Hollow Victory: Britain’s National Debt and the Seven Years’ War

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Introduction:

"Osama (bin Laden) doesn't have to win; he will just bleed us to death." This statement comes from a former CIA counterterrorism agent who led the initial search for bin Laden, Michael Scheuer. He is talking about the substantial amount of money spent by the United States government in order to defeat jihadists in Afghanistan and Iraq. This quote is infused with a message that rings true for nearly every war that has ever been fought anywhere: Money is the main motor of war. As money is not always readily available to governments, national or public debt is accrued in order to prosecute wars and conflicts. Scheuer was not concerned with actual blood; he was concerned that the debt that had risen drastically higher immediately after the invasion of Afghanistan and that the Iraq conflict would cripple the American economy. He stated this in 2005 a mere two years after the invasion of Iraq. Five years later, American debt continues to rise amid foreign wars and a domestic economic downturn, but American credit has yet to disappear. A little over 250 years ago in Great Britain, Phillip Stanhope, friend of William Pitt the Elder, Secretary of State for the Southern Sector under George II and de facto leader of the civilian government during the majority of the Seven Years’ War, sent a letter to a friend. That letter read: “In my opinion, our greatest danger arises from our expense, considering the present immense National Debt.” Similar to Scheuer on the US situation, Stanhope recognized that Britain’s debt already was at record highs and that going to war with France would heap on the debt burden like never before. The quote from 1756 quite plainly shows that citizens were deeply concerned with national debt before debt figures were readily available as they are in today’s information age.

We are interested in these very questions, namely the implications of the cost of warfare and, in particular, the debt burden that may arise from conflicts. This paper examines how Britain’s national debt rose dramatically during the Seven Years’ War and analyzes the implications of this growth. We look at the various reasons for the dramatic rise, but the major reason discussed is military spending. Moreover, it seems that the addition of the North American continent as a major theater of war created the need for higher public spending. We ask whether the British government was able to shoulder the new burdens effectively or not. Additionally, we investigate the impact that the military expenditures had upon the national debt and whether it created positive or negative constraints for Britain’s economy and/or government. As we have discovered, the British debt nearly doubled from the pre-war total as a result of the capital-intensive war in which she was engaged. Ultimately, we argue that the Seven Years’ War contributed to the American Revolution via the unexpected fiscal pressures on Great Britain.

It is possible to argue that the current wars that the United States is engaged in have created high levels of spending that have placed unnatural strain on the budget of the federal

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Based on the most recent estimates on the overall public debt (January 2010) and nominal GDP (end of 2009), the US debt-to-GDP ratio amounts to 85.1 per cent in the beginning of 2010. The level in 1999 was 61.1 per cent, so we have definitely seen an uptick in the level, although not as dramatic as during some conflicts. If we look at Table 1, which might not be exactly comparable given that it is data calculated possibly from different sources but should be at least illustrative, the American debt levels are not dramatically out of sorts with the other Western nations listed therein, like the struggling Greece. The current Greek financial crisis has certainly increased its level of indebtedness, and has led to a plethora of economic, social, and political crises for the country. However, it remains to be seen if the US will follow suit in the future, as Niall Ferguson has pointed out in his recent pessimistic article.

Table 1. CIA Estimates for Debt-to-GDP Ratios as a Percentage in 2009

<table>
<thead>
<tr>
<th>Country</th>
<th>Debt-to-GDP ratio (percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>192.1</td>
</tr>
<tr>
<td>Italy</td>
<td>115.2</td>
</tr>
<tr>
<td>Greece</td>
<td>108.1</td>
</tr>
<tr>
<td>Belgium</td>
<td>99.0</td>
</tr>
<tr>
<td>France</td>
<td>79.7</td>
</tr>
<tr>
<td>Germany</td>
<td>77.2</td>
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<tr>
<td>Canada</td>
<td>72.3</td>
</tr>
<tr>
<td>UK</td>
<td>69.5</td>
</tr>
<tr>
<td>Finland</td>
<td>46.6</td>
</tr>
<tr>
<td>Sweden</td>
<td>43.2</td>
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</tbody>
</table>


Therefore, we want to explore historical precedents that can help explain further what may occur in a similar situation, i.e. how much particular wars contribute to a nation’s indebtedness and what the consequences of the hypothesized increase were; especially, who paid the piper, so to speak. There are numerous studies already on 19th and 20th century military spending patterns, but fairly few that address the fiscal behavior of states prior to the French Revolution and the Napoleonic conflicts. The first part of the paper provides broad comparative figures on both the

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fiscal strain of wars by Britain as well as other states over centuries. By using Britain in the Seven Years’ War as a case study, we can concentrate more closely on one pivotal event that contributed, as it is often claimed, to the separation of the motherland from the thirteen American colonies. It is not surprising to find that the majority of public spending (thus public debt burden) was directed to the military and navy. Therefore, it is necessary to examine the particular reasons for the higher military spending and address several key questions, such as: 1) Was the high cost due to the war being much broader in scope than before? Or the nature of the conflict as a multi-theater war? 2) Was military spending the primary cause of the increased indebtedness? 3) Was this increase more rapid than in other conflicts, thus forcing Britain to try to shift some of the burden to its colonies? If yes, why? We include discussion of the current and past research and theories that investigate and shed light on the public spending discussion amongst economists, historians, and politicians.

Following the discussion of recent research and British debt figures, we show that contemporaries of the period were concerned with the debt, and many foresaw the difficulties in paying for the debt once the war was over. As we show with data on the British state, Great Britain used most of their income during the war on the war itself. Following the war’s conclusion however, British politicians spent much more than the national income in servicing that war debt. Thus, we see a drastic increase in the amount of income devoted to public spending following rather than during the war.

