Helicopter money: loved, not spent

Europeans doubt effectiveness of helicopter money

ING International Survey special report – Helicopter Money October 2016

thinkforward

This survey was conducted by Ipsos on behalf of ING

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European consumers doubt the effectiveness of helicopter money

The majority would save money given to them and would not expect prices to increase

Could "helicopter money" be the answer to slow growth and low inflation across Europe?

Helicopter money is an idea first hinted at by Milton Friedman in 1969. In basic terms, imagine a helicopter flying over a country and dropping money on the population below. If those people were to spend that money, that could give an instant boost to the economy.

It is generally accepted that for helicopter money to be successful both growth and inflation must increase. Yet there is no way of knowing how people would actually behave in the event of such a helicopter drop and what the effects might be.

ING decided to address this, by asking people how they would react if the central banks across Europe were to put helicopter money into practice.

Asking people what they would do
Almost 12,000 people in 12 countries across Europe were asked: "Imagine you received €200 in your bank account each month for a year. You are free to do what you want with the money and don't need to repay it or pay taxes on it. How would you use this extra money?"

Saving, not spending, helicopter money
The answers to this and other questions suggest the effectiveness of helicopter money "for the people" can be questioned.

Few consumers say they would spend the money received. Only about one in four (26%) say they would spend most of the money. This share is very low, compared with alternative ways the money could be used.

In addition, less than half believe either growth or inflation would be higher if the ECB created money in this way.

Consumers support helicopter money
Nevertheless there is broad support for helicopter money. European consumers seem to be saying: "I will not spend it, the policy won't work, but please give me the money anyway."

Saying and doing may differ
The answers people give in surveys may of course differ from what they do in reality.

Nevertheless, the survey results suggest adopting a previously untried policy such as helicopter money will have limited effect. Other alternatives might have a larger economic impact.

Success is not guaranteed.

Senne Janssen, senior economist
Ian Bright, senior economist


Cash handouts popular – but economic boost doubtful

Slow growth and low inflation are ongoing problems in Europe. Some argue that a more direct way to promote growth and inflation is needed. One idea is to give money directly to individuals to do with as they please. We asked people what they would do with this “helicopter money” if it were given to them.

42% expect no effect

42% think prices would not be affected. Just 34% predict prices would actually rise.

52% would save or invest

52% would save or invest most of the money given to them. Only 26% would spend most of it.

39% predict growth

39% think growth would increase. But 44% believe growth would stay the same or even weaken.

54% say “please give me the money anyway” – with Italians the most enthusiastic in this respect.

54% would like the money

Why helicopter money is being considered in Europe

Since the global financial crisis, the European Central Bank (ECB), like other central banks around the world, has used unconventional policies that rely on factors other than changes in interest rates to stimulate growth and meet its inflation target.

Questioning the effectiveness of monetary policy
These unconventional policies have included quantitative easing (QE), which involves the central bank buying assets such as bonds to boost their prices, and negative interest rate policy (NIRP).

The effectiveness of QE and NIRP has been questioned in many countries, not least in Europe. Growth continues to disappoint and the threat of deflation remains.

New policy idea gains traction
Because European growth and inflation remain low, the idea of helicopter money is slowly gaining traction with politicians and economists alike.

What is helicopter money?
Helicopter money refers to a policy whereby the central bank brings extra money into the economy to stimulate demand.

It's called helicopter money because the idea was first raised by Milton Friedman in 1969. In the paper, *The Optimum Quantity of Money*, he stated:

"Let us suppose now that one day a helicopter flies over this community and drops an additional $1,000 in bills from the sky, which is, of course, hastily collected by members of the community."

The basics
This policy starts out with the central bank "creating" money. This money is provided to households or to the government. These governments can use the money to stimulate the economy by increasing its spending or cutting taxes.

Defining success
The main aims of helicopter money are to increase upward pressure on prices so that central banks can meet their inflation targets, and to boost economic growth.

