

The Origins of National Debt: The Financing and Re-financing of the War of the Spanish Succession

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Abstract:

The expense of the War of the Spanish Succession (1702-1713) left each of the great powers of Europe (Austria, Britain, France, the Netherlands, and Spain), with unprecedented burdens of government debt. The overlapping Great Northern War (1700-1721) between Sweden and Russia also encumbered those two European powers with pressing financial problems. The competitive experiments in dealing with the amassed debt that followed over the next decade left Britain alone as holding the key to success in war finance. Britain alone among the contesting military powers of Europe in the 18th century managed to convince a large and diverse number of individuals to hold onto their claims against the government. We argue that this was due to British institutions that allowed individuals to trade their claims with each other rather than being forced to redeem from the government directly. We support our argument by analysis of the thousands of individuals who had acquired various forms of the British government's debt over the course of the War of the Spanish Succession when that debt was largely consolidated into the capital stock of the Bank of England, the East India Company, and the South Sea Company in 1723.