Discussion of "Fiscal Dominance, Monetary Policy and Exchange Rates: Lessons from Early-Modern Venice"

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Monetary and Financial History: Lessons for the 21st Century — Nov 2024

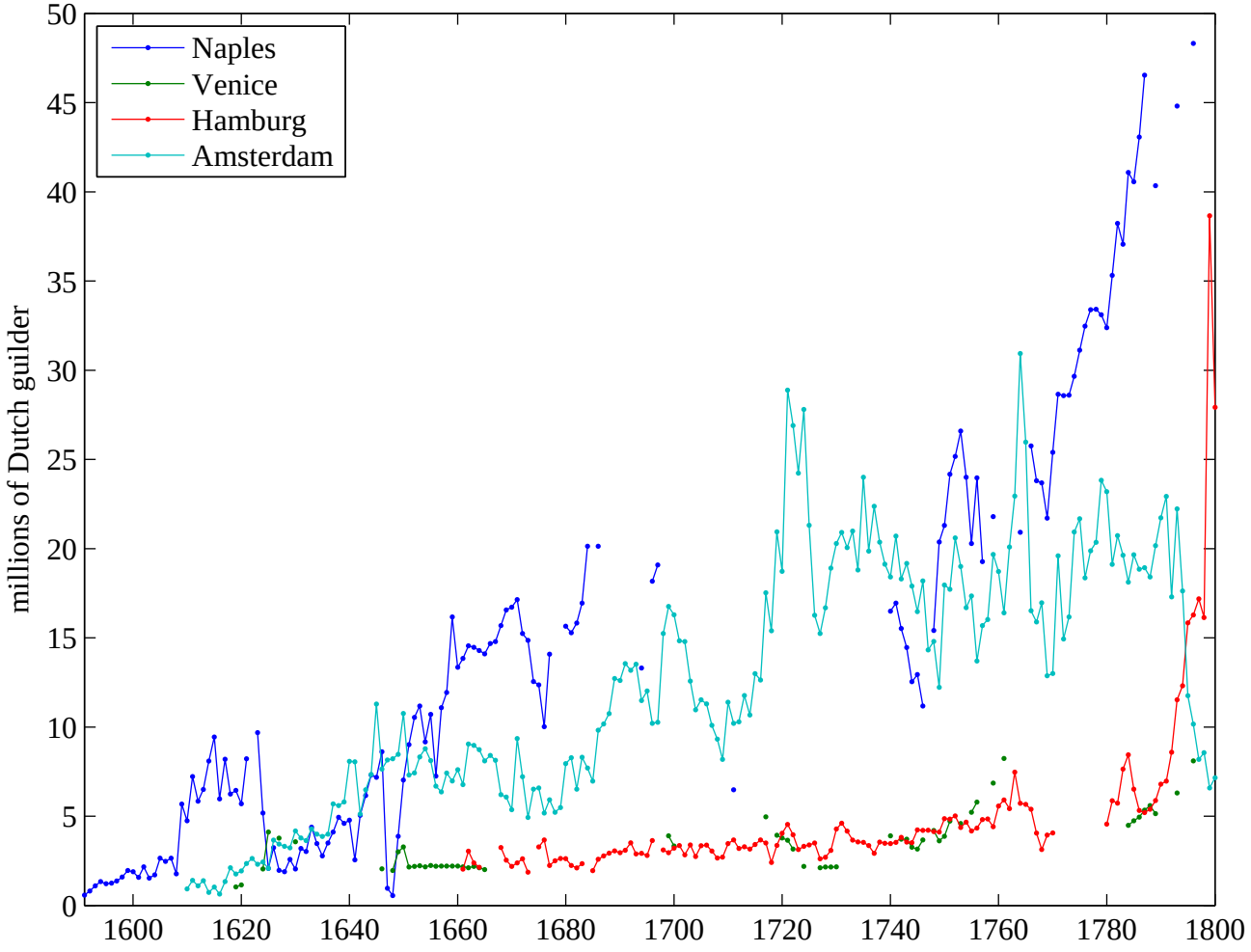
This paper

- Venetian ducat an international currency
- its FX value affected by government's fiscal stance
  - deficit monetization reduced its value, stricter stance increased it
  - first episode (1630) had less impact than second episode (1648–50)
- choice of convertibility had limited impact on its value