Different approaches to monetary financing

Focus of this report

Approach	Effect
Helicopter money – the focus of this report The money is distributed to households (directly or via governments) for them to do with as they please. As an alternative the government could send out time-limited spending vouchers.	With extra money to spend, or fewer taxes to be paid, households could consume more. This could boost business activity and thus employment. In addition, higher inflation expectations give consumers an incentive to consume (and businesses to invest) now, instead of later.
Direct deficit financing The money is used to directly finance the government. The government would use the money to cut its borrowing or to pay down some of the debt stock, with no change in government spending.	Lower government deficits and/or debts could lead to improved confidence levels, because households and businesses have less fear of future taxes. With a lower level of debt, interest payments by the government are also lowered. This means more can be spent for other purposes. Both lower debt and lower interest payments could generate extra economic activity.
Financing government projects The money is used to finance new government projects, such as infrastructure spending. The government does not have to issue bonds to finance the expenditure as it is paid for with "printed" money and neither the deficit nor the debt stock rises as a result.	Using extra money for infrastructure projects would lead to extra work for contractors, builders, suppliers of materials and so on. This could lead to rising wages and employment: as builders have more work, they might decide to hire extra people. It could also have a multiplier effect: contractors with more money might spend it in shopping malls, leading to higher revenues in clothing stores, etc.

Majority of Europeans would save the money

Only a quarter would spend the money
One of the crucial measures of success for helicopter money is whether consumers would spend the extra money they receive.

Our research shows that only a quarter (26%) of European consumers say they would spend most of the money, in a situation where they received €200 in their bank account each month for a year.

Majority would save or invest it
A majority (52%) would save it, invest it, or leave most of the amount in the account in which they received it. A further 15% would use most of it to lower debt.

There are large differences between Europeans. Almost 40% of Italians would spend the money, while less than 20% of Romanian, Polish and Czech consumers would.

Why save?
The fact that this policy is likely to be used only in a situation of "economic emergency" may make people doubtful.

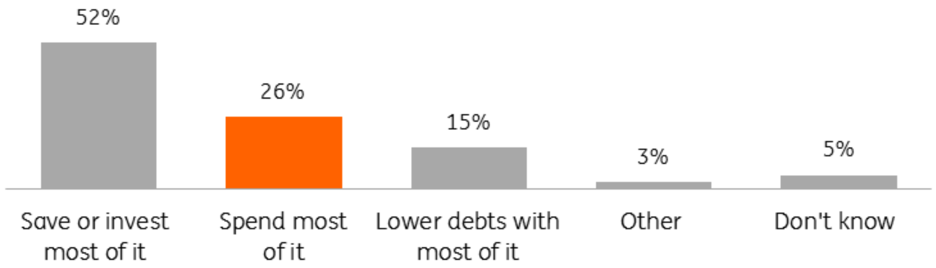
The concept of helicopter money may be so alien to them, that they might not be convinced they will never have to return the money, for instance in the form of higher taxes in the future. As a result, they may resort to saving instead of spending the money.

Not the desired outcome of the policy
If saving money were indeed the main response, helicopter money would give only a modest boost to the economy (see page 10).

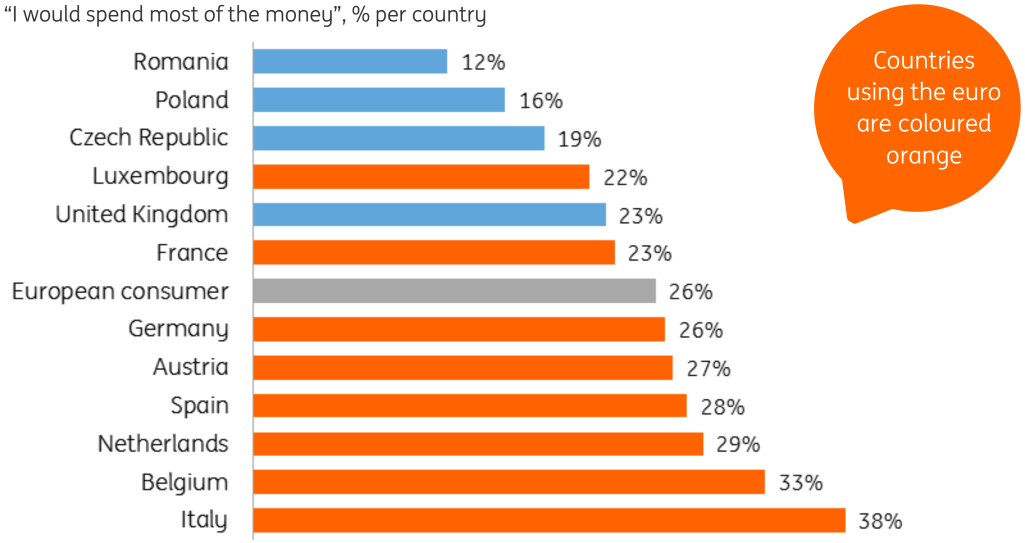
The question

Imagine you received €200 in your bank account each month, for a year. You are free to do what you want with the money and don't need to repay it or pay taxes on it. How would you use this extra money?

