

Hyperinflation in a Monetary Union: Lessons from 1619-1623

Martin Kliem and Alexander Kriwoluzky

Deutsche Bundesbank

University of Halle

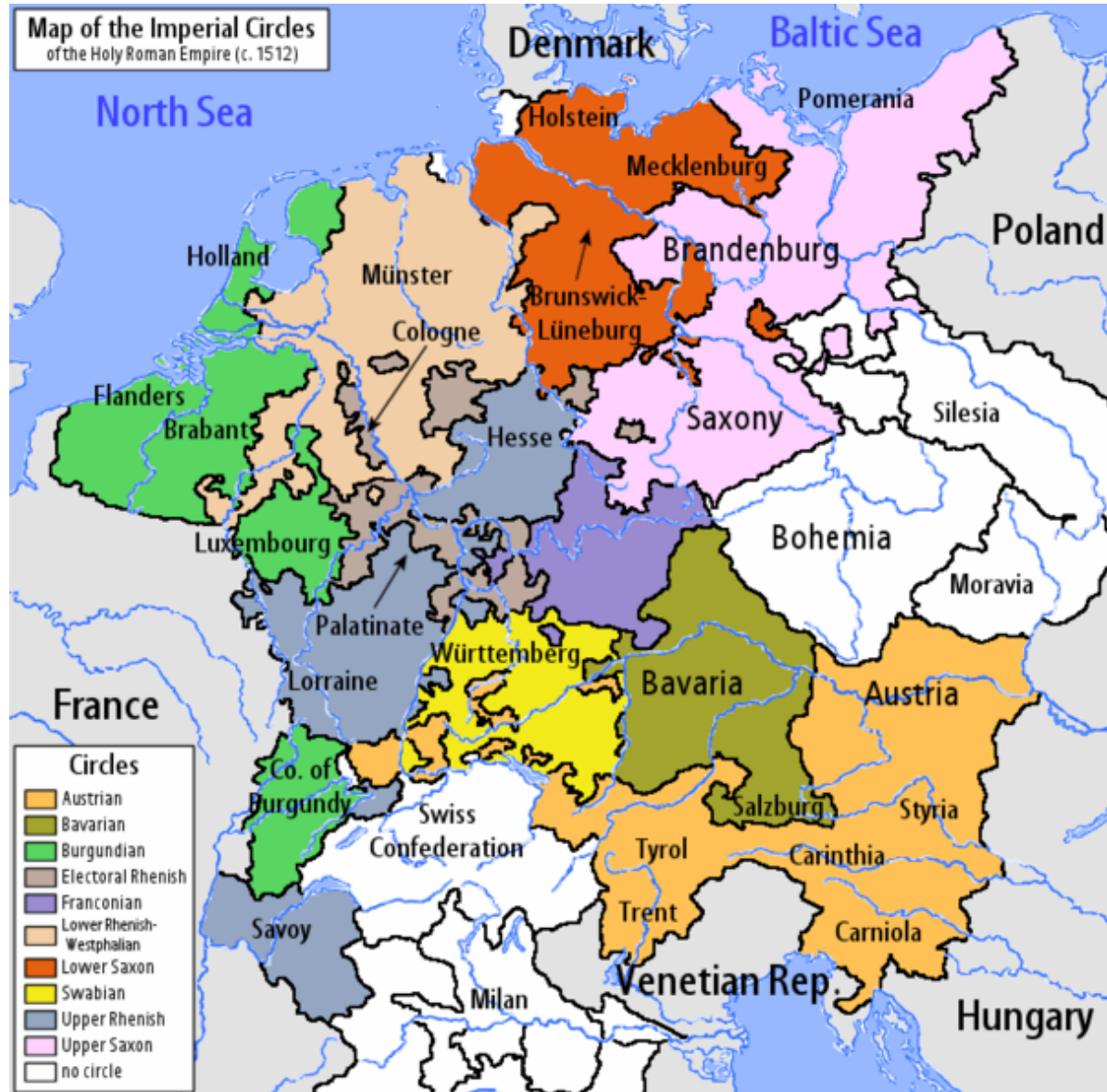
Chicago, 1st April 2016

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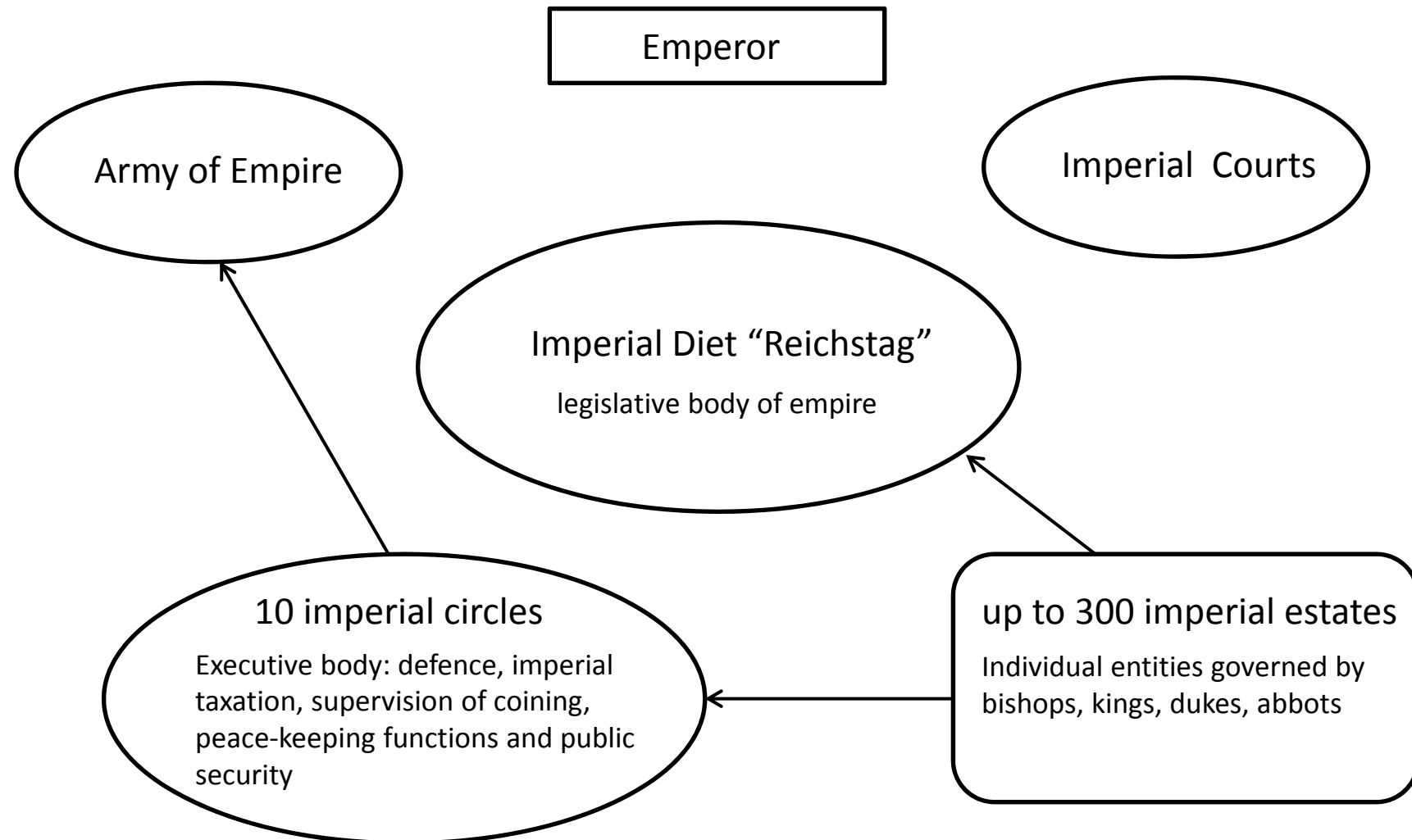
Motivation

- The European Monetary Union (EMU) faces institutional gaps (Sims, 1999; Uhlig, 2003)
- How do these gaps affect price stability in such an union - especially in presence of big shocks?
- EMU is unique, hard to find comparable structure anywhere else
- Therefore, we investigate a historical episode with surprising similarities

