

North-Weingast:

Glorious revolution, 1688

- responsible governments who honored fiscal commitments
- can raise more funds and more cheaply
- Stuarts came into power (James I, Charles I) - 1649
- 1660 - Charles II. James II succeeds Charles II
- James II is thrown out and his niece and her husband are offered the crown.

Theory: Ex post opportunism - difficulties pre-committing to terms of loan. Had to expropriate funds.

- Reputation effects might help solve this.

Sources of power for the crown

- "royal prerogative" - issue ordinances
- appoint judges
- star chamber - royal appeals court

Raise money

- sell lands
- loans
- peerages - titles
- property seizure
- sell monopolies
- tariffs

- Parliament abolishes star chamber in 1641.
- royal prerogatives are curtailed
- judges are given tenure (independent judiciary)
- reduces power of monarchy
- William and Mary - constitutional monarchs
- Parliament has a longer time horizon than monarchs.

### Evidence

- Examine how money is raised
  - new constraints on repudiation of debts
  - earmarked tax revenue.
- Bank of England formed - responsible for gov't's fiscal transactions. (quasi-private institution)
  - New lenders get equity in the bank.
- after 1688:
  - gov't spending ↑
  - interest rates ↓
  - private capital markets

But how do you establish causality? Is bank or parliament more important?

- private interest rates decrease slowly (Greg Clark)

Neal and Quinn

Description of early financial markets

London c.1700 - closest rival was Amsterdam.

Why didn't Amsterdam grow?

- foreign exchange bank had a monopoly.

London had a network of private bankers.

- Evidence: letters

How did they finance trade back then?

- bill of exchange

◦ borrowing merchant agrees to pay (but he's far away)

- needs someone to accept the bill who can sell the bill to a banker for a discount.

- currency conversion

Bank of England has reserves and can issue notes

- London has become a huge banking center.

Assumption of full information on defaulters. You don't always crack down on them.

### Liam Brunt article

Banks of old used to be used as sort of venture capitalists.

- Partnerships - full liability

- invest in new industries

- sort of an insider trading issue.

### Boyer article

Malthus: more money to poor  $\Rightarrow$  more children  
This was a germane issue at the time.