POLITICS AND STATE FINANCE IN THE PERIPHERIES OF THE GLOBAL ECONOMY IN HISTORICAL PERSPECTIVE

'Public credit, credibility and confidence in colonial Jamaica, 1664-1865'

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The British financial revolutions of the late seventeenth to early nineteenth centuries were the models for other states looking to develop robust systems of public finance, such as the United States after 1787. As a result they have also served as the main model for historians, economists and others looking to distil the processes of financial development into their essentials, not least in the work of Douglass North and Barry Weingast in 1989 on 'credible commitment'. Building on P.G.M Dickson's study of the first English financial revolution between 1688 and 1756, they argued that the Glorious Revolution ushered in a profound institutional shift from royal to parliamentary authority, which offered a far more secure commitment to property rights and encouraged creditors to advance money to the English state, enabling it to drive down interest rates and benefit from cheap credit. The increase in private finance followed in its wake. Almost every aspect of this interpretation has been contested. Recent work has pointed out that interest rates did not fall until after 1713, driven in part by a series of forced negotiations between creditors and the state; that credibility also rested on the ability of the English state to raise enough money in taxes to meet its obligations; that the shift from royal to parliamentary authority did not guarantee any greater commitment to property rights, since under various circumstances the legislature was willing to ride over them roughshod; and that the state remained heavily dependent on informal financial networks organise both central and departmental lending. As most studies would agree credible commitment in some form remained necessary for a robust system of state finance, disagreement has consequently centred on how this commitment might have been created in England other than through institutional reform, and arguments have essentially circled around the same set of English examples. Yet recent work by Ivar McGrath, Patrick Walsh and Max Edling on public finance in Ireland and the United States in this period shows the utility of a comparative approach.

Between 1665 and 1865 the island of Jamaica moved from the periphery of the British colonial system to the centre, and then back again. Conquered in 1655, its population of white planters and black slaves rose from nothing to about 400,000 in 1800, making it the richest and most valuable British colonial territorial in the British Atlantic. Its planters had their own legislature, modelled directly on the English political system, and a substantial degree of legislative autonomy, enabling them to design their own fiscal-military state to meet the need for security against external invasion and internal rebellion. Spending rose slowly from nothing to about J£40,000 or J£50,000 per year in the 1760s, then quadrupled during the American Revolutionary War between 1778 and 1782 to meet the demand for military mobilisation (Figure 1).[1] As in Britain, taxation failed to keep pace, and after 1783

[1] Until the 1830s, £1.4 Jamaican currency (J£) = £1 sterling. This rose to J£1.6 in the 1830s, and in 1839 the island adopted the pound sterling as its unit of account.

the planters and merchants in the assembly were forced to develop and maintain a system of public credit until these costs could be paid down. Conflict during the Revolutionary and Napoleonic Wars between 1791 and 1815 pushed this debt even higher, as spending hit greater totals and far exceeded taxation, and thereafter the island maintained a system of state finance and public credit which steadily shifted from colonial to imperial ownership. Examining how this system developed, how it was maintained, and how it was affected by this shift, can therefore help answer broader questions about credible commitment.