Finally, we provide evidence to sufficiently argue that Britain’s financial institutions and government were much more capable of enduring the capital-intensive war than France or her allies. Effectively, Britain was able to, in a fashion, purchase an empire following the victorious Seven Years’ War by merely spending more and accruing lower interest rates on its debt than the enemy. However, we also show that the massive empire gained by Britain became a hollow empire, since the obligations of gathering public debt also contained implicit promises of payback and/or return on investment for the buyer, which included many prominent British citizens. Thus, the government attempted to equalize the burden of debt. However, it became difficult for Britain to consolidate its new gains, and just a decade later it faced a new dilemma. Britain, because of its heavy debts incurred by the war, pressured also the American colonies, the least taxed part of the Empire, to help pay back that debt. As is made clear by history, it became a major reason, or at least a trigger mechanism, for the independence movement that created the United States of America.

RESEARCH ON FISCAL ASPECTS OF CONFLICTS, PUBLIC DEBT, AND THE SEVEN YEARS’ WAR

There are certain characteristics that can be discerned in the efforts to study 20th century conflicts and spending patterns among different fields of science; mainly in history, economics, and political sciences. Often the focus has been on both the largest conflicts in human history as well as long-run development patterns, which would enable us to understand broad patterns and theories. Many historians and economic historians in particular have recently been focused on

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the study of big conflicts, the world wars in particular. A good example of recent work combining the theoretical aspects of economics with historical case studies is *The economics of World War II*, edited by Mark Harrison, as well as its prequel on the World War I. Moreover, the focus on many of these studies has been on the 20th century, especially among economists and political/conflict scientists. Moreover, even though some cycle theorists and conflict scientists have been interested in the formation of modern nation states and the respective system of states since 1648, they have not expressed any real interest in long-run analysis of the causes of warfare, or smaller wars that may have had big consequences for world history.

Another, more specified area of interest for scholars has been economic warfare, which take a multitude of forms, from fairly benign policy measures and sanctions to outright warfare in the context of total war. Lance Davis and Stanley Engerman, for example, have studied naval blockades covering several centuries. Their approach is to study a multitude of conflicts and make informed comparisons about the impact of blockades. As they point out, the success of a blockade, as they point out, is often difficult to assess. There is also a resurgence of scholarship focused on pre-20th century conflicts, especially the revolutionary and Napoleonic wars. For example David Bell in his recent influential monograph certainly puts the revolutionary wars and the ensuing Napoleonic conflicts into the same category as the world wars. Similarly, Kevin O'Rourke has provided innovative insights into the Revolutionary and Napoleonic wars by focusing on the contraction of trade in particular.

One of the main questions for most of these scholars is the economic impact of wars and military spending. It is often argued, for example, that uneven economic growth levels cause nations to compete for economic and military prowess. The leader nation(s) thus has to allocate more and more economic resources to maintain a military spending lead, while the follower/challenger nations can possibly benefit from greater investments in other areas of their

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economies. A built-in assumption in this hypothesized development pattern is that military spending eventually becomes harmful for economic development.\textsuperscript{15}

It is a common argument in the literature that economic development and military spending are closely interdependent, with military spending being the driving force behind economic cycles. However, as recent studies have shown, economic development is often more significant in explaining military spending rather than vice versa. As some of the hegemonic theorists, economic prosperity might be a necessary prerequisite for war and expansion. Therefore, economic growth would induce rising government expenditures, which in turn would enable higher military spending.\textsuperscript{16} In order for military spending to hinder economic performance, it would have to surpass all other areas of an economy, such as is often the case during wartime. However, the long-run fiscal consequences of conflict and/or excessive military spending can be substantial, depending on the way that those expenditures were financed. In particular, if most of the funding was made possible by increasing public debt levels, those consequences can be far-reaching indeed.

Public debt as a focus of analysis is just as interdisciplinary as conflicts and their economic consequences. Among economists the main thrust of the scholarship has been on trying to model the impact of debts and deficits vis-à-vis economic growth. For example, Robert Barro’s groundbreaking studies on the determinants of public debt and especially the so-called tax smoothing hypothesis, implying that budget deficits can be used to smooth tax rates over time, are good examples of such scholarship, and Barro also tests his models empirically mostly by using 20\textsuperscript{th} century US data.\textsuperscript{17} However, using long-run British data, from 1700s to 1918, he found that temporary military spending was the major determinant of budget deficits, and that British results indicate a one-to-one response of budget deficits to temporary spending.\textsuperscript{18}

Typically, however, economists have not been interested in public debt patterns or the impact of deficits in the long-run, or at least by using historical data beyond the 20\textsuperscript{th} century. These studies have been focused either on the impact of the world wars or the post-war period.\textsuperscript{19} While it is true to that the Great War in particular contributed to higher levels of public debt in its aftermath, given that many countries resisted the idea of funding the conflict through increased taxation\textsuperscript{20}, the levels of indebtedness among the industrialized nations during the 20\textsuperscript{th} century were not necessarily very high historically (see Figure 1).


