make this point) is to convince everyone that the monetary base will stay larger — to credibly promise to be irresponsible. The only way I can make sense of the call for helicopter money is to argue that for some reason the institutional setup — having the central bank finance the government directly — makes it less likely that the central bank will snatch away the punchbowl later. But that's a very different argument from the one the helicopter advocates seem to be making.