HELICOPTER MONEY

as a response to the COVID-19 recession in the Eurozone

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PositiveMoney Europe

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EXECUTIVE SUMMARY

- **The EU's economic response to the Covid-19 crisis focuses so far on reducing the damage. While necessary, these measures alone will not provide the unprecedented stimulus needed to kickstart the recovery after the public health crisis has been overcome;**
- **In the current Eurozone macroeconomic and institutional framework, transfers to all citizens financed by the ECB would be the most effective and quick means of stimulating the economy;**
- **Helicopter money would work by boosting consumption, preventing the accumulation of private arrears and non-performing loans debts, while limiting the additional public debt burden that would otherwise be incurred by the crisis;**
- **Combined with other social transfers by national social security agencies, helicopter money would contribute to filling the gaps in the national welfare systems which the Coronavirus crisis has revealed, protecting the most vulnerable people;**
- **A transfer of EUR 1000 to all Eurozone citizens would provide an immediate boost of at least 1.2% of GDP, without accounting for positive spillover effects and fiscal multipliers;**
- **The ECB should pre-announce helicopter money as soon as possible, but only trigger the payments in the economic recovery phase. In the meantime, banks should be obliged to offer free-of-charge overdrafts to all customers, to the equivalent amount of the future ECB transfers;**
- **While the EU Treaties would in principle permit the unilateral and autonomous implementation of helicopter money by the ECB, we argue that a politically coordinated approach with EU institutions and member states would greatly facilitate the deployment and effectiveness of the policy.**

INTRODUCTION

The Coronavirus crisis only reached Europe a few weeks ago, but its effects on the economy are already certain to lead to an unprecedented recession. As governments' confinement measures lead to not only a reduction in household consumption, but also in a reduction in the production of goods and services, the Coronavirus recession will be the result of both a supply and a demand shock for the economy.

Hopefully, the health crisis will only be temporary, but its economic effects could be dramatic in the long term. In this context, the role of governments and central banks is to make sure that the temporary public health crisis does not turn into a long-lasting depression, which would see millions of people unemployed and make the poor poorer.

Against this backdrop, proposals for "helicopter money" or universal basic income are making big headway, with the White House already sending checks to all American households. Calls for "emergency basic income" are also attracting significant support from citizens.[1]

Since 2015, Positive Money Europe has been campaigning for the ECB to implement helicopter money as a form of "QE for People". Helicopter money is a policy under which the central bank creates money and sends it directly to the public, in the form of unilateral transfers to citizens, without debt.

This note aims to summarize the benefits of using helicopter money in the context of the Covid-19 crisis. We argue that helicopter money should be part of a recovery plan to boost the economy, once the current public health crisis has been overcome. We show that direct transfers of money will offer a fair and direct way of boosting private spending when the economy will need it most, thus providing a confidence effect to the economy. Crucially, as Adair Turner has pointed out, helicopter money *"would provide strong stimulus without increasing the public debt burden*" [2].This will ensure that EU policymakers are not drawn into another round of misguided austerity in the aftermath of the crisis, in the name of the EU's poorly defined fiscal framework.

We also hope this note will clarify how helicopter money can be implemented swiftly, legally, and democratically in the Eurozone context. As we show, the EU's legal framework allows for the implementation of helicopter money, but this ideally requires all EU institutions to work together in a constructive manner.

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[1] Petition Emergency basic income for the EU - now!, run by Unconditional Basic Income Europe

[2] Adair Turner, We need tax breaks and direct grants to sectors hit by pandemic, Financial Times, 19th March 2020

1. A two-step response to the Coronavirus recession

Short term: softening the recession

So far, governments are trying to contain the economic effects of the crisis by supporting households and businesses to muddle through without going under. They are doing this by offering a wide range of subsidies in the forms of tax relief, suspension of debt and tax payments, partial unemployment schemes, and income-support policies for workers and people who are directly affected by the virus.

At the macroeconomic level, this strategy will be supported by two main measures.

