

SEM- V

The Glorious Revolution

The Glorious Revolution was when William of Orange took the English throne from James II in 1688. The event brought a permanent realignment of power within the English constitution. The new co-monarchy of King William III and Queen Mary II accepted more constraints from Parliament than previous monarchs had, and the new constitution created the expectation that future monarchs would also remain constrained by Parliament. The new balance of power between parliament and crown made the promises of the English government more credible, and credibility allowed the government to reorganize its finances through a collection of changes called the Financial Revolution. A more contentious argument is that the constitutional changes made property rights more secure and thus promoted economic development.

Historical Overview

Tension between king and parliament ran deep throughout the seventeenth century. In the 1640s, the dispute turned into civil war. The loser, Charles I, was beheaded in 1649; his sons, Charles and James, fled to France; and the victorious Oliver Cromwell ruled England in the 1650s. Cromwell's death in 1659 created a political vacuum, so Parliament invited Charles I's sons back from exile, and the English monarchy was restored with the coronation of Charles II in 1660.

Tensions after the Restoration

The Restoration, however, did not settle the fundamental questions of power between king and Parliament. Indeed, exile had exposed Charles I's sons to the strong monarchical methods of Louis XIV. Charles and James returned to Britain with expectations of an absolute monarchy justified by the Divine Right of Kings, so tensions continued during the reigns of Charles II (1660-1685) and his brother James II (1685-88). Table 1 lists many of the tensions and the positions favored by each side. The compromise struck during the Restoration was that Charles II would control his succession, that he would control his judiciary, and that he would have the power to collect traditional taxes. In exchange, Charles II would remain Protestant and the imposition of additional taxes would require Parliament's approval.

Table 1

Issues Separating Crown and Parliament, 1660-1688

Issue	King's Favored Position	Parliament's Favored Position
Constitution	Absolute Royal Power	Constrained Royal Power

	(King above Law)	(King within Law)
Religion	Catholic	Protestant
Ally	France	Holland
Enemy	Holland	France
Inter-Branch Checks	Royal right to control succession (Parliamentary approval NOT required)	Parliament's right to meet (Royal summons NOT required)
Judiciary	Subject to Royal Punishment	Subject to Parliamentary Impeachment
Ordinary Revenue	Royal authority sufficient to impose and collect traditional taxes.	Parliamentary authority necessary to impose and collect traditional taxes. traditional taxes traditional taxes.
Extraordinary Revenue	Royal authority sufficient to impose and collect new taxes.	Parliamentary authority necessary to impose and collect new taxes.
Appropriation	Complete royal control over expenditures.	Parliamentary audit or even appropriation.

In practice, authority over additional taxation was how Parliament constrained Charles II. Charles brought England into war against Protestant Holland (1665-67) with the support of extra taxes authorized by Parliament. In the years following that war, however, the extra funding from Parliament ceased, but Charles II's borrowing and spending did not. By 1671, all his income was committed to regular expenses and paying interest on his debts. Parliament would not authorize additional funds, so Charles II was fiscally shackled.

Treaty of Dover

To regain fiscal autonomy and subvert Parliament, Charles II signed the secret Treaty of Dover with Louis XIV in 1671. Charles agreed that England would join France in war against Holland and that he would publicly convert to Catholicism. In return, Charles received cash

from France and the prospect of victory spoils that would solve his debt problem. The treaty, however, threatened the Anglican Church, contradicted Charles II's stated policy of support for Protestant Holland, and provided a source of revenue independent of Parliament.

Moreover, to free the money needed to launch his scheme, Charles stopped servicing many of his debts in an act called the Stop of the Exchequer, and, in Machiavellian fashion, Charles isolated a few bankers to take the loss (Roseveare 1991). The gamble, however, was lost when the English Navy failed to defeat the Dutch in 1672. Charles then avoided a break with Parliament by retreating from Catholicism.

James II

Parliament, however, was also unable to gain the upper hand. From 1679 to 1681, Protestant nobles had Parliament pass acts excluding Charles II's Catholic brother James from succession to the throne. The political turmoil of the Exclusion Crisis created the Whig faction favoring exclusion and the Tory counter-faction opposing exclusion. Even with a majority in Commons, however, the Whigs could not force a reworking of the constitution in their favor because Charles responded by dissolving three Parliaments without giving his consent to the acts.

As a consequence of the stalemate, Charles did not summon Parliament over the final years of his life, and James did succeed to the throne in 1685. Unlike the pragmatic Charles, James II boldly pushed for all of his goals. On the religious front, the Catholic James upset his Anglican allies by threatening the preeminence of the Anglican Church (Jones 1978, 238). He also declared that his son and heir would be raised Catholic. On the military front, James expanded the standing army and promoted Catholic officers. On the financial front, he attempted to subvert Parliament by packing it with his loyalists. With a packed Parliament, "the king and his ministers could have achieved practical and permanent independence by obtaining a larger revenue" (Jones 1978, p. 243). By 1688, Tories, worried about the Church of England, and Whigs, worried about the independence of Parliament, agreed that they needed to unite against James II.