There has also been a lot of interesting recent historical scholarship on public debt patterns. The most comprehensive accounts of long-term public debt burdens and deficits can be found in James MacDonald’s book *A Free Nation Deep in Debt: The Financial Roots of Democracy* and in Niall Ferguson’s book *The cash nexus: money and power in the modern world, 1700-2000*. Both of them offer broad overviews of the evolution of the practice of public debt and levels of debt over centuries. As both of them point out, the development of practices with which representative governments were able to borrow money domestically (i.e., via government bonds) was a crucial element in the fiscal rise of powerful states like the Netherlands and Great Britain. Their governments were able to borrow more cheaply, since there were constraints on what the sovereigns could do with the money, or at least what they could about taxes to finance the repayment. Thus the middle classes in these countries were linked symbiotically to their emerging quasi-democratic governments; in England, this happened particularly after the Glorious Revolution of 1688.

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It was in the 16th century when monarchies started to utilize various forms of public debts more widely, for example in the form of rentes in France. However, it was the birth of the consol in Britain that marked the beginning of the history of modern public debt, and they were redeemable at par but otherwise perpetual, enabling the government to raise large amounts of capital in a crisis situation. Ultimately, a nation also had to introduce other institutional and organizational innovations, such as stock markets, central banks etc., to be able to tap into the use of this tool more effectively. This Dutch/British model became the cornerstone for the emerging fiscal states, and the British system of public debt was emulated throughout the Western world in the 19th century.23

**Figure 2. English Real Tax Revenue, 1290-1815**

[Graph showing English Real Tax Revenue from 1290 to 1815]

Source: (O’Brien, 1994).

Richard Bonney has addressed this problem in his writings on mainly the early modern states. He has emphasized that the states’ revenue and tax collection systems, the backbone of any militarily successful nation state, have followed a specific evolutionary trajectory over time.24 For example, in most European states the government became the arbiter of disputes and the defender of certain basic rights in the society by the early modern period. During the Middle Ages, the European fiscal systems were relatively backward and autarchic, with mostly predatory rulers (or roving bandits, as Mancur Olson has coined them).25 According to Bonney, the next stage was the so-called tribute state, then the domain state (with stationary bandits, providing

some public goods), the tax state (more reliance on credit and revenue collection), and finally the fiscal state (embodying more complex fiscal and political structures). A superpower like Great Britain in the 19th century in fact had to be a fiscal state to be able to dominate the world, due to all the burdens that went with an empire. With that fiscal state came an efficient system of taxation, more democratic form of government, and reliance on public debt during times of crises.\footnote{On the British Empire, see especially Ferguson, N. (2003). \textit{Empire: the rise and demise of the British world order and the lessons for global power}. New York: Basic Books. Ferguson has also tackled the issue of a possible American empire in a more polemical Ferguson, N. (2004). \textit{Colossus: the price of America's empire}. New York: Penguin Press.}

The English fiscal state came about slowly. In fact, the English crown could only raise short-term debt in the mid-16th century. And, by mid-17th century the English monarchs had almost no creditworthiness left. Moreover, the Glorious Revolution was not a quick fix either; it took until after 1720 for a stable form of parliamentary government to be established, and thus exercise any sort of control over the fiscal affairs of the monarchy.\footnote{Macdonald, J. (2003). \textit{A Free Nation Deep in Debt. The Financial Roots of Democracy}. New York: Farrar, Straus and Giroux.} It seems that England’s fiscal affairs stabilized already earlier, though, as we can see in Figure 2. The real tax revenues started increasing steadily from the late 15th century onwards, thus creating at least some constancy for the crown’s finances. Of course, given the massive appetite of early modern sovereigns for warfare - resulting in the highest average yearly totals of great power wars in the 16th century, compared to the other centuries during the last 500 years - it was not enough.\footnote{Ferguson, N. (2001). \textit{The cash nexus: money and power in the modern world, 1700-2000}. New York: Basic Books. See also Ferguson, N. (2001). \textit{Coercion, Capital, and European States, AD 990-1990}. Cambridge, Mass: Basil Blackwell.}

As Niall Ferguson has pointed out, military expenditures were the primary budget item for nation states prior to the 20th century, and the principal cause of fiscal innovation throughout most of history.\footnote{See especially Ferguson, N. (2001). \textit{The cash nexus: money and power in the modern world, 1700-2000}. New York: Basic Books. See also Eloranta, J. (2003a). National Defense. In \textit{The Oxford Encyclopedia of Economic History}(Ed, Mokyr, J.). Oxford: The Oxford University Press.} It is possible that military expenditures have also had long-term consequences for government budgets, which is an idea known as the Peacock-Wiseman displacement hypothesis. Peacock and Wiseman divided the explanatory forces of government spending into two groups: 1) permanent influences on government expenditures (income, population growth, prices, level of employment, and the “political nature of the society concerned”; 2) displacement effects and the concentration process, i.e. the idea that wars (and other large economic shocks) may have been the driving force behind changes in government spending patterns. They contend that governments are forced to respond to the challenges posed by such shocks, especially the commitments arising from debt commitments, war pensions, and other similar issues. At the same time, increased wartime taxation would induce a change in the public’s tolerance for taxation.\footnote{Peacock, A. T. and Wiseman, J. (1961). \textit{The Growth of Public Expenditures in the United Kingdom}. Princeton: Princeton University Press., 21-31; Lindert, P. H. (1994). \textit{The Rise of Social Spending, 1880-1930}. \textit{Explorations in Economic History} 31, 1-37.; Lindert, P. H. (1996). \textit{What Limits Social Spending? Explorations in Economic History} 33, 1-34.; Webber, C. and Wildavsky, A. (1986). \textit{A History of Taxation and Expenditure in the Western World}. New York: Simon and Schuster.} These changes can bring forth a permanent change or merely a temporary shock in the government spending levels. As Karen Rasler and William Thompson have maintained, it may be that only global wars (or other global economic shocks) have this effect on government spending. They discovered support for this finding especially in connection with the Napoleonic
wars and the two world wars. However, what has not been studied is whether smaller conflicts had similar impacts on spending and, ultimately, taxation and public debt patterns.

