Anatole Kaletsky is an award-winning journalist and financial economist.

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# A breakthrough speech on monetary policy

Wednesday night may have marked the "emperor's new clothes" moment of the Great Recession, in which the world suddenly realizes its rulers are suffering from a delusion that doesn't have to be humored. That delusion today is economic fatalism: the idea that nothing can be done to break the paralysis in the global economy and therefore that a "new normal" of mass unemployment and declining living standards is inevitable for years or decades to come.

That such economic fatalism is nonsensical is the key message of a truly historic speech delivered on Wednesday by Adair Turner, chairman of Britain's Financial Services Authority and one of the most influential financial policymakers in the world. Turner argues that a virtually surefire method of stimulating economic activity exists today and that politicians and central bankers can no longer treat it as taboo: Newly created money should be handed out to the citizens or governments of countries that are mired in stagnation and such monetary financing of tax cuts or government spending should continue until economic activity revives.

The idea of distributing free money to end deep recessions has been promoted theoretically by serious economists since the 1930s, when it was one of the few practical policies that Keynesians and monetarists agreed on. John Maynard Keynes proposed burying money in disused coal mines to be dug up by unemployed workers, while Milton Friedman suggested dropping money out of helicopters for citizens to pick up. Friedman also argued in a 1948 paper that governments should rely solely on printed money to finance their regular cyclical deficits. More recently, as conventional policies to revive growth have faltered, with widespread disappointment about the impact of zero interest rates and quantitative easing, proposals for distributing money directly to citizens have been quietly gaining traction among critics of orthodox central banks. I discussed this trend, sometimes described as "quantitative easing for the people," in several columns last year.

A simple thought experiment shows why such "helicopter money" policies, which Turner calls overt monetary financing (OMF), would be far more effective than the conventional QE practiced by central banks today.

Consider the U.S. Federal Reserve. At present the Fed prints $85 billion of new money monthly and distributes it to banks and Wall Street investors by buying government bonds. And the Fed has promised to continue this monthly "quantitative easing" until such time as unemployment drops and is clearly and sustainably declining to more normal levels. Now suppose instead that the Fed divided its $85 billion monthly money production into 300 million checks of $283 each and sent these to every man, woman and child in America. Suppose, moreover, that the Fed promised to keep sending out these checks, worth more than $1,000 a month for a four-person household, until the United States reached its unemployment target – and the Fed chairman added that he would increase the checks to $1,500 or $2,000 a month for that household if $1,000 monthly proved insufficient. There can be little doubt that this deluge of free money would stimulate consumer spending and revive employment – and no doubt that it would be infinitely more effective than distributing money to bond investors and banks through QE.

Despite its obvious effectiveness – or perhaps because of it – public discussion of helicopter money has been taboo among economic officials. The one exception was a speech by Ben Bernanke in 2002, before he became Fed chairman. This speech offered the most detailed and eloquent justification of monetary financing prior to Turner's, and it earned Bernanke the Wall Street nickname "Helicopter Ben." Since then, however, helicopter money has never been seriously mentioned by any senior official in any advanced economy.

Until this week. Ten years after the Helicopter Ben speech, Turner has broken the taboo about monetary financing. The effect on economic debate around the world could be irreversible and profound. Turner's 70-page paper presents the arguments for the many variants of helicopter money with unprecedented academic sophistication, financial detail and historical context. Even more important, his paper systematically and rigorously rebuts all the standard objections to helicopter money.

He shows that links between monetary financing and hyperinflation are theoretically dubious and historically unjustified. In fact, the most serious objections involve politics, not economics. The key risk is that governments will abuse their ability to print money, treating helicopter money not as an emergency measure but as a tool for distributing political largesse. But this risk is best handled by engaging in open and rational debate about the appropriate rates of money creation, not by pretending that monetary financing will never happen and then covertly conducting such operations without proper public accountability or rational economic analysis.

Although Turner is too diplomatic to say so, this is exactly what central banks have been doing since the 2008 financial crisis and what Japan has been doing for 20 years. As a result, the risk is steadily growing that many of the world's largest economies will suffer a fate similar to Japan's, their economies permanently distorted by decades of artificially low interest rates, their financial markets permanently manipulated and their national solvency permanently threatened by unsustainable burdens of government debt.

There is nothing inevitable about this grim scenario, however. Turner's authoritative examination of the costs and benefits of monetary financing shows that long-term stagnation can be avoided, as leading economists such as Keynes, Friedman and Bernanke have maintained. The choice of fiscal austerity or national bankruptcy often presented by politicians is a false dichotomy. The alternative to national bankruptcy is not austerity and permanent stagnation; it is for governments to finance tax cuts or public investment with printed money and thereby promote economic growth. Now that Turner has broken the taboo on helicopter money, the sound of monetary salvation should soon be heard round the world.