

Pandemic Recession and Helicopter Money: Venice, 1629-1631

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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”

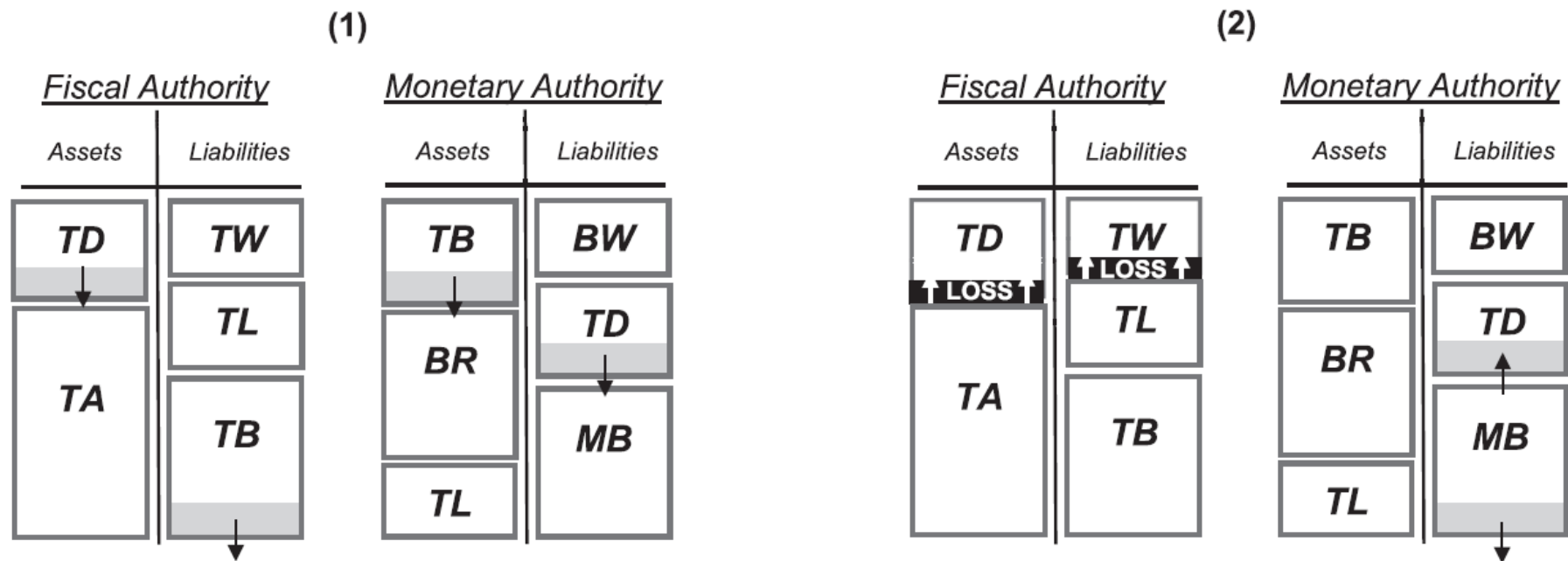
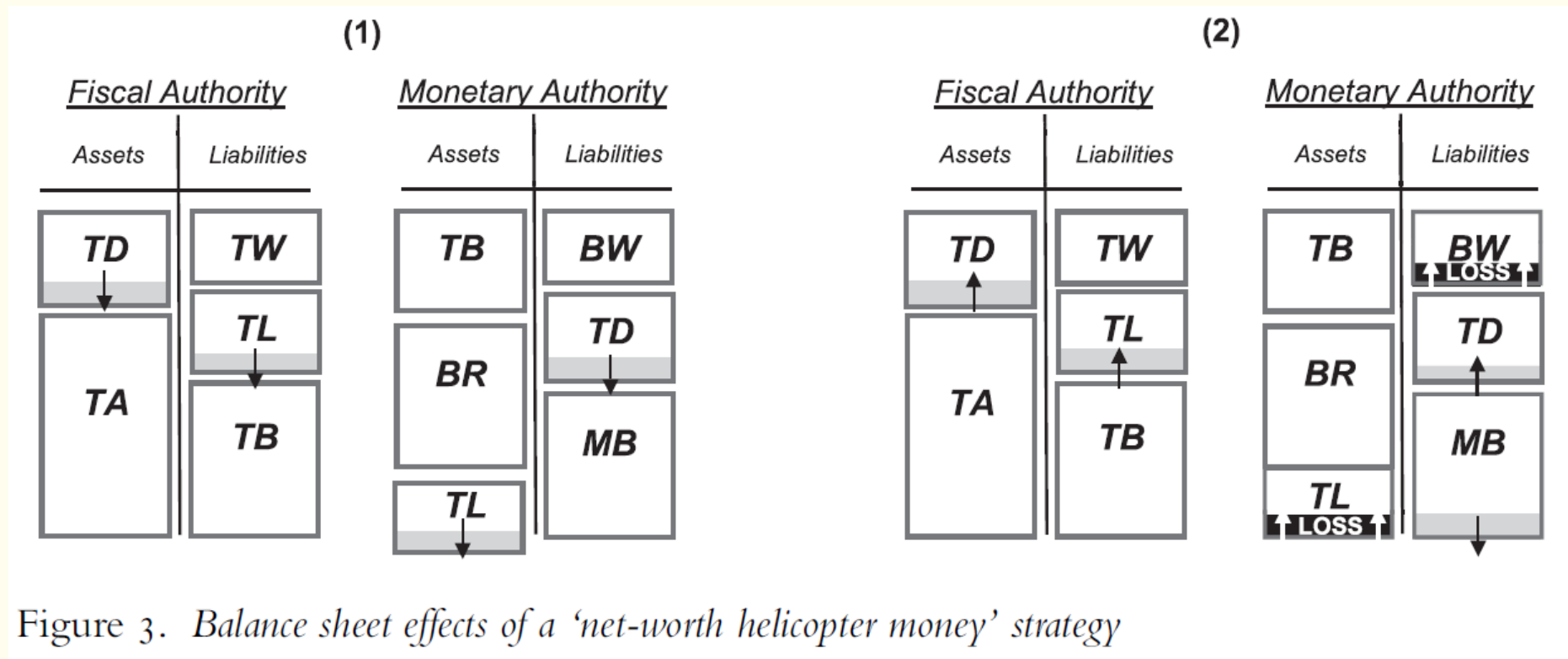