Therefore we wish to study a smaller conflict, one that has not been studied enough, but focusing in this case on a war that had far-reaching consequences. As Niall Ferguson and others have claimed, the Seven Years’ War contributed to the separation of the motherland from the thirteen American colonies. Great Britain attempted to impose part of the cost of this expensive conflict onto her colonies, of which the thirteen colonies were the least taxed part. What do we now currently about this conflict, which turned into a truly global war with multiple theaters?

There remains a large amount of scholarly work solely on the Seven Years’ War from several different perspectives. In 1884, Francis Parkman wrote an account of the war titled Montcalm and Wolfe that romanticized the Battle of Quebec as the climax of the battle and glorified Wolfe’s role in the battle. Yet, the war was much more than just the Battle of Quebec. In fact, historians across the twentieth and early twenty-first century have attempted to counter Parkman’s portrayal. Fred Anderson is one such writer who has challenged the traditional view of the war as a war between France and England. He has written several works on the Seven Years’ War and its effects on the North American continent. His work, The Crucible of War, is perhaps the most complete book on the Seven Years’ War to date. He argues in this work that the war led to the independence of the thirteen colonies but did not necessarily make the Revolution inevitable. Anderson contends that American colonists gained a more bitter hatred for the Native Americans following the war, and Britain’s efforts to stop westward expansion to keep settlers and Indians separate further enraged the colonists. However, Anderson argues that, initially, the American Independence movement was only an attempt to change the imperial relationship between the colonies and Britain that was soured by the end of the Seven Years’ War. Furthermore, American colonists did not imagine that following the end of the Seven Year’s War they would fight the very same king that had helped them defeat the French on the North American continent.

However, Anderson continues that the war is the single most important event in the eighteenth century for the entire North American continent. Furthermore, it has been treated with a type of mild neglect as a precursor to the American Revolution, yet Anderson attempts to dispel that myth. Although it is a significant event in American history, it is much more significant to the history of Europe and the Atlantic world in general. Rather than the Seven Years’ War being a backdrop for the American Revolution, he contends that the American Revolution is a direct consequence of the defeat of France. He makes it clear that American colonists and British ministers alike did not foresee the coming of the Revolution. Following the war, Americans no longer dealt with French intrusions, just the Native Americans. Thus, Britain alienated its own people by eliminating the binding factor that held the two in close companionship.

Anderson’s perception of the relationship between the Seven Years’ War and the American Revolution is unique, but his argument that the Seven Years’ War has at least some

effect on the American Revolution is far from unique. Most of the scholars who have published on the Seven Years’ War have argued that the Seven Years’ War and the American Revolution cannot be separated when discussing reasons for the colonies’ uprising. J.R. Pole, Harrison Bird, A.G. Bradley, and Herbert Osgood have all published extensive works on the direct relationship between the two wars. Though they differ in detail, all argue that without the Seven Years’ War there would be no American Independence. They all point to the results of the war, especially the British attempts to stem westward expansion and recoup their financial losses, as the driving force behind the American disillusionment with the British policies.34

Differing in his perspective of the nature and results of the war is Howard Peckham. Peckham shows the colonial wars as a period of escalation and seemingly useless fighting culminating in the Seven Years’ War that ended the wars between the French and British for North America. From King William’s War with barely 2,000 men in arms on both sides to Pitt’s raising of 25,000 men for regular service in the Seven Years’ War, it is made clear that each successive war was an escalation in both size and severity. War in North America was much less massive in size and scale, but it was much more brutal and savage. There was no guarantee that if a soldier surrendered honorably he would live to see a prison much less home. Thus, American militias were much less interested in regular service for very good reasons. However, the Seven Years’ War drastically increased the numbers of men and supplies needed for the frontier war.35

One work comes slightly closer than previous works to the importance given to economic issues so desperately needed within the historiography of the war. Richard Middleton’s work, The Bells of Victory, attempts to retell the story of William Pitt and his role in the ministry that controlled the British government during its most successful war in its history. Many of the previous historians before Middleton, and a few since, have given Pitt the credit for the successful operation of the Seven Years’ War. However, Middleton argues that Pitt was not the sole figure that created the opportunity for Britain’s success. Instead, he contends that Pitt was just one of a group of extremely talented men who were able to effectively coalesce and form an effective government.36

Middleton takes great care to show that Pitt was not the all-talented individual that most historians describe him. Rather, Pitt had little to offer his office of Secretary of State for the Southern Department. As he writes, “style and rhetoric were not the only qualities admired and some commentators were inclined to be critical of Pitt’s excessive attention to form.”37 Essentially, Pitt was mostly talk and focused speeches in the House of Commons rather than being an incredibly intelligent and talented individual who could control the government single-handedly. It is clear then that Pitt’s aggressive attitude towards funding the Seven Years’ War, as is shown by Middleton, was based in little actual knowledge of how public finance worked. Thus, a high national debt is clearly an expected consequence. Clearly Middleton is focused on the political aspect of the financial issues faced by the Pitt-Newcastle Ministry rather than the economic issues themselves.

