ISSN (Print) : 2249-1880
SAMVAD: SIBM Pune Research Journal, *Vol XII, 72-79, December 2016*
ISSN (Online) : 2348-5329

Helicopter Money: A Conceptual Insight

Dr. Dhiraj Jain* and Romni Kondeti

Associate Professor, Symbiosis Centre for Management Studies, Pune, Maharashtra, India;
dhiraj.jain@scmspune.ac.in

Abstract

The following study tries to give an insight into helicopter money and what its possible effect could be. After the onslaught of the financial crisis in the year 2008, Central banks and the financial institutions across the world have tried different methods to revive the economy and keep consumer spending afloat. Quantitative easing was the first step where the bad loans were bought back by the central banks and replaced with fresh money. Financial arrangement usage was at its points of confinement after three Quantitative Easing (QEs) jolt in the US and an operational quick when there was a liquidity trap (loan fees were about zero) and the economy driven in a moderate development mode. But unfortunately the money found its path to the securities market and did not go into the hands of the consumers thereby not delivering the expected results. The next step in this process was money finding its path directly into the hands of the consumers so that they could spend it and thereby give a consumption thrust to the economy- the term called helicopter money which is currently being proposed as a contrasting option to QE and which could be a standout amongst the most flighty of all the fiscal strategies so far embraced by nations. In favour of financial arrangement, it is impractical to expand the total request as a result of the legislative issues included and the uneasiness over the incrementally high government obligation. Printing cash to fund the financial exchanges however may look engaging, overwhelmingly in the wake of Brexit may not demonstrate productive. No country has ever adopted it before and hence it is difficult to simulate the consequences that could emerge because of money being dropped directly from helicopters. The theory of helicopter money being proposed by economists has never been practised before and Japan may be the first country in the world to experiment it. For others it is still an investigation to be considered however which may change later on. Economists like Ben Bernanke bolstered it as a technique for final resort. What would actually emerge is a matter yet to be seen.

Keywords: Central Bank, Fiscal Policy, Helicopter Money, Monetary Policy, Quantitative Easing, Stimulus

1. Introduction

After the financial crisis in 2008-09, the Federal Reserve, and the other central banks globally dropped the interest rates to rock bottom in order to boost credit growth fuelling consumption. In late 2008, the interest rate were the lowest and remained there for nearly 7 years until December of 2015 when the Federal Reserve increased their lending rates. The central banks across the world carried the perception that if they would lower the cost of borrowing, they could induce more people to borrow or spend that money in real economy. That really did not work because people usually borrow money for a reason, they believed they could earn a greater return on that money than the cost of money. Growth was slow. Thus, dropping interest rates to zero wasn't that effective and not many people saw greater return flowing in the real economy which could justify borrowing ever more money. In the last two years(2014-15 and 2015-16) the central banks- FED, Bank of Japan, Europe, China etc., took an unconventional step called Quantitative Easing(QE) i.e., the central banks were printing money to use it for buying financial securities in the investment market. The central banks thought that they could raise the price of these financial securities so that people would feel wealthier and hence would spend more thereby helping the economy to grow. But during the last seven years (2008-2017) this strategy has also not worked in terms of reintegrating and invigorating up the economy (Papadopoullos, 2016)[16]. The primary reason why QE could not be of much help is first - the bulk of the assets like real estate, stocks, etc. were owned globally by the wealthiest and it wasn't everyone

* *Author for correspondence*

who benefited when the prices in the stock market went for an upward spiral and the second – this approach was some more like a closed coil system (Irwin, 2016)[14]. The Federal Reserve printed currency notes and then bought back a bunch of sub-prime bonds issued by motivated bankers under the assumption that the firms/bankers would turn around and invest that money in the real economy! But such a presumption did not happen and the money immediately found its roads into the financial markets. This money provided fuel to the financial market and never really got into the real economy. Dropping rates to zero, and quantitative easing by central banks globally failed and could not fulfil the purpose that it was intended to. But various developed economies intended to follow similar policies (moneyandbanking.com, 2016)[1]. Various governments have gone a step further and have now started thinking of helicopter money which is a step further to revive consumption in economic circles. The motivation behind this knowledge is to spread light on the idea and working of helicopter money and in this manner elucidate its working by giving a basic remark.

