Liquidity of Public Debt and financial institutions in England [1694 – 1720]

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The methods England took to restructure its public debt during the British Financial Revolution consisted of improving liquidity. Accordingly, the State sought to reestablish its solvency by basing its debt on tax revenues as well as to homogenise it, reduce its cost and improve the functioning of the primary and secondary markets of the debt. Finally, it favoured the creation of new institutions, i.e., the establishment of joint-stock companies whose commercial and/or financial activities would be connected to its debt. The Bank of England and the South Sea Company, created in July 1694 and September 1711 respectively, are two prime examples of this. In this article, we highlight the role of these two financial institutions in the process of the creation of liquidity through the restructuring of the public debt. We establish the fundamental differences between the financial experiments led by these two establishments. Indeed, if the project of converting the public debt bonds into shares of the South Sea Company led to the creation of the South Sea Bubble, the measures of State funding and public debt restructuring conducted by the Bank of England from 1694 to 1707 constituted an unrivalled financial success. Finally, we discuss the diverging commentaries of Hume (1752), Steuart (1767) and Smith (1776) on the subject of the liquidity of public debt.

Keywords: Public debt, liquidity, Bank of England, South Sea Company

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