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David Stasavage, *Public Debt and the Birth of the Democratic State: France and Great Britain, 1688-1789*. xii + 210 pp. Cambridge and New York: Cambridge University Press, 2003. Tables, figures, notes, appendix, bibliography, and index. $60.00 U.S. (cl). ISBN 0-521-80967-3.

Review by Thomas M. Luckett, Portland State University.

In 1989, Douglass North and Barry Weingast published an article in the *Journal of Economic History* with a simple but powerful thesis.[1] The Glorious Revolution of 1688, by establishing the supreme authority of the House of Commons in budgetary matters, transformed Britain for the first time into a credible borrower. How could Britain default on its national debt, now that the only body capable of issuing such a default was electorally responsible to state creditors? As the risk premium on British long-term bonds ("consols") fell almost to zero, Parliament gained constant access to some of the cheapest credit in the world. In the course of the eighteenth century Parliament used its new line of credit to fund military expansion, thus enabling Britain's rise to world-power status.

North and Weingast's article was not entirely original but had the virtue of bringing together a set of ideas that had been scattered through a large literature. It quickly became a central point of reference in writings on British financial and institutional history. It also became a point of reference for historians of eighteenth-century France, since France provides the great counter-example of a regime that retained monarchical absolutism at the expense of credibility. French monarchs were free to renege on their debts, and often did. To continue to borrow they had to offer excessive interest rates. While the British government borrowed at three or four percent per annum, the kings of France borrowed at six percent or more. Though France had the much larger tax base, Britain was consistently able to outspend her in a series of imperial wars that culminated with France's crushing defeat in the Seven Years War. By the eighteenth century, then, the nature of public finance favored regimes with strong representative institutions, an observation that seems to tell us something important about the forces pushing France toward revolution.

David Stasavage's reexamination of the North-Weingast thesis begins with two powerful objections. First, interest rates on British consols remained quite high during the 1690s, then fell slowly and inconsistently over the next two decades. Not until the 1720s did they reach levels comparable to those on Dutch bonds. If British credibility resulted from the institutional settlement of the Glorious Revolution, why was the effect not immediate? Stasavage's second objection is that the "monied men" who invested primarily in government debt never dominated the Parliament numerically. He cites recent work by David Hayton showing that between 1690 and 1710 there were never more then thirty-five such delegates in the House of Commons, where a majority required at least 257 votes (p. 111). Instead, most MPs were landowners, as were most of their constituents. Since British taxes fell primarily on landowners, they had a financial incentive to reduce their own tax burden by defaulting on the national debt. Why should state creditors trust them?

Yet Stasavage's purpose is not so much to refute North and Weingast's thesis as to enrich it, and he succeeds brilliantly. The Glorious Revolution created the conditions for British financial credibility not only because it established parliamentary supremacy, but also because it led--gradually--to the rise of a stable two-party system. British landowners were now divided between Tories, who rejected much of the Revolution, and Whigs, who supported it. Small as their numbers were, monied MPs became a crucial swing vote in the Commons. The Whig Party functioned as a coalition in which liberal landowners traded a commitment to fund the public debt for the votes of bondholders. For their part, monied MPs supported landowning Whigs on a host of unrelated issues, chief among which was religious toleration (for dissenters, not Catholics). In opposition to the Whigs, Tories denounced both toleration and the public debt. Readers who open Stasavage's book for the first time should start by studying the graph on page 81, which illustrates the core of his thesis. It shows the movement of interest rates on British government debt (yearly averages) and the proportion of Tories in the Commons from 1690 to 1742, and the two curves are remarkably similar. Through regression analysis Stasavage shows that the correlation between interest rates and the size of the Tory delegation remains tight even when one controls for other economic determinants of the former, including the rate of inflation. Interest rates rose when Tories were in power, and fell when Whigs were in power. In short, North and Weingast are right about the consequences of the Glorious Revolution, but for the wrong reasons.

There are, however, at least two alternative explanations for the high yield on British consols before the 1720s, neither of which Stasavage adequately addresses. First, in the short run nearly all revolutionary regimes have a problem with credibility since their continued existence is threatened by counterrevolutionary forces. Between 1689 and 1713, Britain fought two major wars against an alliance of nations including France, whose king openly advocated a Stuart restoration. Had the counterrevolutionaries triumphed, they would certainly have revoked parliamentary supremacy and possibly repudiated the new regime's obligations. Under similar circumstances both the French and American Revolutions found that the value of their paper currencies depended in part on the fortune of their arms. Indeed, an inflationary currency could actually gain value following a significant victory, as the dollar did in the U.S. for several months after the British evacuation of Philadelphia in 1778, and the *assignat* in France after the battle of Valmy in 1792. If Stasavage showed us the monthly rather than the yearly averages of consol yield rates, we would be in a better position to decide how they were affected by, say, the British victory at Blenheim. His chart does show that, though the interest rate rose sharply when the Tories swept the elections of 1710, it fell by an even greater amount well before they lost power in 1714. Apparently it fell because the Treaty of Utrecht cemented the legitimacy of the new regime, not because of any shift in partisan politics.