The Holy Roman Empire



The structure of the Holy Roman Empire



The Holy Roman Empire and the EU

Niall Ferguson (2005): “Like the Holy Roman Empire , it (the EU) has a relatively weak legislature ... like the **Holy Roman Empire** **it (the EU) is always in the process of reforming itself, without ever quite getting there.**”

Jan Zielonka (2006): “In Essence, the Holy Roman Empire like the contemporary EU was always a highly ‘plurilateral’ and decentralized unit **unable or unwilling to forge a fully fledged political union**”

Timeline

From 1559 to Hyperinflation

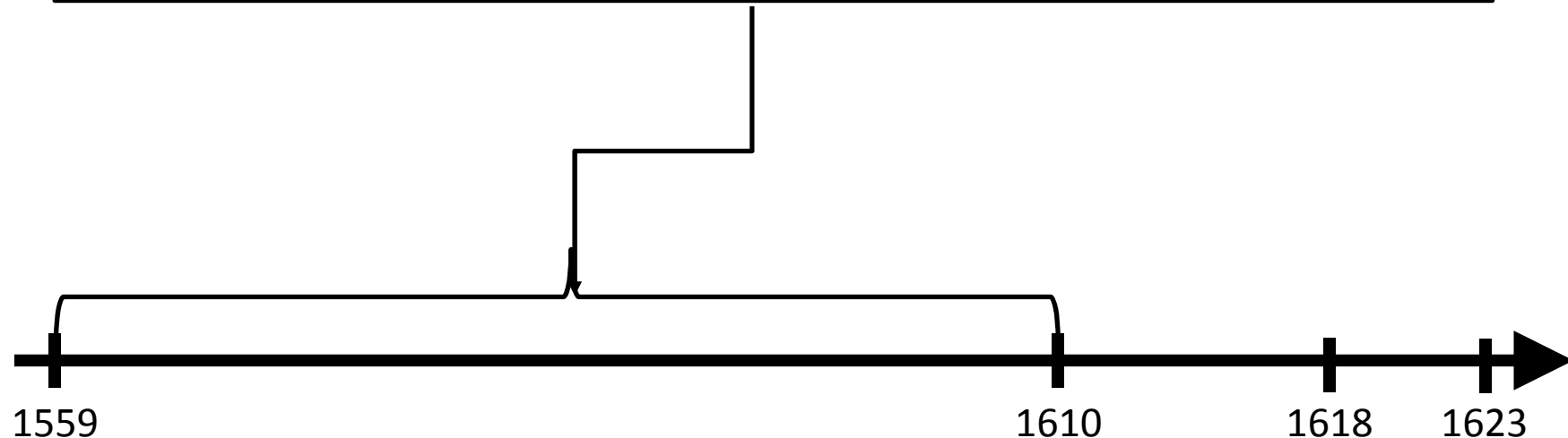
- Augsburg imperial mint ordinance (“Reichsmünzordnung”)
- selected group of princes maintaining a limited number of mints
- intrinsic content of coins was fixed
- system of supervision and punishment



From 1559 to Hyperinflation

- silver content for small coins was set too high
- incentive to reduce intrinsic value
- rules to prevent this behavior were not enforceable

-> right from beginning incentives to deviate from
"Reichsmünzordnung"



From 1559 to Hyperinflation

- debasement becomes more severe
- imperial estates (principalities) still attempt to fight debasement
e.g. tried to punish mints not minting according to “Reichsmünzordnung”



From 1559 to Hyperinflation

- start of the Thirty Years' War
- Hyperinflation starts in 1618/19
-> called "Kipper- and Wipperzeit"
(to tilt) (to seesaw)
- similar characteristics as before but at different pace (e.g. more mints)



