

Balance sheets of the Bank of England in its
first two suspensions of the Gold Standard
(1797-1821, 1914-1925)

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- Two suspensions of the gold convertibility by the Bank of England
 - 1797-1821: French wars
 - 1914-1925: World War I
- First suspension successful, second a failure
- The success of the first suspension had a strong impact on the implementation of the second suspension
 - Failure of the second suspension
 - Convertibility was resumed, but
 - Price level was not restored, large reduction of GDP, macroeconomic conditions had changed in XX century. Critique of Keynes.
- Here, we compare the balance sheets of the BoE for these two episodes

Suspensions and balance sheets of the Central Bank

- Balance sheet "explained" by monetary AND fiscal policy
- "Suspension" means intention to resume convertibility at the same parity
- Strong element: credibility of the resumption of the convertibility at the same parity
- Balance sheet has impact on credibility

- No separation between monetary and fiscal policy (Tobin)
- During the war: discounting of govt and private securities
- After the war, govt refines with long-term funded debt
- Credibility is essential
 - Government securities: capacity to refinance and pay by taxes
 - Private securities: good collateral
 - For credibility, priv. better than govt.
- If suspension is successful, no seignorage
 - Augmentation of the quantity of money with the real economy
 - In case of England, 1797-1821, about 50% real growth.

Context of the first suspension

- Century of convertibility of the BoF notes since beginning (1694)
 - Convertibility through four wars that were financed by fiscal policy (tax smoothing and debt)
- New situation gradually developed to extremes after 1793
 - Suspension of the GS (1797)
 - Income tax (new in 1798)
- Success of the suspension:
 - resumption to the same parity in 1821, with price level as before the suspension
 - Little loss of output (standard recession in the transition after Waterloo)

Balance sheets 1797-1821

1797

| | Assets | Liabilities | |
|----------|--------|-------------|------|
| Gold | 2588 | 10394 | circ |
| Gov sec | 10240 | 6328 | dep |
| Priv sec | 7309 | 16722 | sum |
| | | 3415 | cap |
| Total | 20137 | | |

1797

| | Assets | Liabilities | |
|----------|--------|-------------|------|
| Gold | 12.85 | 51.62 | circ |
| Gov sec | 50.85 | 31.42 | dep |
| Priv sec | 36.30 | 83.04 | |
| | | 16.96 | |
| | 100 | | |

1821

| | Assets | Liabilities | |
|----------|--------|-------------|------|
| Gold | 11552 | 22090 | circ |
| Gov sec | 15882 | 5721 | dep |
| Priv sec | 3754 | 27811 | |
| | | 3377 | |
| | 31188 | | |

1821

| | Assets | Liabilities | |
|----------|--------|-------------|------|
| Gold | 37.04 | 70.83 | circ |
| Gov sec | 50.92 | 18.34 | dep |
| Priv sec | 12.04 | 89.17 | |
| | | 10.83 | |
| | 100.00 | | |

- Share of gov securities not increased at the resumption
- Share of gold increases

Balance sheets (scaled) 1797-1821

1797

| | Assets | Liabilities | |
|----------|--------|-------------|------|
| Gold | 2588 | 10394 | circ |
| Gov sec | 10240 | 6328 | dep |
| Priv sec | 7309 | 16722 | sum |
| | | 3415 | cap |
| Total | 20137 | | |

1797

| | Assets | Liabilities | |
|----------|--------|-------------|------|
| Gold | 12.85 | 51.62 | circ |
| Gov sec | 50.85 | 31.42 | dep |
| Priv sec | 36.30 | 83.04 | |
| | | 16.96 | |
| | 100 | | |

1821 (scaled by 1.44)

| | Assets | Liabilities | |
|----------|--------|-------------|------|
| Gold | 8022 | 15340 | circ |
| Gov sec | 11029 | 3973 | dep |
| Priv sec | 2607 | 19313 | |
| | | 2345 | |
| | 21658 | | |

1821

| | Assets | Liabilities | |
|----------|--------|-------------|------|
| Gold | 37.04 | 70.83 | circ |
| Gov sec | 50.92 | 18.34 | dep |
| Priv sec | 12.04 | 89.17 | |
| | | 10.83 | |
| | 100.00 | | |

- Total balance sheet is not growing more than the real economy

Balance sheets 1797, 1815, 1821

1797

| | Assets | Liabilities | |
|----------|--------|-------------|------|
| Gold | 2588 | 10394 | circ |
| Gov sec | 10240 | 6328 | dep |
| Priv sec | 7309 | 16722 | sum |
| | | 3415 | cap |
| Total | 20137 | | |

1815

| | Assets | Liabilities | |
|----------|--------------|-------------|------|
| Gold | 2723 | 27255 | circ |
| Gov sec | 25853 | 12199 | dep |
| Priv sec | 18853 | 39454 | |
| | | 7975 | |
| | 47429 | | |