2. Concept of Helicopter Money

The term helicopter money was coined by Milton Friedman in 1969 (Friedman, The Optimum Quantity of Money, 1969)[10] in his book describing it free money being dropped from the sky by the central banks in order to boost the economy. Milton Friedman in a speech in 1969, talked about dropping $1,000 bills from a helicopter to the citizens of any country to stimulate the economy. According to him the phrase helicopter money meant a helicopter going up to the air, dropping money into the community, and the citizens' benefit, where they consider it as a unique event that will never be repeated. Citizens get that money free of interest and without having to pay it back. He stated very clearly that this method would only work on the off chance that an economy is confronting an absence of interest for long and is stuck in a circumstance where the prices of commodities are decreasing continuously because of a prolonged lack of demand. Helicopter money is a specific type of money financed financial boost and has certain key features among the class of all possible money financed fiscal measures– first it involves a particular kind of fiscal policy as a helicopter would randomly distribute this fiscal transfer but the biggest concern is the equal distribution to every person - a kind of reverse poll tax, or what economists would call a lump sum transfer and the second is that, once the apparatus for it had been established by the government and its use been initiated by the central bank, it cannot be taken back . The other fiscal transfers initiated by the government can always be rolled back once the need for it is over.

Helicopter money could help the economy grow once again. The real implication would be when an economy is faced with too much of debt, and faced with an environment where all other policy approached are blocked and the government does not know how to boost demand. The Central bank could higher the fiscal status by either financing more public expenditure or by lowering the tax financing for a period of time with permanent central bank money creation. The Central banks across the world have limitless ability to essentially print money to create financial stimuli to boost demand directly and this had been reintroduced for debate by the former Federal Reserve Chairmen Ben Bernanke in one his speeches in 2002where he talked about deflation and also said that the Federal Reserve had an instrument called a printing press which could be used if the need existed to just print money and buy securities in the open market. His speech in 2002, had already given the road map for 2009, and had also earned him the title of "Helicopter Ben."(Bernanke B. , 2002)[3]

3. Its Uniqueness and Operationalisation

Helicopter money is an instrument completely new and never heard and implemented up till now. When one takes loans from the central or the commercial banks, he/she needs to pay an interest and repay back the principal. In most of the cases there is also collateral attached. The concept of helicopter money can combat some of the inadequacies of Quantitative Easing. Friedman, and few other economists (Bernanke B. , Monetary Policy Objectives and Tools in a Low-inflationary Environment, 2002)[4] (Farhi, 2013)[9] argued that if fighting deflation was the real challenge, then why not money be given directly to the citizens instead of directing it to the capital market to drive up the stocks. The citizens could then spend the money which would boost the consumption and their GDP or else they could use it to repay their debts and lower their debt ratios. This unconventional policy had a higher potential to create a conventional fiscal stimulus as it would boost people's incomes so that they could in turn spend that money in the real economy.

For hundreds of years central banks across the world have been infusing cash into the economy either through banks or through investment markets. Quantitative Easing has kept the closed coil cycle, where the money just stayed in the market and fuelled the stock and bond prices even higher as more money was now being printed by central banks. And when it came to zeroing the interest rates, it could be dropped to zero. But even after these steps the people did not borrow. Helicopter money is big and if considered a direct stimulus funded with permanent money it could help the economy get out of low inflation faster and with lesser long-term risk as it would have nothing to be paid back and the money would be directly in the hands of the end consumers. It is the next big step that the central banks could take after the failure of the interest rate dropping to zero and quantitative easing not actually working and the conventional policies proving harmful for the long-term sustainability and stability of the global economy. Unlike dropping interest rates and quantitative easing, helicopter money is aimed at getting money directly into the real economy itself. This could be accomplished in one of the two ways –either by tax cuts or by outright government spending on roads, bridges, infrastructure development. This would bring employment, wages, and the money gets into the real economy directly.

4. Purpose for the Helicopter Money Drop

The main reason that the central banks need to ponder while distributing helicopter money is that distributing it could lead to an expansion in the cash supply in the economy accordingly prompting to inflation. It could bring about an expansion in the total demand in the economy when the conventional monetary policy fails like in case of a liquidity trap with zero nominal interest rates.

5. Fiscal Policy and Helicopter Money

Helicopter money is a way to create direct spending in the economy which could likewise be accomplished through an expansionary fiscal policy financed by quantitative easing. Fiscal policy enables spending on infrastructure rather than just consumer spending. The impact could be similar because of the expansionary fiscal policy which will ensure that the extra money is spent rather than languishing in banks.

