Monetary and Fiscal Policy in England during the French Wars

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At the end of the long 18th century

- France: assignats, first on real assets, then printing press
  Sargent and Velde (1995)
- England: suspension of the gold convertibility by the Bank of England (1796-1821)
- First income tax in 1799
- Success of that suspension: impact after WW I.
The long-run view of the debt/GDP (UK)
In XVIII, one should not consider fiscal/mon policy done by “the government”.

No centralized capital market in XVIII France.

Not one redeemable bond issued in XVIII.

Lag between institution changes and interest (Netherlands, England).
French fiscal policy

Tax revenues after 1800 (year 0)
- most of the variation is in indirect revenues
- sharp increase and drop during napoleonic wars
- after 1815,
  - growth after 1815 with the economy
  - reduction of the rate of direct taxation
The Bank of England was not a central bank in the modern sense. (War was a turning point).

For the 18th century, it represented its stock owners. Conflict with the public interest in the interest reductions, 1737, 1749.

The suspension took place in February 1796 in a bank run that started in other banks. It was viewed as temporary (a few weeks).

When convertibility could have been resumed, the executive (Pitt) put pressure to extend the suspension,( each time by a relatively short span, until the resumption).

Discounts and balance sheet of the BoE

Fiscal policy

Prices
Discounts by the Bank of England (1791-1822)
### Balance sheets 1797-1821

#### 1797

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#### 1821 (scaled)

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- Share of gov securities not increased at the resumption
- Share of gold increases
Primary surplus during the war!
Money and Prices
Yields on long-term government debt (consols), 1753-1850

Average yield Yield

American Independence French Wars

7 Years War

War

American Independence French Wars

7 Years War

American Independence French Wars

7 Years War

American Independence French Wars

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Measurement of expectations about the resumption: the agio

Sources: Neal (1991)