Only 26% would spend most of the helicopter money



"I would spend most of the money", % per country



Sample size: 11,795

A majority of consumers expect no effect on prices

Maintaining price stability is a main responsibility of central banks. The European Central Bank (ECB) defines this as an inflation rate close to, but below, two percent. With inflation very low and the threat of deflation in the Eurozone, a key aim of helicopter money would be to increase prices.

Two in three consumers do not think inflation will rise
Therefore it's interesting to see that most European consumers do not think helicopter money would lead to higher prices. More than 40% think prices would stay the same. Seven percent believe prices would decline; 17% don't know.

Only one in three (34%) think prices will rise. Opinions vary widely between countries. Interestingly, the expectations of Germans almost equal the average European, while the German economy is performing at potential (low output gap) and unemployment is low. This is not consistent with economic theory.

Food for thought for economists
That many consumers do not expect prices to rise due to helicopter money should give economists food for thought. Some economists fear inflation may rise more than intended if the controversial idea of helicopter money is put into practice.

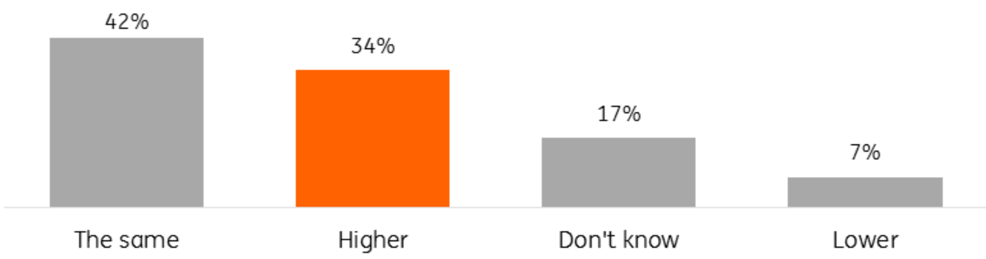
One of the arguments economists make is that if people think the ECB is unable to limit inflation to two percent (because people believe it will skyrocket if this policy is introduced) they might ask for higher wages to counter this. This could lead to a cycle of higher inflation and self-reinforcing increases in wages, thereby offsetting the economic impulse.

The results of this survey suggest however that this line of thinking is not widely held by consumers.

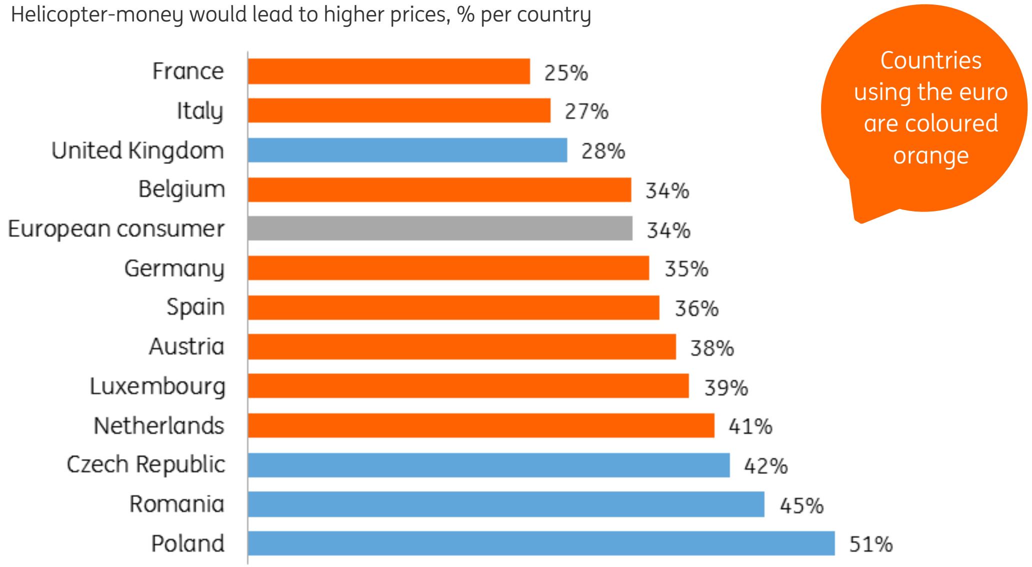
The question

What do you think will be the effects after 12 months if the ECB/central bank of your country distributed money in this way? Prices will be ... compared with not doing this.