William of Orange

The solution became Mary Stuart and her husband, William of Orange. English factions invited Mary and William to seize the throne because the couple was Protestant and Mary was the daughter of James II. The situation, however, had additional drama because William was also the military commander of the Dutch Republic, and, in 1688, the Dutch were in a difficult military position. Holland was facing war with France (the Nine Years War, 1688-97), and the possibility was growing that James II would bring England into the war on the side of France. James was nearing open war with his son-in-law William.

For William and Holland, accepting the invitation and invading England was a bold gamble, but the success could turn England from a threat to an ally. William landed in England with a Dutch army on November 5, 1688 (Israel 1991). Defections in James II's army followed before battle was joined, and William allowed James to flee to France. Parliament took the flight of James II as abdication and the co-reign of William III and Mary II officially replaced him on February 13, 1689. Although Mary had the claim to the throne as James II's daughter, William demanded to be made King and Mary wanted William to have that power. Authority was simplified when Mary's death in 1694 left William the sole monarch.

New Constitution

The deal struck between Parliament and the royal couple in 1688-89 was that Parliament would support the war against France, while William and Mary would accept new constraints on their authority. The new constitution reflected the relative weakness of William's bargaining position more than any strength in Parliament's position. Parliament feared the return of James, but William very much needed England's willing support in the war against France because the costs would be extraordinary and William would be focused on military command instead of political wrangling.

The initial constitutional settlement was worked out in 1689 in the English Bill of Rights, the Toleration Act, and the Mutiny Act that collectively committed the monarchs to respect Parliament and Parliament's laws. Fiscal power was settled over the 1690s as Parliament stopped granting the monarchs the authority to collect taxes for life. Instead, Parliament began regular re-authorization of all taxes, Parliament began to specify how new revenue authorizations could be spent, Parliament began to audit how revenue was spent, and Parliament diverted some funds entirely from the king's control (Dickson 1967: 48-73). By the end of the war in 1697, the new fiscal powers of Parliament were largely in place.

Constitutional Credibility

The financial and economic importance of the arrangement between William and Mary and Parliament was that the commitments embodied in the constitutional monarchy of the Glorious Revolution were more credible than the commitments under the Restoration constitution (North and Weingast 1989). Essential to the argument is what economists mean by the term credible. If a constitution is viewed as a deal between Parliament and the Crown, then credibility means how believable it is today that Parliament and the king will choose to honor their promises tomorrow. Credibility does not ask whether Charles II reneged on a promise; rather, credibility asks if people expected Charles to renege.

One can represent the situation by drawing a decision tree that shows the future choices determining credibility. For example, the decision tree in Figure 1 contains the elements determining the credibility of Charles II's honoring the Restoration constitution of 1660. Going forward in time from 1660 (left to right), the critical decision is whether Charles II will honor the constitution or eventually renege. The future decision by Charles, however, will depend on his estimation of benefits of becoming an absolute monarch versus the cost of failure and the chances he assigns to each. Determining credibility in 1660 requires working backwards (right to left). If one thinks Charles II will risk civil war to become an absolute monarch, then one would expect Charles II to renege on the constitution, and therefore the constitution lacks credibility despite what Charles II may promise in 1660. In contrast, if one expects Charles II to avoid civil war, then one would expect Charles to choose to honor the constitution, so the Restoration constitution would be credible.

Figure 1. Restoration of 1660 Decision Tree

A difficulty with credibility is foreseeing future options. With hindsight, we know that Charles II did attempt to break the Restoration constitution in 1670-72. When his war against Holland failed, he repaired relations with Parliament and avoided civil war, so Charles managed something not portrayed in Figure 1. He replaced the outcome of civil war in the decision tree with the outcome of a return to the status quo. The consequence of removing the threat of civil war, however, was to destroy credibility in the king's commitment to the constitution. If James II believed he inherited the options created by his brother, then James II's 1685 commitment to the Restoration constitution lacked credibility because the worst that would happen to James was a return to the status quo.

So why would the Glorious Revolution constitution be more credible than Restoration constitution challenged by both Charles II and James II? William was very unlikely to become Catholic or pro-French which eliminated many tensions. Also, William very much needed Parliament's support for his war against France; however, the change in credibility argued by North and Weingast (1989) looks past William's reign, so it also requires confidence that William's successors would abide by the constitution. A source of long-run confidence was that the Glorious Revolution reasserted the risk of a monarch losing his throne. William III's decision tree in 1689 again looked like Charles II's in 1660, and Parliament's threat to remove an offending monarch was becoming credible. The seventeenth century had now seen Parliament remove two of the four Stuart monarchs, and the second displacement in 1688 was much easier than the wars that ended the reign of Charles I in 1649.