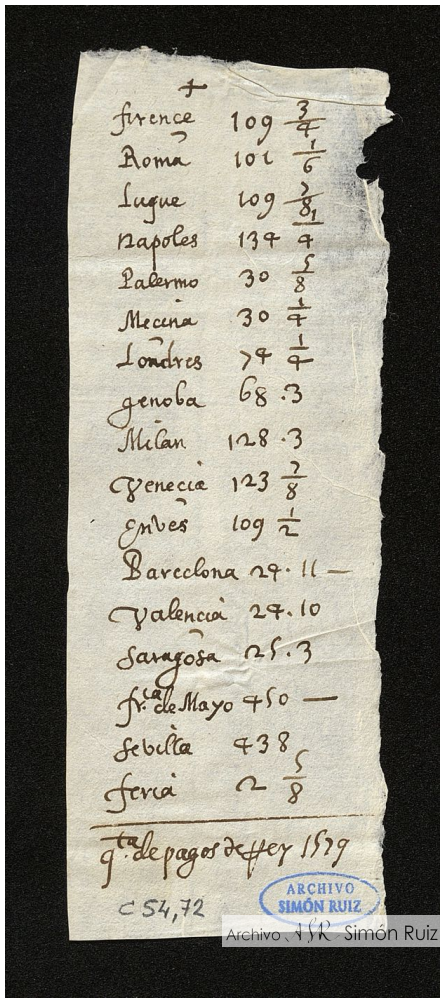
Context: Banks and Markets

- banks
  - Giro was one of several public banks
  - motivations: provide a safe and stable asset in a context of fragile private banks and low-quality coinage
  - pre-existing ones (including Venice's Rialto bank) were deposit banks
  - Giro was different: it turned unsecured government debt into a liquid asset
  - value propped up by discretionary redemptions (but in what?)
- markets
- foreign exchange markets where bills were traded
- bills on/from Venice quoted in *valuta di banco* from 1593 (before the Giro)

Banks


Naples
Venice
Hamburg
Amsterdam
millions of Dutch guilder
0
5
10
15
20
25
30
35
40
45
50
1600
1620
1640
1660
1680
1700
1720
1740
1760
1780
1800

