



# INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

## HELICOPTER MONEY

TOWARDS BOOSTING THE SAGGING ECONOMY

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### Abstract

*The cause of the 'financial lockdown' is the corona virus, it has impacted on recession, rising unemployment, lowering industrial production and profits. The current situation has had a "high to very high" level of impact on the business and therefore the economy is collapsing. At this point the helicopter money as well as Quantitative Easing (QE) is boosting the economy. Helicopter money means printing money to monetize government deficits and stimulate the economy during the recession, everyone views the money used in Quantitative Easing (QE) as helicopter money. Restrictions due to lockdown on commercial activities are seriously affecting global and domestic growth. The GDP rate has already declined and the Covid-19 effect will collapse the commercial sector. More over the GDP rate will fall further which lead to further financial crisis in the future. However, helicopter money can be very useful in the current situation.*

**Key words: Corona virus, Helicopter money, GDP, Quantitative Easing.**

### Introduction

Helicopter money is the term used for a large sum of new money that is printed and distributed among the public, to stimulate the economy during a recession or when interest rates fall to zero. This is a proposed unconventional monetary policy, sometimes suggested as an alternative to Quantitative Easing (QE) when the economy is in a liquidity trap. "Under such a policy, a central bank directly increases the money supply and, via the government, distributes the new cash to the population with the aim of "boosting demand and inflation." It involves printing large sums of money and distributing it to the public.

The term "helicopter money" is first coined by American economist 1969 Milton Friedman used the term to signify unexpectedly dumping money on to a struggling economy with the intention to shock it out of a deep slump. It basically denotes as a helicopter drop, in reference to a helicopter scattering supplies from the sky.

The prohibition of monetary financing by central banks is a key element of the separation of fiscal and monetary policy that has become crucial to the New Macroeconomic Consensus (NMC), which views inflation-targeting via adjustments to interest rates as the most important activity of the central bank (Woodford 1995; Bernanke and Mishkin 1997).

## **Corona virus**

The name "corona virus" is derived from Latin corona, meaning "crown" or "wreath", itself a borrowing from Greek korónē, "garland, wreath". The name was first used in 1968 by an informal group of virologists in the journal Nature to designate the new family of viruses. Corona viruses are a group of related viruses that cause diseases in mammals and birds. In humans, corona viruses cause respiratory tract infections that can range from mild to lethal. Mild illnesses include some cases of the common cold (which has other possible causes, predominantly rhinoviruses), while more lethal varieties can cause SARS, MERS, and COVID-19. Symptoms in other species vary: in chickens, they cause an upper respiratory tract disease, while in cows and pigs they cause diarrhea. There are yet to be vaccines or antiviral drugs to prevent or treat human corona virus infections.

## **Helicopter money the same as quantitative easing**

QE 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 monetize government deficits, but the govt. 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" Helicopter money is also different from a central bank directly financing the debt of a government.

## **Pros & Cons**

**Pros:** More incentive to spend, increasing Aggregate Demand which (according to Neo-Keynesian theory) increases long-term standard of living, banks would likely shift interest rates to encourage spending which can open opportunity for innovation

**Cons:** Inflation, large short or long term price fluctuations can influence international perception of currency stability, higher risk of serious "bust" after the short term "boom" (bubble economies form, items see major variance from intrinsic value and rely on continued growth to maintain any value at all).

## Impact of Corona virus on the Indian Economy

Up to a large extent, it will impact the Indian industry. In imports, the dependence of India on China is huge of the top 20 products (at the two-digit of HS Code) that India imports from the world, China accounts for a significant share in most of them.

- India's total **electronic** imports account for 45% of China.
- Around one-third of **machinery** and almost two-fifths of **organic chemicals** that India purchases from the world come from China?
- For automotive parts and **fertilizers** China's share in India's import is more than 25%
- Around 65 to 70% of active **pharmaceutical** ingredients and
- Around 90% of certain **mobile phones** come from China to India.

Therefore, we can say that due to the current outbreak of corona virus in China, the import dependence on China will have a significant impact on the Indian industry.

### India impacted by corona virus in China

**In terms of export**, China is India's 3<sup>rd</sup> largest export partner and accounts for around 5% share. The impact may result in the following sectors namely organic chemicals, plastics, fish products, cotton, ores, etc. Most of the Indian companies are located in the eastern part of China. It has been seen that some sectors of India have been impacted by the outbreak of corona virus in China including shipping, pharmaceuticals, automobiles, mobiles, electronics, textiles, etc. Also, a **supply chain** may affect some disruptions associates with industries and markets.

### China's share in total imports to India

Imports	Per cent age (%)
Organic Chemicals	37
Inorganic Chemicals	13
Medical & Pharma Products	36
Dyes	28

### Corona virus impact on GDP rate

India's economic growth is likely to hit a 30-year low of 2 per cent in FY21 as economic recession grips the global economy following the lockdown due to corona virus outbreak. The rating agency in its previous report had projected India's GDP growth for 2020-21 at 5.1 per cent. Recently cut our GDP growth forecast for India to 2 per cent for the fiscal year ending March 2021 after lowering it to 5.1 per cent previously, which would make it the slowest growth in India over the past 30 years," it said. On March 20, Fitch had cut India's growth forecast to 5.1 per cent for FY 21, saying the corona virus outbreak is likely to hit business investment and exports.

