

Sustainable Finance Must Be the Basis of Malaysia's Post-Covid Future

Failure to do so will undermine long-term profitability and economic prosperity

BANKING INSIGHT

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STEADY HANDS TO HOLD A FULL CUP

'NEVER LET A GOOD
CRISIS GO TO WASTE'



Corporate Social
Performance &
Credit Risk

**PROLIFERATION
FINANCE: STILL
OUT OF SIGHT,
OUT OF MIND?**

**WHERE
NEXT FOR
MONETARY
POLICY?**

A PUBLICATION OF



HELICOPTER MONEY

HOW, FOR WHAT, TO WHOM, AND BY WHOM? STIMULUS PACKAGES IN A TIME OF CRISIS

Extraordinary circumstances necessitate extraordinary measures.

The term helicopter money, once a metaphor for how monetary policy might be conducted, has become commonplace in the current environment where governments are introducing stimulus measures to counter the devastating effects of the coronavirus pandemic on economic activity and well-being more generally.

The term was invented as a thought experiment by the Nobel Laureate Milton Friedman in an essay published in 1969.

“Let us suppose now that one day a helicopter flies over this community and drops an additional \$1,000 in bills from the sky, which is, of course, hastily collected by members of the community. Let us suppose further that everyone is convinced that this is a unique event which will never be repeated.”

Friedman’s purpose was to discuss the short- and longer-run effects of monetary policy in normal times. Recently the idea of helicopter money has been extended to refer to policies that aim to revive sluggish economies or prevent economic meltdowns in times of crises. This note is an attempt to clarify some of the issues

that need to be considered in this latter context:

- How should transfer of purchasing power be accomplished? By direct money transfers to individuals or households; by lowering taxes; by price subsidies, etc.
- What is the intended purpose of the policy? To shore up aggregate demand; to focus on individuals who have lost jobs as a result of the current pandemic; to keep firms from bankruptcy, etc. To be sure, these objectives are, of course, not independent of each other.
- Who should be the recipient of the ‘helicopter drops’? The entire population as in Friedman’s example; only those who lost jobs; only those with an income below a certain amount; SMEs generally, etc.
- Which official sector agency should be in charge? The central bank, the central (federal) government; local governments.

The analysis will show that helicopter transfers should be well targeted and that

the fiscal authorities should be in charge. Let’s deal with each of the issues in turn.

Helicopter Money by Any Other Name...

Distributing purchasing power can be accomplished by different means. For an individual who has a job and pays income taxes, a direct transfer of RM100 is essentially equivalent to a one-time tax cut of the same amount. But for the unemployed who has no income and therefore pays no income tax, the two methods are vastly different. For this reason, the direct transfer appears to be preferable. A subsidy to retailers in exchange for a commitment to lower prices on (essential) goods would increase the purchasing power of customers.

This type of measure is already practiced in some jurisdictions in the case of petrol, for example. To do it on a grander scale is likely to be a practical nightmare and the room for abuse would likely to be substantial. Those who are sceptical about the government’s ability to increase purchasing power by direct transfers, tax reductions, subsidies and





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