37 Ibid., 7.
Therefore, we examine the economic issues of the Seven Years’ War that so many have neglected or given little attention. We believe it was the economic problems and consequences, not the political or military debates that drove the decision-making process vis-à-vis the funding of this conflict. What then were the consequences of the over-spending by Britain during the war? How can we measure this debt and its effects on Britain’s empire? Is it the debt that drives politicians to push the colonies to help repay the war debt or some other reason? We argue that debt crises create extremely difficult issues to overcome when consolidating a new and larger empire, and that it would be beyond temptation not to impose some of the cost of such a conflict on to the colonies, whether justified or not.

Military Spending and the British Public Debt

England certainly made substantial investments in its military forces, especially the naval forces, in the 16th century. The technological innovations introduced during Henry VIII’s reign, such as heavier cannons and gunports, certainly increased their fighting capacity. England in a way epitomizes the transition toward a more permanent, commercialized military management system. In the period 1535-1547, the English defense share (=military expenditures as a percentage of central government expenditures) averaged at 29.4 per cent, with large fluctuations from year to year. However, in the period 1685-1813, the mean English defense share was 74.6 per cent, never dropping below 55 per cent in the said period.\(^38\)

Figure 3. English Defense Share in Comparison with the Low Countries in the Early Modern Period


How does this compare to other nations? As we can see in Figures 3 and 4, the English defense share was substantially higher than those among the Low Countries in this period, especially during the 18th century. And even higher than the defense shares of Austria, Denmark, and Russia; all states with substantial involvement in the great power wars of the 18th century.

**Figure 4. English Defense Share in Comparison with Denmark, Austria, and Russia in the Early Modern Period**

![Figure 4](image_url)


**Table 2. English, French, and Prussian Defense Shares in the 17th and 18th Centuries**

<table>
<thead>
<tr>
<th>Year(s)</th>
<th>England Defense Share</th>
<th>Year(s)</th>
<th>France Defense Share</th>
<th>Year(s)</th>
<th>Prussia Defense Share</th>
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<tr>
<td>1690</td>
<td>82</td>
<td>1620-1629</td>
<td>40</td>
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<tr>
<td>1700</td>
<td>66</td>
<td>1630-1639</td>
<td>35</td>
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<tr>
<td>1710</td>
<td>88</td>
<td>1640-1649</td>
<td>33</td>
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<td>68</td>
<td>1650-1659</td>
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<td>1730</td>
<td>63</td>
<td>1660-1669</td>
<td>42</td>
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<td>1741</td>
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<td>85</td>
<td>1788</td>
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It seems, as Table 2 indicates, that for example France allocated a substantially lower share of its budget toward military spending, and only Prussia can really compare to the English military spending effort. And, whereas Prussia’s defense share was continuously high, the English defense share went up and down, influenced by the various conflicts during this period.

Moreover, the cost and scale of warfare increased rapidly in the early modern period. For example, during the Thirty Years’ War between 100,000 and 200,000 men fought under arms, whereas twenty years later 450,000 to 500,000 men fought on both sides in the War of the Spanish Succession. With the increasing scale of armed conflicts in the 17th century, the participants became more and more dependent on access to long-term credit, because whichever government ran out of money had to surrender first. For example, even though the causes of Spain’s supposed decline in the 17th century are still disputed, nonetheless it can be said that the lack of royal credit and the poor management of government finances resulted in heavy deficit spending as military exertions followed one after another in the 17th century. Therefore, the Spanish Crown defaulted repeatedly during the 16th and 17th centuries, and on several occasions forced Spain to seek an end to its military activities.

A key question for France, as compared to England, was the financing of its military exertions. According to Richard Bonney, the cost of France’s armed forces in its era of “national greatness” were stupendous, with expenditure on the army by the period 1708-1714 averaging 218 million livres, whereas during the Dutch War of 1672-1678 it had averaged only 99 million in nominal terms. This was due to both growth in the size of the army and the navy, and the decline in the purchasing power of the French livre. The overall burden of war, however, remained roughly similar in this period: War expenditures accounted roughly 57 per cent of total expenditure in 1683, whereas they represented circa 52 per cent in 1714. Moreover, as for all the main European monarchies, it was the expenditure on war that brought fiscal change in France, especially after the Napoleonic wars.

Respectively, in the 18th century, with rapid population growth in Europe, armies also grew in size, especially the Russian army. In Western Europe, a mounting intensity of warfare with the Seven Years War (1756-1763) finally culminated in the French Revolution and Napoleon’s conquests (1792-1815). The new style of warfare brought on by the Revolutionary Wars, with conscription and war of attrition as new elements, can be seen in the growth of army sizes. For example, the French army grew over 3.5 times in size from 1789 to 1793, up to 650,000 men. Similarly, the British army grew from 57,000 in 1783 to 255,000 men in 1816. The

41 Bonney, R. (1999a). France, 1494-1815. In The Rise of the Fiscal State in Europe c. 1200-1815(Ed, Bonney, R.). Oxford: Oxford University Press. War expenditure percentages (for the 17th and 18th centuries) were calculated using the so-called Forbonnais (and Bonney) database(s), available from European State Finance Database: http://www.le.ac.uk/hi/bon/ESFDB/RJB/FORBON/forbon.html and should be considered only illustrative.
Russian army acquired the massive size of 800,000 men in 1816, and Russia also kept the size of its armed forces at similar levels in the 19th century. (Eloranta)

**Figure 5. British (Public) Debt-to-NNI (Net National Income) Ratio (%), 1727-1838**

Sources: Data graciously supplied by Gregory Clark. For more details, see (Clark, 2010).

