

Could CBDC pave the way for helicopter money in the COVID-19 crisis?

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20 May 2020

A year after their paper [Understanding Central Bank Digital Currencies](#), *The Cashless Society Working Party* is revisiting the topic. In the first in a series of blogs, Orla Ward discusses the potential for a Central Bank Digital Currency to swiftly provide 'helicopter money' to citizens as an alternative Central Bank monetary policy tool.



The COVID-19 pandemic is impacting the revenues of many individuals through their inability to work, to such an extent that Central Banks have had to intervene with major packages for economic support.

The mechanisms for this aid are similar to those used during the 2008 banking crisis, through commercial banks. Furloughing (temporary paid leave of absence from work) has been added to the toolkit, but, as with other innovations, it incurs an administrative burden and therefore delays. The situation calls for quick and effective action to provide cash to the most vulnerable. Is it time for a new tool? Could a Central Bank digital currency (CBDC) be the answer to faster, more efficient provision of government aid?

Helicopter money is a last resort type of monetary stimulus, which involves printing large sums of money and distributing it to the public to encourage people to spend more and thus, boost the economy. Helicopter money would enable cash strapped individuals to cover living expenses during the lockdown, reducing the need for individuals to take on additional debt or drawing down retirement savings. Helicopter money would allow Central Banks to distribute newly created public money directly to citizens rather than going through financial markets, as is the case with conventional quantitative easing. A direct payment to citizens could help to kick-start spending in the economy.

Hong Kong is making direct payments into the bank accounts of residents. In Singapore helicopter funds are being disbursed into the bank accounts of people for whom the government have details and the remainder of payments will be made by cheque. The Government also topped-up the PAssion cards (prepay cards known as People's Association membership card) of all Singaporeans aged 50 and older this year. In Macau, the residents were provided with funds using shopping vouchers. As part of the \$2.2 trillion bill known as the Coronavirus Aid, Relief and Economic Security Act, eligible US residents have been receiving \$1,200 stimulus cheques. However, this does not meet the definition of helicopter money: the money backing these

cheques should be printed by a Central Bank, whereas in this instance the United States tax resources are being used to pay for them.

There are currently operational and data challenges to providing money directly to bank accounts, resulting in serious delays. During the crisis thousands of unemployed people in Florida have been unable to file their unemployment claims because the state's system is overstretched with applications. Unable to file an application, many are left without compensation and fear they will miss out on weeks of essential pay. People have been lining up for miles to receive food from food banks.

Let's consider an alternative; imagine that each citizen held an account with the Central Bank and payments could be made directly to them with no operational difficulties, no requirements for applications and no delays in payment. The recent Bank of England (BoE) [proposal](#) for a Central Bank digital currency (CBDC) has opened the doors for just that. The availability of a CBDC as a method of payment offers huge potential for citizens in an economic crisis. A CBDC could be designed so that each citizen has an account directly with the Central Bank that is registered in their name and has been verified. The Government could make helicopter payments to its citizens through this account and thereby swiftly provide funds. These accounts would be highly secure and funds could be transferred to a commercial bank account for withdrawal as cash or could be used for digital payments.

That is not to say that CBDC accounts should replace the current system, but for helicopter payments there are clear advantages if all citizens are provided with a CBDC account linked to their national security number. The benefit of a CBDC relative to cheques or commercial bank accounts are that they provide a safe and liquid government-backed means of payment to the public that does not require individuals to even hold a bank account, thereby improving financial inclusion in an increasingly digital world. CBDC accounts provide operational ease and enable automatic transfers, and using CBDC for helicopter payments would enhance the transmission of monetary policy. There may be privacy concerns, so due consideration needs to be given to the design and implementation of a CBDC. Yet in light of the current economic crisis, we ask whether Central Banks should have a more powerful monetary policy tool such as helicopter money readily available.

To read more about the many other potential advantages of CBDC, read our 2019 paper [Understanding Central Bank Digital Currency](#).