# Time for helicopter money?

By Kemal Derviş
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"Out of ammo?" *The Economist* recently asked of monetary policymakers. Stephen Roach has called the move by major central banks – including the Bank of Japan, the European Central Bank, and the Bank of Sweden – to negative real (and, in some cases, even nominal) interest rates a "futile" effort that merely sets "the stage for the next crisis." And, at the February G-20 finance ministers meeting, Bank of England Governor Mark Carney reportedly called these policies "ultimately a zero-sum game." Have the major advanced economies' central banks – which have borne the burden of sustaining anemic post-2008 recoveries – really run out of options?

It certainly seems so. Central-bank balance sheets have swelled, and policy rates have reached their "near zero" lower bounds. There is plenty of cheap water, it seems, but the horse refuses to drink. With no signs of inflation, and growth still tepid and fragile, many anticipate chronic slow growth, with some even fearing another global recession.

But policymakers have one more option: a shift to "purer" fiscal policy, in which they directly finance government spending by printing money – a so-called "helicopter drop." The new money would bypass the financial and corporate sectors and go straight to the thirstiest horses: middle- and lower-income consumers. The money could go to them directly, and through investment in job-creating, productivity-increasing infrastructure. By placing purchasing power in the hands of those who need it most, direct monetary financing of public spending would also help to improve inclusiveness in economies where inequality is rising fast.

Helicopter drops are currently proposed by both leftist and centrist economists. In a sense, even some "conservatives" – who support more public infrastructure spending, but also want tax cuts and oppose more borrowing – *de facto* support helicopter drops.

Recently, more radical proposals have surfaced, reflecting a sense of urgency and widespread disappointment with the impact of current monetary policy. Beyond advocating higher minimum wages, some are calling for "reverse income policies," with governments imposing across-the-board wage increases on private employers – a move that would drive up prices and defeat deflationary expectations. The fact that economists whose views typically fall nowhere near those of the far left are even thinking about such interventionism shows just how extreme circumstances have become.

I favor all of these proposals, in some form. The details of their implementation would obviously have to vary, depending on each economy's circumstances. Germany, for example, is in a strong position to implement a reverse income policy, given its huge current-account surplus, though there would undoubtedly be major political barriers. More spending on education, skills upgrading, and infrastructure, however, is a no-brainer almost everywhere, and is politically more feasible.

But there is another dimension of the challenge that has so far not been emphasized nearly enough, despite the warnings of Carney, Roach, and others. Zero or negative real interest rates, when they become quasi-permanent, undermine the efficient allocation of capital and set the stage for bubbles, busts, and crises. They also contribute to further income concentration at the top by hurting small savers, while creating opportunities for large financial players to benefit from access to savings at negative real cost. As unorthodox as it may sound, it is likely that the world economy would benefit from somewhat higher interest rates.

Raising interest rates cannot, however, be a stand-alone policy. Instead, small policy-rate increases must be incorporated into a broader fiscal and distributional strategy, implemented alongside more public spending on infrastructure and skills upgrading, as well as some gentle forms of income policies, employing, for example, “moral suasion.”

Even with such an approach, however, major central banks would have to coordinate their policies. If a single major central bank attempted to introduce higher interest rates, its economy would immediately be “punished” through currency appreciation, declining competitiveness, and falling exports, all of which would undermine aggregate demand and employment.

If the major central banks decided to increase their policy rates simultaneously, these spillover effects would cancel one another out. A coordinated move, perhaps raising rates in two modest 25 or 30 basis-point increments, would be neutral in terms of exchange rates and short-term competitiveness, even as it moved real interest rates back into positive territory. If successful, this effort could eventually be followed by further small increases, creating space for more traditional monetary-policy “ammunition” to be deployed in the future.

Success also hinges on the simultaneous pursuit of fiscal expansion worldwide, with each country’s efforts calibrated according to its fiscal space and current-account position. The expansion should finance a global program of investment in physical and human infrastructure, focusing on the two key challenges of our time: cleaner energy and skills for the digital age.

A coordinated and well-timed policy package could boost global growth, improve capital allocation, support a more equitable income distribution, and reduce the danger of speculative bubbles. The various meetings in the run-up to the G-20 summit in China, including the spring meetings of the International Monetary Fund and the World Bank, would be ideal forums for designing such a package, and advancing its implementation.

Economic orthodoxy and independent actions have clearly failed. It is time for policymakers to recognize that innovative international policy cooperation is not a luxury; sometimes – like today – it is a necessity.

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