First, EU heads of states and finance ministers have agreed to activate the "general escape clause" of the Stability and Growth Pact (SGP)[3]. As bluntly stated by the European Commission's President, this means in practice that *"national governments can pump [money] into the economy as much as they need."*

Second, the European Central Bank has announced a new temporary quantitative easing programme of 750bn euros. The Pandemic Emergency Purchase Programme (PEPP) will last until the end of 2020, and will ensure that governments can increase their deficits without facing speculative fears from financial markets over governments' debt sustainability. Thanks to PEPP, the ECB will have a lot of leeway to intervene in the bond market to prevent sovereign bond yields from increasing to unaffordable levels. This way, the ECB has rightly prevented another Eurozone debt crisis from occurring on top of the public health crisis.

However, it is vital to understand that the combination of fiscal rules relaxation and the extra quantitative easing do not constitute a 'stimulus' in the sense of preventing a recession by boosting demand. As pointed out by Frances Coppola[4], such a strategy right now would work against the confinement strategy, which is needed to slow down the spread of the virus. For now, the priority is not to expand economic growth by boosting demand, but simply to ensure that companies are not closing down, and that vulnerable households are not left behind.

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[3] European Commission, Coronavirus: Commission proposes to activate fiscal framework's general escape clause to respond to pandemic, Press Release, 20th March 2020

[4] Frances Coppola, Is 'helicopter money' the answer to the looming economic crisis?, Open Democracy, 17th March 2020

Medium term: kickstarting the recovery

After (and only after!) the virus spread has been sustainably defeated, policymakers will need to deliver a big stimulus package to make sure the economy makes up for the lost output and jobs. A boost in nominal GDP will indeed be needed to allow for the economy and the banking sector to deleverage the newly incurred private debts.

So far, the EU's response mainly revolves around allowing each member state to individually spend more through their national budgets. However, it is far from certain that member states will use the fiscal space that has been granted to them in a sufficient manner to kickstart the recovery.

Firstly, because the activation of flexibility clauses in the SGP are meant to be temporary. Therefore, governments and their electorates might be wary of putting big spending programmes in place, for fear of increasing their future stock of public debt. Second, given the recent history of crisis management in Europe, there are reasonable worries that after the pandemic crisis, the EU will force all member states to reduce their debts with future taxes and misguided austerity measures. Ultimately this means there is a risk that only countries with "fiscal space" will put in place significantly large stimulus programmes, which will exacerbate imbalances between Eurozone countries.

Without new and stronger instruments, it is easy to assume that member states will fail to coordinate their future fiscal stances in a manner that would provide an aggregated stimulus of the magnitude required.

This is why the conversation regarding Eurobonds or "Corona Bonds" is very relevant. By agreeing on joint fiscal instruments, and in particular by issuing joint debt at a large scale, the EU could provide a stronger stimulus in the medium term instead of simply relying on national budgets.

But the political process towards issuing Eurobonds could be very long and difficult to implement in a timely fashion. Furthermore, if Eurobonds merely provide extra funding for national budgets, there is a risk that the type of spending they will allow will not be as immediate as needed. Therefore the potential economic impact of issuing common debt could equally be delayed.

2. The benefits of helicopter money

In comparison with conventional fiscal policies based on debt issuance, helicopter money is a very attractive option as it can be quickly decided and implemented.

As explained in section 3, it should be up to the European Central Bank to decide the exact amount of money that should be injected into the economy, depending on its forecasts and economic analysis. We also advocate that elected representatives, in particular the European Parliament, should have a say in the policy design, in particular regarding the redistributive features of the scheme.

For illustration purposes, we propose that the ECB should deploy a one-off EUR 1000 transfer to all citizens in the Eurozone, totalling 341 billion euros and equivalent to nearly 3% of Eurozone GDP.

The payments should be made per capita, without considerations regarding the ECB's capital keys or the size of national economies. For the sake of simplicity and speed, the transfers should be made on a universal basis to all citizens, without means-testing. If any targeting were to be designed, we would advocate that the list of beneficiaries should remain very broad, (representing at least 80% of the population), and that the selecting criteria should be merely based on a simple means-test, by excluding the most wealthy people. Those principles will ensure that the implementation does not get delayed because of bureaucratic complications, and that the scheme benefits large popular support, instead of dividing society.

Following the logic described in Section 1, the payments should be made after the peak of the public health crisis, but pre-announced as soon as possible by the European Central Bank, in order to create a positive signal and confidence effect without delay.

