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Pandemic Recession, Recovery Plan and Helicopter Money: A Tale from the Serenissima



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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 policy brief describes one historical 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, with its economic and political drivers.

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1. Introduction

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). Starting from the end of the 1990s this Friedman idea has received more attention in academia and policy circles. But what we today call unprecedented monetary policies can often have historical precedents (Ugolini 2020). In a recent paper (Goodhart et al. 2021) we wonder if 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.

Our aim is to show that analysing an historical episode using a modern economic lens – as in the framework of helicopter money – can be a positive sum game, on the one hand in terms of understanding monetary and banking – and in general economic – history episodes, and on the other hand for checking and refining the robustness of relevant economic concepts. In other words, we share the view that the use of history is a useful tool in exploring economics (Eichengreen 2015), and vice versa.

The remainder of this note is organised as follows. Section Two describes what can be considered respectively monetary policy and central banking in the case of the Republic of Venice in the first decades of the seventeenth century. Then Section Three discusses the action of the Venetian government during the 1629-1631 period, focusing on the economics of the fiscal monetization that was implemented at that time.

2. Monetary Policy and Central Banking in the Most Serene Republic of Venice

In order to analyse historical events using a modern concept such as helicopter money, we need to define what were the forms respectively of monetary policy and central banking in the relevant historical context.

First, we need a definition of monetary policy that has to be general from both the theoretical and historical point of view. Theoretically, given a standard general equilibrium setting with frictions, where money is a good – or a token (that can perform at least one of the three well-known functions – unit of accounts (Loyo 2002), medium of exchange (Kiyotaki and Wright 1993), store of value (Wallace 1980)) a demand for money is likely to exist.

Then we can define monetary policy as the corresponding government issuing policy; the government produces outside money, whatever may be the capacity of the private sector to produce inside money (Holmstrom and Tirole 1998, Brunnermeier and Niepelt 2019). In a sense, our definition is consistent with a Cartalist approach (Goodhart 1998), being centred on the link between political sovereignty on the one hand and money creation – either through mint or central bank, or both – on the other side.

Historically, this definition can be applied in analysing the overall evolution of monetary history, where both commodity money and fiat money can be present. Saying that monetary policy is any public policy aiming to control money issuing – whatever is the definition of money – allows one to discuss monetary policy episodes well in advance of the appearance of modern central banks, for example during the Roman Age (De Cecco 1985, Temin 2013, Bordo and Levin 2017).

Secondly, given such a definition of monetary policy, and assuming the existence of banking – i.e. the existence of firms whose liabilities are inside money, while in their asset side only a fraction is outside money (Rochet 2008) – we adopt the perspective proposed in Ugolini (2017), defining central banking as a device to implement at least one of a family of public policies aimed at fostering fiscal goals (Goodhart 1985) and/or monetary and financial goals (Capie et al. 1994).

In a nutshell, our conceptual framework is based on the assumption that a government can use the existence of both inside and outside money to pursue its goals; consequently we focus on the relationship between the role of state, money circulation and banking. In this respect, the Venetian economy was special for more than one reason (Ugolini 2017). For our purposes two features are particularly relevant.

In their relationship with the role of the state, money circulation and banking, the Venetian economy was special. Venice reached a degree of monetization unknown for centuries anywhere else; in order to economize on coins, citizens commonly used cheques and bank transfers, even for the lower- 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).

In banking activities, and starting from the logistic side, the financial district of Venice – the Rialto area – was entirely owned by the Republic, which then rented to the bankers the benches at which they used to operate (Ugolini 2017). Moreover, the books of the bankers were considered as public records, the bank transfers being a legal way to discharge debt under the Venetian law (Sissoko 2007, Ugolini 2017).

Yet the ideal that inspired the Venice government was that, as far as possible, the State should not substitute itself in the place of private initiative in markets (Dunbar 1892, Ugolini 2017). With the Republic being firmly controlled by an oligarchy of merchants, the government goal was just to provide the services that were on the one hand essential for business, and on the other hand too expensive and/or too risky to be provided by the businessmen themselves (Ugolini 2017).

This feature of the Venice economy implies that in normal times fiscal monetization was not needed. Indeed by 1600 the Republic had repaid all its debt, enhancing its reputation and creditworthiness (Sissoko 2002, Fratianni and Spinelli 2006, Alfani and Di Tullio 2019).

3. Pandemic, Containment Policy and Helicopter Money: Venice, 1630

From September 1630 to September 1631 Venice was hit by a bubonic plague. The worst outbreak took place between September and December 1630 – 20,923 deaths – with a peak in October 1630, and 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 2020 et al.).

When a pandemic occurs, each government faces an unpleasant dilemma between two public goals: on the one side, there is a need to protect public health by implementing a containment policy with the aim of minimizing the expected loss of life; on the other side, such a containment policy saves lives, but, 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, which included lockdown measures, hitting economic activity; a 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 subsidized; programs of public works in order to give the unemployed people a livelihood were considered.

But how can 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 million ducats in June 1630 (Soresina 1889). At the end, expansion of the money supply triggered a monetary depreciation, 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 – 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.

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 that in the cities, was watchful of the activities of the governments, and was 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).

The final outcome was an extraordinary monetary expansion coupled with losses for the money issuer, which is exactly 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, p.116).

All in all, the monetary policy implemented during the pandemic recession to avoid riots and tumults produced an over-expansion of convertible money coupled with losses in issuer capital. Price instability and currency devaluation were the final macroeconomic outcomes. The mix between consensus needs, debt and money was really toxic. From yesterday to today, a big institutional difference is the central bank independence as an effective device to avoid the political excesses. It will be enough, hopefully.

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