As Niall Ferguson has pointed out, British military burden and, respectively, military spending rose and fell based on whether she was at war or not. The military burden levels in the 18th century varied between 4 and 18 per cent. Such levels were rarely achieved in the 19th and 20th centuries. Britain’s massive military outlays and her quest for supremacy over its rivals, including extensive colonization, exerted growth pressures on her public debt as well. For example, after 1715 the British public debt represented more than 80 per cent of its GNP, although the French level most likely exceeded 100 per cent at that time. Whereas the English fiscal system with its more democratic form of public debt and political system, and more advanced financial system, enabled her to bear such a burden, France was not quite as lucky. By the eve of the French Revolution, in 1788, France had a debt-to-GNP ratio of only 65 per cent, and Britain as high as 182 per cent. Nonetheless, debt servicing in the French case amounted to 4.4 per cent of the GDP, yet Britain only paid 6.0 per cent of the GDP on interest payments. After 1815, the British debt-to-GNP ratio was over 300 per cent, but the broad commitment to paying the public debt across the nation (if not the Empire) enabled them avoid default. (Macdonald)

As we can see in Figure 5, there seems to be a ratcheting up effect influencing the debt-to-NNI ratios from the early 18th to the 19th century. The first upward push was exerted by the Seven Years’ War, then the American Revolution, and finally by the French Revolutionary and Napoleonic conflicts. Eyeballing the data is, however, not enough to confirm whether a Peacock-Wiseman type of pattern existed.

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In order to perform more rigorous testing of the Peacock-Wiseman hypothesis, we decided to use the Quandt-Andrews Breakpoint Test to see if there were one or more unknown structural breakpoints in the sample. The Quandt-Andrews test performs Chow Breakpoint Tests at every observation between two dates to test against the null hypothesis of no breakpoints. From each individual Chow Breakpoint Test two statistics are retained, the Likelihood Ratio F-statistic and the Wald F-statistic. The Likelihood Ratio F-statistic is based on the comparison of the restricted and unrestricted sums of squared residuals, and the Wald F-statistic is computed from a standard Wald test of the restriction that the coefficients on the equation parameters are the same in all subsamples. All these calculations were performed using the EViews 6.0 econometric estimation program. Moreover, we used a simple autoregressive model in which: \( y = a + b(y(t-1) + \text{error term, with the debt-to-NNI ratio (as percentage) as the dependent variable (hereon: public debt), in logarithmic form.} \)

As we can see in Figure 6, the Seven Years’ War did most likely induce a breakpoint in the British public debt behavior, although the impact of the American Revolution as well as the French Revolution and Napoleon was more substantial. In order to make sure this was not an artifact created by the existence of a unit root (which various unit root tests suggested, including the Augmented Dickey Fuller test), we also tested for breakpoints in a differenced (\( I(1) \)) public debt series.

Sources: see Figure 5.
The breakpoint analysis displayed in Figure 7 seems to suggest that it may in fact be that the Seven Years’ War was even more substantial than the initial breakpoint tests suggested. It is quite possible that this particular war started Britain on the path outlined by Peacock and Wiseman, an upward trend towards more indebtedness due to the cost of these transnational conflicts. This seems to have been the trigger toward deficit-spending and public debt as the main source for funding the British war efforts, and it also seems evident that they got more used to this tool over time. If so, it is quite reasonable that the British decision-makers, who were aware of the growing debt burden and inherent dangers in this development, then tried to make sure that the rest of the Empire shared the costs as well. However, as we know, all parts of the Empire were not too happy about this, which directly contributed to the onset of the American Revolution.

Moreover, if we look at the behavior of the residuals of the equation – where points with \( p \)-values less the 0.05 correspond to those points where the recursive residuals go outside the two standard error bounds, indicate of instability in the series – that was outlined earlier for either the regular public debt series or the differenced series, as seen in Figure 8, it seems apparent that it was the Seven Years’ War, the American Revolution, as well as the revolutionary/Napoleonic conflicts that exerted a strong growth pressure on the British public debt. The results were more or less identical for the regular and differenced series, again reinforcing our earlier conclusions.

Sources: see Figure 5.
British Debates about the Public Debt and the Seven Years’ War

As Niall Ferguson has argued, the current financial system that governments operate in the modern era developed because of the shortfall of national treasuries in times of conflict. Thus, loans from private citizens and other countries were solicited in order to continue prosecuting war. Yet the Seven Years’ War was much more expensive than previous wars in Britain’s history. Consequently, a heavier burden was placed on British taxpayers.

At the start of the war, Britain’s debt stood at £74,600,000 (see Table 3), an enormous figure at the time. However, it remained a manageable sum that could normally have been sustained quite efficiently. However, by the end of the war, Britain’s debt increased to £132,600,000, nearly twice the previous amount. Britain’s tax revenue and other sources of income were not enough to cover the cost of the war. Thus, the funds were borrowed, amounting to approximately £58 million. Soon, prominent citizens were discussing the reasons for entering

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Figure 8. Residuals for the British Public Debt Series Estimations

Sources: see Figure 5.

[Diagram: Residuals for the British Public Debt Series Estimations]

44 Brewer, J. (1988). *The sinews of power: War, money, and the English state, 1688-1783*. Cambridge: Harvard Univ Press., 30. Though Brewer’s work is exceptional, his debt figures differ from J. J. Grellier’s figures in his book: Grellier, J. J. (1810). *The History of the National Debt from the Revolution in 1688 to the Beginning of 1800*. London: B. Franklin. Grellier shows that by 5 January 1757 British debt stood at £76,480,886 and by 5 January 1763 its debt had risen to £135,691,313, slightly higher than Brewer’s figures. Brewer’s figures are based on Parliamentary papers from 1868-1869, and Grellier’s book was originally published in 1810, much less removed from the Seven Years’ War than Brewer’s source. However, during the early nineteenth century British politicians were obsessed with the national debt problem and the Napoleonic Wars. Thus, in the interest of simplicity and historical accuracy, Brewer’s figures are used for this section of the article.
the war with France and questioned the necessity of the war. Phillip Stanhope, the Earl of Chesterfield and a political ally of William Pitt the Elder, wrote a letter to a friend in which he noted the general excitement over the announcement of war with France in 1756. He stated: “In my opinion, our greatest danger arises from our expense, considering the present immense National Debt.” He continued, “Where can France annoy us then? I see but two places; in America by slipping over in single ships a considerable number of troops; and next, by keeping us in a state of fear and expense at home.”

