Comments: Public Debt Through the Ages

Michael Bordo
Rutgers University

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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.
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.