

Comments: Public Debt Through the Ages

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13 September 2018



Evolution of public borrowing

- First sovereign debt issued by the Roman Catholic Church and Italian city states in the late middle ages. Then, early modern nation states in the seventeenth century.
- Key to the evolution of debt was the ability to secure tax revenue bases, which required attaining legitimacy. See Avner Grief's work.
- In nineteenth century shift from war finance to provision of public services, aided by financial innovation.
- Early sovereign borrowing for emerging countries and 'first era of globalization'.

Debt consolidation following major wars before 1914

- Wars financed following the tax smoothing model of Barro (1979)—reliance on future taxes (debt) than present taxes.
- Other work in this area:
 - White (2001): How France paid reparations to Germany after Franco-Prussian War.
 - Bordo and Bayoumi (1998): Comparing experiences after the United States Civil War and World War I in Great Britain.

More recent history

- Since 1900, large debt run-ups during two World Wars, Great Depression, 1970s to 2000, and after the GFC.
- Emerging countries' experience similar to advanced economies, but more volatile and exhibiting original sin.
- Suggest to mention:
 - The role of the U.S. Johnson Act of 1934 in restricting recovery of sovereign borrowing after WWII.
 - The role of Federal Reserve tightening in the debt troubles of emerging countries in the 1920s.

Comparison of accumulation and consolidation episodes

- Accumulation episodes: Great Depression and Great Recession—
 - Great Depression, buildup mainly reflects primary balance--falling revenues.
 - Great Recession, expansionary fiscal policy to avoid experience of 1930s.
- Consolidation episodes: After WWI and WWII—
 - WWI: Tight fiscal policy, as in the nineteenth century.
 - WWII: Income growth and stock flow adjustment (incl. financial repression).
- Suggestions to:
 - Explain and expand the decomposition. What is in stock-flow adjustment?
 - Amplify the role of deflation after WWI and inflation after WWII.
 - Useful reference for postwar period: Hershel Grossman (1990).