Figure 2. Balance sheet effects of a 'monetary-base helicopter money' strategy

“Net-Worth Helicopter Money”



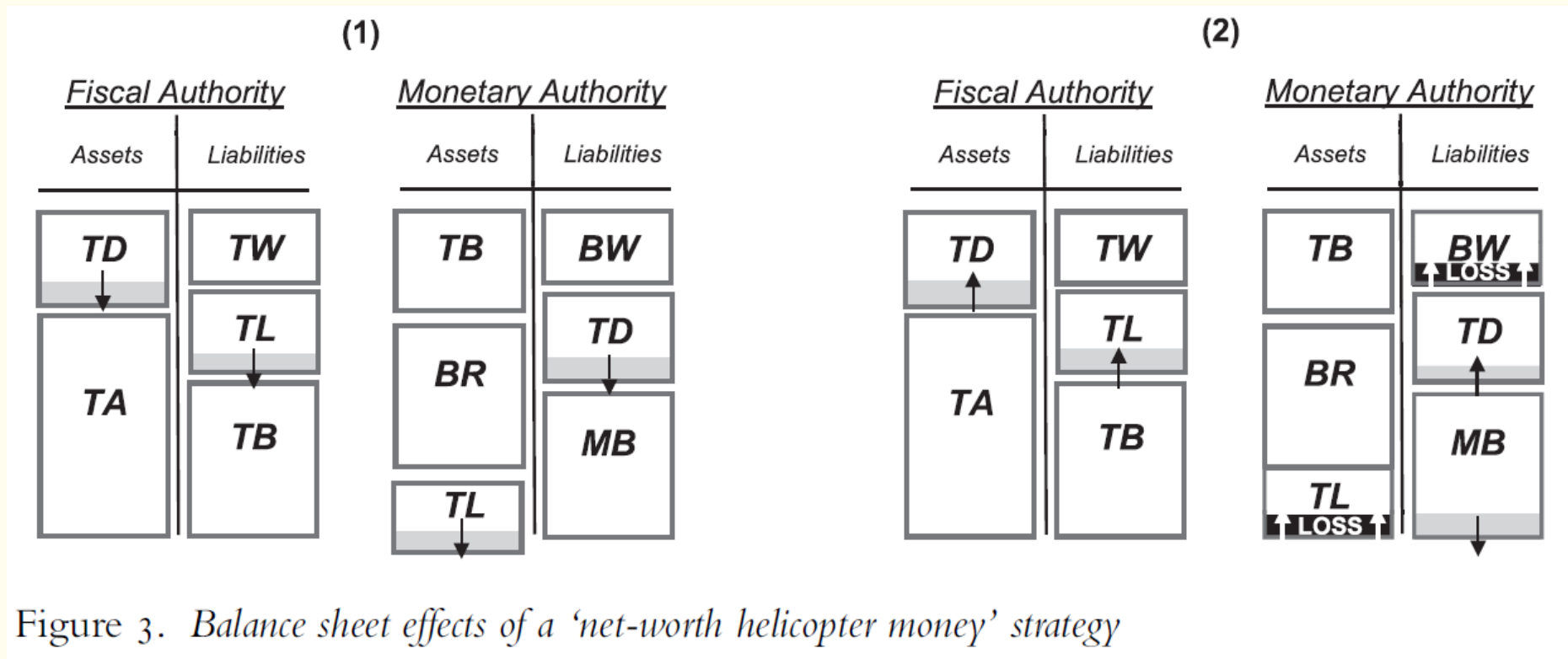
