Helicopter money - how, and why now?

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Definitions

Helicopter money, monetary v fiscal

- Working definition: money transfers from central bank to government or private sector
- Economists rarely (never?) clearly define ‘monetary’ and ‘fiscal’. Assumed meanings are unhelpful in this context.
- Monetary policy defined: policy involving quantity/price of base money implemented by central bank

Is this the time?

Yes, central banks are failing to fulfil their mandates

- We have collectively forgotten the role of central banks: *it is not to stabilise asset markets*
- Central banks have been mandated to meet inflation-targets and/or full employment. Inflation-targeting is deemed the optimal way to stabilise demand and maintain low unemployment.
- In the current environment the role of macro stabilisation policy is to facilitate supporting the economy during lockdown by preserving firm and household cashflows as best as possible so that resumption of activity can occur with least sustained damage.
- Central banks are currently completely failing to fulfil this role.
- This is entirely a failure of the mind. Central banks have the ability to provide unlimited support for nominal household income and firms cashflows.

Monetary tools to fight Covid

Dual interest rates, perpetual TLTROs, spread-targeting

- Dual interest rates: independently targeting the interest rate on deposits and the interest rate on loans [1], [2]
- ECB, BoE, BoJ - all now have variants. Policy not always explicit. Macroeconomists unaware of power. [3]
- No zero bound, no liquidity trap. No excuses for failing to stabilise nominal demand and meet inflation targets.
- ‘Targeting’ of loans needs to be expanded. Rates on loans need to cut deeply negative, and fixed for longer maturities. (Include mortgages, refinancing of existing SME facilities.)
- Infrastructure for perpetual TLTROs needs to put in place. Use national central banks and group of commercial banks in each country to implement. [4]

[1] Lonergan, Eric. “Dual interest rates always work” https://www.philosophyofmoney.net/dual-interest-rates-always-work/

[2] Greene, Megan. Interview, Mercatus centre https://www.mercatus.org/bridge/podcasts/03162020/megan-greene-how-use-monetary-and-fiscal-policy-fight-coronavirus-crisis

[3] Lane, Philip. The monetary policy package: analytical framework. https://www.ecb.europa.eu/press/blog/date/2020/html/ecb.blog200313~9e783ea567.en.html

[4] Lonergan, Eric. “Legal helicopter drops in the Eurozone” https://www.philosophyofmoney.net/legal-helicopter-drops-in-the-eurozone/

Conclusion

Low interest rates are not relevant to CB effectiveness

- Failure to fulfil mandates is failure of the mind: tools are available, should be implemented urgently
- Monetary policy legitimacy: major role for European Parliament
- Arguments based on equity miss the point: rate reductions always benefit borrowers. Equity of monetary policy is a separate and important debate.
- ECB must also target bond spreads
- Fiscal or monetary? Not substitutes. Both can be effective and legitimate.