A joint report from the World Health Organization (WHO) and the World Bank estimates the impact of corona virus at 2.2 per cent to 4.8 per cent of global GDP (US\$3 trillion). That was well before the world knew of Covid-19. Barclays estimates that India's aggressive 21-day lockdown could bring the country's growth down to 2.5% from the 4.5 per cent it had earlier estimated.

### **Estimated impact from COVID-19 on India's GDP 2020 by Madhumitha Jaganmohan, Apr 17, 2020**

India's quarterly GDP was estimated to a decline of over nine percent between April and June 2020. This was a decrease from a five percent growth in the beginning of 2020. The country went into lockdown on March 25, 2020, the largest in the world, restricting 1.3 billion people. This was extended until May 3, 2020. India's government estimated its financial, real estate and professional services sector to be hardest hit during the period of the lockdown.

### **India's economic growth- impact on Corona virus**

According to Dun & Bradstreet's latest Economy Forecast, the probability of countries entering into recession and companies going bankrupt has increased and India is not likely to "remain decoupled" from the global meltdown.

"As lockdowns are imposed in other global manufacturing hubs, besides China, the extent of impairment to global supply chain and global growth is likely to increase," said Arun Singh, Chief Economist Dun & Bradstreet India. On India's economic growth, Singh said, "given the 21-day lockdown in India, India's GDP growth is expected to moderate further from our earlier estimate of 5 per cent for FY20. And growth for FY21 remained highly uncertain."

As per the report, lockdowns and restrictions on commercial activities and people gatherings are likely to strongly impact global and domestic growth from March 2020 onwards.

Dun & Bradstreet expects the Index of Industrial Production (IIP) to remain subdued by 4-4.5 per cent during February 2020.

### **The International Monetary Fund (IMF) - India's growth estimate**

The International Monetary Fund (IMF) further slashed India's growth estimate for FY21 to 1.9% from 5.8% estimated in January, warning that the "worst recession since the Great Depression" will dwarf the economic damage caused by the global financial crisis a decade back. It also said that India and China would be the only two major economies likely to register growth, with all others contracting.

The Covid-19 pandemic will shrink world output by 3% in 2020, IMF said in the April update. The International Monetary Fund (IMF) further slashed India's growth estimate for FY21 to 1.9% from 5.8% estimated in January, warning that the "worst recession since the Great Depression" will dwarf the economic damage caused by the global financial crisis a decade back. It also said that India and China would be the only two major economies likely to register growth, with all others contracting.

## RBI's Covid-19 booster shot

In his second big announcement since the onslaught of Covid-19 began to wreck the Indian economy, RBI Governor Shaktikanta Das announced a slew of measures to ease flow of credit into the economy. A 25 basis point reverse repo cut, TLTRO (Targeted Long Term Refinancing Options) of Rs 50,000 targeted at NBFCs; relaxation of asset classification norms; more funds for states - the RBI has increased the limit under Ways and Means Advances for states to avail short term funds to 60 per cent of the existing limit.

Non-Performing Assets (NPA) norms of 90 days have been relaxed. The period of moratorium will be excluded from the 90-day classification norms of NPAs for those accounts, which would avail the moratorium facility. The Non-Banking Financial Companies (NBFCs) have been given flexibility to give such relief to their borrowers.

The last time, the RBI announced a repo rate cut, the amount deposited with the RBI has gone up from Rs 2 lakh crore to Rs 4-4.5 lakh crore in the last 20 days. Risk appetite of banks continues to be low on concerns of loans turning NPAs. Easing up of NPA norms could boost the confidence of banks to start lending. Trough TLTRO of Rs50,000, the RBI will provide cheaper money for lending to corporate. But in the past, the experience with this has been that banks tend to give to best credit worthy companies.

The RBI has stated that 50 per cent of the funds should be utilized for 'investment grade', which is a safer bet and will mean that banks end up providing this money to higher graded NBFCs and several small NBFCs facing a massive liquidity crunch could be left out.

"The allotment of Rs 10,000 crore to the National Housing Bank is a big move for the real estate sector reeling under the liquidity crisis. Increase in state governments' WMA (Ways and Means Advances) limits by 60 per cent of the original limit will spur economic activity in the states including states making their pending payments.

## The political economy of COVID-motivated helicopter drops

The use of helicopter money has been proposed to help combat the economic repercussions of the COVID-19 pandemic. The policy has been seen as blasphemy until now, and this column presents a political economy plan to break the taboo. The creation of emergency authority for central banks and the formation of a COVID policy committee could help establish the policy as a one-off, emergency money-financed plan, giving the central bank the authority to act quickly.