This sequencing offers time for EU institutions to prepare the implementation of the scheme. However, to maximize its effect on vulnerable groups in the very short term, we would propose, as an accompanying measure, that banks should be obliged to offer free of charge overdrafts equal to the amount of the future helicopter money drop to all their customers. This way, low-income people will be able to spend their share of the helicopter money before it is actually transferred by the ECB. Those overdrafts will automatically be offset once the helicopter money transfers are made.

Although it would be piloted by the European Central Bank with a view of supporting the Eurozone economy, non-Eurozone countries should have the possibility of joining the initiative, provided their own national central bank agrees to take part.

● Immediate boost in consumption & confidence effect

This first obvious advantage of helicopter money is to put money directly where it is needed and where it would be spent: in people's pockets. In the spirit of proposals by Claudia Sahm[5], Stanley Fischer and al[6], helicopter money can and should thus act as a strong and reactive automatic stabilizer.

The exact effect of a helicopter money drop is difficult to forecast. Nevertheless we can estimate its minimal effect based on the average marginal propensity to consume (MPC), which is at least 40% in the Eurozone, according to convervative estimates.[7][8] Under this assumption, a helicopter drop of 1000 euros for all citizens in the Eurozone would boost the economy by at least 1.2%.

But this figure has to be seen as a lower bound for three reasons. First, the actual MPC is likely to be much higher after a few weeks, or even months of confinement, as people have had to restrict their consumption needs or habits. Second, this figure does not account for any fiscal multiplier effect, which should be subject to further research work. And third, the effectiveness of the transfer could be further increased by considering means-testing criteria, such as excluding the wealthiest quintile of the population. Indeed, focusing the payments to lower-income groups would undeniably increase its effectiveness. However, this should not come at the cost of delays for the implementation of the programme, neither affect negatively the public perception of the scheme and of the ECB.

The impact of helicopter money could be further increased by its pre-announcement, which would encourage businesses to increase their productive capacity (or at least refrain from laying off employees) in anticipation of a foreseeable boost in consumption. Similarly, banks will be more inclined to provide short-term loans or overdrafts to SMEs.

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[5] Claudia Sahm, Direct Stimulus Payments to Individuals, The Hamilton Project, 16th May 2019

[6] Elga Bartsch, Jean Boivin, Stanley Fischer, Philipp Hildebrand, Dealing with the next downturn: From unconventional monetary policy to unprecedented policy coordination, SUERF Policy Note, October 2019

[7] Uros Djuric, Michael Neugart, Helicopter money: survey evidence on expectation formation and consumption behaviour, Oxford Economic Papers, 7th November 2019

[8] Volker Clausen, Hannah Schürenberg-Frosch, Private Consumption and Cyclical Asymmetries in the Euro Area, Intereconomics, May/June 2012

Stimulus without debt

Another key feature of helicopter money is that it is funded by central bank money creation and not included as debt on national accounts. In practice, the ECB would either account the helicopter money drop as a zero coupon perpetual bond, as deferred asset, or even as a loss-bearing spending (see box).

Crucially, this means that the helicopter money stimulus would come without corresponding public debt. This would equally reduce (but likely not remove) the need for a significantly large issuance of public debt to cope with the recession.

In addition, helicopter money would contribute to limiting the increase of private debt, as vulnerable households would be able to use it to pay off their debts or bills, consumer credits, hire-purchase, rent and mortgages arrears incurred by the containment measures and the temporary loss of salaries and incomes. The accompanying overdraft facility described above would encourage low-income people to keep paying their bills instead of accumulating arrears in the first place. This key feature would limit the future increase of non performing loans on banks' balance sheets and reduce the associated cost of debt collection cost, litigations, while also protecting citizens from undue fees in the medium run.

Box: Accounting for helicopter money in the ECB's balance sheet

Economists have debated for years how helicopter money would be accounted for on the central bank balance sheet. While several options have been proposed[9], including zero coupon perpetual bond or deferred asset, we argue that this aspect is a non-issue at this stage for these reasons.

First, the accounting nature chosen by the ECB will be unlikely to affect negatively or positively consumption behaviours, which will be the most critical factor for the policy's effectiveness. Second, as the proposed amount (340 billion) is currently below the amount of Eurosystem's consolidated conventional loss absorption capacity[10], this means that it would be possible (in theory) to record the amount as a pure loss on the ECB's balance sheet without forcing the ECB to go into negative equity. Third, even if the ECB went into negative equity, it is now well understood that this does not prevent central banks from fulfilling their mandate of price stability[11]. Under the current circumstances, we would find it hard to justify asking governments to recapitalize the ECB or their respective central banks, since this would effectively amount to removing taxpayers money from circulation, when we need instead to increase the economy's overall purchasing power.