Only 34% of consumers think helicopter money will lead to higher prices



Helicopter-money would lead to higher prices, % per country



Sample size: 11,795

Doubts about effects on economic growth

Majority of public do not think growth will be stimulated
While inflation is the primary goal of monetary policy, central banks also look at growth*. For proponents of helicopter money, growth seems to be at least as big a goal as inflation.

Therefore it's interesting to see that most European consumers do not think helicopter money will lead to more growth. Thirty-one percent say growth would be the same over the following 12 months and 13% think it would be weaker. Only 39% expect growth to be stronger.

In Southern Europe, people are more positive. Years of economic hardship during the crisis could explain why they are more confident about the positive economic impact of helicopter money than others. It's also consistent with economic theory: the amount of spare capacity in their economies is higher than in countries where unemployment is low (e.g. Germany).

Economists also have doubts
Like consumers, economists also have their doubts about the short-term growth effects of helicopter money: the question remains whether helicopter money will really lead to consumption and if it does, to extra consumption.

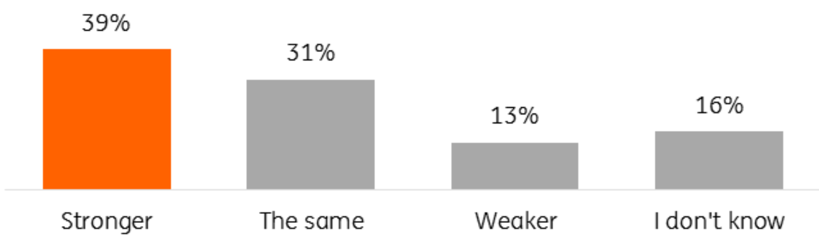
With regard to long term growth, handing out money to citizens could create "moral hazard" for the governments of these people. Since governments know that central banks will intervene, supplying their citizens with a "free lunch", why should they care about budget deficits or structural reforms?

* https://www.ecb.europa.eu/mopo/intro/objective/html/index.en.html

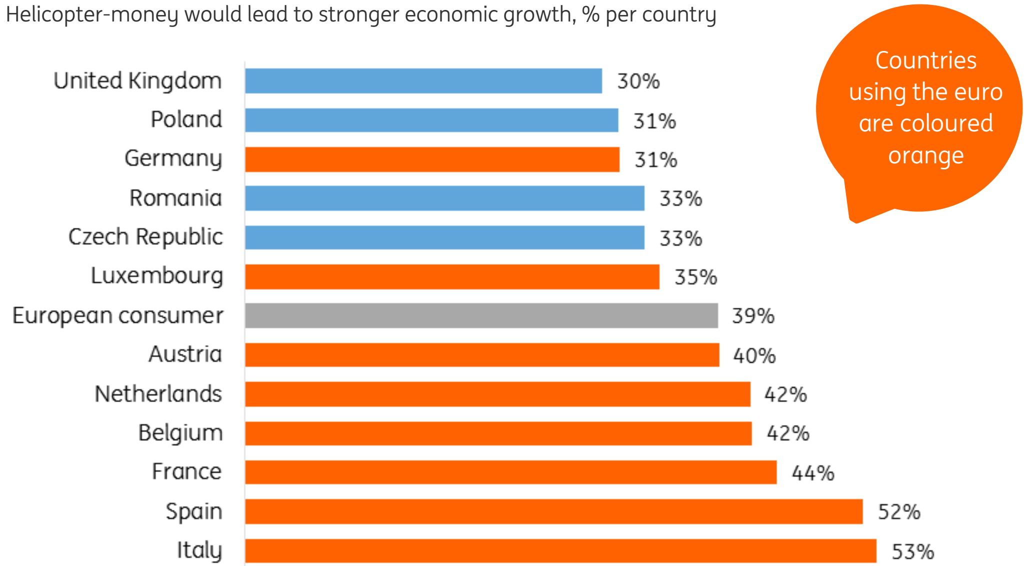
The question

What do you think will be the effects after 12 months if the ECB/central bank of your country distributed money in this way? Economic growth will be ... compared with not doing this

61% of consumers do not expect more growth



Helicopter-money would lead to stronger economic growth, % per country



Sample size: 11,795

Modest growth impact – alternatives could be more effective

European consumers would spend 24%
In order to determine the possible impact of helicopter money, the survey asked consumers detailed questions about what they would do with the money handed to them.

