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ANALYSIS | In a global economy adrift, leaders don't know where to take us next: Don Pittis

Medicine on offer includes negative interest rates and helicopter money, but the patient is not responding

By Don Pittis, [CBC News](#) Posted: Feb 08, 2016 5:00 AM ET | Last Updated: Feb 08, 2016 5:10 AM ET



Like a person caught in a winter whiteout global economic leaders are having trouble finding the best route out of the storm and back to safety. (Reuters)

770 shares



About The Author



Don Pittis
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If you ever thought there was a group of smart people who really understood the economy and you were just too stupid to figure it out, now is the time to disabuse yourself.

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Despite putting on a brave face for the cameras, some of our best economic thinkers — from central bankers to business leaders to economic scholars — find themselves adrift as they try to get the global economy back on track.

And while that doesn't mean we should despair, it tells us we can by no means be sure of an imminent end to the world's economic turmoil.

As Japan steps boldly through the looking glass into the world of [negative interest rates](#) and the globe continues to spend its labour and capital pumping out [more crude oil than anyone wants](#), it would be fair to think that this is a problem that has to work itself out eventually.

Greece, Italy, China, Russia, South America and even Finland are struggling. Despite falling unemployment, many fear the United States may be [returning to recession](#).

Clever economist needed

You might think some clever economist would come up with a solution to put workers back to work and calm jittery financial markets.

As someone who reads about economics for pleasure on days off, I can

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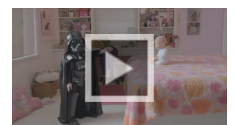
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Don Pittis has been a Fuller Brush man, a forest fire fighter and an Arctic ranger before discovering journalism. He was principal business reporter for Radio Television Hong Kong before the handover to China and has produced and reported for CBC and BBC News. He is currently senior producer at CBC's business unit.

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tell you there are lots of solutions on offer. The difficulty is that it is not clear which, if any, will work.



The Bank of Japan has negative interest rates on central banks deposits, but so far stimulus plans have done little to reignite consumer confidence or inflation. (Reuters)

This was struck home hard last week while reading an economics commentary from the venerable and relatively non-ideological Martin Wolf, at the similarly venerable London Financial Times.

The article, titled [Why it would be wise to prepare for the next recession](#), was interesting in its own right. But perhaps just as valuable was the reaction expressed in the many thoughtful comments that followed.

Wolf had essentially offered several potential solutions should Britain go into recession — but the prescriptions could be applied elsewhere.

'Cleansing depression'

One solution was to let the economy crash and rebuild itself following what Wolf described as a "cleansing depression," similar to the [catagenesis](#) offered by Thomas Homer-Dixon.

Wolf didn't like this idea. And it seems to me that the other proposals offered by him, and what is actually being done by our various central banks and governments, are all desperate attempts to avoid such an outcome.

Other suggestions include more quantitative easing, where central banks further flood the economy with invented cash, and [negative interest rates](#). Japan seems to be trying this out in desperation after everything else has failed to stimulate their economy.

Wolf's final proposal is helicopter money, which has nothing to do with Canada's long-delayed plan to replace the [Sea Kings with Cyclones](#). Instead it comes from a thought experiment by U.S. economist Milton Friedman.

"Let us suppose now that one day a helicopter flies over this community and drops \$1,000 in bills from the sky, which is, of course, hastily collected by members of the community," [Friedman imagined in 1969](#).



Helicopter money. Any cash in there for me? (Reuters)



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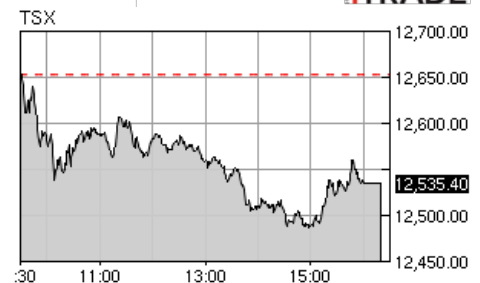


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The idea is that rather than hand out money to banks so they can lend it cheaply to those who can afford to borrow, as is the case in quantitative easing or low interest rate policy, governments could distribute cash willy-nilly to everyone. Certainly the poorest of us would be inclined to spend the cash immediately on things we need, thus stimulating the economy.

In some derivations, helicopter money is funneled into a basic income, or a **guaranteed annual income plan**, making sure that everyone has enough for rent and food.

Interestingly, Wolf says the helicopter-money plan is his favourite, though he stipulates it must be controlled by the central bank as part of its monetary policy.

No clear consensus

No offence to some of the wiser web commenters out there, but the response to Wolf's column was far above the standard fare of ad hominem attacks so often found in online forums.

In addition to most comments being thoughtful and well-reasoned, the alternate solutions presented were diametrically opposed, even mutually exclusive.

As more than one commenter pointed out, there is absolutely no evidence that monetary stimulus, up to and including negative rates, has had any beneficial effect on the economy. We sink despite stimulus, all the while becoming more unequal.

Many commenters — especially those who sounded as if they had money and assets — rejected a return to inflation, even though so many economists say it's the only way of heading off one of those "cleansing depressions." In fact, a surprising number backed the depression option; though were it to come to that, I suspect they may find they don't like it so much.

Most of all, as with so much other economic commentary, there was no single obvious solution.





There was definitely no consensus on a strategy that governments could use to fix the economy while keeping voters and other powerful interests happy.

And here is the problem. For leaders who make policy, it is almost impossible to try radical and unproven medicine that might work, for the simple reason that it might instead precipitate a crisis for which they would be blamed.

So long as the global economy seems to be muddling on, governments and central bankers prefer to kick the can down the road just a little further, and keep praying for a miraculous, spontaneous cure.

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