Another lasting change that made the new constitution more credible than the old constitution was that William and his successors were more constrained in fiscal matters. Parliament's growing 'power of the purse' gave the king less freedom to maneuver a constitutional challenge. Moreover, Parliament's fiscal control increased over time because the new constitution favored Parliament in the constitutional renegotiations that accompanied each succeeding monarch.

As a result, the Glorious Revolution constitution made credible the enduring ascendancy of Parliament. In terms of the king, the new constitution increased the credibility of the proposition that kings would not usurp Parliament.

Fiscal Credibility

The second credibility story of the Glorious Revolution was that the increased credibility of the government's constitutional structure translated into an increased credibility for the government's commitments. When acting together, the king and Parliament retained the power to default on debt, seize property, or change rules; so why would the credibility of the constitution create confidence in a government's promises to the public?

A king who lives within the constitution has less desire to renege on his commitments. Recall that Charles II defaulted on his debts in an attempt to subvert the constitution, and, in contrast, Parliament after the Glorious Revolution generously financed wars for monarchs who abided by the constitution. An irony of the Glorious Revolution is that monarchs who accepted constitutional constraints gained more resources than their absolutist forebears.

Still, should a monarch want to have his government renege, Parliament will not always agree, and a stable constitution assures a Parliamentary veto. The two houses of Parliament, Commons and Lords, creates more veto opportunities, and the chances of a policy change decrease with more veto opportunities if the king and the two houses have different interests (Weingast 1997).

Another aspect of Parliament is the role of political parties. For veto opportunities to block change, opponents need only to control one veto, and here the coalition aspect of parties was important. For example, the Whig coalition combined dissenting Protestants and moneyed interests, so each could rely on mutual support through the Whig party to block government action against either. Cross-issue bargaining between factions creates a cohesive coalition on multiple issues (Stasavage 2002).

An additional reason for Parliament's credibility was reputation. As a deterrent against violating commitments today, reputation relies on penalties felt tomorrow, so reputation often does not deter those overly focused on the present. A desperate king is a common example. As collective bodies of indefinite life, however, Parliament and political parties have longer time horizons than an individual, so reputation has better chance of fostering credibility.

A measure of fiscal credibility is the risk premium that the market puts on government debt. During the Nine Years War (1688-97), government debt carried a risk premium of 4 percent over private debt, but that risk premium disappeared and became a small discount in the years 1698 to 1705 (Quinn 2001: 610). The drop in the rates on government debt marks a substantial increase in the market's confidence in the government after the Treaty of Ryswick ended the Nine Years War in 1697 and left William III and the new constitution intact. A related measure of confidence was the market price of stock in companies like the Bank of England and the East India Company. Because those companies were created by Parliamentary authorization and held large quantities of government debt, changes in confidence were reflected in changes in their stock prices. Again, the Treaty of Ryswick greatly increased stock prices and confirms a substantial increase in the credibility of the government (Wells and Wills 2000, 434). In contrast, later Jacobite threats, such as the

invasion of Scotland by James II's son 'the Pretender' in 1708, had negative but largely transitory effects on share prices.

Financial Consequences

The fiscal credibility of the English government created by the Glorious Revolution unleashed a revolution in public finance. The most prominent element was the introduction of long-run borrowing by the government, because such borrowing absolutely relied on the government's fiscal credibility. To create credible long-run debt, Parliament took responsibility for the debt, and Parliamentary-funded debt became the National Debt, instead of just the king's debt. To bolster credibility, Parliament committed future tax revenues to servicing the debts and introduced new taxes as needed (Dickson 1967, Brewer 1988). Credible government debt formed the basis of the Bank of England in 1694 and the core of the London stock market. The combination of these changes has been called the Financial Revolution and was essential for Britain's emergence as a Great Power in the eighteenth century (Neal 2000).

While the Glorious Revolution was critical to the Financial Revolution in England, the follow-up assertion in North and Weingast (1989) that the Glorious Revolution increased the security of property rights in general, and so spurred economic growth, remains an open question. A difficulty is how to test the question. An increase in the credibility of property rights might cause interest rates to decrease because people become willing to save more; however, rates based on English property rentals show no effect from the Glorious Revolution, and the rates of one London banker actually increased after the Glorious Revolution (Clark 1996, Quinn 2001). In contrast, high interest rates could indicate that the Glorious Revolution increased entrepreneurship and demand for investment. Unfortunately, high rates could also mean that the expansion of government borrowing permitted by the Financial Revolution crowded out investment. North and Weingast (1989) point to a general expansion of financial intermediation which is supported by studies like Carlos, Key, and Dupree (1998) that find the secondary market for Royal African Company and Hudson's Bay Company stocks became busier in the 1690s. Distinguishing between crowding out and increased demand for investment, however, relies on establishing whether the overall quantity of business investment changed, and that remains unresolved because of the difficulty in constructing such an aggregate measure. The potential linkages between the credibility created by the Glorious Revolution and economic development remain an open question.