

Monetary and Fiscal Policy in England during the French Wars

Christophe Chamley

Boston University

(work with Pamfili Antipa, Banque de France)

Becker Friedman Institute at the University of Chicago

April 1, 2015

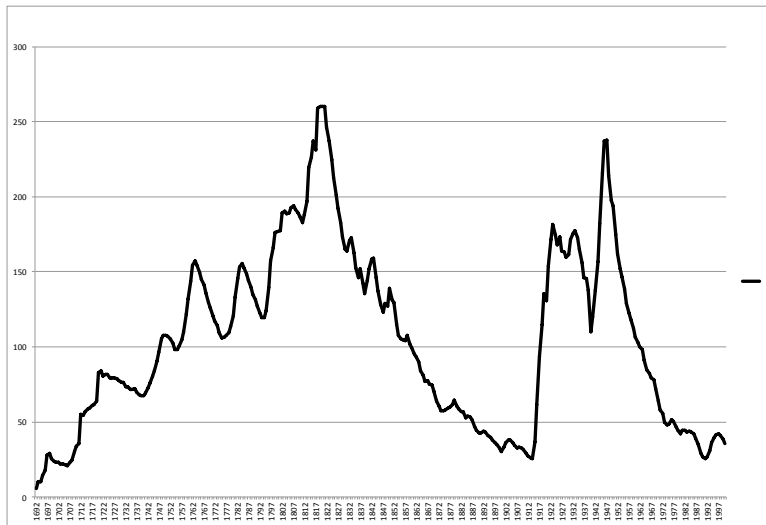
At the end of the long 18th century

- 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)

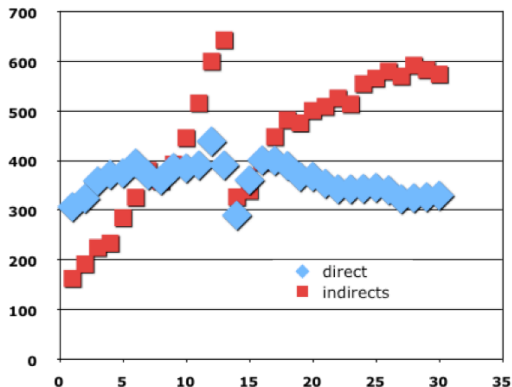


- In XVIII, one should not consider fiscal/mon policy done by “the government” .
- No centralized capital market in XVIII France.
- Not one redeemable bond issued in XVIII.
- Lag between institution changes and interest (Netherlands, England).

French fiscal policy

Tax revenues after 1800 (year 0)

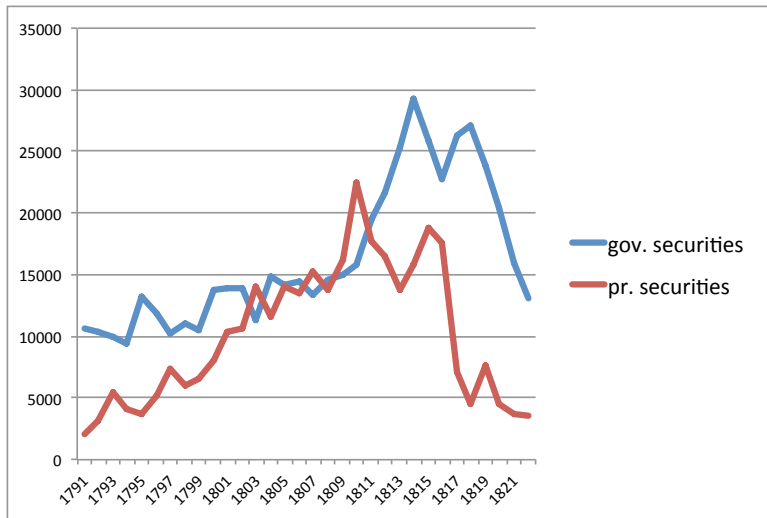
- most of the variation is in indirect revenues
- sharp increase and drop during napoleonic wars
- after 1815,
 - growth after 1815 with the economy
 - reduction of the rate of direct taxation



Historical facts

- 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

a 1797

	Assets	Liabilities	
Gold	2588	10394	circ
Gov sec	10240	6328	dep
Priv sec	7309	16722	sum
		3415	cap
Total	20137		

1815

	Assets	Liabilities	
Gold	2723	27255	circ
Gov sec	25853	12199	dep
Priv sec	18853	39454	
		7975	
	47429		