Listini



+

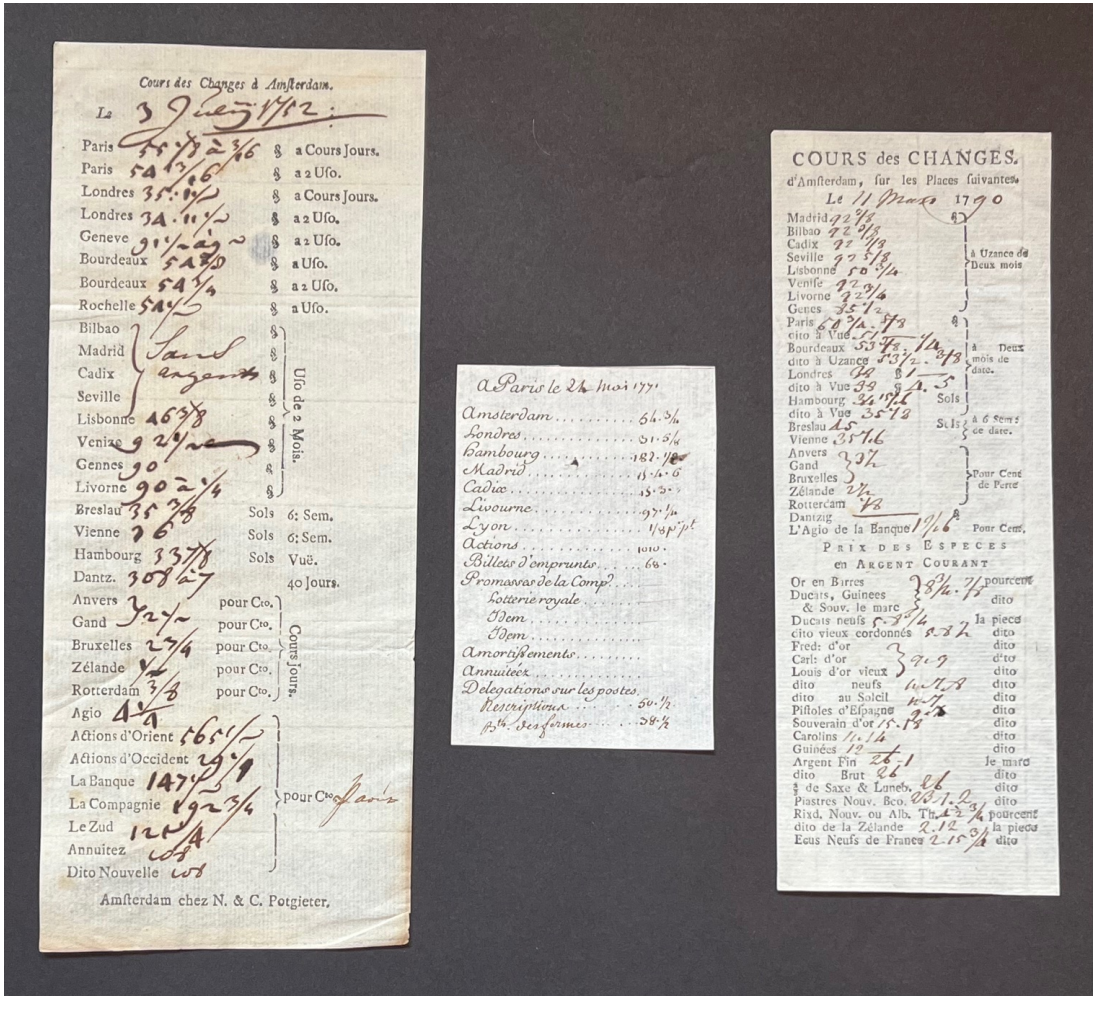
firence	109 3/4
Roma	101 1/6
Lugue	109 7/8
Napoles	134 1/4
Palermo	30 5/8
Mecina	30 1/4
Londres	74 1/4
genoba	68 .3
Milan	128 .3
Venecia	123 7/8
Enves	109 1/2
Barcelona	24 . 11 —
Valencia	24 . 10
Saragosa	25 . 3
Fr.ca de Mayo	450 —
Sevilla	438
feria	2 5/8

q.ta de pagos de ffey 1579

C 54,72

ARCHIVO SIMÓN RUIZ
Archivo Simón Ruiz

Listini



Cours des Changes à Amsterdam.

Le 3 Juin 1752.

Paris	55 7/8 à 3/16	§	a Cours Jours.
Paris	54 13/16	§	a 2 Uso.
Londres	35 : 11 1/2	§	a Cours Jours.
Londres	34 . 11 1/2	§	a 2 Uso.
Geneve	91 1/2 à 9	§	a 2 Uso.
Bourdeaux	54 3/8	§	a Uso.
Bourdeaux	54 3/4	§	a 2 Uso.
Rochelle	54 1/2	§	a Uso.
Bilbao	Sans argent	§	Uso de 2 Mois.
Madrid		§	
Cadix		§	
Seville		§	
Lisbonne	46 3/8	§	
Venize	92 1/2	§	
Gennes	90	§	
Livorne	90 à 1/4	§	
Breslau	35 3/8	Sols	6: Sem.
Vienne	36	Sols	6: Sem.
Hambourg	33 7/8	Sols	Vuë.
Dantz.	308 à 7		40 Jours.
Anvers	72 1/2	pour Cto.	Cours Jours.
Gand		pour Cto.	
Bruxelles	2 3/4	pour Cto.	
Zélande	1/2	pour Cto.	
Rotterdam	3/8	pour Cto.	
Agio	4 1/4		
Actions d'Orient	565 1/2		pour Cto. Paris
Actions d'Occident	29 1/4		
La Banque	147 1/2		
La Compagnie	192 3/4		
Le Zud	121 1/4		
Annuitez	108		
Dito Nouvelle	108		

