The lesson of the bubonic plague in 17th-century Venice? Tax the rich.

History shows why President Biden’s proposals make sense

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As part of his effort to brace the American economy convulsed by the coronavirus, President Biden has proposed $3.5 trillion in government spending over 10 years to expand public services. In addition, a $550 billion infrastructure bill seeks to repair and improve the country’s transportation and utility network. To pay for this endeavor, the administration put forward an increase in the top marginal individual income tax rate from 37 to 39.6 percent. And it proposed additional tax hikes for corporations and capital investments.

Skeptics of these tax hikes worry that the increased burden on high-income earners could reduce much-needed new investments in the economy from the cohort with the most dispensable resources. But historically, redistributive taxation has been an important component of a society’s recovery from a crisis. Shifting the tax burden from working people to the wealthy amplifies the impact of any government assistance extended during the public emergency and mobilizes more resources for reconstruction.

The experience of Venice after the 1630-31 bubonic plague, by contrast, is a cautionary case study of what happens when a society fails to follow this route.

Brought to Northern Italy in 1629 by invading armies from France and Spain, the plague severely impacted the merchant republic. According to census records, its population was around 140,000 in 1624. By 1633, that number had fallen to 102,000. More than 43,000 deaths were recorded over just three years, with nearly half of them taking place between September and December of 1630.

While the human toll was cataclysmic, the republic mitigated the full impact of the public health crisis. As it had done in earlier outbreaks of infectious diseases, the Venetian Senate responded to this latest plague by implementing lockdown measures. It also delegated public trustees to purchase food for those who were quarantined and to disburse money to the poorest members of society so they did not become vectors of contagion in their search for alms.

In addition, the government created public works programs to provide wages to people who had lost their jobs because of the health crisis. Most recognizable to modern-day visitors to the city, the Baroque-style church of Santa Maria della Salute at the entrance of the Grand Canal was commissioned and paid for by public financing in 1630.

These policies helped minimize the displacement of tradespeople, helping the city retain skills and knowledge. Authorities also directed the minting and distribution of new coins to silk and wool traders so they would be able to pay their short-term bank loans. The Venetian Senate looked to preserve businesses in these highly valued industries through what it knew to be a transitory recession. And the city drew on emergency wealth taxes for the fiscal resources it immediately required.

But this relief was only temporary. When the crisis was over, the Venetian state decided to recoup the cost of the rescue by increasing taxes on the general public — the very people whose income-earning capacity and economic productivity it had sought to protect.
What followed was the slow economic decline of Venice and its industries. Widespread deaths from the plague throughout Northern Italy had made the situation worse by foreclosing the city's ability to invite skilled laborers from the surrounding region like it had after the more localized plague outbreak in 1575. But economic historians also argue that the merchant republic lost its productive capacity because the country's tax system reversed public efforts to minimize the consequences of the epidemic by laying the fiscal burden of the emergency rescue on their workforce.

According to research by Guido Alfani and Matteo di Tullio, the top 5 percent of income earners in pre-modern Venice paid substantially less in taxes as a proportion of their income compared with other income classes. Correspondingly, this privileged cohort saw its share of the republic's total wealth rise from 50 percent in 1550 to 59 percent by 1750. Meanwhile, taxes imposed on poorer tradespeople such as construction workers grew by 46 percent between the 1630 plague and the mid-18th century. In effect, the disbursed rescue money was slowly recalled and redistributed to the upper class.

To make matters worse, the wealthy failed to make productive investments with their growing share of the nation's wealth. Historian Fernand Braudel observed that the patricians of Venice focused more on earning a passive income — mainly, through the acquisition of agricultural land in Northern Italy and growing grain for the city's consumption. This was not an irrational response given frequent bouts of food shortages that the city faced during the late 16th and early 17th centuries. Nonetheless, it may have been a shortsighted use of resources as Venetian merchants increasingly lost international markets to competitors from Northern Europe.

Venice had become a premier economic power in the medieval era because a large segment of its population participated in large-scale mobilization of capital for long-distance trade. Oligarchical families had increasingly monopolized these lucrative opportunities starting in the 14th century. But conditions after the plague of 1630-31 served as a death knell: The rich were more interested in real estate, while the overtaxed denizens had less means to replicate the country's earlier successes. Meanwhile, average Dutch citizens were buying shares of joint stock companies and financing their country's commercial ascendance over Venice.

The bubonic plague did not collapse the Venetian Republic. But the country's existing flaws magnified its effects and pushed the nation into terminal decline.

This history matters today because of its parallels to the United States. American billionaires in 2021 contribute a smaller share of their income in taxes than the average working person or retiree. Research also shows that they benefit from corporations returning money to shareholders rather than making productive investments in the economy. The proposal to expand public services addresses a critical social need in a deeply uncertain time — and the plan to finance these measures by raising taxes on those who have an annual income of more than $400,000 places the burden away from members of the community whose wages have stagnated for decades. If the plan has a shortcoming, it is its modesty. The suggested tax increase merely restores rates that existed before the Trump administration.

Given this context, the deadlock in Congress over this issue is troubling. Like Venice in the 17th century, the ongoing public health crisis is unlikely to permanently knock out the United States — but its broken tax system makes the country's recovery from the pandemic far more difficult.