Helicopter money in another pandemic recession: Venice, 1630

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'Helicopter money' is an often-evoked concept in macroeconomics, but the occurrence of helicopter money, strictly speaking, is exceedingly rare in history. This column describes one episode that actually provides a concrete illustration of this policy: the monetary financing of the pandemic recovery plan put in place by the Republic of Venice during the bubonic plague of 1630.

The COVID-19 pandemic forces swept away some of the conventional taboos in economic thinking, such as the radical idea of helicopter money (Benigno and Nisticò 2020, Cukierman 2020, Galì 2020, Yashiv 2020, Kapoor and Buiter 2020, Velasco et al. 2020). The term uses the fanciful imagery that was originally invented by Milton Friedman (1968). Since the end of the 1990s, Friedman's idea has received more attention in academia and policy circles.

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Precedents to the unprecedented

But what we today refer to as 'unprecedented' monetary policies can often have historical precedents (Ugolini 2020). In a recent paper (Goodhart et al. 2021), we wonder whether the economic policy implemented during the years 1629-1631, when the Republic of Venice fought first a famine and then a pandemic, can be considered an historical case of helicopter money. In its relationship with the role of the state, money circulation and banking, the Venetian economy was special. Venice reached a degree of monetisation unknown for centuries anywhere else. In order to economise on coins, citizens commonly used cheques and bank transfers – even the lower and middle class. The Republic issued both coins and, starting from 1587, scriptural money (bank deposits), through the establishment at different times of two overlapping public banks: the Rialto Bank and the Giro Bank (Ugolini 2017).

From September 1630 to September 1631, Venice wat hit by a bubonic plague. The worst outbreak took place between September and December 1630 (20,923 deaths) with a peak in October 1630. In total, 43,088 deaths were recorded over just three years; the population of Venice was 141,625 in 1624 and became 102,243 in 1633 – a reduction of nearly 30% (Lazzari et al. 2020). This epidemic was a turning point in the economic and social development of the Republic, and the plague had a major impact on wealth inequality (Alfani et al. 2020).

The old dilemma of containment policies

When a pandemic occurs, the government faces an unpleasant dilemma between two public goals. On the one hand, there is a need to protect public health by implementing a containment policy with the aim of minimising the expected loss of life; on the other hand, given the interactions between economic decisions and epidemic, any containment policy has economic costs (Baldwin and Weder di Mauro 2020).

This was the case also in Venice at the time. Venice implemented its first legislation to address a plague epidemic in 1423, and a Health Office was established in 1490 (Palmer 1978). Over the years Venice developed a regulation on plague that included lockdown measures, hitting economic

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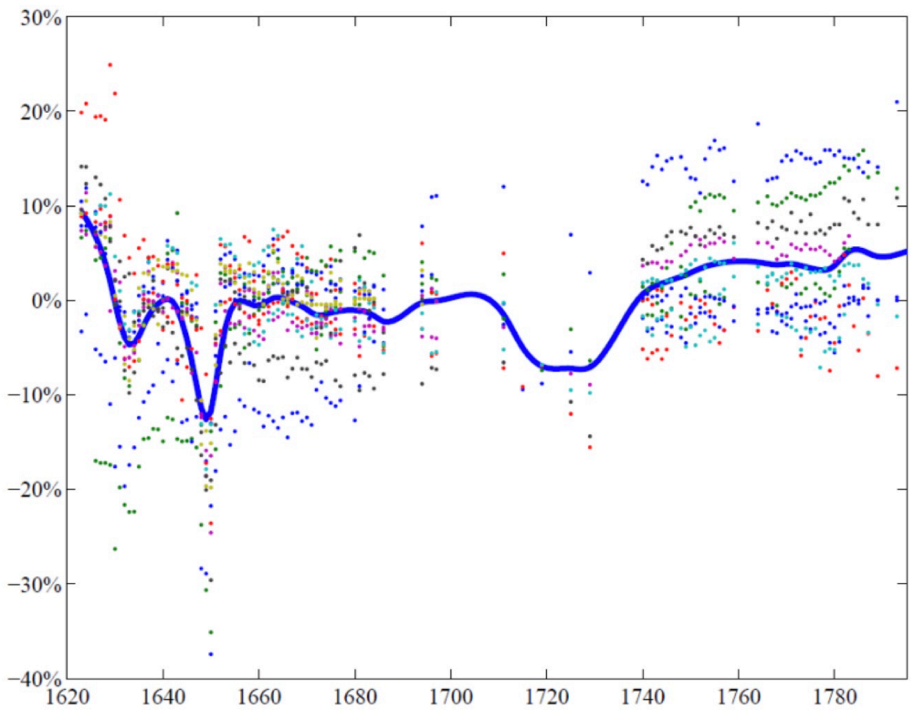
activity. One textile merchant pleaded for the lockdown to be lifted, given that “an incomparable greater number of people has died purely as a result of unemployment than of typhus or any other contagious disease” (Pullan 1964). In order to address the citizens’ pains, the Venetian Senate implemented extraordinary public policies. When city districts were put in quarantine, the inhabitants were provisioned by the state; employment and nominal wages in the sectors under its total or partial control were subsidised; and programmes of public works in order to give the unemployed people a livelihood were considered.

Helicopter money before helicopters

But how could such extraordinary fiscal policy be financed? In 1630, the Republic financed its fiscal action using transfers issued by the Giro bank – its balance sheet was worth 2,071,168 ducats in April 1630, and kept rising to a peak of over 2,666,926 ducats in June 1630 (Soresina 1889). At the end, expansion of the money supply triggered a monetary depreciation (see Figure 1), forcing the government to reform its monetary policy setting. The monetary policy implemented during the pandemic recession years produced an over-expansion of scriptural money coupled with losses in issuer capital, and the central bank had to be bailed out by the government. Moreover, although the Senate avoided any debasement policy, convertibility on demand of scriptural money into coin had to be suspended. Price instability and currency devaluation were the final macroeconomic outcomes.

Figure 1 Foreign exchange rates of Venice on various European cities, 1620-1800



Note: The thick line represents a common index.

Source: Roberds and Velde (2014).

How can one explain this extraordinary monetary expansion? In Venice the politicians in charge cared a lot about citizens’ wishes due to redistributive issues. When calamities occurred, public institutions reflected the expectations of the local population (Alfani 2018). The population, especially those in the cities, were watchful of the activities of the governments, and were ready to riot and provoke uproar if they became convinced that the government was not doing all it could, and should have done, to ensure the availability of food, guaranteeing the ‘right to bread’ (Alfani 2018). Moreover, the government had much to fear, also in terms of personal safety, from riots motivated by distributional reasons – the ‘injustice’ – so the incentives to act for the politicians were really strong (Alfani 2018). In other words, most early modern popular riots seem to have been caused by ‘political’ claims (Alfani and Di Tullio 2019).

A redistributive policy… in the short term

The final outcome was an extraordinary monetary expansion coupled with losses for the money issuer – precisely the modern definition of net-worth helicopter money (Galì 2020) – that became a vehicle for a redistributive monetary policy, which was politically motivated (Masciandaro 2020). However, the policy was financed by earmarking future tax revenues to the payment of debt interests. Because taxes were strongly regressive in Venice, this means that short-term redistribution in favour of the poor was compensated by a long-term redistribution in favour of the wealthy. And in fact, this policy did not cause permanent changes in the conditions of poor citizens, given that analyses of income distribution show that the 1629-31 pandemic did not trigger a phase of sustained inequality decline on the same scale as the Black Death (Alfani and Di Tullio 2019: 116).

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