Amsterdam chez N. & C. Potgieter.

a Paris le 24 Mai 1771

Amsterdam	54 3/4
Londres	31 5/8
Hambourg	182 1/8
Madrid	15 4 6
Cadix	15 3 7
Livourne	97 1/4
Lyon	1/8 p.t
Actions	1010
Billets d'emprunts	68
Promesses de la Comp.e	
Lotterie royale	
Idem	
Idem	
Amortissements	
Annuitéez	
Delegations sur les postes	
Rescriptions	50 1/2
B.ts des fermes	38 1/2

COURS des CHANGES.

d'Amsterdam, sur les Places suivantes.

Le 11 Mars 1790

Madrid	92 7/8	§	à Uzance de Deux mois
Bilbao	92 7/8		
Cadix	92 7/8		
Seville	92 5/8		
Lisbonne	50 3/4		
Venise	92 3/4		
Livorne	92 3/4		
Genes	85 1/2		
Paris	50 3/4 . 5/8	§	à Deux mois de date.
dito à Vue	51 7/8 . 1/4		
Bourdeaux	53 7/8 . 3/8		
dito à Uzance	53 1/2 . 3/8		
Londres	38	§	
dito à Vue	38	§	
Hambourg	34 15/16	Sols	
dito à Vue	35 1/8		
Breslau	45	Sols	à 6 Sem.s de date.
Vienne	35 1/16		
Anvers	3 1/2		Pour Cent de Perte
Gand			
Bruxelles			
Zélande	2 1/2		
Rotterdam	1/8		
Dantzig			
L'Agio de la Banque	1 9/16	§	Pour Cent.