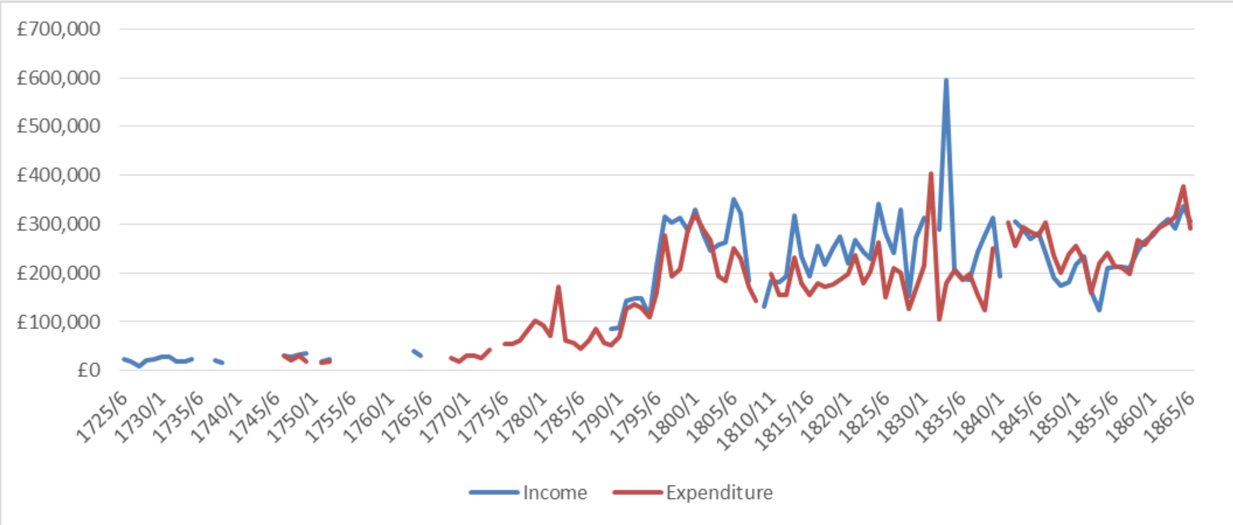

Figure 1: Income and Expenditure in Jamaica, £ sterling, 1725-1866

Until 1786 the island had no formal system of public credit. British military spending was funded by the imperial state, backed by the British public debt, and any colonial spending which exceeded cash in hand was secured against informal IOUs that would be paid down when the next year's taxes came in. At the end of the American Revolution War, however, the Jamaican assembly found that IOUs were outstanding for at least J£114,608 (Figure 2). Under pressure from contractors holding these notes they were called in and replaced by temporary 'certificates' secured against the 'public faith', to be repaid gradually out of colonial taxes. Although the debt had been reduced to J£11,657 by 1793, the resumption of warfare and a major revolt by runaway slaves or 'maroons' in the island's interior pushed spending up to about J£650,000 in the 1795/6 fiscal year and opened up a massive gap between income and expenditure. The assembly borrowed at least J£180,000 directly and converted the remaining mass of floating debt into certificates, so by 1796 the total island debt therefore stood at J£457,801 or about £330,000 sterling. Despite lacking many of the institutional foundations necessary for a credible commitment, according to North and Weingast, this system of public credit was remarkably stable. Because the certificates expired rapidly and could either be paid off or refunded with a fresh tranche of annuities at lower rates of interest, the total debt had been reduced to J£157,511 in 1814 at the end of the war, and the interest rate fell from 10 pct in the 1796 tranche to 6 pct in the 1813 tranche. Although the economy of Jamaica began to decline after 1815 the effectiveness of the system of public credit not only enabled the assembly to depend on borrowing to bridge the gap between taxation and spending but also, after 1821, to issue nearly J£400,000 in paper money or 'island checks' to address serious shortages in coin within the island. Total debt in 1831 was J£701,387 or about £500,000, and this increased to J£953,162 or almost

£650,000 in 1833/4 after another revolt in 1831/2. This was the apotheosis of the system of Jamaican public credit, the last time that it was administered by the colonial assembly, funded by colonial taxes and held by colonial creditors. Thereafter, it increasingly became an imperial debt. Mobilisation in 1832 was funded partly by an imperial loan of J£333,333 or £200,000 sterling, and the assembly was forced unwillingly to withdraw the island checks in 1839. In 1854 almost £500,000 in colonial debt was refunded as imperial debt during a wider overhaul of Jamaican finances which placed them under imperial control, and a series of immigration loans pushed had pushed up total island debt to £834,717 sterling or about J£1.4 million by 1865, when a further revolt led to the final abolition of the assembly.