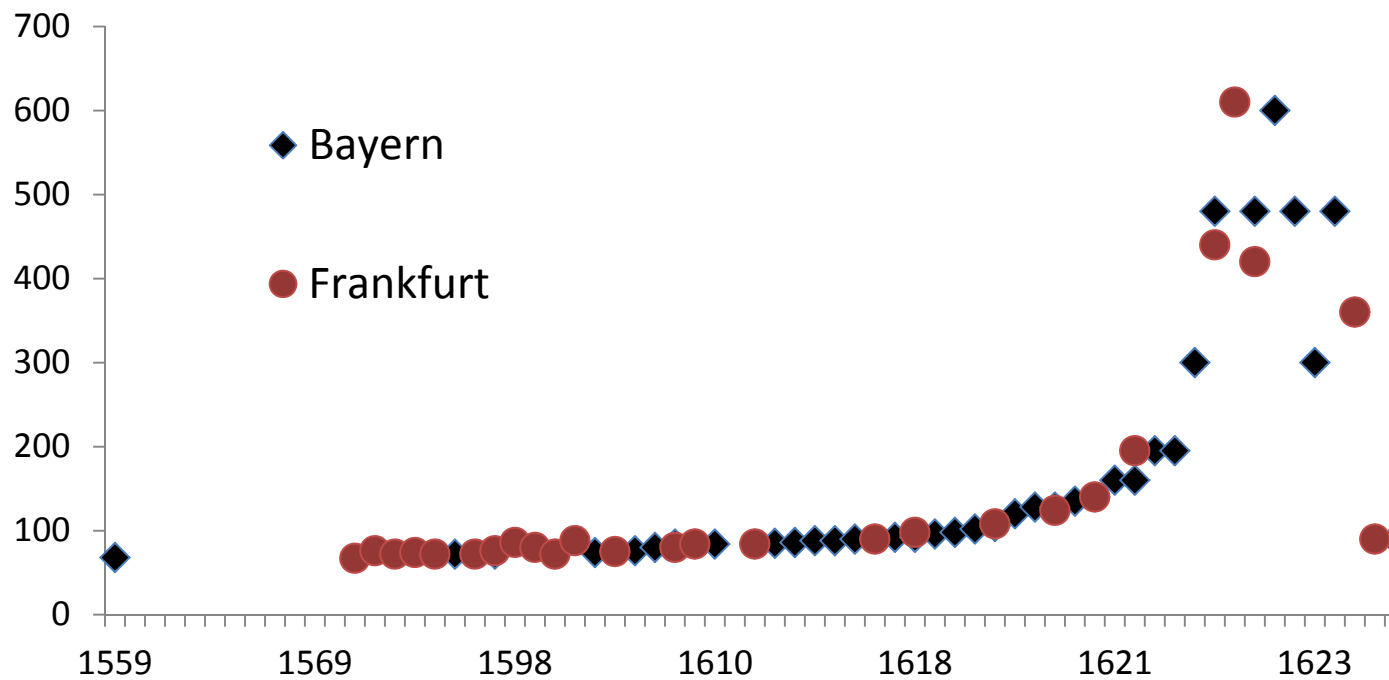
From 1559 to Hyperinflation

- People became unwilling to accept bad coins
 - Government received more and more bad coins
 - Between 1623-1624, the authorities started to revert to the old coinage system
 - Bad coins were withdrawn from circulation
 - Losses were borne by the principalities
- > Commitment device to stop hyperinflation



