
6. Helicopter Money

Prelims Syllabus: Economy – Capital Market.

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

Why in News?

- Telangana Chief Minister has recently suggested that the helicopter money can help states to come out of the economic chaos created by Covid-19 pandemic.

What is meant by Helicopter money?

- It is an unconventional monetary policy tool, which involves printing large sums of money and distributing it to the public, to stimulate the economy during a recession (decline in general economic activity) or when interest rates fall to zero.
- Under such a policy, a central bank "directly increases the money supply and, via the government, distribute the new cash to the population with the aim of boosting demand and inflation".
- The term was coined by American economist Milton Friedman. It basically denotes a helicopter dropping money from the sky.

Difference between Helicopter Money and Quantitative Easing:

- Helicopter money should not be confused with quantitative easing, because both aim to boost consumer spending and increase inflation.
- In case of helicopter money, currency is distributed to the public and there is no repayment liability.
- Whereas in case of quantitative easing, it involves the use of printed money by central banks to buy government bonds. Here the government has to pay back for the assets that the central bank buys.

Pros of Helicopter Money:

- It boosts spending and Economic Growth more Effectively than quantitative easing because it increases aggregate demand – the demand for goods and services – immediately.
- It does not rely on increased borrowing to fuel the economy, which means that it doesn't create more debt.

Cons of Helicopter Money:

- It may lead to over-inflation.

- It may devalue the currency in the foreign exchange market.
- It does not involve repayment liability, therefore many people argue that it's not a feasible solution to revive the economy.