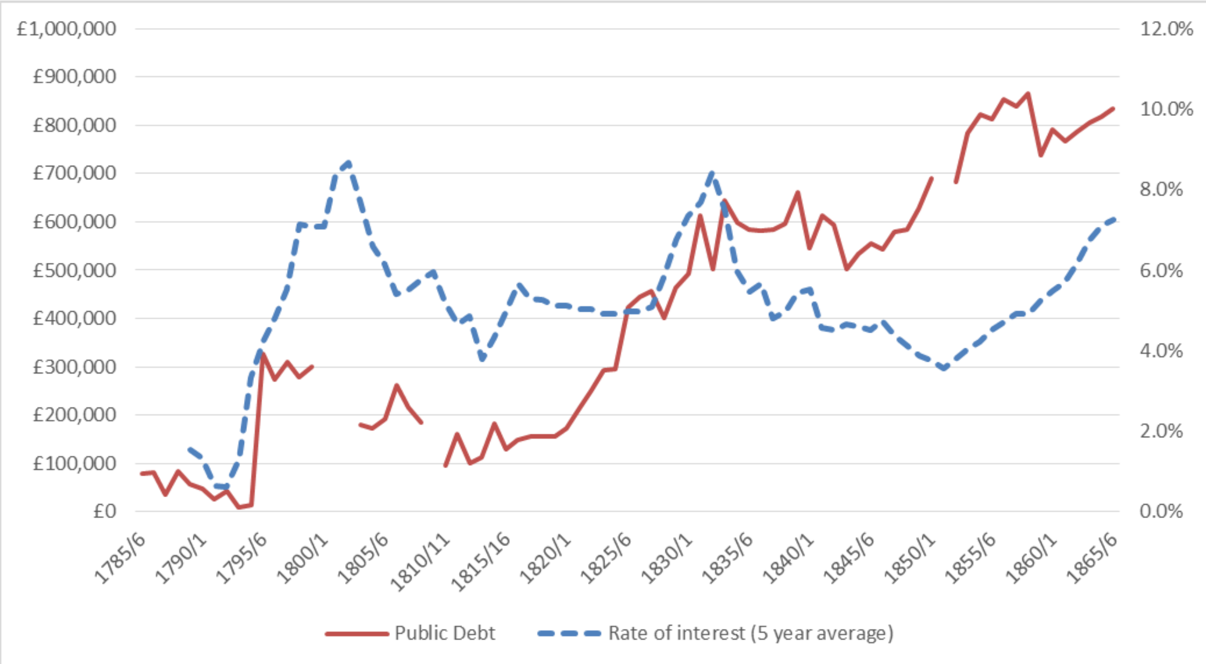

Figure 2: Jamaican total debt, £ sterling, and estimated rate of interest, 1786-1866[2]

From 1786 the assembly therefore reluctantly developed a system of public credit which enabled it to support a very high level of public expenditure, particularly in moments in 1795 and 1832 when the regime seemed to face existential threats from slave uprisings. Though negligible in size compared to the British national debt, not just in absolute terms but even in relation to population or national income, or even the Irish public debt up to 1801 and the United States after 1787, it nevertheless outstripped most other colonial territories in this period. Although from the 1830s it increasingly became an imperial debt held by the British Government as a matter of colonial policy, and therefore increasingly detached from questions of credible commitment, until that point it directly and very successfully relied on the support of its own population, despite lacking many of the institutional features which North and Weingast and their successors have argued were crucial for offering credible commitment. For instance, the certificates which formed the bulk of the debt were short-term rather than long-term annuities, making them far less predictable to investors, and they were secured against the general credit of the island's treasury rather than having certain taxes hypothecated for the repayment of the principal

[2] Total debt includes island checks. The rate of interest was found by matching the interest paid each year to the interest-bearing (i.e. non-island check) debt. Since interest payments were not always regularly brought to account in the year they were due, this therefore represents a rough estimate.

and interest. Though certificates were numbered and closely monitored, allowing various tranches to be repaid or replaced in order, there was no formal secondary market for the certificates. Most divergent of all, the planters and merchants of the assembly did not legally enjoy legislative independence, but were technically dependent on the political authority of the governor, an imperial appointee, as well as the imperial parliament in Westminster. Yet by 1831 the island had not only maintained this system of public credit largely without change for over three decades, but had also managed to force down the rates of interest: the tranche of certificates issued in 1831 carried interest of only 5 pct. Partly this reflected efforts at institutional overhaul along the lines suggested by Brewer. Just as in Britain during the period of 'Economical Reform' in the 1780s, the assembly of Jamaica reformed its treasury and revenue systems between 1784 and 1788 to eliminate corruption and inefficiency, helping to prove that the assembly could credibly commit to meet the interest and principal on its loans out of its own revenues. However, the case of Jamaica suggests that ultimately a more inchoate and less quantifiable mixture of political factors were crucial in creating credible commitment up to the 1830s, and that as both politics and public credit altered after 1834 this commitment steadily drained away.

