Managing the UK National Debt 1694-2017

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We construct a new monthly dataset for UK government debt over the period 1694 to 2017 based on price and quantity data for each individual bond issued. This enables us to examine long run fiscal sustainability using the theoretically relevant variable of the market value of debt, and investigate the historical importance of debt management. We find the general implications of the tax smoothing literature are replicated in our data, especially around financing wars, although we find major shifts over time in how fiscal sustainability is achieved. Before the 20th century, governments continued to pay bond holders a high rate of return and achieved sustainability through running fiscal surpluses but since then governments have relied on low growth adjusted real interest rates. The optimal debt management literature tends to favour the use of long bonds but we find the government would have been better off over the 20th century issuing short bonds. The contrast with the literature occurs because of an upward sloping yield curve and long bonds rarely providing fiscal insurance. This is particularly true during periods of financial crises when falling interest rates lead to sharp rises in the price of long bonds, making them an expensive form of finance. We examine the robustness of our conclusions to liquidity effects, rollover risks, buyback operations and leverage. In general, these do suggest a greater role for long bonds but do not overturn an issuance strategy based mainly on short term bonds.