Zimbabwe's helicopter drop proved disastrous

Dr James A. Dorn | September 4, 2012

Sir, Samuel Brittan argues ("Come on Bernanke, fire up the helicopter engines", August 31) that one way to stimulate the US economy would be to simply print money and literally drop it from helicopters. That way no banks would be involved except the Federal Reserve and people would freely spend their excess cash balances and rejuvenate the sluggish economy.

Chairman Ben Bernanke has used the helicopter metaphor and adopted quantitative easing to expand the Fed's balance sheet and increase the growth of high-powered money. Most of that money, however, has ended up in sterile reserves held at the central bank and has not had much impact on increasing nominal income.

There is no doubt that directly increasing the quantity of money, possibly by lowering tax rates and having the Treasury send everyone a large rebate financed by printing money, would stimulate spending – but it would soon lead to rapid inflation and slow, not increase, economic growth.

Sir Samuel recognises the dangers of the helicopter experiment, but contends that with deficient aggregate demand "the main initial effect will be to boost output and employment". He even imagines an "ingenious" twist in which "helicopter money could be stamped so that it lost its value if it were not spent by a certain date".

Well, that experiment has been tried in Zimbabwe and failed miserably. Gideon Gono, the head of the central bank, financed government spending by creating massive amounts of newly minted Zimbabwean dollars and placed expiration dates on the notes. The velocity of money increased dramatically along with the money supply and the result was hyperinflation. The government then imposed price controls and blamed "capitalists" for the inflation. The economy disintegrated and social stability was lost. Economic and personal freedom disappeared. That result is also predictable in America.

Sir Samuel offers advice to “more reasonable members” of the Republican party that they should “countenance the Fed experimenting with the equivalent of a helicopter drop”. The reality is that his “thought experiment” has been tested and failed. Real growth comes from institutional change that rewards success and does not penalise entrepreneurship or the rich.

Money creation is not a panacea; it cannot create wealth. But inflation and price controls can destroy it.

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