

Hello Everyone,

Sometimes people surprise you. And, this morning Bob surprised me.

We had just finished talking about “helicopter-money” (the subject of today’s missive) when he mentioned an interview Phil Donahue had done with economist Milton Friedman. Bob said I should watch it. So, I did.

It is from 1979; and Bob was right. It found it fascinating...on several levels.

I won’t attempt to pre-shape your view. But if you have time...it takes about 45 minutes to watch...I think you will find it edifying.

<https://www.youtube.com/watch?v=1EwaLys3Zak>

Signed, Your It-Is-Hard-To-Imagine-An-Interview-Like-This-Today Financial Advisor,

Greg

KKOB 04.29.2019 Helicopter Money

Bob: So, Greg, last week you said you were going to explain the term “helicopter-money”. Now, I’ve heard of helicopter moms, but not helicopter money.

Greg: The term helicopter money was first used in 1969, by Nobel Prize winning economist, Milton Friedman. He wanted to illustrate what would happen if you printed too much money. He said,

“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.”

Now, Bob, if thousands of dollars fell from the sky, you know what would happen.

Bob: Sure. Prices would rise almost immediately. Inflation.

Greg: Exactly. And, in some ways Friedman saw the future. He envisioned a day where “*unconventional monetary policy*” (remember that phrase) would be needed to simulate the economy. He saw the helicopter-drop as “direct transfers to the private sector.”

Bob: OK. Wait. Before you go on. I get the fact the Fed prints money.

But ***direct transfers to the private sector*** is new to me. Is this the “giving money to regular Joes” thing you’ve been talking about?

Greg: It is. But Fed Chairmen are more eloquent than I am.

So, let’s spring forward to 2002. Back then, Fed Chair Ben Bernanke took helicopter-money from the theoretical to the practical. He was responding to a question about deflation in Japan when he said:

“We conclude that, under a paper-money system, a determined government can always generate higher spending and hence positive inflation”—

He then went on saying ---even if it meant dropping money from helicopters.

That earned him the nickname “Helicopter Ben.”

And, Bob if you put Friedman and Bernanke together, you will see how they laid out a roadmap to where we are today.

These men predicted zero percent interest rates. They philosophized about the merits--- and limits--- to Quantitative Easing, or QE. And after 2008, we did zero rates and QE.

Bob: Sure---but QE was just a fancy name for printing \$4.5 trillion to shore up the banks. Most of that helicopter-money never made its way to Main Street.

Greg: Right. Now, remember, the Fed really has only three levers at its disposal. They have an interest rate lever. Up or down.

They have a printing press lever. More or less.

And they have a megaphone. ***“We’re going to do something --so get ready!”***

The Fed isn’t all powerful--- and they admit they misread QE. That’s why they are now talking about “makeup strategies.”

All of which brings us to the present day.

Last month, Fed Chair Jerome Powell was asked about the next recession. He said the Fed would have to consider ***“unconventional monetary policy”*** to stimulate the economy.

Bob: Wait. That’s the phrase Friedman & Bernanke used to refer to

helicopter-money. Right?

Greg: Right. Then Powell said he wanted to directly help the American people. To me, that sounds like a reference to “*direct transfers to the private sector*” --- again, stuff both Bernanke and Friedman talked about years ago.

And, Bob, now we have chorus of “*elect me (!) in 2020 politicians*” offering free money. You know, you get a \$1000 per month---whether you work or not. Forgiveness of student loans! Free college education for everyone!

These are direct transfers to the private sector. Helicopter-money.

What I am trying to convey is this----the rules are changing. What we think of as permanent, usually isn't. And things can change fast. Ten years ago, who'd have dreamt of zero percent interest rates and trillions in QE? But those policies were implemented in months.

When the next disruption comes...and it will...the Fed, and our political leaders, are telling us what to expect. That's not doom-and-gloom. That's not pessimism. It's a recognition of reality...a reality they have already anticipated.

So, next week, let's stay on the theme of what else helicopter-money could look like. And, we'll go across the Pacific to Japan for our answer.

Bob: Sounds good. Oh, before you go. You mentioned Friedman. There is a great video of Friedman on the Phil Donohue shows from years ago. You can Google it. Donohue was very liberal, but Friedman just shreds him. If you haven't seen it, you should look at it. It's entertaining. In the meantime, how do people reach you?

Greg: I haven't seen it. Thanks for telling me about it. I'll look at it. Oh, and my number is 508-5550, 508-triple 5 zero. Or, go to my website at zanettifinancial.com.

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