

Questioning Credible Commitment

Financial capitalism emerged in a recognisably modern form in late seventeenth- and eighteenth-century Great Britain. Following the seminal work of Douglass C. North and Barry R. Weingast (1989), many scholars have concluded that the 'credible commitment' that was provided by parliamentary backing of government as a result of the Glorious Revolution of 1688/89 provided the key institutional underpinning on which modern public finances depend. In this book, a specially commissioned group of historians and economists examine and challenge the North and Weingast thesis to show that multiple commitment mechanisms were necessary to convince public creditors that sovereign debt constituted a relatively accessible, safe, and liquid investment vehicle. *Questioning Credible Commitment* provides academics and practitioners with a broader understanding of the origins of financial capitalism, and, with its focus on theoretical and policy frameworks, shows the significance of the debate to current macroeconomic policy making.

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Perspectives on the Rise of Financial Capitalism

Edited by

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Preface

As the Series Editors of *Modern Macroeconomic Policy Making*, we were eager to include a volume in the series that brought us some insights from a serious study of economic history. This is partly because, even though the ongoing financial crisis has promulgated so much disagreement and noise, it seems the one point on which all are agreed is that we should study more economic history. We were delighted, therefore, to be able to build on the original contribution of North and Weingast, which had suggested that the Glorious Revolution of 1688/89 had provided a political and fiscal settlement so profound that it had laid an important foundation for both the subsequent Financial and Industrial Revolutions. The question of institutional capability dovetails neatly into a crucial development in modern macroeconomic theory, the so-called ‘Barro–Gordon–Kydland–Prescott paradigm’ that thrust the problem of time inconsistency permanently onto the policy making agenda. This analysis led to wide-ranging assessment of the importance of commitment technologies that could tie the hands of future policy makers and so promote the credibility and optimality of current plans. Thus, macroeconomic policy began to emphasise the importance of bringing forward-looking expectations into line with policy makers’ objectives, and therefore the credibility of policy itself became a crucial element in the design of policy frameworks. It also turned out that a study of economic history allowed us to locate many examples in which the question of policy makers’ credible commitment was central.

In this volume, which follows a successful conference at Newnham College, Cambridge, in 2010, we are pleased to see several key events in English and European economic history re-examined. Thus, this volume brings together a number of contributions from economic historians who question the conventional wisdom and offer a much more nuanced approach to understanding events both before and after 1688. This volume has been expertly edited by D'Maris Coffman, Adrian Leonard, and Larry Neal and has benefitted greatly from the detailed comments of two external, and sadly anonymous, referees in whose debt we, as nonspecialists, remain.

JAGJIT S. CHADHA AND SEAN HOLLY

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Acknowledgements

This volume has been three years in the making. In the first instance, the project was inspired by the success of a conference: 'Questioning Credible Commitment: Re-thinking the Glorious Revolution and the Rise of Financial Capitalism', held at the Centre for Financial History at Newnham College, University of Cambridge, 20–23 March 2010. Dr Coffman co-organised the conference with Dr Anne Murphy of the University of Hertfordshire. The editors would especially like to thank Dr Murphy, and also to thank the conference's sponsors and participants, including Professor Ron Harris, Professor Julia Rudolph, Mr James Macdonald, Professor Ann Carlos, Professor Luciano Pezzolo, Professor Michael Kwass, and Professor Nathan Sussman, whose contributions have formed the basis for the chapters that they and their colleagues have contributed to this volume.

This four-day conference was made possible by generous grants from the Newnham College Senior Members' Research Fund (SMRF), the Cambridge Endowment for Research in Finance (CERF), and the Centre for Financial History (CFH). As this was the inaugural plenary conference for the Centre for Financial History, the editors would also like to thank Winton Capital Management for their indirect support of the event.

The editors would like also to thank the series editors, Professor Jagjit S. Chadha of the University of Kent and Professor Sean Holly of the University of Cambridge, along with two anonymous reviewers. Thanks too to Dr Coşkun Tunçer of the London School of Economics for his timely research assistance.