• Filling in the cracks of social safety nets

The Coronavirus crisis is revealing fundamental inequalities in the way that citizens are protected from the sudden loss of income due to confinement measures, depending on their professional occupation. For example, freelancers, artists and small business owners are often those most affected by the sudden loss of income because they are less well protected by unemployment schemes and the newly established state guarantees for companies.

Similar inequalities arise between EU citizens because of the disparity of national welfare systems.

In essence, helicopter money is not supposed to substitute for existing social security policies. Unlike a universal basic income, it should also be clear that the helicopter

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[9] Eric Lonergan, Legal helicopter drops in the Eurozone, Philosophy of money, 24th February 2016

[10] Sascha Bützer, (Monetary) Policy Options for the Euro Area: A Compendium to the Crisis, 26th September 2017

[11] David Archer, Paul Moser-Boehm, Central bank finances, Bank for International Settlements, 29th April 2013

money should not only be repeated over time under strict macroeconomic circumstances such as low growth and inflation. Nevertheless, helicopter money would in effect contribute to filling the gaps in the targeted income-support and social policies currently being put in place by national governments.

● Improving the effectiveness of the ECB’s monetary policy

Despite having injected 2.6 trillions euros through quantitative easing and having reduced interest rates to negative territory, inflation in the eurozone remains largely subdued, and did not reach the ECB’s target of *close to but below two percent* for the last 6 consecutive years.

The effectiveness of the ECB’s policies is largely osbructed by the inefficiency of the financial sector’s ability to “transmit” the ECB policy to the real economy by issuing more loans to companies and households.

Helicopter money would greatly improve the transmission channel of monetary policy because the ECB could channel money directly into the economy, by circumventing the need for more bank lending.

Boosting the purchasing power of the population by direct transfers is more likely to push inflation closer to 2%, with even a moderate risk of overshooting the target. But in the current conjoncture, this would be a benefit for the economy, as a larger inflation rate now would “make up” for the past six years of missed inflation targets, and would also facilitate the deleveraging of public and private debt.

Figure 1: ECB staff macroeconomic projections for euro-area core inflation *(moving 12 months average rate of change)*

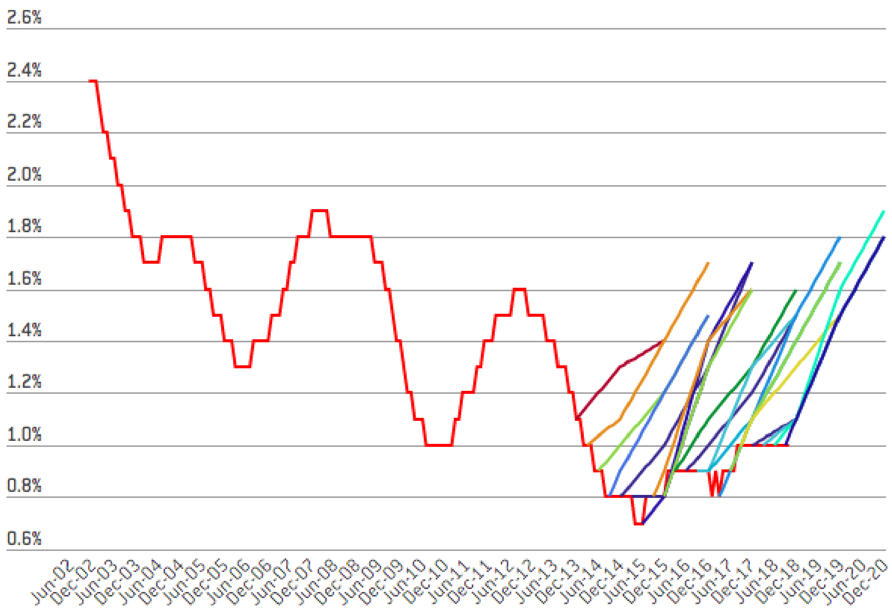

Image: Bruegel

Note: Actual data is the bright red line (moving 12 months average rate of change), while the remaining colourful lines show the ECB forecasts made in each quarter. ECB forecasts are available for annual average values. That’s why I use the 12-month average rate of change for the actual data, since the December value of this indicator is (practically) equal the annual average. For the forecast lines on the chart, the December observations correspond to the annual average forecast numbers published by the ECB and I have linearly interpolated these forecasts and the actual data at the month of the forecast.