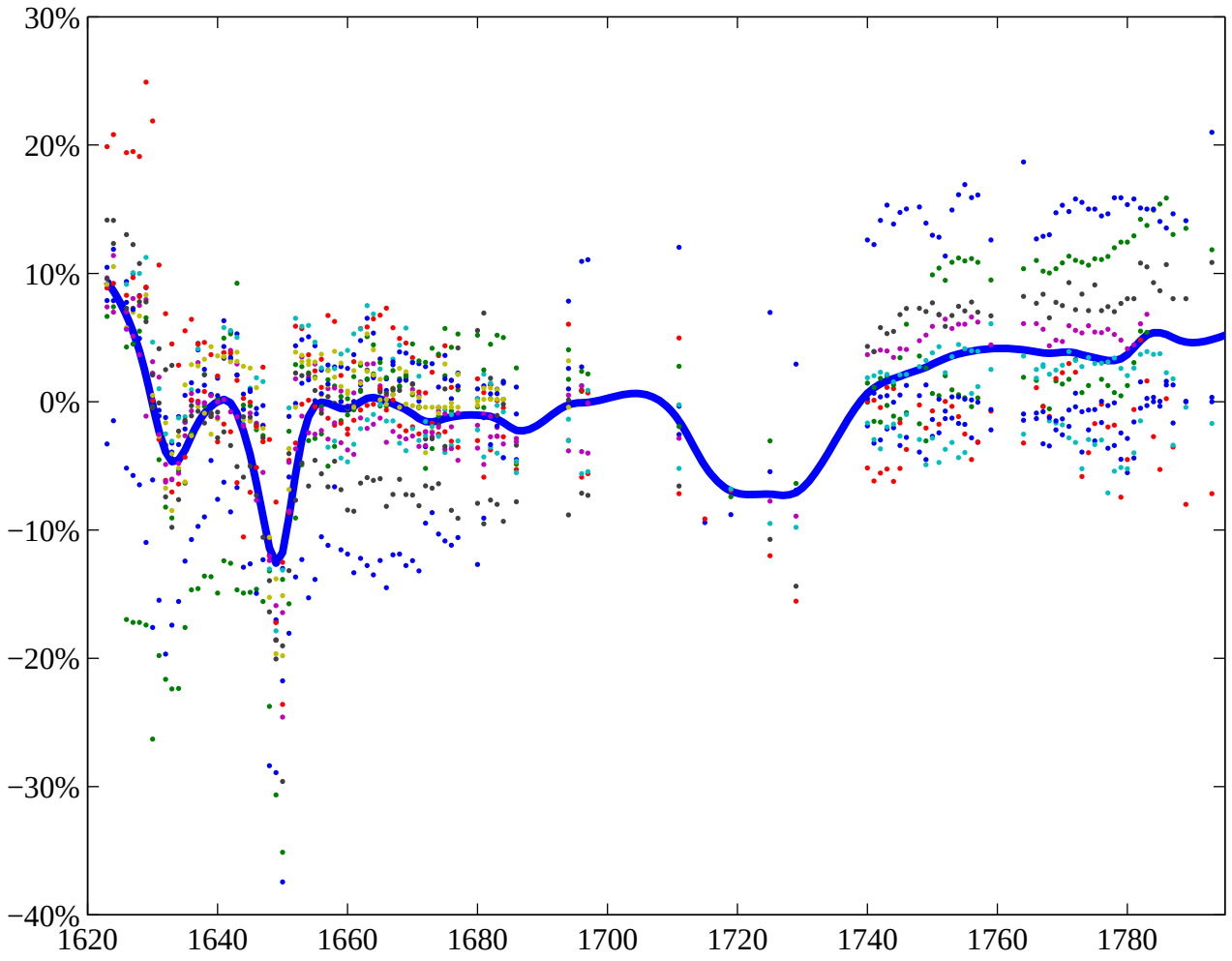
PRIX DES ESPECES en ARGENT COURANT

Or en Barres	8 3/4 . 7/8	pourcent
Ducats, Guinees & Souv. le marc		dito
Ducats neufs	5 . 8 3/4	la piece
dito vieux cordonnés	5 . 8 1/2	dito
Fred: d'or	9 . 9	dito
Carl: d'or		dito
Louis d'or vieux		dito
dito neufs	4 . 7 . 8	dito
dito au Soleil	4 . 7	dito
Pistoles d'Espagne	9 . 7	dito
Souverain d'or	15 . 18	dito
Carolins	11 . 14	dito
Guinées	12	dito
Argent Fin	26 . 1	le marc
dito Brut	26	dito
2/3 de Saxe & Luneb.	26	dito
Piastres Nouv. Bco.	23 . 1 . 2	dito
Rixd. Nouv. ou Alb. Th.	1 . 2 3/4	pourcent
dito de la Zélande	2 . 12	la piece
Ecus Neufs de France	2 . 15 3/4	dito