6. Difference Between Helicopter Money and Quantitative Easing

Quantitative easing is the first step and if it does not help in creating demand the next step suggested is the dropping of helicopter money. A knowledge into what Quantitative Easing is and how it contrasted from helicopter money is important to understand its implications and the need for introducing helicopter money.

Quantitative easing is a technique for making money in which the Central bank, creates it and thereby uses it to buy government bonds resulting in inducing money supply into the system. Quantitative easing is usually reversible i.e., the Central Banks could later sell of the government bonds. Unlike helicopter money, QE is usually reversible by its very nature (Cumming, 2015)[7] wherein the central bank could react to the enhancing monetary conditions by offering the obtained securities back in the open market. Regardless of the possibility that there are no dynamic deals, the government securities would in the end mature and the related reserves would naturally shrivel away.

The contrast amongst QE and helicopter money could likewise be pictured through the monetary record of the central bank. For different macroeconomic contemplations, the solidified open segment could be mulled over. Notwithstanding it is now and again valuable to consider the central bank as a different entity, with its own particular monetary record, despite the fact that it is an entirely possessed backup of the government (Figure 1). Its assets are generally government securities and loans to the banking framework called switch repurchase agreements. On a normal a central bank's benefits are probably going to yield returns like that of the predominant overnight official interest rate i.e., the bank rate. The Central banks usually have three sorts of liabilities - they issue banknotes; they hold commercial banks' deposits (called reserves); and they have an adjusting claim on the assets (central bank capital). Of these, exclusive the reserves are compensated, at the overnight interest rate, *r* in the tables below.

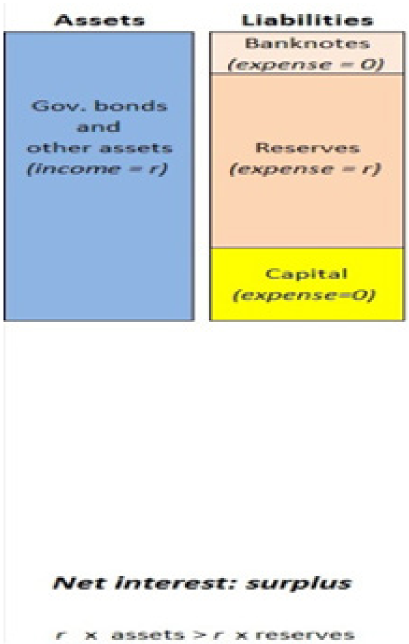

Figure 1. Starting position.

QE includes purchasing government securities by making new holds. The balance sheet extends. The recently obtained securities begin paying an income stream that comprehensively counterbalances the intrigue installments on the extra holds. For instance - expect that the securities and reserves both pay an overnight interest rate so the net intrigue income is zero. Significantly, as banknotes and capital pay no interest, the aggregate income of the central bank's assets less liabilities is probably going to be certain in the medium run (Figure 2).

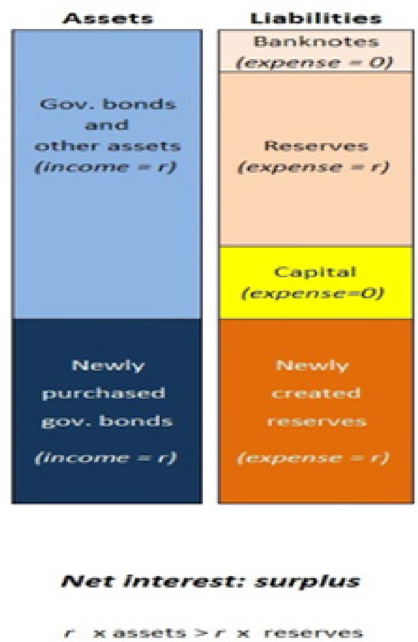

Figure 2. QE.
(https://bankunderground.co.uk/2015/08/05/helicopter-money-setting-the-tale-straight/)

Table 1. Comparing Quantitative easing, Helicopter money, and fiscal expansion combined with quantitative easing