Source: Eurostat for actual and author’s calculations using various vintages of ECB forecasts.

3. How to implement helicopter money in the Eurozone

Despite the complex and challenging Eurozone legal framework, no EU Treaty change is actually required to implement helicopter money in the Eurozone. We envisage two scenarios under which this could be achieved.

In the first scenario, the ECB could implement helicopter money unilaterally, by designing, deciding and implementing the programme completely autonomously from governments. In the second scenario, the ECB would coordinate the programme's implementation with member states and EU institutions.

Scenario 1: Unilateral implementation of helicopter money by the ECB

Under a strict reading of the Treaty, direct transfers to households by the ECB are permitted, if they serve the purpose of monetary policy objectives (which it clearly would do during a recession).

Contrary to popular misconception, article 123 TFEU only prohibits direct financing of governments, but does not prohibit the European Central Bank from making direct transfers to households.

The ECB has implicitly confirmed this interpretation. Indeed, despite being asked multiple times, the ECB has never pointed out any insurmountable legal impediment to the use of helicopter money. For example, in a letter[12] to Member of the European Parliament Jonas Fernandez, Mario Draghi merely pointed out that "*While the governments of euro area countries would not be the direct recipients of a cash transfer involved in such a scheme, legal complexities could still arise if the scheme* ***could be seen*** *as the ECB financing an obligation of the public sector vis-à-vis third parties, as this would also violate the prohibition of monetary financing.*"

The latter refers to a hypothetical situation where the transfer of money would substitute for government spending such as pensions or unemployment benefits. But as we have previously suggested, helicopter money would supplement other income-support policies, and certainly not substitute them (since that would defeat its purpose anyway).

[12] Mario Draghi, Letter from the ECB President to Mr Fernández, MEP, on monetary policy, 29th November 2016

Article 20 of the ECB's Statute also clearly states that the ECB's *"Governing Council may, by a majority of two thirds of the votes cast, decide upon the use of such other operational methods of monetary control as it sees fit."*

On this basis, the ECB does have a solid legal ground for implementing helicopter money unilaterally. However, the unilateral implementation of helicopter money would cause serious operational challenges.

Firstly because, as it stands, the ECB does not have a database of beneficiaries to make direct payments to. In the long run the adoption of central bank digital currencies would best facilitate the implementation of helicopter money, but this is not a viable prospect in the timeframe of the current crisis.

In the current context, one option around this would be for the ECB to send checks to all residents using electoral registers[13]. Since the ECB already supervises the production of banknotes, it would not be difficult to print similarly secured checks. However, the effectiveness of this option would greatly be impaired by the discrepancy in quality of national electoral registers. For example, in some countries, a significantly large number of people are not registered at the right postal address, or not registered at all.

Another more modern option, would be for the Eurosystem to create a unified registry of residents' bank accounts. All national central banks would request their supervised banks to supply databases of their legal resident's bank accounts. After filtering out redundant accounts, the ECB and national central banks could then deposit the money directly into citizens' accounts.

On top of the complications pointed out above, the lack of data on household composition makes it nearly impossible for the ECB to account for the number of dependent children, or to implement means testing. The solution here would most likely be a universal and equal amount per citizen. It would also be difficult to reach unbanked citizens.

To maintain its credibility as an independent central bank, the ECB must be able to intervene in any circumstances, and therefore the possibility to implement helicopter money unilaterally must be carefully prepared for. However, in the face of the current emergency, another scenario must be envisaged. Cooperation with members consultation and coordination between national fiscal authorities and political bodies at the EU level – in full compliance with the ECB's independence – could be the preferable way to implement helicopter money as soon as possible.