Until 1783 the political situation in Jamaica was not propitious for the creation of a stable system of public credit because the assembly did not have full control over its own house. The governor or the Board of Trade might be expected to intervene regularly in colonial politics and to attempt to dictate colonial policy, turning legislative sessions into highly-charged confrontations which often ended in premature dissolution. Under these fluid circumstances, investors had no confidence that the assembly would be able to raise or allocate the necessary colonial taxes for the payment and repayment of debt, or that the governor would not order these funds to be diverted to other uses. The events of the American Revolution overturned this situation. Besides the Declaratory Act of 1778, which promised that parliament would not legislate for the internal taxation of colonies, the loss of the Thirteen Colonies encouraged imperial officials to adopt a 'hands-off' policy in all colonial matters. Apart from a few red lines such as imperial defence, commercial policy, private property rights and (after 1807) the abolition of the slave trade, governors in Jamaica largely ceased to intervene in the internal politics of the island. I have shown in other work that the volume of legislation passed by the assembly consequently doubled, since interest groups now had the confidence to bring forward bills (Figure 3). As a result of this political situation the assembly also now had much more control over its own taxation, which was being raised to support spending in which the planters and merchants of the island had a direct and immediate interest, namely the maintenance of security and the plantation system. This created a linked series of credible commitments as holders of the island debt could feel confident that legislators would continue to fund the public credit which underpinned the economy and society of the island; that they had the necessary political powers to do so; and that they could be held accountable to local electors. The commitment thus was political rather than institutional, but no less credible as a result.

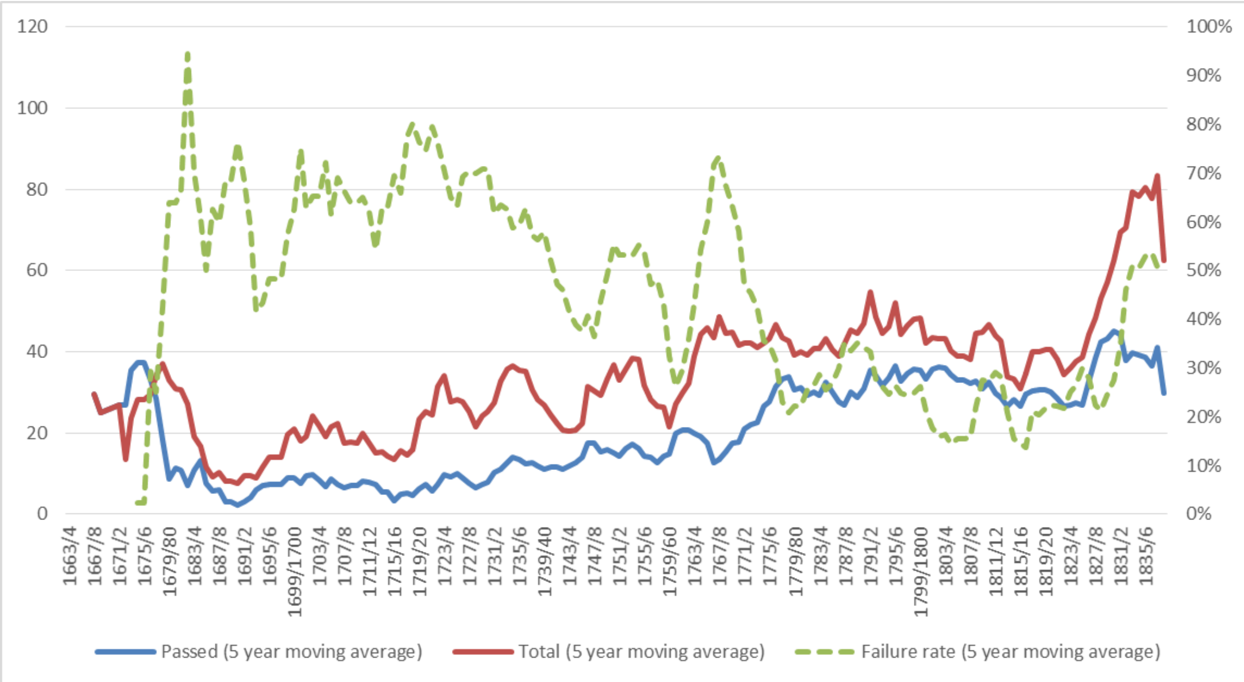

Figure 3: Jamaican total and successful legislative initiatives, and rates of failure, 1664-1839

