

On the path towards central banking, (interest reduction in England,1749)

Ec 764

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Program

- Historical introduction (Italy and the Netherlands)
- The “Glorious revolution” and Britain’s public debt in the 18th century
- Institutions and Britain’s public debt in the 18th century
- The 1749 interest reduction on the public debt

Historical introduction

- Both in Venice and Genoa (and Florence), banking much associated with trade.
- Bank of Amsterdam (1609-1820) *Wisselbank*, Exchange Bank
 - Guaranteeing the value of coins
 - 1609-1683: Full-reserve banking (or Limited Purpose Banking–LPB–Larry Kotlikoff)
 - “ Indeed, customers would physically deposit metal coins with the Bank and account balances were recorded in a central ledger. These deposit balances could be transferred to other account holders without cost, or withdrawn for a small fee. ”
 - + Bolt, Wilco, Jon Frost, Hyun Song Shin and Peter Wierts (2023). “The Bank of Amsterdam and the limits of fiat money,” BIS Working Paper No 1065.

The Case of Holland in the Seventeenth Century

- Gelderblom, Oscar and Joost Jonker (2011). "Public Finance and Economic Growth: The Case of Holland in the Seventeenth Century," *JEH*, 71.

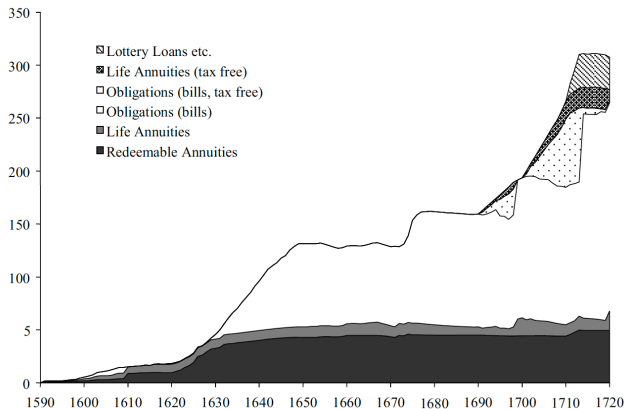


FIGURE 2
THE ESTIMATED SIZE AND COMPOSITION OF HOLLAND'S DEBT, 1590–1720
(million guilders)

