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‘Charity begins at home: Why Britain resumed the Gold Standard after the French Wars’

Will politicians prioritize the public interest over personal financial gain? Analyzing the decision to resume the gold standard after the French Wars (1793-1815), we find that politicians acted to maximize their personal interest. In particular, the policy choice to resume the gold standard in the face of an exceptionally high debt burden hinged on the identity of public creditors and the geographical distribution of economic hardship and political representation. Moreover, resumption secured a sought-for return to the pre-war wealth distribution at the admitted price of a less efficient allocation of capital. By augmenting the real value of outstanding debt, it also meant a substantial fiscal transfer from taxpayers to wealthy public creditors. This outcome was politically feasible because the franchise was limited and political repression was comprehensive.

We show the importance of politicians’ personal financial motivations by analyzing the size and timing of their government debt holdings, as recorded in the archives of the Bank of England. A large majority of politicians that publicly pushed for the resumption of the gold standard held large amounts of public debt, an asset that would substantially appreciate in the event of resumption. In addition, the timing of purchases revealed that some politicians engaged also in insider trading

By analyzing verbatim transcripts of parliamentary debates and politicians’ personal correspondence, we further uncover that political calculus and bargaining intervened at two distinct levels. Within the governing Tory party, the landed gentry initially opposed resumption of the gold standard for fear that deflation would increase the real debt burden on their highly mortgaged estates. The introduction of the Corn Laws placated the opposition of the landed gentry by imposing steep import duties that safeguarded the profits and political power associated with land ownership. Political calculus favored the resumption of the gold standard also along party lines. While in the opposition, the Whigs pushed and voted for the gold standard to be resumed. At the same time, Whig leaders acknowledged in private the disastrous consequences of resuming the gold standard and were determined to exploit them for party advantage.Our narrative is new and interesting in several aspects. We find that distributive rather than monetary reasoning governed the decision to resume the gold standard. In studying the different interest groups involved in the negotiations that led to the resumption, we also add a new layer to the debate regarding the institutional fabric of monetary policy. Finally, the issues considered in this study inform the current policy choice faced by several countries in the South of Europe, consisting in choosing between maintaining a fixed exchange rate and restructuring an outstanding debt overhang. Our analysis emphasizes that the choice eventually boils down to who bears the costs of adjustment.