

Trump's helicopter money would create an economic disas..

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Donald Trump has claimed that if the Republicans win the midterm elections, he will make every adult in America \$5,000 better off. That is, for all practical purposes, a \$1 trillion spending commitment.

JD Vance, in his role as Vice President, has since slightly clarified the offer, but not denied that Trump made it.

Let's ignore for a moment that it appears that Trump is simply using his position as President to bribe voters, and let's consider the economics of this instead.

What Trump is proposing is what Milton Friedman called 'helicopter money', which is money showered by a government on the people in an economy, irrespective of there being no greater capacity within that economy to absorb their spending. Some people who have no desire to understand modern monetary theory, like Ann Pettifor, for example, suggest this is what MMT proposes, when nothing could be further from the truth.

That said, I emphasise that what Trump is proposing makes it clear that money creation at will is entirely within the US government's power, via the Federal Reserve. There is no technical reason why \$5,000 could not be given to every household in the USA, even if doing so makes precisely no sense at all.

Firstly, as Trump would know if he understood the nature of government finance, if he is to increase the financial worth of every household in the USA in this way, somebody must assume the resulting liability, and that is his government, whose debt will increase by \$1 trillion as a consequence. As a result, the interest rate that it is likely to have to pay if the current relationship between the US government and financial markets is maintained will rise. In addition, a whole range of other adverse economic effects might result, none of which he appears to have thought about.

Secondly, whilst some recipients of this money might prudently use it to pay off their debts, and others might save it, you can be fairly sure that many might decide to spend

it almost immediately, but the inevitable consequence of that will be inflation because there will be no more goods and services to buy than there were before the money was created. On this issue, I find myself in the strange position of agreeing with Milton Friedman.

Thirdly, the impact of this decision on the dollar, whose position as the world's reserve currency is already under threat, is hard to predict. Markets are not, however, prone to reward economic irrationality of this sort, especially when the motive for undertaking it looks close to being election fraud.

Fourth, there may be many in the USA who might be equally alarmed at the irrationality of this. Few people would usually refuse \$5,000. However, when that offer has so many obvious downsides, it might be enough to persuade people that Trump really is corrupt and unfit for office. As a result, they might decide to vote against his party, or not vote at all. I think an electoral backlash is as likely as support for this madness when so many Americans have been told by Republicans for so long that debt is their enemy, even if in most cases that is not true.

Fifthly, the injustice of the might appal many. I am sure it is true that there are many in the USA for whom \$5,000 might be transformational. Many others will see it as neither here nor there. People like Elon Musk will never notice it. The fact that it will supposedly go to everyone, regardless of need, might appal many.

As MMT makes clear, creating money when there might not be anything to buy with it virtually guarantees inflation, and MMT is almost obsessed with preventing that, and yet this is what Trump is doing. MMT, in that case, provides the only economic framework that shows both how he can do this and why he should not.

It is time people took it seriously.