
5. Helicopter Money

Prelims Syllabus: Banking

Mains Syllabus: GS-III Indian Economy and Issues Relating to Planning, Mobilization of Resources, Growth, Development and Employment.

Why in News?

- Telangana Chief Minister K. Chandrashekar Rao has suggested RBI to adopt the concept of Helicopter Money to help state governments tide over the current crisis and kick-start economic activity in India.

What is Helicopter Money?

- This is an unconventional monetary policy tool aimed at bringing a flagging economy back on track.
- It involves printing large sums of money and distributing it to the public. American economist Milton Friedman coined this term.

Why it is Called So?

- It basically denotes a helicopter dropping money from the sky. Friedman used the term to signify “unexpectedly dumping money onto a struggling economy with the intention to shock it out of a deep slump.”
- Under such a policy, a central bank “directly increase the money supply and, via the government, distribute the new cash to the population with the aim of boosting demand and inflation.”

Why is Helicopter Money Needed Now?

- With the coronavirus-hit economy falling deeper and deeper into a chasm with each passing day, Telangana chief minister KC Rao has said helicopter money can help states comes out of this crisis.
- He asked for the release of 5% funds from GDP by way of quantitative easing (QE).

Is Helicopter Money the Same as Quantitative Easing?

- Quantitative easing also involves the use of printed money by central banks to buy government bonds. But not everyone views the money used in QE as helicopter money.
- It sure means printing money to monetise government deficits, but the government has to pay back for the assets that the central bank buys. It’s not the same as bond-buying by central banks “in which bank-owned assets are swapped for new central bank reserves.”

How will Helicopter Money Help Indian Economy?

- Simply put, Helicopter Money means extension of non-repayable money transfer from the central bank to the state and central governments, to infuse liquidity in the system.
- The policy aims at putting more money into the pockets of people to nudge them to spend more money and in turn pick-up economic activity in the country.
- The direct impact of Helicopter Money is rise in disposable incomes of the people, increase in money supply with an intention to boost demand and inflation in the economy.