[13] John Muellbauer, Combatting Eurozone deflation: QE for the people, VOX, CEPR Policy Portal, 23rd December 2014

Scenario 2: Coordinated implementation of helicopter money

A coordinated approach between member states and EU institutions makes it not only possible to overcome the identified operational issues, but also to secure a higher degree of political ownership and democratic legitimacy. Indeed, by consulting with democratically elected bodies, the ECB could in effect delegate some of the difficult trade-offs, especially in designing the allocation of funds.

A coordinated approach would require the ECB to engage in dialogues with Heads of States and finance ministers. To this effect, the President of the ECB should notify the European Parliament and the European Council of the ECB's intent (or willingness) to resort to helicopter money, and request operational support from member states. The ECB could do this during any of the upcoming European Council meetings, which the ECB President is entitled to attend.[14]

Under a framework prescripted by the ECB, all member states should commit to supporting the ECB in operating the transfers through their relevant fiscal or social authorities, and, if needed, adjusted for the purpose of administrative efficiency within member states. Although some governments may want to oppose the ECB's move, this would likely be very unpopular and difficult to explain in their national constituency.

Such coordination with national authorities offers the possibility for national social security systems to find alternative ways of distributing the money to unbanked citizens. Any remaining amounts, not taken up by citizens after a reasonable delay, should be re-granted to domestic anti-poverty organisations and charities.

The European Parliament should also be consulted in this process, particularly in order to define how the money should be allocated (ie. whether it should be means-tested or not; whether the amount should be differentiated per country etc.). Delegating those decisions to political institutions would spare the ECB from having to decide itself on the more sensitive distributional effects of the policy.

Such coordination does not require reducing the ECB's independence. It should be clear that the ECB would be the institution piloting the entire programme and lead on decisions such as how much, when, and through which mechanism the payments should be sent. It should also be clear that although the money transfers would be facilitated by member states, the ECB's dedicated funds should not be diluted into national budgets, but kept strictly separate. If necessary, this could be done by opening segregated accounts at the respective national central banks.

While some operational aspects of the programme would be delegated to national agencies, the ECB would retain veto power over them if it can demonstrate that they would either harm the general efficiency of the measure.

[14] Vice-versa, the President of the Council may also consult with the ECB's Governing Council by using Art. 284 TFEU, which allows them to *"submit a motion for deliberation to the Governing Council"* of the ECB.

CONCLUSION

After years of subdued inflation and economic stagnation, the Coronavirus crisis offers the ideal conditions for deploying helicopter money. Right now, the economic benefits of helicopter money are undeniable and the associated risks very low. At the same time, the political willingness of EU leaders and the ECB to adopt audacious policies has rarely been greater.

Although the purpose of helicopter money is primarily to serve monetary policy objectives, its benefits would largely fall beyond the scope of the ECB's remit. Helicopter money would not only solve many of the economic side-effects of the health crisis we are facing now, but would also likely rebuild confidence, by sending a strong signal to citizens of a "caring Europe". It would demonstrate that the EU is able to deliver concrete solidarity mechanisms that benefit everyone in a very direct way, without being constrained by complex financial mechanisms, large corporations, or member states' conflicting interests. Such a precedent may also serve as useful inspiration ahead of the conference on the future of the European Union in the coming two years, and wider conversations on the need to strengthen the European Monetary Union.

Our evaluation shows that the benefits and technical feasibility of helicopter money are greater than many of its alternatives. However, in contrast with those who consider helicopter money to be redundant alongside fiscal stimulus[15], we see in helicopter money the possibility of unlocking additional stimulus that governments are unlikely to deliver themselves (at least in part due to the mostly irrational fear of overburdening themselves with too much public debt).

Helicopter money and other fiscal policies are therefore not mutually exclusive policies. In fact it should be implemented as part of a broader package of mutually reinforcing measures. While helicopter money would focus on stimulating aggregate demand, other policies would focus on stimulating supply-side investments.

Finally, we end with the reminder that any stimulus recovery programme must have climate change mitigation as a clear, overarching objective. We can no longer just focus on boosting economic growth for the sake of it. In that spirit, the repeated use of helicopter money (if any) in the long run would also benefit from the implementation of carbon-pricing policies, to avoid a boost in the consumption of carbon-intensive goods and services.

[15] Olivier Blanchard, Jean Pisani-Ferry The Euro Area Is Not (Yet) Ready for Helicopter Money, Peterson Institute for International Economics, 20th November 2019

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