Historical Context: Venice

- ❖ **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

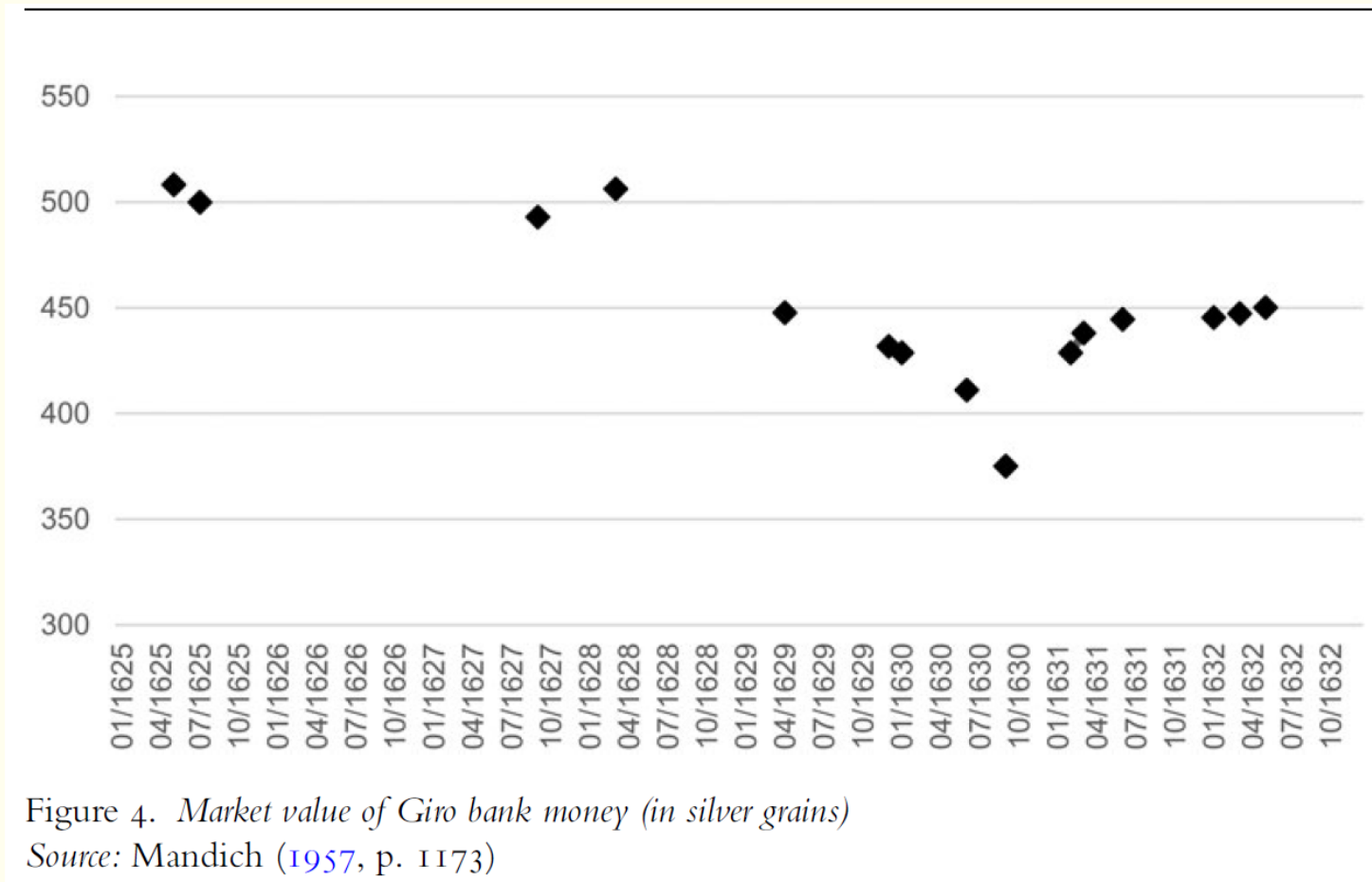
Historical Context: The 1629-1631 Crisis

