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Helicopter money is a hotly debated concept that has lately come to light as a result of the current pandemic. This article attempts to dive into the political economy underpinnings of the same. The article begins by defining helicopter money and then discusses its prominent rise in the 1630 Venice pandemic. Following an overview of the monetary policies established during the aforementioned times, this piece covers the political economy in Venice, before returning to the political economy of helicopter money in general.

Helicopter Money

Helicopter Money has usually been defined as any combination of fiscal and monetary policy of a country in which expansionary fiscal measures are financed by generating a greater monetary base. In economics two types of helicopter money emerge. First, there is net-worth helicopter money, which is described as an expansionary monetary strategy that results in planned losses on the central bank's balance sheet (Gal 2020), lowering its net worth, or the present value of future seigniorage (Buiter 2014). A monetary-base helicopter money might also be characterised as a continuous rise in central bank liabilities (Buiter 2014, Bernanke 2016, Di Giorgio and Traficante 2018). Based on seigniorage, net-worth and monetary-base helicopter money may be distinguished. Seigniorage is the difference between a currency's face value and its production costs, and it may be measured using two popular methods (Buiter 2007): the change in the monetary base or the revenues gained by investing the monetary base, i.e., central bank

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revenues. Seigniorage losses are associated with net-worth helicopter money, whereas seigniorage profits are associated with monetary-base helicopter money.

Political Economy of Helicopter Money during 1630 Pandemic of Venice

To put it in brief, the monetary policy followed during the pandemic recession years of 1630-31 in Venice resulted in an over-expansion of scriptural money combined with losses in issuer capital, i.e., the central bank had to be bailed out by the government. The eventual macroeconomic effects were price instability and currency depreciation.

Different economic strategies have important redistributive impacts in a country where politicians are in power and individuals are heterogeneous. Politicians want to manage distributional effects of an economic policy. Redistributive effects are significant as long as politicians care about citizens' preferences and when the increasing inequality is an important issue the redistributive consequences matter even more. In Venice, inequality was a major issue.

When disasters struck Venice, public institutions mirrored the local population's expectations. The populace, particularly in the cities, was wary of the government's actions, and was prepared to riot and tumult if they believed the government was not doing everything it could and should have done to assure food supply, therefore ensuring the "right to bread".

Negative macroeconomic shocks like the famine of 1629 and the plague of 1630-1631 were dealt with by the present administration through fiscal monetization. The Republic of Venice, upon consolidating the balance sheets of the Mint and the Giro Bank, introduced helicopter money for political economics reasons in order to avert popular uprisings. As a result, the government implemented a massive fiscal policy financed by money issuing in order to avoid riots and disturbances; the money supply excess triggered monetary instability, and the government was forced to partially sterilise money creation, incurring losses that were to be covered by future tax revenues. The end result was a massive monetary growth accompanied by losses for the money issuer, which is exactly how net-worth helicopter money is defined. In a sense, a monetary policy of redistribution was adopted. However, the policy was funded by allocating future tax income to debt interest payments. Short-term redistribution in favour of the poor was balanced by long-term redistribution in favour of the rich in Venice since taxes were highly regressive. In reality, assessments of income distribution reveal that the 1629-31 pandemic did not start a period of sustained inequality decrease on the same scale as the Black Death, indicating that this strategy did not result in permanent improvements in the situations of destitute residents.

Working of the Political Economy of Helicopter Money

Because the combination of a fiscal backstop and helicopter money generates the "three D" (distributional, directional, and duration) effects, the distributional effects enter the picture (Goodhart and Lastra 2017). Changes in interest rates cause the distributional consequences. The directed effect describes how government policy affects a specific sector and/or constituency of the economy. The duration effect assesses the impact of monetary policy on entire public-sector obligations, including the balance sheet of the central bank. The duration impact is linked to the size and risk profile of the central bank's balance sheet, and it is becoming more important in the monetary policy framework. Changes in the central bank's balance sheet are linked to helicopter monetization. At the same time, a fiscal backstop has directional impacts that are determined by the design of the physical cash monetary policy, while the distributional effect is determined by the debt policy. Entire, the overall economic policy plan has redistributive as well as political repercussions for residents. As long as policies are selected through the democratic process, redistributive consequences remain significant (i.e., when the citizens are voters). In this regard, we take into account majority voting with voter choices linked to the economic repercussions of a fiscal backstop supported by a helicopter monetary policy.

Given the fiscal backstop, citizens will be more opposed to helicopter money if: a) the majority of voters are rich, b) the interest rate is higher, and c) the dangers to monetary stability are greater (Masciandaro, D. 2020). The impression of an unjust monetary policy can rise to a variety of feelings of anger and animosity against the central bank. Furthermore, the more the politicians in power accommodate demand for a degree of helicopter monetization that departs from the central bank's optimum level, the more political pressure will be applied.

Political pressure, in particular, might be used as a proxy for the contingent demand for central bank change. This interpretation is supported by the fact that political pressure has so far appeared to be unrelated to legal central bank independence. The reason for this is simple. If the government in power may threaten the central banker function in some manner, political influences on the central bank may be significant in determining real monetary policy choices. For example, if the institutional structure allows any incumbent government to overrule the central banker's choice in exceptional circumstances, the central banker may be tempted to accommodate political preferences in order to avoid being overridden. Political forces may wreak havoc on monetary policy.

Overall, the more diversified individuals are, and the more career-minded politicians are elected, the more likely it is that the helicopter money that the independent central bank wants to impose would not match political inclinations. Political constraints on the central bank are more likely in such circumstances, and a helicopter monetary policy is less plausible.

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