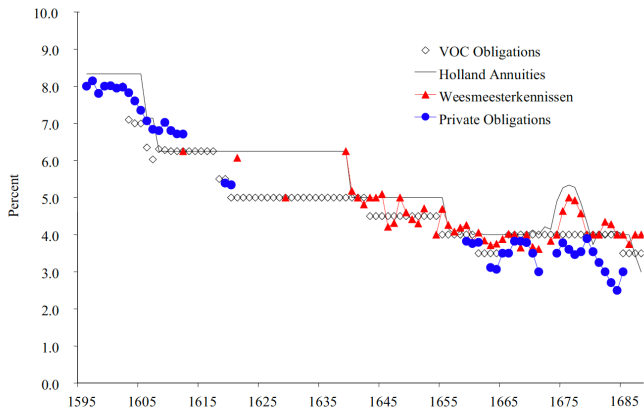


FIGURE 1
 INTEREST PAID ON VOC BONDS, PRIVATE BONDS IN AMSTERDAM, AND
 HOLLAND'S REDEEMABLE ANNUITIES, 1595–1688

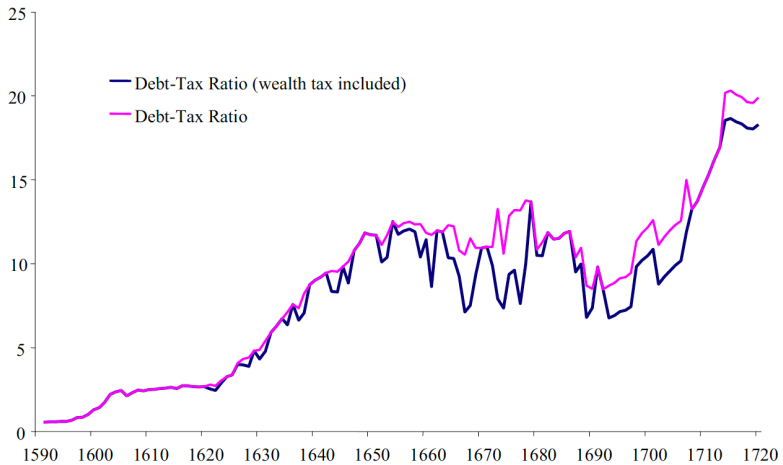


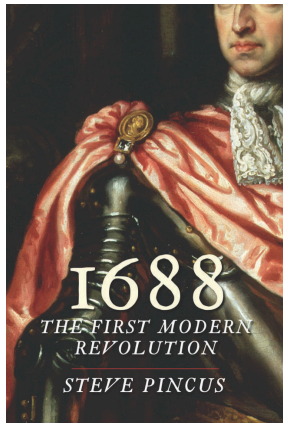
FIGURE 3
THE RATIO OF DEBT TO TAX REVENUES IN HOLLAND, 1600–1720

The “Glorious Revolution” (1688)

- What was the Glorious Revolution?
- Business interests vs “land”

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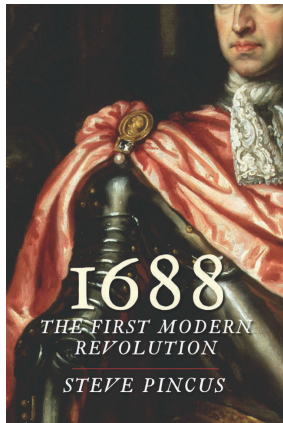


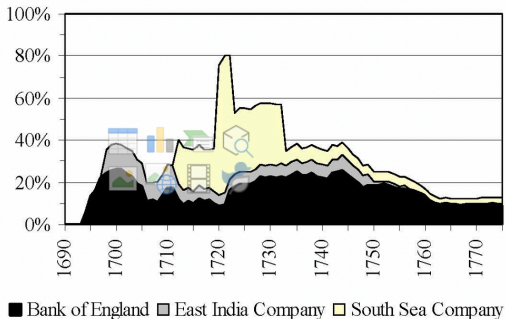
TABLE 3
GROWTH OF GOVERNMENT DEBT, 1618–1740
(£ million)

Year	Governmental Expenditure ¹	Debt ²	Prices ³ (1701 = 100)
Stuart England			
1618 ⁴	£0.5	£0.8	
mid-1630s ⁵	1.0	1.0	
1680 ⁶	1.4		113
1688 ⁶	1.8	1.0 ⁷	99
Post Glorious Revolution			
1695	6.2	8.4	116
1697	7.9	16.7	122
1700	3.2	14.2	115
1710	9.8	21.4	122
1714	6.2	36.2	103
1720	6.0	54.0	102
1730	5.6	51.4	95
1740	6.2	47.4	100
1750	7.2	78.0	95

Institutions and the public debt

- Bank of England (1694)
- Protection of the creditors of the government
- Of course, good for the government
- Other institutions
 - South Sea Company
 - East India Company

Figure 3. Share of National Debt Held by Each Company



Interest rates after 1688

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TABLE 4
GOVERNMENT LONG-TERM BORROWING: INTEREST RATES, 1693–1739
(selected loans)

Date ^a	Amount	Interest	How Funded
Jan 1693	£723,394	14.0%	Additional excise
Mar 1694	1,000,000	14.0	Duties on imports
Mar 1694	1,200,000	8.0	Additional customs and duties
Apr 1697	1,400,000	6.3	Excise and duties
Jul 1698	2,000,000	8.0	Additional excise duties
Mar 1707	1,155,000	6.25	Surplus from funds of five loans from 1690s; duties
Jul 1721	500,000	5.0	Hereditary revenue of Crown
Mar 1728	1,750,000	4.0	Coal duties
May 1731	800,000	3.0	Duties
Jun 1739	300,000	3.0	Sinking fund

^a Date of royal assent to loan act.