- ❖ 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”



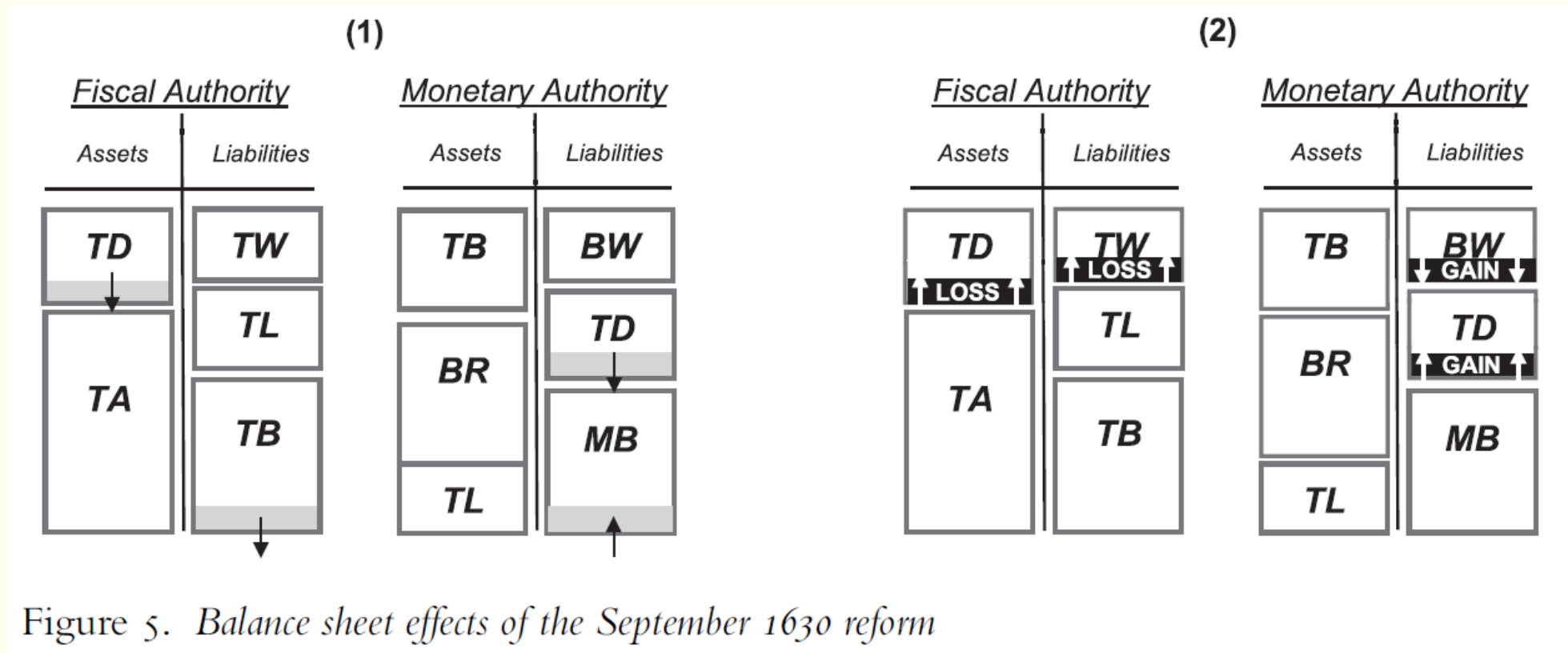
Money Depreciation



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



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



Paolo Veronese, *Juno Showering Gifts on Venetia* (1554-1556), Venice: Ducal Palace.