HISTORISK TIDSKRIFT
(Sweden)

137:2 • 2017

Money and debt

JOHN D. TURNER[*] *Queen's University Belfast*

Seán Kenny, *Money and Debt: Empirical Studies in Northern Europe 1840–2015*, Lund University studies in economic history 77 (Lund: Department of Economic History, Lund University 2016). 216 s.

Introduction

One of the great privileges of being an academic is the opportunity to mentor, nurture, examine and develop the next generation of academics. It was therefore a wonderful privilege for me to act as an opponent on Seán Kenny's thesis at Lund University. Kenny's thesis looks at money and debt in northern Europe over a 175-year period. Money and debt play a major role in economic development. Without money and a payments system, trade and economic growth are curtailed. Economic development moves in tandem with or even lags the development of a stable and efficient monetary system. Economists have increasingly been of the view that finance facilities and precedes economic growth. Finance enables those who have ideas for productive investments but insufficient financial resources to obtain finance from those who have financial resources but lack productive investment opportunities. Throughout history, the majority of funds which have flowed around the financial system have taken the form of debt rather than equity. Debt can be provided by banks or raised through an issuance of bonds.

Because of their important and central role in economic development, money and debt can easily destabilise economies. Kenny's homeland of Ireland knows this only too well from recent experience and his adopted home of Sweden experienced its own crisis back in the early 1990s. Economic history provides us with examples of the economic calamity caused by there being too much money in circulation (e.g., hyperinflation in Germany in the early 1920s) and there being insufficient money in circulation (e.g., defla-

* Professor of Finance and Financial History; faculty opponent

tion in the United States in the early 1930s). Economic history also provides us with numerous examples of what happens when there is too much and unsustainable levels of debt in an economy – banking and financial systems crash causing major contractions in output. The resultant collapses have been followed by increased political instability, populist backlashes, and even regime change.

Kenny's dissertation contributes to our understanding of the evolution of money and debt by generating new data and providing us with new insights into the development of money and debt in the UK and Ireland. His dissertation consists of four essays – three of the essays are economic history and one is a study of contemporary macroprudential bank regulation. In what follows, I will give an overview of the three historical essays in the dissertation.

Overview

In his first essay, Kenny presents estimates of monetary aggregates for the UK for the period 1844–1870 and estimates of the total assets of the UK banking system for the period 1844–1880. In terms of monetary aggregates, he estimates M0 (notes and coins in circulation plus bank reserves) and M3 (notes and coins in circulation plus bank reserves). The series that are constructed in this chapter either do not exist, in the case of bank assets, for the period in question or are simply crude estimates, in the case of M0 and M3. Kenny has performed a wonderful service for future economists and economic historians. As a consequence, his work will be cited for years to come.

Kenny has been assiduous in his archive work and has collected enough information to make very precise estimates. He has also been very careful to ensure the representativeness of the banks included in his sample. The main findings of this chapter are as follows: (a) M0 grows in a predictable and steady manner over the period and is not that different from existing crude estimates; (b) M3, on the other hand, fluctuates much more over the period and has a markedly different trend than the existing crude estimate, particularly in the 1860s; (c) the bank asset series trends upwards over the period until the 1870s when it begins to flatten and even decline.

The potential causes of the levelling off and decline of bank assets in the 1870s is worthy of some further comment. First, although some of the decline is associated with the failure of the City of Glasgow Bank in October 1878, the decline in bank assets had started before this episode. Second, the levelling off and decline could simply reflect the fact that the British banking system, after several decades of impressive growth, was operating at capacity. Third, banks may not have been growing due to the wider economic malaise associated with the original great depression, which started in the 1870s and lasted until the 1890s.

The second essay in Kenny's dissertation covers similar territory to that of his first one in that it generates estimates of M0 and M3, but this time for Ireland for the period 1840 to 1921. O'Rourke's crude estimate of broad money is improved upon by adding bank reserves as well as correcting for adjustment items and missing banks. In addition, there has been no prior estimates of M0 for this period.

The 1840 to 1921 period in Ireland's economy history is something of a statistical black hole, with few annual economic series available and only a few crude point estimates of GDP in existence. This paucity of data makes life difficult for historians who want to understand the effect of the great famine on the economy, the nature of business cycles in Ireland and whether they differed from those in the UK, Ireland's economic development in this era, and the effect of Home Rule and political instability upon the economy. Kenny's estimates of M0 and M3 will serve as very useful 'economic barometers' of activity in this era of great economic, social and political upheaval in Ireland's history.

The main trends in M0 and M3 in Ireland will not be that surprising to those familiar with the UK experience in this era, particularly with the explosion of the narrow and broad money supply during World War I. The Famine has a large effect on M0, but a lesser effect on M3. This raises questions about an old debate in Irish economic history as to whether there were two Irelands in the middle of the nineteenth century – a monetary economy on the eastern side of the country and a non-monetary economy in the west of the island. One potential future avenue for Kenny to take this work is to look at the spatial element of the growth of Ireland's monetary economy.

The third essay in Kenny's dissertation which focuses on economic history analyses public debt dynamics in Ireland in the 1950 to 2015 period. In this essay, there are two principal research questions being addressed: (1) what were the dynamics of Irish government debt in the 1950–2015 period and (2) what were the effects of fiscal crises in the 1950s, 1980s and 2008 onwards on Irish government debt? This third essay is interesting because it provides insights into how highly indebted countries reduce their public debt and the main contributors to the reduction of high debt.

In order to analyse the dynamics of public debt over this 65-year period, Kenny had to construct a consistently defined series for Irish government debt and primary balances. He also uses Sweden for comparative purposes. The main findings of this essay on Ireland's public debt dynamics are as follows. First, the reduction of public debt in the 1980s was chiefly achieved through primary surpluses. Second, the fiscal crisis of the 1950s witnessed a continuous fiscal contraction, but because of low inflation and higher interest rates, the debt ratio continued to creep upwards, but admittedly it did so from a relatively low level. Third, low real interest rates, long maturities for debt, and a large proportion of public debt being held outside of Ireland sets the more recent fiscal crises apart from those experienced in the 1950s and 1980s. Ultimately, political economy plays a very important role in our understanding of public debt dynamics.

Criticism

Kenny's thesis has many strengths. First, unlike many economic history dissertations, Kenny's thesis covers a broad time period and several northern European economies. This coverage is impressive. Second, it covers a broad range of topics – from economic statistics, monetary economics, macroprudential regulation and public debt. Third, the new series that Kenny has generated will be of great use to future economists and economic historians. His careful archive work and the resultant series he has produced deserve to be widely cited for years to come. He has done the service a great service. My main criticism of his dissertation is that it covers too many topics and I would like to have seen more done with the monetary and banking statistics which he has generated. These statistics tell us so much about the banking, economic and financial history of Ireland the UK. I have no doubt that Kenny will return to these statistics in future work.

The epigraph to Kenny's work is from James Joyce's *Ulysses* – "hold to the now, the here, through which all future plunges to the past". The economy of today and tomorrow becomes the economic history of yesterday and the march of time means that the field of study for economic historians is a growing one. Indeed, this economic historian would go further and argue that our economic past helps us understand our economic present and future. Kenny's dissertation fits this mould – he demonstrates that our banking, fiscal and monetary past is relevant to the now, the here.