The average European consumer would spend 24% of the money, in a situation where they received €200 in their bank account each month for a year.
Imagine that the European Central Bank handed money to all Eurozone citizens, and citizens on average spent 24% of it.

European consumers would spend on average 24% of the money they receive

Calculating the effect
This could result in increased consumption of €576 a year per Eurozone citizen (€200 x 24% x 12 months = €576).

Since actual consumption per capita in the Eurozone is about €17,000, this could result in an extra consumption impulse of at least three percent.

Impulse equals almost 2% of Eurozone GDP
The size of this consumption impulse would be almost 2% of euro area GDP. However, the final impact of this impulse on economic growth is dampened by import leakages: the growth effect is lower if a high share of the additional consumption is imported. On the other hand, positive second order effects may exist: if spent at a restaurant, the owner may use her additional income for an extra visit to the hairdresser – and so on. A precise effect is therefore difficult to determine.

Limitations to estimating the growth effect
There are additional limitations in estimating the exact growth effect.

First, the fact that the central bank hands out the money and not somebody else could trigger consumer caution. Indeed, 23% of consumers report they would be more reluctant to spend the money if it were the ECB that handed it to them.

Second, consumers could also use the money to buy things that were already on their lists to buy in the near future. This would lead to a temporary rise of consumption in the year of the hand-out, followed by a decline in the next year. Consumption (and growth) would only shift in time.

Third, it remains uncertain whether consumers would really do what they report in this survey.

Central banks might need to "go large"
Handing out €200 a month to all Eurozone citizens carries a big commitment. With a Eurozone population of 340 million, the total impact would be €816 billion a year. This is about eight percent of Eurozone GDP. In comparison, the "Juncker" investment fund contains "only" €315 billion.

Other measures may have larger growth impact
Economic theory and empirical studies show that lower taxes have less impact on short-term economic growth than higher government expenditure* (due to saving and investing).

Our study confirms that consumers would spend only a small part of the money handed to them.

To increase the share of helicopter money spent, an alternative could be to hand out time-limited spending coupons that could only be used by the owner of the coupon (to prevent selling).

Given the reluctance of consumers to spend helicopter money, this suggests that a larger impact might be achieved if it were given to the government to finance projects (see page 6).

*For example: Barrell et al, 2012.

Majority in favour of a helicopter money policy

54% of Europeans think helicopter money is a good idea
All in all, the majority (54%) of European consumers think helicopter money is a good idea. Only 14% are opposed. 31% think it's neither good nor bad or don't know. While the public is not convinced the policy will work – a majority do not expect growth and inflation to rise – they seem to be saying: "Give me the money anyway so I can save it."

Helicopter money versus quantitative easing
The strength of helicopter money is that it can deliver direct benefits to consumers. For people with less income, €200 a month extra can be a very welcome amount to make ends meet. Indeed, helicopter money could be specifically given to poorer people to increase the economic impact, since economic theory suggests they would consume a larger part of it.

By contrast, quantitative easing (QE), the large-scale buying of government bonds, leads to price increases in assets such as shares and real estate. Wealthier people holding those assets gain directly. Small savers gain only indirectly, through trickle-down effects.

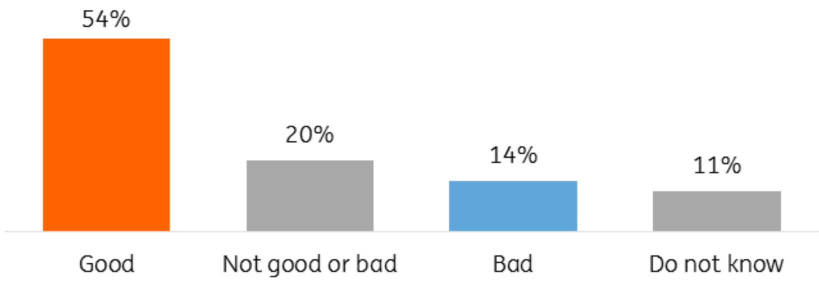
The older, the more doubtful
Older people are more doubtful about the implications of handing out helicopter money than the young. They might already have lived through periods with high inflation.

