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Helicopter money to land in Europe?

These days, every new economic forecast is worse than the previous one. Most of the countries face severe crisis and the fears of massive unemployment arise, following the end of lay-offs or equivalent measures which were able to sustain jobs. The pace at which those measures are phased-out is now critical, since smoothening the growth of unemployment can result in the smoothening of the crisis itself.

Although the crisis is inevitable, its size and duration depend on a large scale on the measures that are put in place by national and European authorities – and the speed in which they are put in place. The analogy with healthcare is clear: the faster we initiate the healing the higher are the patient odds of getting better. So, at the beginning of the deconfinement phase of this crisis, short-term measures are still essential, both on fiscal and monetary policy.

The Recovery Plan is very important, of course, but its money will never reach the real economy before the end of 2021 or even the beginning of 2022. Meanwhile, millions of jobs might be destroyed.

The response to this crisis needs to be effective starting now, and not in a year from now.

To increase demand and stimulate the economy, Member States have to dramatically increase public investment, support private investment and money transfers to households. This will lead to a substantial growth of public debts.

But not to increase (or even decrease) public expenditure could, in the end, result in even higher levels of public debt, as a result of a more profound crisis, with the consequent reduction of Government revenues and increase of social expenditures (e.g., unemployment benefits). That was the (bad) experience from the last financial crisis and we should not forget the lessons learned and make the same mistakes.

In such a demanding situation, monetary policy must be used at its full potential. The starting point must be to assure that the low-interest rates environment that resulted from ECB's interventions in the recent past are maintained for a large number of years, as a way to incentivize private and public investment. But the ECB can do much more.

Within its mandate, it is clear that ECB can assume a more assertive position. Through this crisis, the rhythm of expansion of the ECB's balance sheet has to continue and even speed-up significantly.

If an effective response to the crisis and its consequences demands legal intervention, we should face that reality and not be bounded to old solutions that might not work for the new problems. The unprecedented challenges we face must give us the strength to challenge taboos.

Helicopter money is one of the taboos. If we consider the current limitations of the transmission of monetary policy, transferring money directly to households could be the most efficient way to raise the persistently low inflation up to the 2% target. At the same time, stimulating demand with this unconventional and effective policy would increase rapidly investors' confidence, and therefore investment, growth, and job creation could become a reality again in the short-term.

Other taboo, the monetization of public deficits, relies on the same fear: inflation. But the real danger at the moment is deflation and massive unemployment.

We all saw what happened in Japan, where persistent deflation forced Governments to implement fiscal policies that resulted in public debt that, at first glance, seemed to create an impossible economic situation. But Japan's answer was a *de facto* monetization of public debt, which was very positive for the economy: Bank of Japan (BoJ) bought Government bonds that represent around 100% of the GDP. What was the result? i) it did not create uncontrolled inflation; ii) it was not necessary to raise taxes to pay the debt; iii) and, anyway, the profits that BoJ gets from that debt are Government revenues.

Monetization of public deficits and helicopter money, as well as other unconventional tools, can generate strong reactions in many economists and policy-makers, but they deserve a second thought. If the biggest downside of those measures – inflation – is not a real concern now, not to analyse it may not be a rational option.

We can study the amounts involved, the consequences, the institutional framework, the operational issues, and the safeguards that would be necessary to make it acceptable for those who are more reluctant. It could, perhaps, be necessary to reinforce the economic governance and the creation of a Finance Minister for the Eurozone. A lot would have to be studied and discussed. But it is a discussion we certainly should have. ●