Helicopter Money: A Catalytic Strategy For Economic Stimulation

Vijaya Bharathi.G

Associate Professor, Department of Commerce, Y.V.University, Kadapa, A.P. India

Sudhakar.P

Research Scholar, Dept. of Commerce, Y.V. University, Kadapa, A.P.India

Harinatha Reddy.P

Academic Consultant, Dept. of Commerce, Y.V.University, Kadapa, A.P.India

ABSTRACT

The economy of our country is worsening and going to experience recessionary situation due to catastrophic conditions like COVID -19 pandemic. Almost all economic activities of the country affirmed a total lock down to mitigate the exposedness of the COVID-19, causes avenues for fruitful employment and job security looks dim. Though, the Government given instructions to the enterprises not to cut salaries and removing workers form the duties, given difficult conditions they may have to lay-off their employees. Hence, the Government needs to think off suitable strategies to deal with this nightmare situation. The concept of helicopter money is one such strategy intended to stimulate the real economy, by transferring money (non repayable) directly into citizens' bank accounts to raise inflation and output which ultimately provoke people into spending more. People could use the money to spend freely in the economy – no strings attached. Also it helps to alleviate poverty and increase tax income for the government too. The aim of the present study is to understand the concept of helicopter money in the current scenario.

Keywords: Indian economy, Recession, Helicopter money, Covid-19 pandemic, Lockdown.

1. INTRODUCTION

The economy of our country is worsening and going to experience recessionary situation due to the novel covid-19 pandemic. Almost all economic activities of the country are halt due to lockdown and also avenues for fruitful employment and job security looks dim. Thousands of daily-wage labourers across the country are facing deplorable lives. Both the organised and informal sectors of the economy could see heavy attrition of employees and workers. Many migrant workers were seen thronging railway stations to go back to their home towns as they face job losses. Though, the Government given instructions to the enterprises not to cut salaries and removing workers form the duties, given difficult conditions they may have to lay-off their employees. Reaching out to large section of informal labour force remains a challenge to the Government.

Generally, monetary policy and fiscal policy are the two sets of policy tools used to tackle recession. While the central banks mostly prefer interest rate cuts as their monetary policy for stimulating the slowing economy. In addition, introducing and implementing the concept of helicopter money is one of the ways to overcome the problem of economic slowdown. Also it is a proposed an unconventional monetary policy used when the economy is in a liquidity trap.

Helicopter money is the idea of injecting more money into the economy and attempts to find the impact it would show on spending and saving. Simply it means non-repayable money transfer from the central bank to the government. It is a most effective tool that the central bank wants to raise inflation and output in an economy which ultimately provoke people into spending more and thereby boost the sagging economy. However, the policy of helicopter money is theoretically feasible but still in practice it is a tool of hypothetical monetary policy.

Features of Helicopter Money

- Unexpectedly dumping money onto a struggling economy.
- Extension of non-repayable money transfer from the central bank to the government, to infuse liquidity status.
- Putting more money into the pockets of people to nudge them to spend more money.
- Increase in money supply with an intention to boost demand and inflation in the economy.

2. NEED FOR THE STUDY

At present, total World is struggling to stimulate the economies in the ongoing turbulence with the covid-19 pandemic due to fear of recession ahead. To combat the circumstances of disaster disturbances like Novel COVID - 19, which may cause economic recession, the Government needs to think off suitable strategies to deal with this nightmare situation. Innovative ideas become increasingly crucial to curtail the problem of recession. In this context, thinking of the concept of helicopter money is inevitable which ultimately provokes people into spending more, lead to boosting the economy. Hence, the present study is aptly taken up for overwhelming the emergence of helicopter money and pros and cons in stimulating the economy.

3. OBJECTIVES OF THE STUDY

- To understand the concept of helicopter money in the present scenario
- To highlight the pros and cons of helicopter money

4. METHODOLOGY

The present study aims to understand the concept of helicopter money in the current scenario. The present study proposes to make use of the secondary sources of data. The secondary data is congregated mainly from the published and unpublished works on the related topics, journals, news papers, magazines and websites as major sources for the secondary information.

5. PROS AND CONS OF HELICOPTER MONEY

Generally to tackle the economic distress the central banks have a number of tools at their disposal. Due to covid-19 pandemic the unconventional monetary policy is once again in the news after great economic crisis in 2008 as central banks around the world run out of the option to stimulate their slowing economies. In this scenario there is a dire need to understand the pros and cons which come out due to implementation of the helicopter money.

PROS

In general, it is often thought that supply of money through debt may helps to stimulate the economy but, it is not applicable to the situations where the country is in financial crisis.

