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Paper

English Monarchs Dealing with Reputation Risks when Borrowing Money in the Middle of the 16th Century

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Abstract

Financial revolutions in the Netherlands in the 16th century, in England in the 17th century and, consequently, in many other countries resulted in establishing sustainable fiscal regimes closely associated with state debt. The system of state debt is claimed to be supported by the specific institutions that render creditors of the state sure that they will be reimbursed with interest as promised, independently from any possible arbitrary decisions of the leaders of the state. Before the establishment of state debt system royal power was not embedded in the regulating and controlling inclusive democratic institutions. Thus, monarchs frequently neglected their debt obligations. This limited the possibilities for economic development. Within such a paradigm, the historical development of countries is seen as a linear path to the formation of good institutions that will minimize negative effects on economic growth. Such approach has recently been contested by a number of historians (Ogilvie, Carus 2014; Cutterham 2018, Ivanov 2019 etc.). This boosted searching for the new ways to explain social and economic transformations of the Early Modern period and the formation of capitalism. One of the possible ways is historicizing economic history, namely, customized treatment of historical sources, detailed examination of economic history phenomena taking into account social and economic features, balance of power and cultural effects in the society, and consequent comparative research.

In this paper, a case study of English royal borrowing in the 1550s–1560s will be presented. The English monarchs systematically took short-term loans (for 6 or 12 months) on the Antwerp bourse in Flanders from 1544 to 1574, simultaneously resorting to the resources of the English merchants. In contrast to the Spanish and French monarch, the English rulers managed to refrain from bankruptcies and systematically pay back foreign loans. Regular borrowing requires securities for creditors, taking care of financial reputation on the part of the borrower and creditors' desire to lend. How did all this correlate with the absolutist power of English monarchs (already North and Weingast (1989) noted that game theory does not always help to explain the behaviour of medieval and early modern monarchs who could default on their debts even despite reputation risks – what

were the mechanisms that stopped 16th century English monarchs from doing the same)? How did the English monarchs behave towards the international and English monarchs? How were the prerogative claims of the absolutist monarchs limited by the international merchant community and how did it influence the relationships between the English monarchs and their own English merchants? What was the specific social base of the relationships of the English monarchs with English merchants? The purpose of the paper is to detect the circumstances and mechanisms of how the English crown solved the problem of reputation risks when dealing with international and English creditors, taking in to account the specific political and economic context of the 16th century.

Studying the relationships between the absolutist monarchs and their creditors, comparing communicative strategies of the rulers towards the international and English merchants will, hopefully, allow to formulate new hypotheses about the development of capitalism and changing state structures under its influence.