Historical data

Debasement of Kreuzer vs Reichsthaler

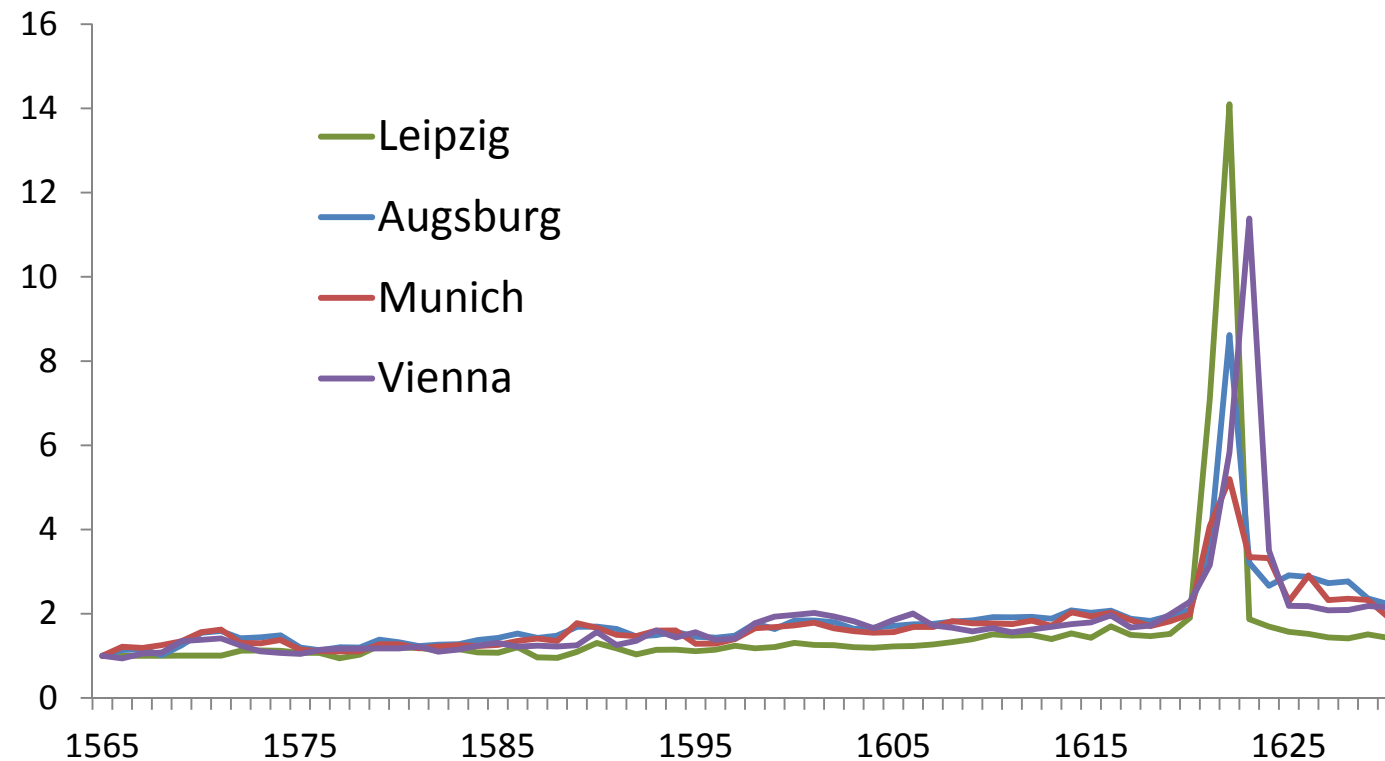


Source:

Schneider (1991): Frankfurt und die Kipper- und Wipperinflation der Jahre 1619-1623.

Altmann (1976): Die Kipper- und Wipperinflation in Bayern (1620-1623).

Price indices (CPI) in local currencies (Kreuzer or Pfennig)