	QE	Helicopter Money and Debt Write off	QE+ Fiscal expansion
Where does it go?	Goes to the banks and financial institutions who sell bonds to the Central Bank.	Goes directly to the consumers and households	
Monetary Effect	Outside cash increments for the term of program	Perpetual increment in outside cash	Outside cash increments for a span of program
How to toughen policy when the time comes?	Sell all QE Assets or increase short term interest rates or both.	Increment transient financing costs as well as influence HMT to over issue.	Sell QE assets as well as increment fleeting financing costs.
Economic Effect	Presumed Positive but has proved futile	If coordinated with the fiscal spend, it would stimulate economy and help quicker recovery	If coordinated with the fiscal spend, it would stimulate economy.
Market effect	Reduced discount rates, weaker FX, positive for risk assets	Do not know	Reduced discount rates, weaker FX, positive for risk assets
	Can be taken back later by the government	non-reversible	

Source : Columbia Thread needle Investments, May 2016

The most effortless approach to make the fiscal jolt indelible would be to later revoke the recently bought government securities (Figure 3). Also, as the central bank's liabilities would now be more noteworthy than its assets in some senses it would now be 'bankrupt'. Usually, a government could recapitalize the central bank by gifting it government securities which requires issuing new obligation and all else level with, along these lines diminishing the underlying boost to a vanilla, bond-financed monetary exchange.

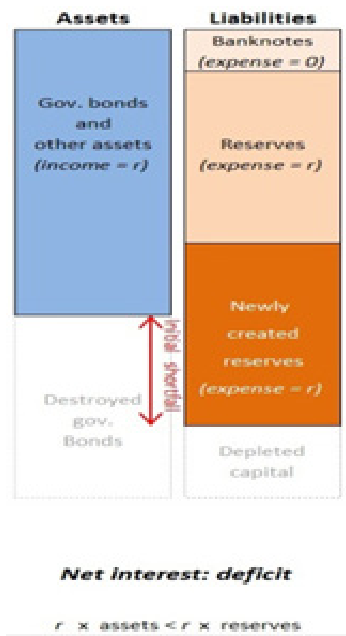

Figure 3. Helicopter money.

Individuals need to believe that this recapitalization will never happen so they can really trust that the jolt is irreversible.

Also, when bankrupt, if the central bank keeps on paying interest on every one of its reserves, its asset income could miss the mark regarding the interest owed on its liabilities in this manner abandoning it with a financial deficit. Be that as it may, dissimilar to a typical organization, a Central bank could essentially create reserves to pay for the accounted setback. However, creating these new reserves to finance the deficit could just give a transient alleviation which would in the end prompt to the extent of the balance sheet and the amount of money in the economy spiraling wild (Figure 4) which could sometime be alluded to as approach insolvency as a central bank would battle to meet an expansion focus under such a circumstance.

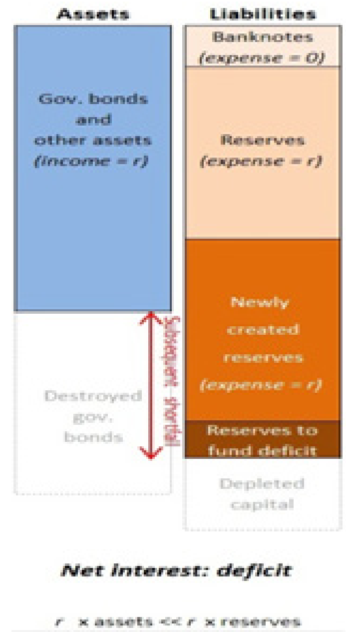

Figure 4. Insolvency spiral.

A contrasting option to losing its control on the extent of its balance sheet is that the central bank could shun paying interest on the extra reserves created. In any case, with an abundance of reserves in the framework, this would be like resolving to keep the minimal, policy pertinent interest rate at zero for a more extended timeframe i.e., until the demand for physical notes grow to meet the extra financial related jolt infused.

The contrast between these two choices matters for the advancement of the central bank's balance sheet yet the suggestions for financial strength are the same: the central bank would lose its capacity to act against future inflation.

The difference between the two has been clearly depictedin one of the studies performed by Columbia Thread needle investments. The correlation plainly demonstrates the distinction between the two on various parameters like where does the money go, what would be its monetary, economic and the market effect.

7. Advantages of Helicopter Money

- Helicopter money is expected to have a much greater impact on boosting spending and aggregate demand than Quantitative easing. Evidence from Quantitative easing shows that banks have tended to sit on the extra money and not lend it out. Quantitative easing has been relatively ineffective in a balance sheet recession (Turner, 2015)[17].

