Pandemic Recession and Helicopter Money: Venice, 1629-1631

Charles Goodhart (LSE)
Donato Masciandaro (Bocconi)
Stefano Ugolini (Toulouse)

SUERF-Baffi Webinar “Central Banking, Inflation and Crises: What Interactions?”
13 June 2022
Motivation

❖ During the Covid-19 crisis, many commentators have advocated for the adoption of “helicopter money” strategies to fight the recession
❖ However, “helicopter money” is a loosely-defined concept… its actual adoption is difficult to identify unambiguously
❖ One relevant precedent: the Republic of Venice’s “net-worth helicopter money strategy” during the pandemic recession of 1629-1631
  ➢ A perfect case study to illustrate the historical interactions between crises, central banking and inflation
What is “Helicopter Money”?

❖ The term “helicopter money” comes from a famous quote by Friedman (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”

❖ Generally defined today as “a money-financed fiscal stimulus […] that […] requires neither an increase in the stock of government debt nor higher taxes, current or future” (Galí 2020)

❖ But what about its concrete implementation? Two alternatives:
  ➢ “Monetary-base helicopter money”: a permanent increase in the assets of the central bank
  ➢ “Net-worth helicopter money”: a permanent decrease in the assets of the central bank
“Monetary-Base Helicopter Money”

Figure 2. Balance sheet effects of a ‘monetary-base helicopter money’ strategy
“Net-Worth Helicopter Money”

Figure 3. Balance sheet effects of a ‘net-worth helicopter money’ strategy
Historical Context: Venice

❖ **Fiscal policy:** zero-debt long-term target; regressive tax system; public debt largely held domestically by the domestic governing elite

❖ **Monetary policy:** public bank issuing inconvertible money (usually trading *at a premium* with respect to full-bodied coins); governments payments implemented through the public bank
Historical Context: The 1629-1631 Crisis

- In 1628, Venice gets involved into the Thirty Years’ War
- Since 1629, famine starts to hit the whole territory of the Republic
- In 1630, Venice is hit by the bubonic plague (death rate: around 30%)
- Massive fiscal expansion in order to feed the population
- Massive monetary expansion through the bank of issue: a “net-worth helicopter money” strategy
“Net-Worth Helicopter Money”

Figure 3. Balance sheet effects of a ‘net-worth helicopter money’ strategy
Money Depreciation

Figure 4. Market value of Gwo bank money (in silver grains)
Source: Mandich (1957, p. 1173)
The Solution

❖ The bank of issue loses control of the value of its money
❖ At the peak of the crisis (October 1630), the government is forced to reverse its “net-worth helicopter money” strategy:
   ➢ (Non-interest-bearing) sight claims on the bank of issue converted into (interest-bearing) long-term government debt
   ➢ De facto bailout of the bank of issue
   ➢ Costly conversion successful because of the credibility of the long-standing commitment to fiscal virtue (and of the “deep pockets” of the domestic elite)
The Solution

Figure 5. Balance sheet effects of the September 1630 reform

11
Conclusions

❖ “Net-worth helicopter money” made the Bank of Venice lose control of the value of money
❖ Well before the end of the shock, the government had to backtrack and reverse the policy (de facto bailout of the central bank)
❖ Choice between “monetary-base” and “net-worth helicopter money” appears to have non-neutral implications in terms of implementation