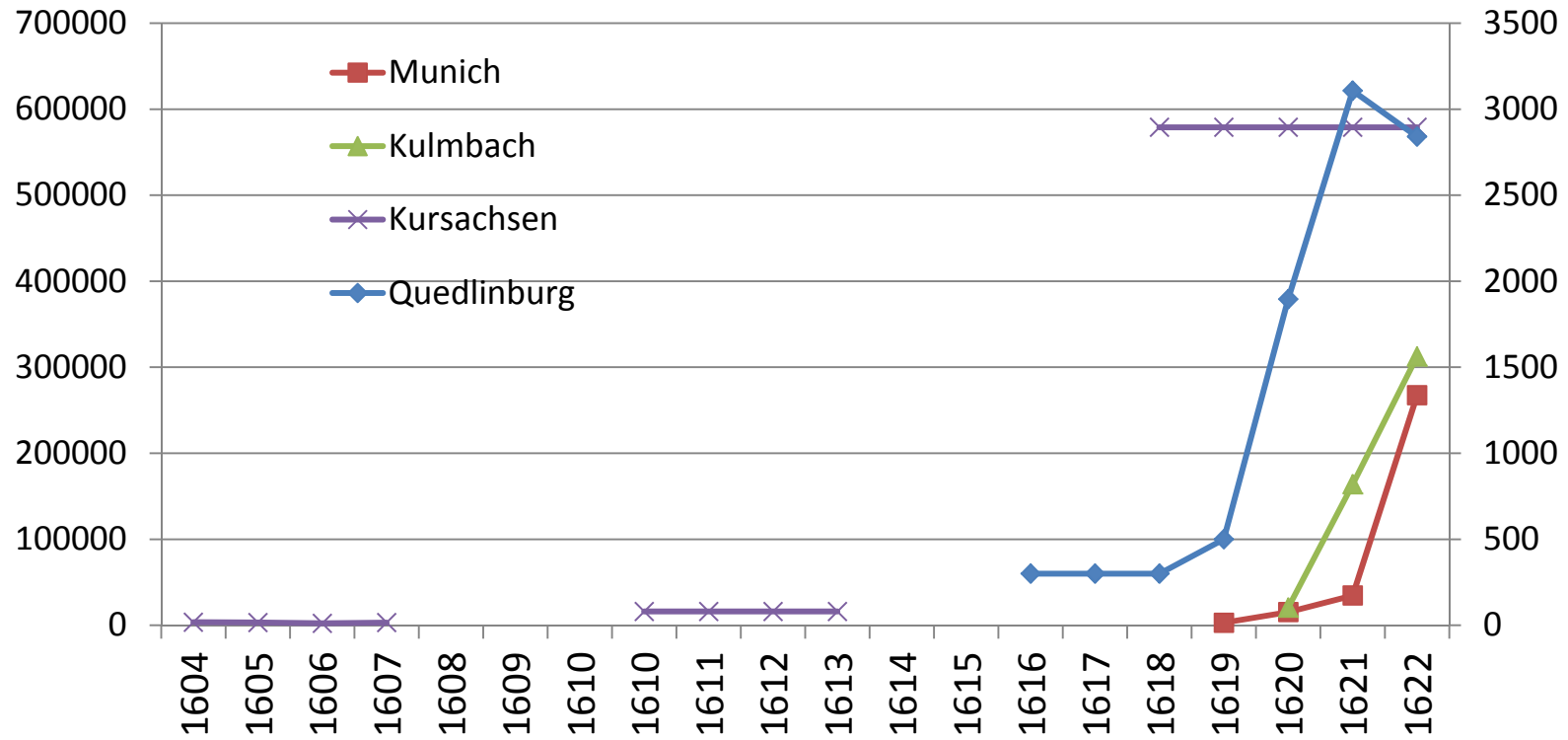


Source:

Elsas (1940): "Umriss einer Geschichte der Preise und Löhne in Deutschland". Vol. 2.

Allen (2001), "The Great Divergence in European Prices and Wages from the Middle Ages to the First World War", Explorations in Economic History

Seignorage („Schlagschatz“) in Gulden



Outlook and Questions

Historical Data

- we have started to collect data for prices, on debasement, and seignorage
- so far just from few areas of the HRE
- most of data sources are anecdotal descriptions of the most severe episode for a single region (state)
- various issues: missing observations, etc
- Goal: comprehensive picture (e.g. fiscal financing) of the union at this time; most existing paper focus on one state

Guidance for modeling

- interpretation of data through structural model
- Kipper- and Wipperinflation often told as version of Gresham's Law (Kindleberger, 1991; Schnabel and Shin, 2006)
- for us, this sounds questionable (see also Rolnick and Weber, 1986; Sargent and Smith, 1997)
- quite stable episode until war; until more and more governments join the game of debasement
- rather fiscal inflation (unpleasant arithmetic)

Further interesting features:

- fiscal free riding, asymmetric information

Distribution across Holy Roman Empire



Number of flysheets per region regarding hyperinflation between 1620-1623

Source: Rosseaux (2001): "Die Kipper- und Wipperinflation als publizistisches Ereignis (1620-1626)"