Source: P. G. M. Dickson, *The Financial Revolution in England* (New York, 1967), tables 2, 3, and 22.

First loans

- High interest rates, not redeemable

TABLE 2
Government Long-term Borrowing, 1693-8

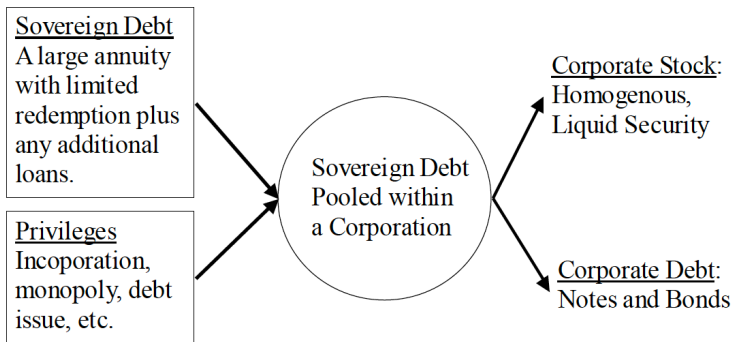
No.	Date of royal assent to Loan Act	Sum raised £	Interest %	Fund on which interest charged	Administration of loan
1	26 January 1693	108,100	10 until midsummer 1700, then 7.	Additional excise on beer and vinegar, and on imported beer, cider, and brandy, for 99 years from 25 January 1693.	A tontine loan (see text). It was hoped to raise £1m. The interest would be divided among the contributors until, by deaths, one took all.
2	Same Act as (1)	773,394	14	Same fund as (1).	This and (3) were single-life annuities to complete the £1m. contemplated by (1).
3	8 February 1694	118,506	14	Same fund as (1).	
4	23 March 1694	1,000,000	14	Duties on (a) imported salt, 1694-7, (b) half of new duties on beer, vinegar, cider, and brandy, 1697-1711. This fund was expected to yield £140,000 p.a. for 16 years. Duties were administered by the	A lottery of 100,000 £10 tickets. After the draw holders were given so much a year for 16 years. The sum varied from £1,000 p.a. for the largest prizes to £1 p.a. for blanks. After 16 years all payments were to cease.

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- Exchange for the stock of a private company
- Stock is mix of govt debt and real profits

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Two experiments

- France: the Law system (1718 - May 1720)
- Britain: The South Sea Company (1720)
- Acquisitions by John Law:
 - ❑ Banque Royale
 - ❑ Company of the Mississippi
 - ❑ Co of the Orient
 - ❑ Co of Africa
 - ❑ Mint
 - ❑ Collection of all indirect taxes (50%)
 - ❑ Monetization of the Company
 - ❑ Target interest rate: 2%

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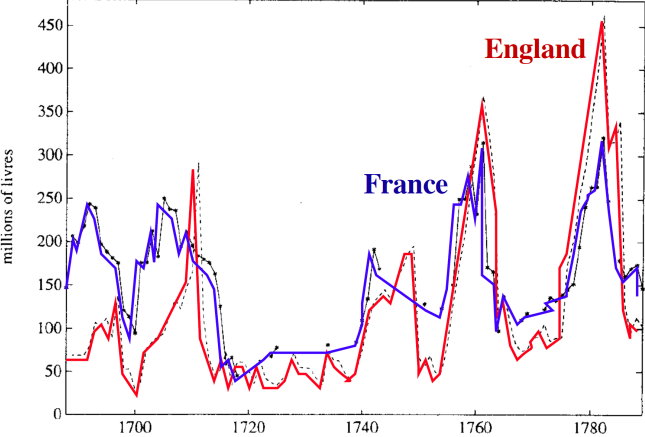
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A golden century of public finance



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