1821

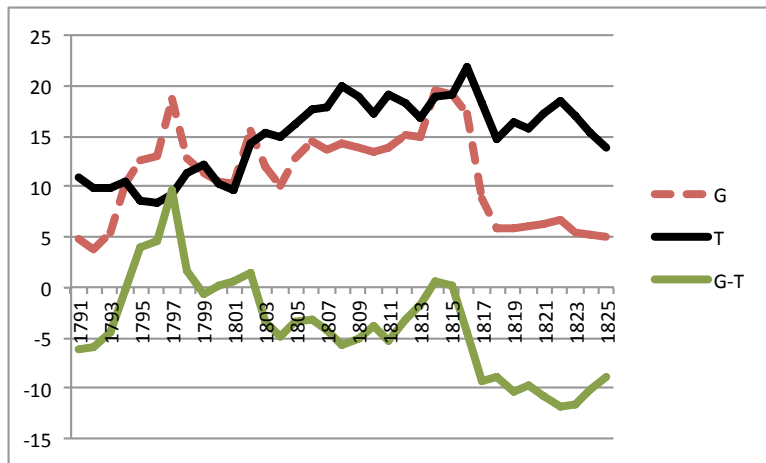
	Assets	Liabilities	
Gold	11552	22090	circ
Gov sec	15882	5721	dep
Priv sec	3754	27811	
		3377	
	31188		

1821 (scaled)

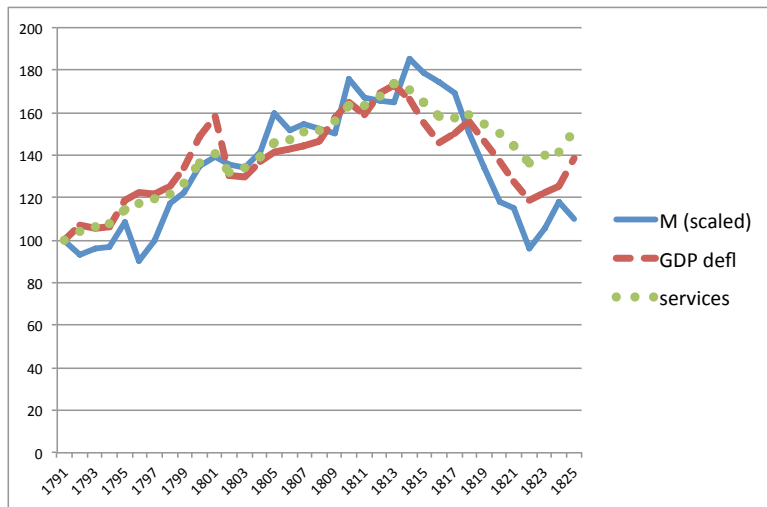
	Assets	Liabilities	
Gold	8022	15340	circ
Gov sec	11029	3973	dep
Priv sec	2607	19313	
		2345	
	21658		

- Share of gov securities not increased at the resumption
- Share of gold increases

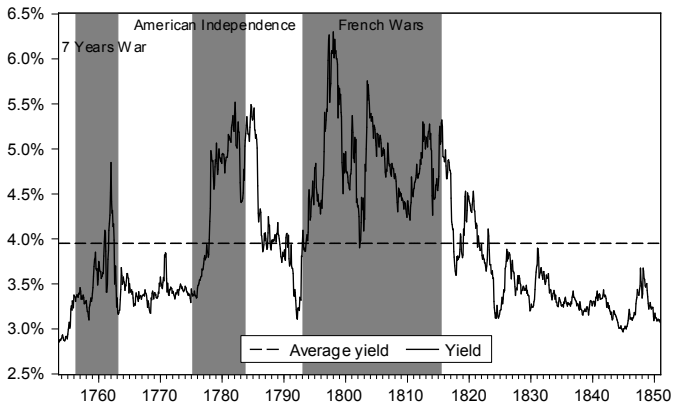
Primary surplus during the war!



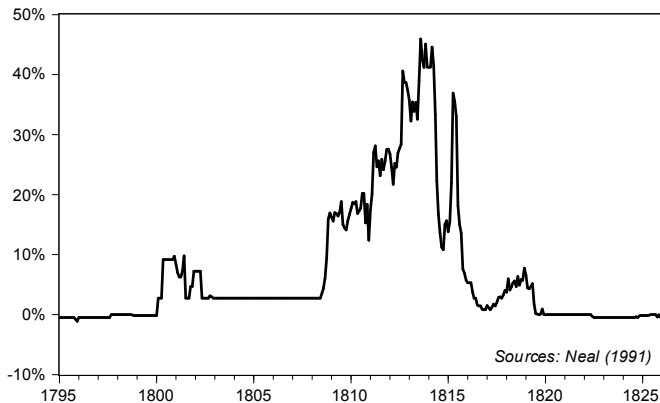
Money and Prices



Yields on long-term government debt (consols), 1753-1850



Measurement of expectations about the resumption: the agio



Exchange rate in Hamburg