A second alternative explanation for the high yield on British consols is the slow growth of the national debt itself. Until 1688, the British government had effectively no long-term debt. The volume of public debt then grew steadily to reach, according to Stasavage, six times annual revenues by 1713, and eight times annual revenues by 1742 (p. 77). Presumably the number of bondholders grew accordingly. In the course of the game-theoretic model that he presents in chapter two, he shows mathematically that the presence of a "player" who owns both land and bonds would lead "to a significant decrease in the expected rate of capital taxation [i.e., governmental default]" (p. 37). Surprisingly, though, he does not follow up on this insight to ask if or when substantial numbers of landowning MPs began to place their idle funds in consols. Perhaps they were hesitant at first but gradually became habituated to financial investment. Clearly, more detailed evidence of changes in the distribution of bondholding would tell us much more about the credibility of the Parliament than simply counting the number of monied MPs for whom this was their principal form of wealth.

On the French side, Stasavage's analysis is also fun to think about, though perhaps less fully developed. Here he takes issue primarily with two articles that François Velde coauthored in the 1990s, the first with David Weir and the second with Thomas Sargent.[2] Velde and his collaborators read the history of eighteenth-century France as a series of missed opportunities to create a credible national debt. These opportunities, Stasavage responds, were not real opportunities at all, and he closely examines three. In the autumn of 1715, after the death of Louis XIV, a proposal circulated at court to call a new Estates General, which could conceivably have developed into a French counterpart of the British Parliament. Stasavage points out, however, that the duc de Saint-Simon, who championed this idea, actually planned to have the delegates approve a royal default. By this time both noble and non-noble landowners were burdened with a new land tax known as the *dixième*. Had the Estates actually met, he argues counterfactually, its mostly landed delegates, lacking clear partisan divisions, would readily have followed Saint-Simon's advice. Stasavage next turns his attention to John Law's financial System and its collapse in 1720. This is rather a surprise since the System had nothing to do with representative institutions of any kind. Stasavage, however, believes that Law's failure demonstrates a subsidiary theme of his book: that it is futile to try to gain credibility by delegating financial authority to an autonomous state bank, so long as the regime retains the power to revoke that authority. The third possible missed opportunity that Stasavage examines is that of the Constituent Assembly of 1789-91, which failed to fund the national debt through adequate tax levies, turning instead to an inflationary issue of paper currency that amounted to a disguised bankruptcy. He argues that the Constituent Assembly was unable to establish financial credibility because it failed to develop a stable two-party system in which state creditors could become the decisive swing vote, as in Britain.

Indeed, Stasavage seems to suggest that France in the eighteenth century was simply incapable of generating a stable two-party system, a thesis that may appeal more to our cultural prejudices than to sociology. If not during the

Regency, then at least by the 1760s France possessed a large potential electorate of liberal landowners who favored such causes as toleration for Protestants, the relaxation of censorship, and an end to arbitrary arrest. These "enlightened" elites lived alongside others who were more traditionalist and devout. Obviously, stability is not a significant theme in the political history of the French Revolution, but in its initial phase instability resulted largely from the emigration of the conservatives. As *monarchistes* and *monarchiens* forgot their duty to the king and fled abroad, French Tories progressively abandoned the field to French Whigs, and the problem only became worse after Louis' misguided attempt to join them in June 1791. One would think, moreover, that the greater problem for the Constituent Assembly was the peasant insurrections of 1788-90, which abruptly deprived the regime of its tax base. On 17 June 1789, when the delegates to the Third Estate declared themselves a National Assembly, they also nationalized the royal debt and guaranteed its repayment, but they were quickly overtaken by forces beyond their control. By August they ruled precariously over a nation in armed revolt. It is hard to see how a different group of delegates, with a different set of priorities, could have done a much better job of restoring public confidence in French bonds. In other words, the failure of the Constituent Assembly to fund the national debt through taxation resulted more from contingent circumstances than from the sociological characteristics of the French electorate.

Succinct and lucidly written, *Public Debt and the Birth of the Democratic State* is both a splendid introduction to a complex literature and a highly original contribution that is bound to generate new research and debate. Despite the book's subtitle, chapter three (not discussed here) takes the history of public finance back to the Renaissance and looks comparatively at a number of countries. Readers who are less mathematically inclined will find Stasavage's game-theoretic model limited to chapter two and the appendix, which may safely be skipped. His central discovery, that a regime's financial credibility depends as much on partisan politics as on institutions, can only enrich our understanding of the rise of the modern state.

NOTES

[1] Douglass C. North and Barry R. Weingast, "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England," *The Journal of Economic History* 49 (1989): 803-832.

[2] François R. Velde and David R. Weir, "The Financial Market and Government Debt Policy in France, 1746-1793," *The Journal of Economic History* 52 (1992): 1-39; Thomas J. Sargent and François R. Velde, "Macroeconomic Features of the French Revolution," *The Journal of Political Economy* 103 (1995): 474-518.

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