He argued that the war with France was essentially a no-win situation. Whether Britain won or lost, the cost of fighting the war would only accentuate the debt issue.

<table>
<thead>
<tr>
<th>War</th>
<th>Average annual expenditure</th>
<th>Average annual tax revenue</th>
<th>Debt Begin</th>
<th>Debt End</th>
</tr>
</thead>
<tbody>
<tr>
<td>1689-97 Nine Years War</td>
<td>5,456,555</td>
<td>3,640,000</td>
<td>--</td>
<td>16,700,000</td>
</tr>
<tr>
<td>1702-13 War of Spanish Succession</td>
<td>7,063,923</td>
<td>5,355,583</td>
<td>14,100,000</td>
<td>36,200,000</td>
</tr>
<tr>
<td>1739-48 War of Austrian Succession</td>
<td>8,778,900</td>
<td>6,422,800</td>
<td>46,900,000</td>
<td>76,100,000</td>
</tr>
<tr>
<td>1756-63 Seven Years War</td>
<td>18,036,142</td>
<td>8,641,125</td>
<td>74,600,000</td>
<td>132,600,000</td>
</tr>
<tr>
<td>1775-84 American War</td>
<td>20,272,700</td>
<td>12,154,200</td>
<td>127,300,000</td>
<td>242,900,000</td>
</tr>
</tbody>
</table>

Source: (Brewer, 1988), 30.

The debt also became a heated topic of debate in Parliament. William Pitt, Britain’s Secretary of State of the Southern Sector for most of the war, faced serious opposition in the Parliament. Pitt maintained that his main objective was to secure the French colonies in North America, especially Canada. Thus, his office pursued the war in North America more fiercely than on the European continent. In fact, he allied with Frederick the Great of Prussia in an effort to limit the actions of the British military on the continent. In a speech deriding Pitt’s overall strategy for victory, members of Parliament insisted that the continuation of the war would be economically ruinous to the country. They continued by arguing that it was “perfect suicide to go

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46 Middleton, R. (1985). The Bells of Victory: The Pitt-Newcastle Ministry and the Conduct of the Seven Years’ War, 1757-1762. Cambridge: Cambridge University Press., 57-63. See also Williams, G. (1966). The expansion of Europe in the eighteenth century: overseas rivalry, discovery, and exploitation. New York: Walker Company., 78-79. It must be noted that the British paid an annual subsidy to Prussia for her services during the war, further exacerbating to the debt problem beyond just the aspects discussed in this article.

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on conquering what must be surrendered.” The Parliament argued that the colonies were not worth the heavy financial burden, suggesting that any gains would have to be returned.

Furthermore, the Whigs insisted that the main concern of the war should be the European continent. They submitted a proposal that would establish an alliance of European powers in the war against France, arguing that British expenditures should be used to buy allies in the war. Pitt adamantly refused to consider such a proposal, reiterating that the major objective should and must be North America. In a speech reacting to the proposal, Pitt exclaimed, “This unsizable [sic] project, impracticable and desperate as it is… will, if fully pursued, bring bankruptcy upon Great Britain.” He added further that the amount of money necessary to fulfill such a proposal would greatly harm “the maintenance of our just and necessary war in North America.”

He was greatly concerned with the amount of debt that already existed before the war’s inception. He stated:

And when we consider that such immense issues of money, out measuring any experiment of past time, are to be supplied by new loans, heaped upon a debt of eighty millions, who will answer for the consequence, or insure us from the fate of the decayed states of antiquity?

Basically, he questioned the necessity of an alliance when the war in North America was more important in his view, and if a war that large was already occurring across the Atlantic, there was no reason to increase the already problematic debt for an unworthy cause. Additionally, he believed that a free country would not “load our posterity with intolerable burdens.” Thus, even the men exclaiming the worthiness of the war against France were concerned with the impact the war had on the national debt. Though in the end, Pitt was the man who sent Britain spiraling into deficit spending and larger public debt.

Why should we focus on Pitt rather than other major players in the government like the Duke of Newcastle? For one, Pitt held an unusual amount of power among the political elite. He was extremely popular with the citizens of the Britain as well. In any case, it is Pitt who proposed, along with several of his supporters, that North America be the primary objective. Though he mistrusted the Prussian state, he suggests that Britain pay Frederick the Great and his army to wage the continental war with France, freeing Britain’s navy and army to do battle with France on the oceans and in the colonies.

As Howard Peckham points out, the usual cycle of conquest and return in North America was the main strategy in the beginning of the war under Newcastle. However, when Pitt joined the ministry to form the Pitt-Newcastle ministry, the strategy changed drastically. Pitt pushed for permanent control once an area or objective was taken. Thus, it became state policy to pressure France on all corners of the globe, not just on the frontier. As a result, the fighting was not left to

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48 Ibid., 239.
49 Ibid., 240.
50 Ibid., 241.
frontiersmen and colonists, but the professional military was directly involved. It became clear that new expenses came with the expansion of the military’s role in a global war.  