- It can target higher inflation, which helps to avoid problems related to deflation and debt deflation.
- It has a better distribution network. A criticism of Quantitative easing is that it has benefited banks more than anyone else, and given the role of banks in the financial crisis, this could be considered highly unfair. The recession and fiscal austerity hurts the lower income groups but the helicopter drop would help income redistribution across all (Zhao, 2016)[19].

8. Disadvantages of Dropping Helicopter Money

The disadvantages of this dropping are that it could tear separated the central banks' balance sheets and make them unbeneficial for critical time for the future.

- It may prompt to hyperinflation;
- It may thwart the Central bank's capacity to oversee interest rates as a device for leading traditional money related arrangement;
- It may require a coordination with the budgetary plan which would be hard to do;
- It may make the financing of the governance obligation addictive;
- The central bank may lax its autonomy;
- It may not be doable for the central bankers to set loan cost to specific targets;
- It could be viewed as a substitute for the customary monetary jolt which could be directed by tax reductions and infrastructural spending;
- the central bank may lose its credibility significantly;
- once dropped cannot be redeemed;
- It may lead to the depreciation of the currency in the foreign exchange market.

Helicopter money could stimulate only a nominal growth, and undoubtedly increase the inflation back to the target rate of 2% but this would not apply if the amount considered is small as a percentage of the GDP as it would have a small effect not sufficient enough to boost the economy. What is the amount of money to be dropped is still not known as it has never been done before but if done with a big amount- a bigger percentage of the GDP, it would result in hyperinflation though the effect being capable of calibration. The only risk that could be thought of is the political risk. If politicians are allowed to do it once, they would want to do it again and again. But this could be avoided by clearly articulating political rules and responsibilities so that it may be used in a disciplined fashion.

9. Perceptions Related to Dropping Helicopter Money

The irony related to dropping helicopter money could be huge. Japan has had a tough time over the past 3 decade as its economy is on wreckage. Since the negative interest rates of Japan have been back firing, Japan has already tried the fiscal spending programmes financed by the Bank of Japan printing up money and buying bonds. But the country still does not know whether this measure really boosted up its economy. Ben Bernanke in one of his talks with the Japanese Prime Minister, Shinzo Abe advised him about the benefits of helicopter money so that it could be used to give a boost to the bleeding economy and bring it out of deflation. It is being doing its rounds in the federal reserve of the US as well.

The European banking system is also in severe trouble, with the growth in Europe still very slow even nearly a decade after the surge of the financial crisis. The European Central bank has additionally been thinking about a few different choices for empowering the economy of the Eurozone. It has been purchasing focused on money related resources after the onset of this monetary emergency i.e., it has been providing Quantitative Easing and has also lowered the interest rates to even below zero, but even at that point the viability of the measures adopted are unclear. After all these years of disregarding the possibility of helicopter money, it could be a period for the European Central Bank to think of it as one of the options because of the gravity of the challenges faced by various countries of the European Union which may demand the usage of this tool.

10. Alternative Tools used by Central Banks Better than Helicopter Money

Major Central banks and economies in the world have already done something alternative to Quantitative easing which differs from Helicopter Money in their form and structure. Central banks have been engaged in Quantitative easing and have been buying sovereign bonds, and at the same time the government is also commencing a more expansionary fiscal policy, thereby developing a "facto helicopter money. "Quantitative easing in combination with expansionary fiscal policy in countries like US, Japan, and UK has adequately delivered an "ex post helicopter money." A central bank is already creating money to buy government bonds and then writing them off in the primary market. The cost of contracting this debt is nothing, except for the rate paid on reserves, which already is similar to helicopter money.

11. Conclusions

The only difference between the Quantitative easing since 2008 and Helicopter money is that it would be the consumer spending the money, instead of the government doing it. Government expenditures since 2008 have been financed by increasing the government debt, i.e., a lot of that debt has been purchased by the Central bank which sponsored the debt. But, Helicopter money is a shift from government spending the money to the consumer spending the money. Helicopter money is more like continuation of the current policy by finding expenditures by creating intrinsic pieces of paper. Helicopter money would be more effective if it was permanent as it would change the inflation expectations so that people could expect the prices to be higher in future and therefore they could advance their purchases which may allow the central banks to reach their accepted inflation targets. So, helicopter money initially creates an illusion of prosperity which gets more printing and ultimately leads to hyperinflation which could then destroy the function of resources to be able to be allocated optimally. This could ultimately lead to the collapse of the whole monetary system. However, in the current global scenario helicopter money may work if the monetary policy is coordinated with the fiscal policy. If central banks simultaneously print money to finance either the tax cuts or fiscal spending, helicopter money could conceivably work. But, if central banks act by just dumping the money in the economy by printing intrinsically worthless pieces of paper then what impact could it generate is a question to be answered.