The decline and fall of the Jamaican system of public credit came between the 1830s and 1860s as its political foundations were undermined. Although the economy of the island began to decline after 1815 this did not necessarily reduce confidence in the system; as noted above, the island checks were created specifically to address some of the issues arising from the drain of specie. More important was a shift in the balance of power in Jamaica as the imperial governor, under abolitionist pressure from the Colonial Office, began once again to intervene in colonial politics. Failure rates of legislation had fallen to about 20 pct between 1783 and 1823, but now doubled as the governor and assembly clashed over ameliorating the conditions of slaves. The passage of the Emancipation Act in 1833 not only threatened to undermine the plantation system at the heart of the island’s economy but also demonstrated that planters and merchants had lost political control of their destiny, and investors could no longer depend on the assembly having the power to make good its financial commitments. Under pressure after 1837 from the new Colonial Bank, based in London, and the Colonial Office and Treasury, who all insisted that island paper should be convertible at will into coin, the assembly was forced to withdraw all the island checks in 1839 and replace them with an issue of long-term annuities. Direction of public debt was increasingly taken out of the hands of local interests, who became less and less willing to vote funds for the payment of their obligations. For instance, although the assembly continued to pay island certificates and various miscellaneous annuities issued to local schools and charities after 1832, the repayment of a loan from the British Government of £200,000 was repeatedly deferred, on the basis that there were no local shareholders who would suffer from non-payment. Throughout the 1840s the British Government was therefore forced to intervene more often, culminating in the financial settlement of 1854 noted above which converted the remaining certificates and checks into an imperial debt and appropriated taxes for its repayment. Resentful at imperial interference and the need for paying a debt not held by local interests, planters increasingly tried to sabotage local politics, and the entire system of government became unmanageable. Rates of interest had fallen from 10 to 6 pct between 1786 and 1831, and bottomed out at 4 pct in the 1840s, but gradually rose again to 5 pct by 1855, 6 pct by 1860 and over 7 pct by 1865. When planters no longer had either power or responsibility for their debt after 1834, they therefore made a political decision to abandon both credibility and commitment and to leave the imperial government to deal with the financial mess which inevitably occurred as a result.

Focussing on peripheral analogues to the British political and financial system across nearly two centuries can therefore shed important light on the processes which underlay credible commitment and the financial revolution(s) of the metropole. The experience of Jamaica suggests that it was possible for an island to maintain a public credit system of considerable size and sophistication when its commitment was sufficiently credible, but that this credibility did not necessarily arise from institutional factors. The public credit system worked in Jamaica after 1786 because investors were confident that the members of the assembly had reliably excluded unpredictable and unaccountable imperial intervention in the internal politics of the island, through an ongoing process of political contestation, and could therefore vote money with the confidence that nothing would prevent it being allocated to the repayment of interest and principal. Furthermore, since the money raised was being spent on security and defence against slave revolts, members were unlikely to withhold the funding needed to maintain confidence in the public debt and the fiscal-military system, and they were in any case accountable to the Jamaican public through regular elections, whereas the governor was only accountable to the Crown in Britain, which increasingly showed that it did not have the island's best interests at heart after 1800. When this nexus fell apart in the 1830s, the island's credibility decreased, forcing greater imperial intervention which undermined credibility even further, and a downward spiral which nearly led to the bankruptcy of the island in the 1860s. The constitutional changes in Britain after 1688 discussed by North and Weingast were therefore arguably of substantive value to the construction of credible financial commitment only insofar as they *symbolised* a broader, contingent and ultimately provisional transfer of political power from the Crown to Parliament after the Glorious Revolution. While this shift held good, investors could enjoy greater transparency and far greater input into the process of decision-making, via legislators who were dependent on their electors for political support and, in general after 1689, committed to maintaining the Protestant Succession through an expensive fiscal-military state. The credibility that the British state offered after 1688 was therefore political and provisional, the result of the fluid balance of power between parliament and the Crown.