In terms of the policy items, it would be reasonable to consider fiscal transfers which are directly related to the crisis situation, namely:

- Budgets for the health-care system, in particular labour costs (e.g. wages and other income for overworked medical staff), capital costs (e.g. testing apparatus, respiratory equipment, and protective gear), sick pay, and insurance subsidies.
- Assistance to households, in the form of direct monetary assistance and enhanced and lengthened unemployment benefits and income support.

- Assistance to firms, in the form of subsidies, transfers, and tax cuts.
- Assistance to maintain the functioning of markets, such as insurance and financial market access.

### **Emergency money is financed policy**

It is essentially for a one-off emergency money-financed policy plan that would give the central bank the authority to act and the authority to (subsequently) get the economy back to the ‘no money-printing’ norm that we have been enjoying over the past few decades. This would avoid the pitfalls of having governments and their treasuries embarking on a path of recurrent deficit finance by money printing. All the while, it would enable a swift policy response to counter both the pandemic spread and its devastating economic effects.

### **Increase in public spending- role of helicopter money**

Essentially, monetary authorities give people extra money in the form of a tax cut, vouchers or an increase in public spending. At the same time, the authorities pledge that they will not raise taxes at a later date to recoup the additional funds. Bernanke, a helicopter money advocate, has in the past proposed a money-financed fiscal programme, which would involve either an increase in public spending or a tax cut that is financed with newly printed money. It seeks to goad people into spending more and thereby boost the sagging economy.

Other countries are already experimenting with helicopter money. Hong Kong announced last month that it will be giving each of its adult citizens a one-off cash payment of USD1, 284 to prop up the virus-hit economy, and Australia is also considering cash handouts. Several Arabian Gulf economies did the same during the Arab Spring unrest in 2011.

Japan’s trial of helicopter money may be more effective in forcing consumers to spend today. In 2019, it introduced a programme which allows eligible households to buy so-called “premium” shopping vouchers to mitigate the effect of a VAT hike. The vouchers, offered at a 20 per cent discount, can be used to pay for goods and services at stores and hospitals designated by municipalities but they expire at the end of March.

### **Prevention of corona- stay home and stay safe**

If you feel sick you should rest, drink plenty of fluid, and eat nutritious food. Stay in a separate room from other family members, and use a dedicated bathroom if possible. Clean and disinfect frequently touched surfaces.

Everyone should keep a healthy lifestyle at home. Maintain a healthy diet, sleep, stay active, and make social contact with loved ones through the phone or internet. Children need extra love and attention from adults during difficult times. Keep to regular routines and schedules as much as possible.

It is normal to feel sad, stressed, or confused during a crisis. Talking to people you trust, such as friends and family can help. If you feel overwhelmed, talk to a health worker or counselor.

## Conclusion

World face all kinds of difficulties during this time of corona virus outbreak. This is especially the case with illness and loss of life. The governments have announced a lockdown decision to protect the health of the public and to ensure that no casualties are reported. This lock down means everybody should stay in the home.

Government gave some instructions, people should only come out at a given time and buy the necessities they need, physical distance must be followed and use masks. Such restrictions have hampered all economic activity, especially in industries, imports, exports, fertilizers, road transport, rail transport, air transport, maritime transport and public transport.

Therefore, the government has lost tax revenue, and in the absence of tax revenue, the government has to pay salaries to employees every month. As well as important systems of medical, sanitation and police systems must provide the necessary supplies. In addition, the government has a responsibility to meet public needs.

In addition, the tax deduction, Bank deferred payment of installments for three months and people should also increase their purchasing power. In addition, the rate of GDP has been declining over the past three years, with the corona virus becoming even more dangerous. Under current conditions, the rate of GDP will go down, resulting in higher cost of goods and hence depreciation of the rupee, leading to economic challenges in all sectors.

The government needs revenue to meet the requirements mentioned above, but since there is no way to generate revenue during this lock-down period. The government should take the advice of some financial experts and print large sums of money. Some countries have had similar experiences and this helicopter money can be used to stimulate the economy.

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కరోనా వైరస్ వలన కలిగే ఆర్థిక లాక్డౌన్, ఈ సమయంలో హాలికాఫ్టర్ డబ్బును ఉపయోగించడం వల్ల ఆర్థిక పరిణామాలను ఎదుర్కోవటానికి సహాయపడుతుంది. హాలికాఫ్టర్ డబ్బు అంటే ప్రభుత్వ లోటులను మోస్తూనే చీకటిలోకి డబ్బును ముద్దరించడం. లాక్డౌన్లు మరియు వాణిజ్య కార్యకలాపాలపై పరిమితులు ప్రపంచ మరియు దేశీయ వృద్ధిని తీవ్రంగా ప్రభావితం చేస్తున్నాయి. ఇప్పటికే జీడీపీ రేటు తగ్గుతూ మందీ దానికే తోడు కోవిడ్-19 ప్రభావం వల్ల వాణిజ్య రంగాలు సమాభిచుకుపోవడం జీడీపీ రేటు మరి పతనం చెందుతుంది తద్వారా

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