All households and firms within the economy would need to trust that all future Central bankers and governments might want to relinquish inflation focusing on which appears to be improbable in the current institutional set-ups. Citizens must be persuaded in regards to the approach's irreversibility and in this manner mindfulness must be made with respect to the expansive expenses on society sooner or later. While monetary approach may empower development, the extra kick from helicopter cash would either be non-existent or would come with a cost – an unexpected inflation. How would it emerge and what influence would it create is a matter to be seen.

References

1. (2016, June 27). Retrieved from moneyandbanking.com: http://www.moneyandbanking.com/commentary/2016/6/27/a-primer-on-helicopter-money
2. Barnato, K. (2016, July Thursday). *World Economy_Citi sees 'gradual shift towards helicopter money'*. Retrieved from CNBC: http://www.cnbc.com/2016/07/28/citi-sees-gradual-shift-towards-helicopter-money.html
3. Bernanke, B. (2002, November 8). Retrieved from federalreserve.gov: http://www.federalreserve.gov/boarddocs/Speeches/2002/20021108/default.htm
4. Bernanke, B. (2002). Monetary Policy Objectives and Tools in a Low-inflation Environment. In: Francesco D'Acunto, D.H. Editor. Retrieved from http://voxeu.org/article/fighting-deflation-unconventional-fiscal-policy
5. Bernanke, B. S. (2016, April Wednesday). *What tools does the Fed have left? Part 3: Helicopter money.* Retrieved from Brookings: https://www.brookings.edu/2016/04/11/what-tools-does-the-fed-have-left-part-3-helicopter-money/
6. Buttonwood. (2014, November Thursday). *Send in the helicopters?* Retrieved from The Economist: http://www.economist.com/blogs/buttonwood/2014/11/reviving-economy
7. Cumming, F. (2015, August 5). *Helicopter money: setting the tale straight*. Retrieved August 13, 2016, from https://bankunderground.co.uk/2015/08/05/helicopter-money-setting-the-tale-straight/
8. Cumming, F. (n.d.). Helicopter money: setting the tale straight. UK. Retrieved August 13, 2016, from https://bankunderground.co.uk/2015/08/05/helicopter-money-setting-the-tale-straight/
9. Farhi, E. I. (2013). Unconventional Fiscal Policy at the Zero Bound. *American Economic Review, 103*(4), 1172-1211.
10. Friedman, M. (1969). *The Optimum Quantity of Money.* New Jersey: Transaction Publishers.
11. Friedman, M. (2005). *The Optimum Quantity Of Money.* New Burnwick: Aldine Transaction.
12. Hamilton, J. (2016, July Sunday). *Helicopter Money.* Retrieved from Econbrowser: http://econbrowser.com/archives/2016/07/helicopter-money

13. Hirst, T. (2015, August Thursday). *What is helicopter money?* Retrieved from World Economic Forum: https://www.weforum.org/agenda/2015/08/what-is-helicopter-money/
14. Irwin, N. (2016, July 28). Retrieved from nytimes.com: http://www.nytimes.com/2016/07/29/upshot/helicopter-money-why-some-economists-are-talking-about-dropping-money-from-the-sky.html?_r=0 justmeans. (2016, June Wednesday). *Ben Bernanke and Milton Friedman were Right: Helicopter Money or Quantitative Easing?* Retrieved from justmeans: http://www.justmeans.com/blogs/ben-bernanke-and-milton-friedman-were-right-helicopter-money-or-qualitative-easing
15. Papadopoullos, C. (2016, February 24). Retrieved from cityam.com: http://www.cityam.com/235253/what-is-helicopter-money-and-could-it-work
16. Turner, A. (2015). The Case for Monetary Finance – An Essentially Political Issue. Retrieved from https://www.imf.org/external/np/res/seminars/2015/arc/pdf/adair.pdf
17. Wikipedia. (2016, August Sunday). *Article_Helicopter Money.* Retrieved from Wikipedia: https://en.wikipedia.org/wiki/Helicopter_money
18. Zhao, C. (2016, June). Retrieved from brandywineglobal.com: https://brandywineglobal.com/aroundthecurve/index.cfm?page=article&content=241299384