Helicopter Money

Why in News

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

Key Points

- **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.**

- **Benefits of helicopter money:**
    - It does not rely on increased borrowing to fuel the economy, which means that it doesn't create more debt.
    - It boosts spending and economic growth more effectively than quantitative easing because it increases aggregate demand – the demand for goods and services – immediately.
- **Issues with helicopter money:**
    - It does not involve repayment liability, therefore many people argue that it's not a feasible solution to revive the economy.
    - It may lead to over-inflation.
    - It may devalue the currency in the foreign exchange market.

Source: TH