


The Myth of “Helicopter Money”

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Since the United States adopted a \$2.1 trillion rescue package to complement unprecedented action by the US Federal Reserve in response to the COVID-19 crisis, the media have been amplifying popular misconceptions about Modern Monetary Theory. So, what does MMT actually say about financing government borrowing and spending?

NEW YORK – Modern Monetary Theory has received unprecedented attention now that policymakers are pursuing extraordinary economic-policy measures to combat the COVID-19 pandemic. Discussing the US Federal Reserve’s “whatever it takes approach,” CNBC’s Joe Kernan recently concluded that, “we are all MMTERS now.” And in a recent commentary, Willem H. Buiter of Columbia University claimed that, “Much of the US response [to the pandemic] will come in the form of ‘helicopter money,’ an application of [MMT] in which the central bank finances fiscal stimulus by purchasing government debt issued to finance tax cuts or public spending increases.”

As these remarks show, many commentators seem to view MMT as merely a blueprint for turning on the printing press, whether to send cash to Americans through an appropriation by Congress, or to provide liquidity to financial markets through the Fed’s actions. With the recent adoption in the United States of a \$2.1 trillion rescue package, we are supposedly now engaged in what Buiter calls “a massive experiment with hitherto unorthodox” MMT.

These commentators have it all wrong. MMT does not support quantitative easing (QE), nor does it prescribe “helicopter drops,” for the simple reason that there is no such thing as a “helicopter-money” alternative to financing a fiscal-stimulus package. Instead, what MMT does is *describe* how a government that issues its own currency actually spends, taxes, and sells bonds as a matter of course. In doing so, the theory demonstrates that a government like that of the US does not, in fact, face financial constraints.

In the normal course of operation, the US Treasury (the spending arm of the government) and the Fed (the government’s bank) coordinate so that the Treasury can spend and tax authorized amounts. While Congress appropriates the funds, the Fed ensures that the Treasury’s checks clear, and that bond auctions proceed without a glitch. However, the Fed is also the banks’ bank, so it takes steps to ensure that Treasury spending and taxing do not disrupt the financial system. (As payments move into and out of private bank accounts, there is always the potential that banks will be left short of, or awash in, reserves.)

Again, this analysis is descriptive: it simply explains how the government operates and how the newly appropriated \$2.1 trillion will be spent. The Treasury will issue bonds and then sell them through auctions. The Fed, as usual, will ensure, either through lending or its own purchases, that there is a sufficient supply of reserves in the system to pay for the newly issued bonds. (Indeed, the Fed had already committed to buying bonds even before Congress passed the spending bill.) The primary dealers (approved banks and financial institutions) that are required to participate in such auctions will continue to do so.

In other words, everything will operate the same way it does when there isn't a pandemic or national emergency. At no point will anyone be cranking up the "printing press" or conducting "helicopter drops." The question, then, is what "printing money" even means in the context of the modern monetary system. Commentators who use such rhetoric are referring to the Fed crediting bank accounts on behalf of the Treasury without new bond issues – that is, without draining reserves from the system.

Notwithstanding the hand-wringing by pundits, such action by the government is not a big deal. Whether in normal times or in a crisis, Treasury bond sales are not a borrowing operation; rather, they are used to keep interest rates up. This basic fact is well understood when it comes to the Fed, which itself has said that bond purchases are an interest-rate maintenance operation. And because the Fed now pays interest on reserves, its reserve accounts can act as a substitute for bond issuances, at least as far as interest-rate maintenance is concerned. There may still be good reasons for the Treasury to issue bonds, such as to provide households and financial institutions with safe interest-bearing assets, but financing the Treasury's spending is not one of them.

What MMT actually prescribes has nothing to do with sending "cash" to people or banks. Nor is the Fed "doing MMT" when it engages in QE or lends hundreds of billions to financial institutions. MMT merely underscores the fact that the Fed faces no financial constraints on its ability to buy assets or lend; it does not prescribe any particular action in this direction – and indeed is skeptical of such policies.

If there is any MMT feature to the US rescue package, it is the fact that it is not "paid for." Proponents of MMT have always insisted that we must stop attaching such strings – increased taxes or spending cuts elsewhere (the "PAYGO offset") – to spending bills. Abolishing such conditions may or may not increase the budget deficit. But, regardless of the budgetary outcome, the spending will always take the form of payments made by the Fed on behalf of the Treasury. No printing press or tax receipts are required.

So, what does MMT prescribe? In terms of concrete policy proposals, MMT economists have long supported the idea of a universal, federally funded job guarantee program, which would act as a macroeconomic stabilizer during times of crisis. Jobs, not cash, is MMT's answer to economic downturns. It calls for moving the payrolls onto the federal budget, putting recipients to work (on responding to the crisis, when it can be done safely), and letting the private sector hire them back as the economy recovers.

MMT's proponents have always maintained that government spending is limited only by available economic capacity. The US rarely reaches such real spending constraints in normal times, and in the case of the current crisis, the constraint we face comes in the form of a massive supply shock. But that is due largely to inadequate disaster preparedness. If there are no hospital beds to treat sick patients, more spending will not help. Insofar as the US is constrained in responding to this crisis, an inability to finance government spending will never be the reason. Once we overcome the immediate threat to our health posed by the pandemic, we need to keep government spending up in order to prepare for the next crisis, resisting all calls to tighten budgets on the ill-founded notion that fiscal austerity is needed to pay down the debt.

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