Will Australia ride money helicopter to hyperinflation?

In 2016 the Reserve Bank of Australia conducted a study of the unorthodox approaches to monetary policy used by other nations, including helicopter money and quantitative easing. If the country were to "head into uncharted territory", if conventional approaches (such as cutting interest rates) were to fail, the RBA would consider "a multi-pronged stimulus".

From the archives
20 Jul, 2016—HSBC's quarterly report on the state of the European economy says that the EU has reached a fork in the road and needs to rethink its current direction, including fixing underlying economic problems. According to the 11 July *Business Insider* Australia, the HSBC report says that "The problems run deep. Growth is still anaemic, unemployment in parts of the periphery still painfully high. Part of society is not doing well out of globalisation, while ageing populations fear they will not get the pensions and healthcare they were promised. Many EU voters can't accept sending payments to other parts of the EU, or being given bad news about their retirement expectations by Brussels."

The report's authors are not optimistic that the EU will go for change, but it points out that the "populist alternative … is more enticing" than what the union has to offer, and if nothing is done, Brexit may well be re-enacted across the continent. "Essentially, we are assuming that the EU continues to muddle through on the back of more QE [quantitative easing] and bigger deficits. But this may not be sustainable. We hope instead that the Brexit vote becomes a catalyst for positive change. The EU might be wise to do this for its own sake. Resisting it may mean the UK is not the only domino to fall in the years ahead."

Politicians and bankers loyal to the dying trans-Atlantic financial system—characterised by the collapsing Deutsche Bank, unravelling Italian banking sector, and blow-up of the London real estate market—are desperately clinging to a rock as the tide comes in. Their proposed solutions are more of the same bad medicine that caused the problem in the first place.

Citigroup's chief economist Willem Buiter, who previously worked for the Bank of England, told the 15 July *Epoch Times* that he would like to see helicopter money utilised in Europe and China. This is the next step along the same failed pathway of bail-out, QE, bail-in, super low and negative interest rates. "There are obvious win-win situations that we could have", Buiter nonetheless claimed. "Restructuring of debt if possible, haircuts if necessary, and then a well-targeted fiscal stimulus funded ultimately through the European Central Bank (ECB), people's helicopter money." The publication described former chairman of British regulator the Financial Services Authority Lord Adair Turner's explanation of the mechanism: "the government would issue a zero coupon perpetual bond, sell it to the banks, which would then hand it over to the central bank. It would keep the bond on its balance sheet forever (hence perpetual) and receive zero interest on it (hence zero coupon)."

Buiter has recently been outspoken about the dangers facing the trans-Atlantic financial system, particularly the European Union. The *Australian Financial Review* reported that Buiter told a media conference in Sydney on 19 July that the bubble will burst. When? "I don't know—when does the bubble burst? All we know is that it can't go on forever." The ABC's report from the media event said that Dr Buiter has called on governments to boost the private sector in order to stop the economic slowdown. Further, president of the Cleveland branch of the US Federal Reserve, Loretta Mester, who is currently in Australia, told the ABC that helicopter money might be an option for the United States.

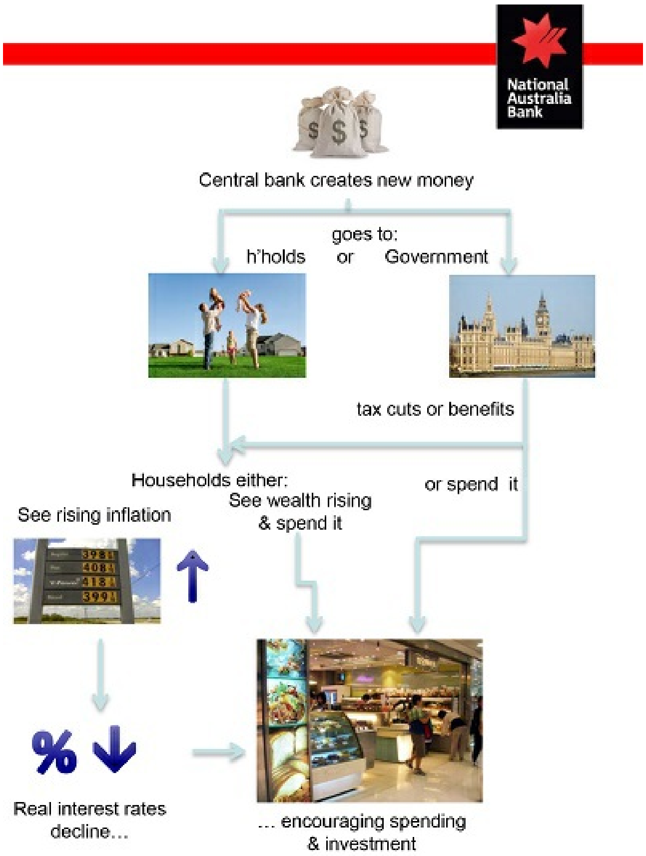
"We're always assessing tools that we could use", she said. National Fed chairman Janet Yellen recently said the measure could be used under extreme conditions, but Buiter believes the UK would be the first to engage in the use of helicopter money if the crisis worsens.

Speculation has been rife in Japan, and on financial websites globally, that the Abe government is considering helicopter money, which is generally injected into the economy via direct payments into business, household, or government bank accounts. Former US Fed chairman Ben Bernanke, notorious for pushing the concept, has just been in Japan, where he met with Prime Minister Shinzo Abe, Bank of Japan Governor Haruhiko Kuroda, and other economic advisors. In April, at a Washington DC meeting with Japanese leaders, he had promoted helicopter money as an idea Japan could pursue to boost its economy.

According to Reuters on 15 July, one unnamed Japanese government official said that while they will not employ helicopter money "in the strict sense", they may combine fiscal and monetary expansion, what some call "soft" helicopter money, to stimulate the economy.

The proposal has also been the topic of much discussion in Australia, mostly behind the scenes until now. The Reserve Bank of Australia has just released a study it made of the unorthodox approaches to monetary policy used by other nations, including helicopter money and quantitative easing. If the country were to "head into uncharted territory" reported Bloomberg on 15 July, and conventional approaches (such as cutting interest rates) were to fail, the RBA would apparently consider "a multi-pronged stimulus". Conventional methods seem to be fast running out. Bloomberg cites several leading banks which expect that the RBA will need to lower Australian interest rates down to 1 per cent by the third quarter of 2017.

Former RBA board member Warwick McKibbin told *AFR* on 18 July that direct stimulus would be preferable to quantitative easing. “If we ever got to a situation that Europe or Japan is in, I’d move straight to helicopter money”, he said. This would involve the government spending new money printed by the RBA, he said, but is a last resort measure,



A flow chart on helicopter money from the NAB's 2016 "Guide to helicopter money".

and a means of reining in the resulting inflation would be required. The article also cited current RBA board member John Edwards describing handouts in the 1990s under Prime Minister Paul Keating, and Kevin Rudd’s 2008 stimulus package, as examples of helicopter money that worked effectively.

On 10 June National Australia Bank issued “A guide to helicopter money: June 2016”, with 14 pages of extensive explanation, pros and cons, history, legalities, and custom made diagrams depicting the process of helicopter money (see graphic), further demonstrating that the proposal is being seriously considered. In its discussion of the “risks and pitfalls”, the paper even references the consequences of rampant money printing in 1920s Weimar Germany, replete with the famous photos of children using bundles of cash as blocks. This, and the fascism that followed, is the reality that can be expected unless there is an urgent reorganisation of the entire financial system, wiping out speculation and returning banks to their traditional role of funding real economic growth and development.

Republished from the 20 July 2016 *Australian Alert Service*