- With the distribution of helicopter money public feel free to spend more money for purchasing the goods and services resulted hike in the inflation rate.
- Helicopter money provokes consumers to expend money in unfavourable market condition leads boosting the economy.
- Government prints money instead of raising taxes or debt to enhance the fund spending capacity among the public.
- Money supply through unconventional monetary policy instigates people to spike in prices of goods and services in the market which at last reduces the periods of stagnation.
- Helicopter money is one of the useful tools for countering deflation as the benefit being spread far and wide.
- It averts the risk of borrowing money by the authorities in a bid to fuel the economy of the country by plugging into more debt.
- Unexpected money flow in to the society ensures interest rates remain unchanged which tends to boost up the spending and economic viability.
- Helicopter money helps to increase the spending capability thereby economy of a nation will escalate more effectively than quantitative easing because it increases the demand for goods and services immediately.

CONS

As our Former RBI Governor Raghuram Rajan opinion, the helicopter money would be ineffective because people may not spend the money.

- Though, helicopter money is using as a tactic which doesn't reversible in nature unlike quantitative easing. However, it is not healthy practice to the government to revive the economy all the time.
- The key drivers to uplift the economic status of a country are interest rates and monetary policies of a Central Bank. But helicopter money doesn't link with interest rates lead to over-inflation and cause damage to the central bank's financial operations.
- The risk of devaluating the currency in foreign exchange market is greatly exposed due to the implementation of helicopter money. As more money is printed and supply increases, the value of the domestic currency could significantly decrease.
- Helicopter money discourages the speculators from currency trading as it is less likely to perform well.
- Helicopter money insists consumers to repay the amount in multiple instalments over a period of time without interest.
- It also devaluates the underlying currency on capital market due to the issuance of more shares of a company dilutes holdings of the existing shareholders.
- It triggers increased levels of inflation by printing and making more money available in circulation. The best example is Venizuela is one of the countries facing highest level of inflation due to printing of more money.

- Finally, the concept of helicopter money would be outside of the mandate of central banks, because it would "blur the lines between fiscal policy and monetary policy".

6. CONCLUSION

At present the term helicopter money is used as a buzzword to tackle the recession. Now it's time to design a policy to overcome the recession and boost the economy. Generally, monetary policy and fiscal policy are the two sets of policy tools used to tackle recession. Monetary policy is the deliberate effort made by the central bank to control the money supply and credit condition for the purpose of achieving certain broad economic objectives.

Though the policy of helicopter money is theoretically feasible but still in practices it is a tool of hypothetical monetary policy. Similarly, it is also improbable to implement by the highly matured and developed economies due to its serious implications in terms of currency devaluation, high inflation levels. Moreover, the policy makers viewed that it failed to create desired impact by injecting more and more money into the economy. On the other hand, it presents another problem to the economy as the currency value would significantly hit the foreign exchange market that makes imports extremely expensive.

REFERENCES

1. Cassidy, John (13 May 2016). *Raghuram Rajan and the Dangers of Helicopter Money* Retrieved from www.newyorker.com.

2. Otmar Issing (7 February 2015). "*Die letzte Waffe – Helicopter Money?*" (PDF) (Press Article).

3. Borio, Claudio; Disyatat, Piti; Zabai, Anna (24 May 2016). *Helicopter money: The illusion of a free lunch*, Retrieved fromhttps://voxeu.org/article/helicopter-money-illusion-free-lunch

4. Bank, European Central. "*Interview with Süddeutsche Zeitung*". European Central Bank. Retrieved 11 February 2017.

5. https://www.msn.com/en-my/money/topstories/helicopter-money-the-unconventional-economy.

.

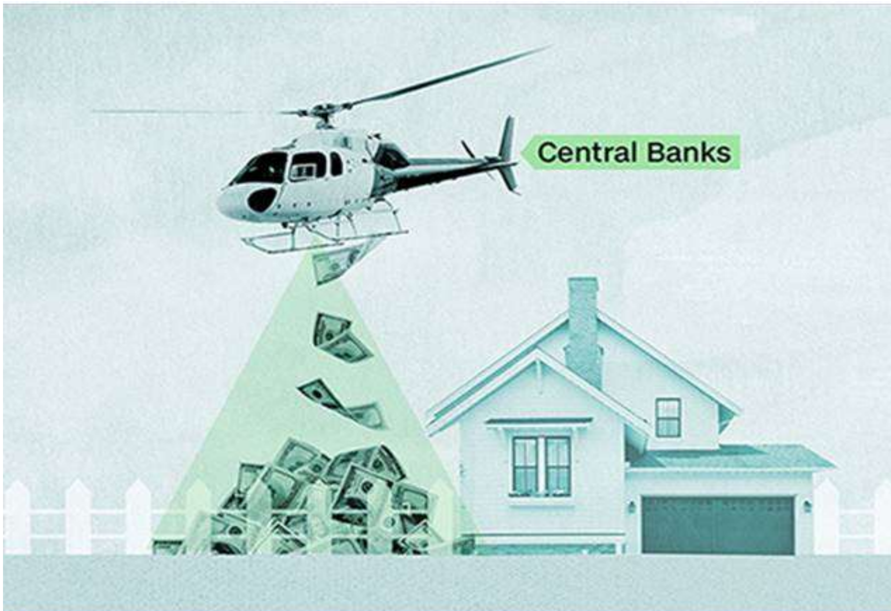

Image via money.cnn.com