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MAD- 2020
ECONOMY
Day – 47

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Question:

Discuss the concept of helicopter money. Also discuss on the fact that how it can be used to improve the present economic situation in India.

Inputs:

This is a straightforward question – follow the details to write a super model answer –

You must take care of the directive which is **DISCUSS** in this case – this directive demands that the concept to be simply explained and its various components. You must write the answer from both the point of view, without bias on any side.

I part - you must give the simple definition of helicopter money and then discuss how and when it is used.

II part – you have to write from both the sides since the directive is discuss that how it can be used and how it is not useful in improving the present economic situation in India, you have to write from both sides, this thing you have to take care in the DISCUSS directive.

Answer:

- The term "helicopter money" denotes an **unconventional monetary policy tool,** also known by the name **modern money theory**, which includes measures such as printing large sums of money, money derivative coupons and is distributed to the public, to stimulate the economy (spurring demand) during the recession or during the times of crisis.
- Its main aim is to boost the demand and inflation in the economy through the means of increased liquidity in the market, therefore it basically means a helicopter dropping money from the sky.
- The special thing about helicopter money is that one has no repayment liability and moreover it does not borrow money from the market or other public institutions which means that it doesn't create more debt.

This term was used by the Telangana Chief Minister that helicopter money can help states come out of the economic chaos created by COVID-19, the ways in which it can be used to improve the present situation are:

1. Boosting the **demand** and **economic growth** of the country.
2. Since no debt needs to be borrowed, therefore it **does not create any additional fiscal burden** on the state and the **interest rates remain unchanged** which would have been the case under quantitative easing.
3. This can be a handy method in the situations wherein the **conventional methods have already been exhausted,** such as lowering the repo rate and other interest rates to zero percent.

However, helicopter money may not be that a good measure because:

1. It may still not be able to infuse **inflation** since there is weak credit growth in the economy and capex plans are postponed for unknown duration.
2. It may not be a feasible means to **stimulate the economy** since this will not directly lead to

generation of main drivers of growth such as employment, foreign and domestic investment inflow etc.

3. It may lead to **significant devaluation of the currency** on the foreign exchange market and value of domestic money may increase significantly, alongside pushing up the import bill and moreover will dissuade foreign portfolio investors as well.

This method has been used in the past by countries such as Japan and indirectly by US Federal Reserve, but not amounting to much use, other alternatives which we have are -

- Continuing with conventional methods of monetary and fiscal support such as:
    - Transferring money from institutional reserves such as that of RBI to public.
    - Cutting Government expenditure under various heads.
    - Amending the FRBM act and easing the fiscal deficit target in lieu of extraordinary situation.
    - Borrowing from the markets.

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