Italians most in favour
Again, people in southern European countries are most in favour of the policy. Italians are most enthusiastic: 69% of the fellow countrymen of Mario Draghi think helicopter money would be a good idea.

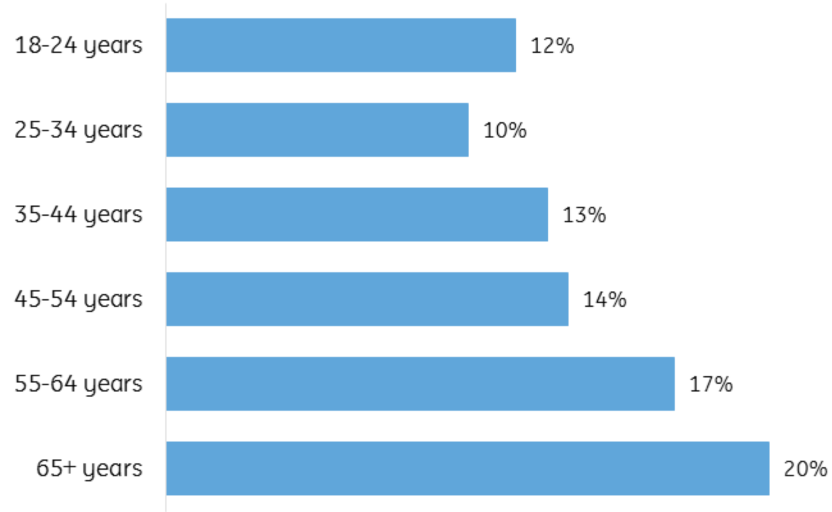
The question

To what extent do you think it is a good or bad idea for the ECB/central bank of your country to distribute money to all people aged 18 years or older (a policy often referred to as helicopter money)? I think the idea is …

A majority think helicopter money is a good idea



Older people are more doubtful. Shown below are the shares who say helicopter money is a bad idea.



Sample size: 11,795

About the ING International Survey

The ING International Survey aims to gain a better understanding of how retail customers – and potential customers – of ING Bank around the globe spend, save, invest and feel about money. It is conducted several times a year, with past reports online at **www.ezonomics.com/iis**.

This survey was conducted by Ipsos between 3 June and 24 June 2016 using internet-based polling. The questions in this report were asked as part of the ING International Survey on homes and mortgages 2016. European consumer figures are an average, weighted to take country population into account.