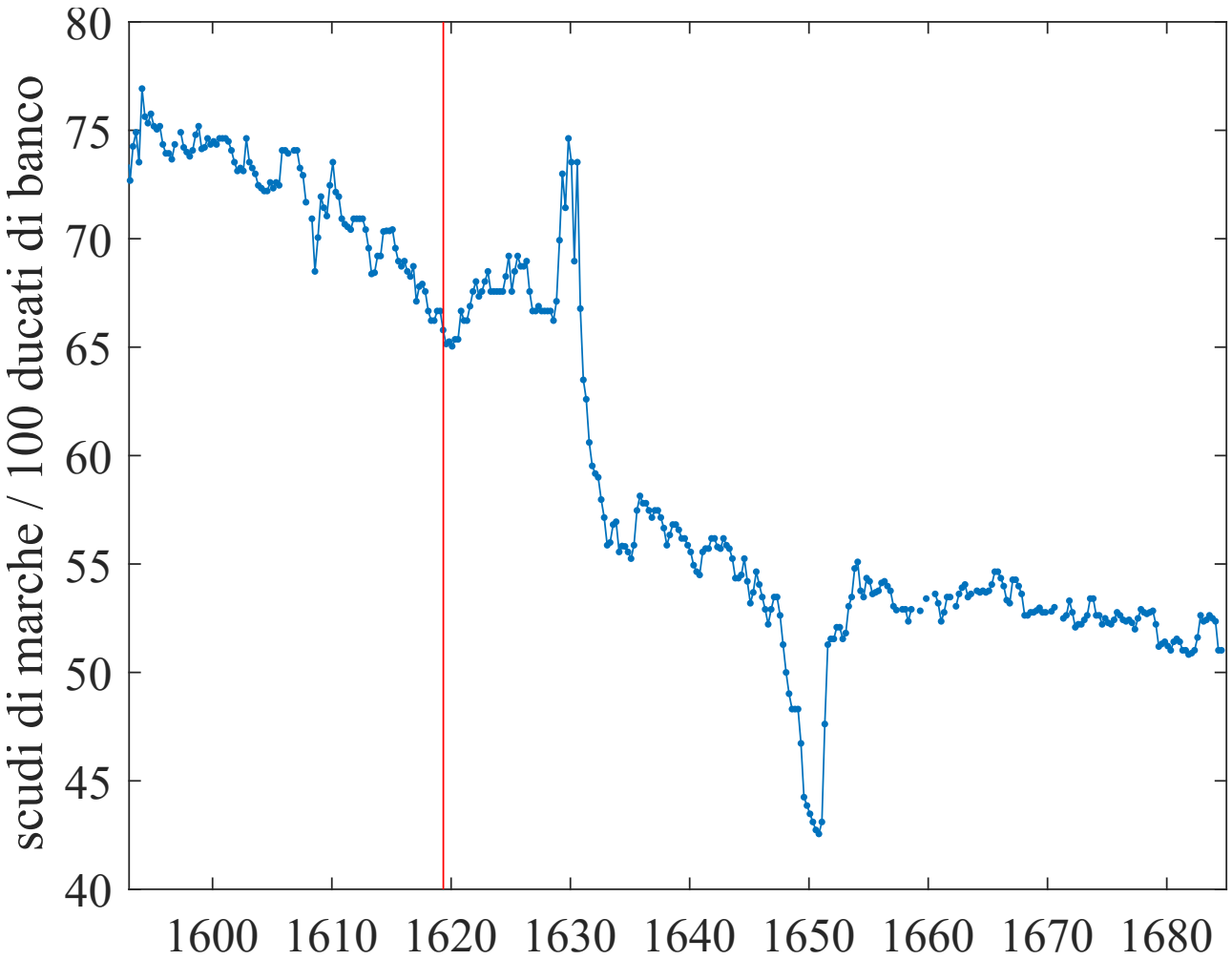
Currencies

- coins
  - gold: ducato d'oro or zecchino (24c since 1252), scudo d'oro (22c since 1528)
  - large/fine silver: ducato d'argento (from 1561), scudo veneto (from 1578)
  - small/billon silver: *grossa da 20*, *grossa da 12*, *minuta*
- units of account
  - *lira di piccoli* (L, tied to small silver coins)
  - *lira di grossi* (originally tied to large silver coins, then fixed at L62)
  - *ducato d'oro* (originally tied to gold coin, then fixed at L6.2) or *ducato corrente*
  - *moneta di zecca* (originally tied to the large silver coins)
  - *ducato di banco* (originally tied to *moneta di zecca*, then to *moneta corrente*)
- in what sense is the one ducato that is an international currency?
- how to measure the value of the *ducato di banco*?
  - ideally the agio, but there are too few quotations
  - alternative: foreign exchange rates (from listini)