How can we measure the impact of the addition of North America as a major theatre? There is not a completely accurate way to do this, but we can compare the Seven Years’ War total expenditures with the War of Austrian Succession, which obviously was a conflict contained on the European continent. The Seven Years’ War cost the British Empire £161,000,000 while the War of Austrian Succession cost £96,000,000, nearly £70,000,000 less than a war that was two years shorter (see Table 4). What then caused the Seven Years’ War to be so much more expensive for Britain than the War of Austrian Succession? One theory is the global nature of the Seven Years’ War. In fact, many historians call it the first global war. William R. Nester argues that the Seven Years’ War was the first fought on several continents at once. Battles were fought in North America, Europe and on the high seas. Both Britain and France used their alliances in Europe and their colonies across the globe for soldiers, supplies, and raw materials. Yet, the War of Austrian Succession was also fought on the high seas. Not only were the navies involved, but colonies were attacked and invaded, especially in British India and the West Indies. Therefore, it is incorrect to argue that the global nature of the Seven Years’ War is the only reason for the disparity in total costs.

Table 4. Cost of Major British Wars: 1689-1815

<table>
<thead>
<tr>
<th>Name, years of war</th>
<th>(millions of pounds, £ )</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grand Alliance (1688-97)</td>
<td>49</td>
</tr>
<tr>
<td>Spanish Succession (1702-13)</td>
<td>94</td>
</tr>
<tr>
<td>Austrian Succession (1739-48)</td>
<td>96</td>
</tr>
<tr>
<td>Seven Years' War (1756-63)</td>
<td>161</td>
</tr>
<tr>
<td>American (1776-83)</td>
<td>236</td>
</tr>
<tr>
<td>Napoleonic Revolution (1793-1815)</td>
<td>1,658</td>
</tr>
</tbody>
</table>

Source: (Brauer and van Tuyll, 2008), 140

Yet, it is made clear by Peckham and Middleton that the Seven Years’ War was the first war that the British colonies in North America were backed by the British Treasury. Pitt promised the colonies that whatever monies were spent in the effort to defeat France would be reimbursed. Furthermore, Pitt and Newcastle sent larger contingents of soldiers to North America in order to fight France. It is important to note that the American colonies were no longer the sole source of money and soldiers to prosecute the war on the frontier for Britain. Finally, Britain pursued the defeat of France in North America with the appropriate economic resources necessary to

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achieve this goal. The colonists were more willing to cooperate with Britain when promised a return of their monies spent.

Conclusions

As a result of the overspending by Pitt and his government, Britain saw a debt that doubled from the peacetime conditions before the war. Consequently, the high military spending became the catalyst for the expansion of taxes throughout the British Empire. Politicians and civilians were extremely concerned about the national debt before the war, and they saw their fears realized immediately following the war. As the effort to pay for the war debt exceeded the net national income of Britain in the decade following the war, politicians pushed the colonies for more revenue to cover the costs. As we have shown, the Seven Years’ War led to a period of ratcheting up in the size and the severity of wars. It is not necessarily the global nature of the war that led to such high expenditures during the Seven Years’ War, since we see the War of Austrian Succession fought on a very similar scale. It is the addition of the American continent as a major theater of war that increased the expenditures to the point of fiscal explosion.

Perhaps the major cause of the fiscal pressure was the substantially higher defense share England was burdened with as compared to other countries in Europe. Especially during the 18th century, Denmark, Russia and Austria all had lower defense shares than England though each was substantially involved in the great power wars of the 18th century. However, the most important impact that the Seven Years’ War had upon the fiscal system of Britain was revealed by the breakpoint analysis. As the war was a watershed moment for Britain’s involvement in major wars of the period, the Seven Years’ War was the trigger towards debt-funded wars and conflicts. As major wars increased in size and severity, national and public debt, particularly Britain’s, increased dramatically. But the war seemed to impact the nation harder than the American Revolution and the Napoleonic wars, because the politicians had yet to figure out a method in order to pay the war debt. Therefore, the Seven Years’ War and the period of unrest afterward suggest that the British economy developed the ability to shoulder the burden of heavy war debt as a kind of “normalcy”, using the war as an example for future wars and conflicts. Britain began to spread the costs of the war among the rest of the Empire, yet pushed American colonists away by expanding taxes on a mostly autonomous region. Though India and other areas of the Empire faced much higher levels of taxation and exploitation, the American colonies were used to preferential treatment. Though there are many more causes for the American Revolution, none are held more dearly by Americans than “taxation without representation”.

Yet public debt remained an issue. Though the British government suffered from higher and higher debt arising from the Seven Years’ War later during the Empire as well, the British economy eventually thrived, enabling her victory over France decisively in 1815. Thus, the United State can conceivably continue its debt build-up and still remain dominant in the global market. However, what is the level of debt that is unmanageable? Can we shoulder a debt burden of trillions of dollars while remaining dominant militarily? Military conflicts always involve a significant costs, and any attempt to fight major conflicts without spreading out the cost of the war via a combination of taxation and borrowing would be precarious at best. Over-reliance on public debt can lead to a pattern of fiscal behavior that will be difficult to change, a path dependence of sorts, whereas the attempt to fund the conflict via taxation alone can lead to societal disharmony and even chaos. Ultimately Britain found the balance and emerged as the
military-fiscal superpower of the 19th century. In the short-run, though, she lost a significant chunk of her empire to a rebellion sparked by the Seven Years’ War.

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