12

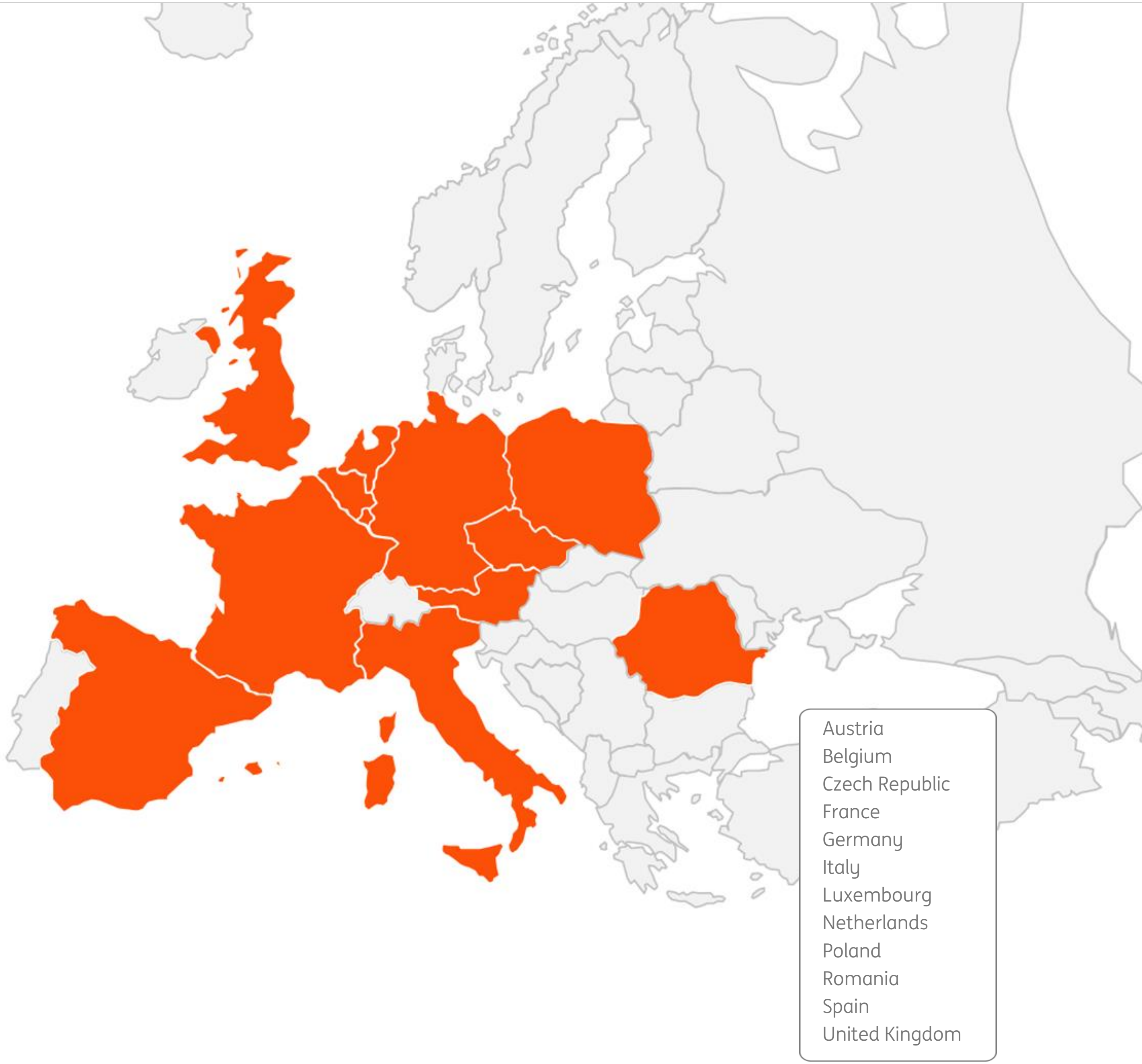
countries are compared in this report.

1,000

About 1,000 respondents were surveyed in each, apart from Luxembourg, with 500.

11,795

is the total sample size of this report.



Contact details

Country	Name	Phone number	Email
Austria	Andrea Hansal	+43 1 68000 50148	andrea.hansal@ing-diba.at
Belgium	Vanessa Zwaelens	+32 2 547 24 84	vanessa.zwaelens@ing.be
Czech Republic	Martin Tuček	+420 2 5747 4364	martin.tucek@ing.cz
France	Florence Hovsepian	+33 1 57 22 5534	florence.hovsepian@ing.fr
Germany	Zsófia Köhler	+49 69 27 222 65167	zsofia.koehler@ing-diba.de
Italy	Silvia Colombo	+39 02 5522 6645	silvia.colombo@ingdirect.it
Luxembourg	Yves Denasi	+352 44 99 9632	yves.denasi@ing.lu
The Netherlands	Senne Janssen	+31 6 57 87 53 32	senne.janssen@ing.nl
Poland	Milosz Gromski	+48 22 820 4093	milosz.gromski@ingbank.pl
Romania	Diana Pinescu	+40 3 1406 7118	ana.oglindoiu@ing.ro
Spain	Cristina Cabeza	+34 91 634 92 00	cristina.cabeza@ingdirect.es
UK	Ian Bright	+44 20 7767 6656	ian.bright@uk.ing.com

The following economists have contributed to this report

Mark Cliffe Head of Global Markets Research
Marieke Blom Chief Economist , the Netherlands
Peter Vanden Houte Chief Economist , Belgium, Eurozone

Carsten Brzeski Chief Economist, Germany, Austria
Paolo Pizzoli Senior Economist, EMU, Italy, Greece
Rafal Benecki Chief Economist , Poland

Rob Carnell Chief International Economist
James Knightley Senior Economist, UK, US, $ Bloc
Bert Colijn Senior Economist, Eurozone

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