Exchange rates



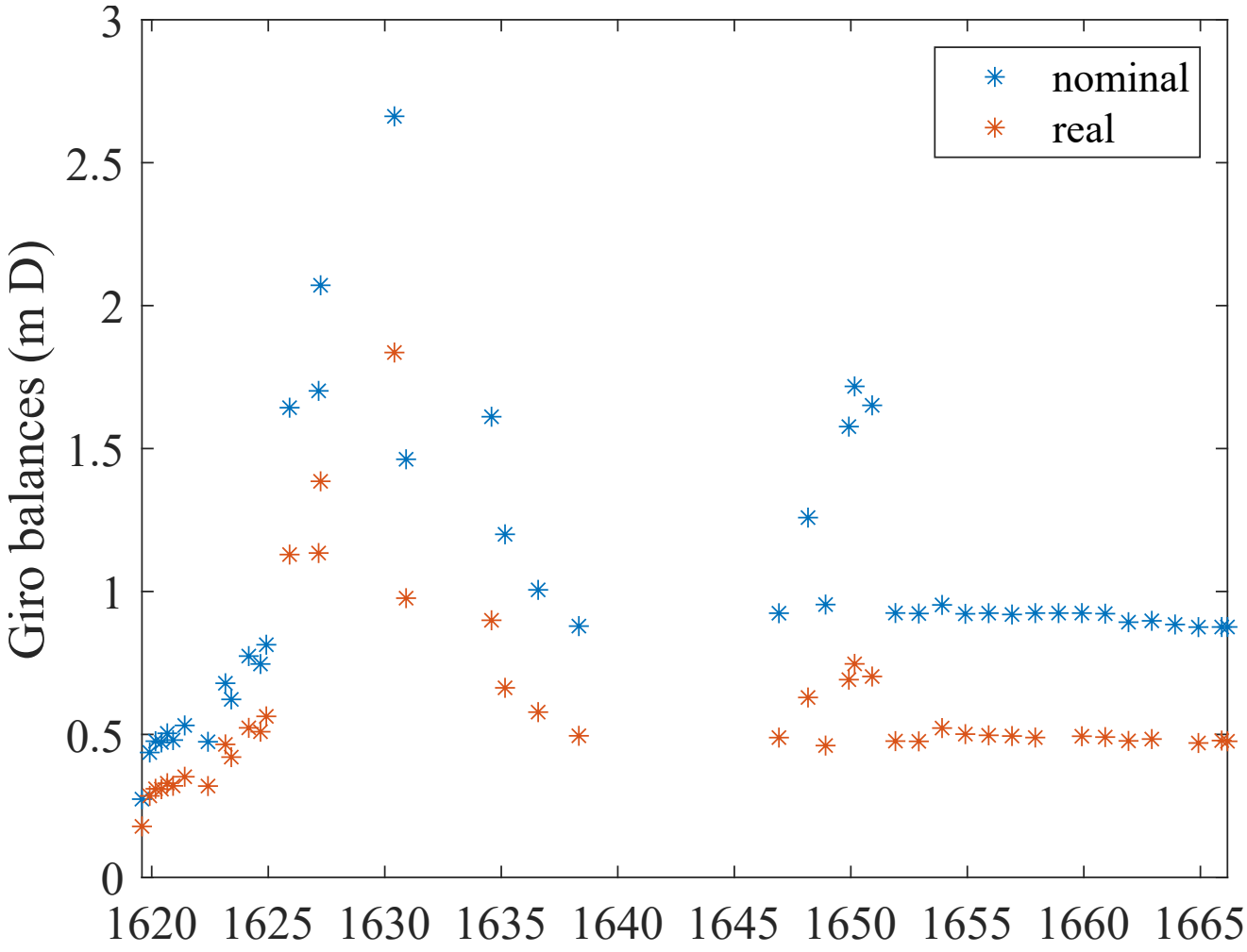
Venice in Bisenzone



Fiscal Dominance

- empirical method: regress change in exchange rate on stock
- one can also look at real balances

Real Balances



Fiscal Dominance

- familiar pattern from later episodes (British Suspension, greenbacks)
- most of the time, nominal balances around D800,000
  - considered the prudent level
  - two major exceptions (and only two): plague of 1630, Turkish War of 1648–50
  - different effect: time trend or just different shocks?
    - wars much more open-ended

Conclusion

- "fiscal dominance": is that the right framework (only one authority here)
- Giro episode one of many in centuries-long process of learning hos to manage a currency
- particularly interesting because it's one of the first
  - but Venice had done something similar with copper coinage in its colonies in 15th c
- clearly Venice had learned how to manage it, by staying on a small scale
  - not that convertibility doesn't matter, but it can be mimicked
- lingering questions
  - why the D800,000 ceiling?
  - why did merchants insist on convertibility in 1666?
  - more details on the fiscal stance?