

# INTRODUCTION

Fausto Piola Caselli

Government debts and financial markets in Europe, from the sixteenth to the twentieth century, were the subject of discussion at the XIVth Congress of the International Economic History Association in Helsinki in August 2006. In particular, the relationship between government indebtedness and the creation of enduring financial markets provided a focus of the discussions. Scholars from different academic backgrounds looked at the subject from a comparative perspective and from different angles. This collection publishes the essence of this research, but the articles provide for a more in-depth discussion than what was presented at Helsinki. All contributions draw on original research and discuss some of the most important aspects of public finance history.

Throughout history and until the present day, public debt service has signified a basic problem within European state finances. From the late middle ages onwards – if not earlier – urban and central governments began to raise money through long- and short-term loans. Initially, indebtedness was intended to finance war budgets, but gradually money was channelled towards civil purposes such as public works or food supply. Municipal and state authorities could either approach prominent bankers, merchants and money lenders, or they could apply directly for the savings of private citizens. On occasion, both methods were pursued in parallel in some local areas. Monarchs largely preferred to negotiate with high-level financiers, in exchange for profitable fiscal revenues from the crown, whereas urban governments preferred to launch forced or free loans, involving citizens in the debt business along the way. However, it is very difficult to categorize or locate the various debt systems across Europe from the late medieval and early modern period onwards.

The growth of a public debt service is closely linked with the most important aspects of state-building processes and forms of government. Raising money through debts strongly depends, where representative assemblies are in place, on the consensus won by government or the power held by the ruling monarch. Public debt service also represents a responsive tool of political economy that needs to be continuously balanced with the global sustainable fiscal burden, as

huge debt increases enforce bankruptcies or new taxes. Expenses resulting from indebtedness practically trigger the circulation of new monetary flows within a territory, having an impact on price levels, production costs and consumption. The amount of debt is conditioned by the economic wealth of a territory, which ultimately is the sole guarantee of any advantageous return. On a different but no less important level, public debt management is linked to other variables, such as the general level of interest rates, the efficiency of institutions and central bureaucracy, and even the accuracy of an accounting system.

The existing literature predominantly looks at the history of public debt from the perspective of city and territorial states as borrowers. More focus still needs to be given to investors and the markets they enlivened. Monarchs and rulers preferred to approach wealthy bankers, who in turn relied on their own lenders' network. Free markets, however, even welcomed the purchase of single one-off bonds. Government bonds with only a few formal constraints attached soon became marketable. They were therefore traded wherever capital was in search of good investments. As a result, investors became aware that their savings were no longer frozen in government coffers but could actually be made available as liquid assets. Investments underwent changes, with capital being diverted from uncertain traditional investments such as land. Procedures, guarantees and techniques were well known to lenders at a national and international level. The demand for information transparency grew. The increasing efficiency of financial markets eventually allowed governments to raise money at less cost. More significantly, it is worth noting that a wider financial market encouraged governments to realize their debt obligations.

Public debt markets were thus widely accessible through stock exchanges, banking network services or even ad hoc bureaux. Private institutions and local authorities also entered the market, building up their assets with public bonds rather than real estate. Underlying these considerations was the assumption that, in an emergency, bonds could be used more easily as a credit pledge. Financial markets became the best place to expect returns and compare private and public loans in terms of safety, interest and refunds.

The contributions to this collection are invaluable in shedding new light on this subject. However, they do not comprehensively exhaust the immense and fascinating subject of public debt in modern European history. A lot of work still needs to be done, focusing, for example, on town and local debt paralleling the national debt, or on the whole subject of government debts and financial markets in Eastern Europe.

This volume has been accomplished thanks to the efforts of many people and institutions working in close cooperation. To name only a few, I wish to express my sincere gratitude to Pierre-Cyrille Hautcoeur, Michael North and José Ignacio Andrés Ucendo. All three organized and co-chaired with me the session on debt at the said International Economic History Association meeting in Helsinki.

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