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TRENDMACRO LIVE!

On Bernanke's Helicopter Money for Japan

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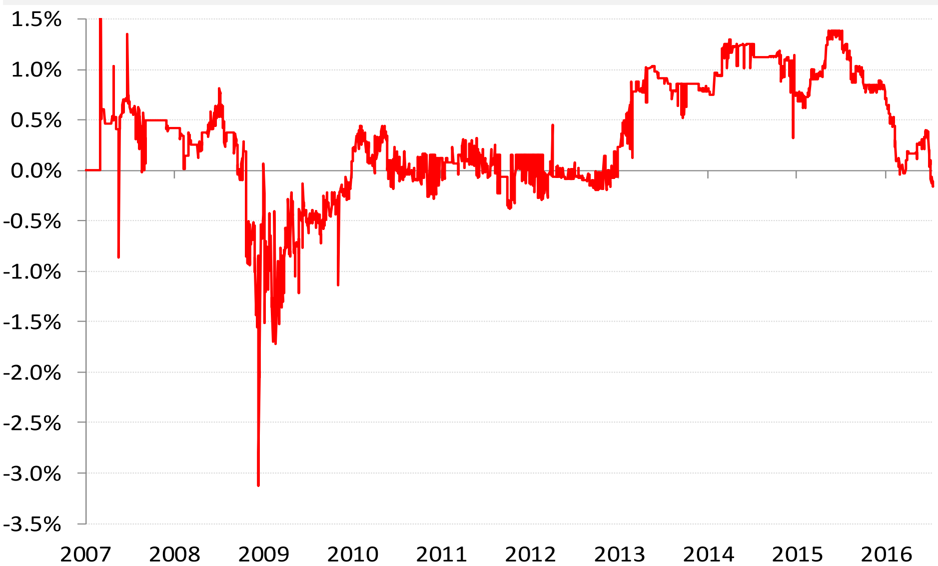
It's a veil for fiscal stimulus in which the government prints money by itself, for itself.

Reportedly former Federal Reserve Chairman Ben Bernanke met privately with Japanese Prime Minister Shinzo Abe earlier this week to advise on how to revive flagging inflation expectations in Japan (please see the chart below). Now reportedly Bernanke has outlined to an Abe aide a plan for "helicopter money" – a program in which the Japanese government would sell to the Bank of Japan zero-coupon perpetual bonds. This note is simply by way of a quick comment.

Japan swaps-implied 5-year/5-years forward inflation



Source: Bloomberg, TrendMacro calculations

- *Zero-coupon perpetual bonds are the exact economic equivalent of money.*
- *Money is the debt of government that pays no interest and never matures.*
- In Bernanke's proposed transaction, the bonds would be transformed into physical money – that can be spent in commerce – when the BOJ buys the bonds and provides the government with money in return.
- But as you can see, the government is simply creating money in one form, giving it to the BOJ, and getting money back from the

Update to strategic view

ASIA MACRO, BOJ: Bernanke's proposal for the Bank of Japan to buy zero-coupon perpetual Japanese Government Bonds is, quite literally, the government printing money by itself, for itself. Money is, by definition, the debt of government with no interest and no maturity. So framing this idea as monetary policy is just a veil – it is fiscal stimulus, in which the government gives itself money to spend. As such it is an end-run around an impaired credit channel that blocks the transmission of standard monetary policy, but has all the vices of government-mandated spending programs. We doubt this is the leading edge of the "coordinated global stimulus" that some are expecting. The mechanism requires a great deal of debt issuance, which would be politically difficult in the US and Europe. But it may be at least a trial balloon.

[Strategy dashboard]

BOJ in another form. ***The BOJ can be dropped out of the algebra: the government is simply printing money. Period.***

- The maintenance of the optics of "issuing bonds," and of an independent "central bank" "buying" those bonds, is simply a semantical veil – presumably to legitimize, or disguise, the government's direct printing of money by itself and for itself.
- Veils have a funny way of drawing attention to the intent to deceive, so they don't necessarily support confidence. But perhaps that's a feature, not a bug. In some sense the whole idea of promoting inflation expectations is to make the markets think the government is a little crazy.
- So to the extent that this is a "helicopter drop," it is a drop of money entirely upon the government, which then must decide how it is to be distributed to firms or individuals. In that sense it operates like a plain-vanilla fiscal stimulus program, with all the attendant vices of government allocation of resources.
- At least, as fiscal stimulus, this has the virtue of making sure that the money is spent (even if unwisely). It side-steps the problem of an impaired credit-channel thwarting the transmission of monetary stimulus, leaving central banks pushing on a string.
- Would it succeed in its stated goal of increasing inflation expectations? Well, this is not the first time Bernanke has advised Japan on that. A famous 2003 speech, given in Japan when Bernanke was a freshman on the Fed Board of Governors (not yet chair), prefigured all the extraordinary monetary tools he would deploy as chair during the global financial crisis.
- It's not at all clear that those tools have actually done anything to increase inflation expectations, which continue to decline pretty much everywhere in the world, irrespective of whether particular central banks are easing or not easing.
- In the wake of Brexit, many clients are telling us that they expect a "coordinated global stimulus" response from central banks around the world. They argue that this explains the resilient bounceback in global equity markets over the last two weeks. We think that bounceback is simply because the Brexit crisis was a phony to begin with (see "Brexit: Who Won, Who Lost, What's Next?" July 11, 2016).
- But Bernanke's idea for Japan certainly runs in that direction, and might prove to be a trial balloon. But we'd be surprised to see anything "coordinated" at this point – because the exact proposition being discussed in Japan, which in order to maintain its veil of monetary policy requires debt issuance.
- That may be a simple thing in Japan's fairly coherent governance environment. But in the US and Europe, it would run afoul of strong constituencies who oppose expansion of debt.
- Indeed, in Europe, it's not even clear what entity or entities would or could issue such debt, considering that there is no such thing as a true pan-European bond. The closest thing might be the European Stability Mechanism, whose bonds are ultimately a claim on all the nations that use the euro currency. But the ESM's requirement for unanimous decision-making among the member nations raises the bar on "coordination" considerably.

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Bottom line

Bernanke’s proposal for the Bank of Japan to buy zero-coupon perpetual Japanese Government Bonds is, quite literally, the government printing money by itself, for itself. Money is, by definition, the debt of government with no interest and no maturity. So framing this idea as monetary policy is just a veil – it is fiscal stimulus, in which the government gives itself money to spend. As such it is an end-run around an impaired credit channel that blocks the transmission of standard monetary policy, but has all the vices of government-mandated spending programs. We doubt this is the leading edge of the “coordinated global stimulus” that some are expecting. The mechanism requires a great deal of debt issuance, which would be politically difficult in the US and Europe. But it may be at least a trial balloon.