1821

| | Assets | Liabilities | |
|----------|--------------|-------------|------|
| Gold | 11552 | 22090 | circ |
| Gov sec | 15882 | 5721 | dep |
| Priv sec | 3754 | 27811 | |
| | | 3377 | |
| | 31188 | | |

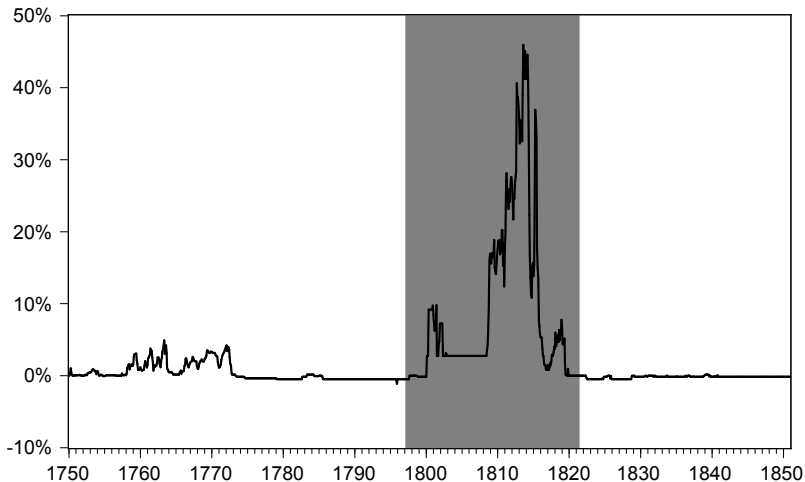
1821 (scaled)

| | Assets | Liabilities | |
|----------|--------|-------------|------|
| Gold | 8022 | 15340 | circ |
| Gov sec | 11029 | 3973 | dep |
| Priv sec | 2607 | 19313 | |
| | | 2345 | |
| | 21658 | | |

- During the "recovery" transition, decrease of gov. and priv. securities
- Gold increases

Expectations: agio

- Price of gold measures the expectation of the resumption of the convertibility



The second suspension

- 1914-1918-1925
- Impact of the first suspension on the policy
- Difference in balance sheet
- Has to be compared with aggregates (prices and output)

Balance sheets 1913-1918-1925

- Large increase of the balance sheet at the time of resumption (hardly any growth of the real economy from 1913)
- Growth of the balance sheet during the "recovery"!
- Share of gold is higher (55%) than after first suspension

1913

| | Assets | Liabilities | |
|----------|--------------|-------------|-------------|
| Gold | 36200 | 28700 | circ dep |
| Gov sec | 12700 | 54900 | |
| Priv sec | 32300 | | |
| | 81200 | | |

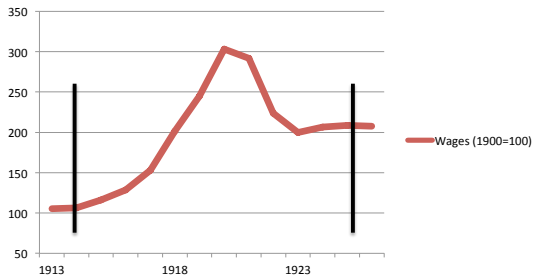
1918

| | Assets | Liabilities | |
|----------|---------------|-------------|-------------|
| Gold | 65600 | 54800 | circ dep |
| Gov sec | 58900 | 171100 | |
| Priv sec | 100100 | | |
| | 224600 | | |

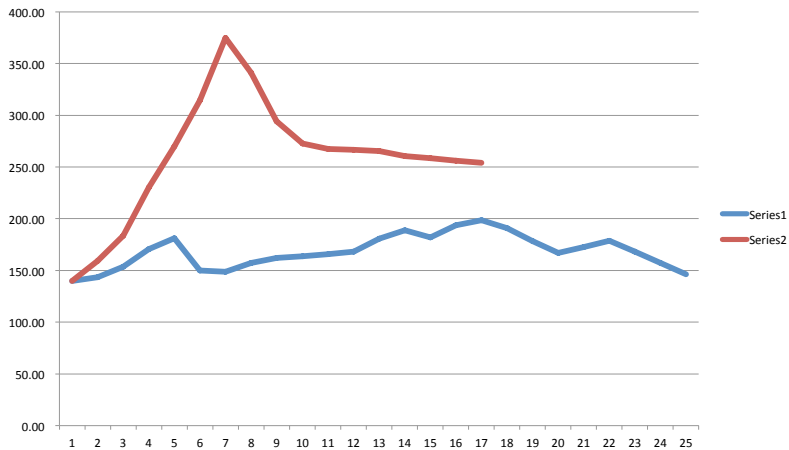
1925

| | Assets | Liabilities | |
|----------|---------------|-------------|-------------|
| Gold | 145600 | 91800 | circ dep |
| Gov sec | 41100 | 126900 | |
| Priv sec | 75000 | | |
| | 261700 | | |

Comparison between the two suspensions: wages



Comparison: GDP deflators



Comparison between the two suspensions: output

