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ASK TYLER

WHAT IS "HELICOPTER MONEY"?

COMING TO A THEATER NEAR YOU

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There is growing sentiment that the quantitative easing bubble (QE) has burst and negative interest rate policies (NIRP) are failing. But could the world's central banks attempt even more radical policies? These are questions we now regularly hear from clients. All of which leads us to "helicopter money" (HM), where a number of respected academics are pushing the idea. The basic argument is that central banks should provide money to the public with no expectation that those funds are repaid: in other words, a permanent, money-financed fiscal expansion.

HM could take several forms. The simplest would be for central banks to deposit cash directly into household bank accounts. This would be similar to a tax cut, except that there is no deterioration in the government's fiscal position because the operation would be funded by the creation of new money. Alternatively, the central bank could directly fund infrastructure and public works spending. For example, the government could use money provided freely by the central bank to invest in highways, bridges, etc. It would fund itself by selling bonds (which never have to be repaid).

The supporters of helicopter money claim it would be more effective than QE because money would be immediately directed into the real economy. In contrast, existing QE works only through indirect channels, by raising assets prices and lowering interest rates. So HM could be less dangerous for financial stability because it would not inflate asset-price bubbles. HM could even fight inequality, whereas QE mainly helps the wealthy. Given the right platform for helicopter money, the public would likely enthusiastically embrace the concept.

INVESTMENT IMPLICATIONS

Money managers are now in a period where they cannot ignore central bank policy. To be sure, helicopter money is grubby policy and money-financed fiscal expansions carry a stigma, often associated with the Weimar hyperinflation of the early 1920s (Japan also tried it during the 1930s). Regardless, helicopter money is gaining support. But first, a renewed global recession or major market decline would need to occur to justify such extreme policy. Once HM is initiated, our global outlook could change dramatically –- moving from a "muddle through" to a "temporary global boom" scenario. Client portfolios would be shifted to a "risk on" stance with inflationary hedges and a hard asset bias. We will be closely monitoring developments.

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