

Bloodshed or Reforms?
The Determinants of Sovereign Bond Spreads in Modern History

We present historical data on sovereign bond spreads drawn from 300 years of data (from the late seventeenth century to the late twentieth century), which appear to be inconsistent with the North and Weingast (1989) view that institutional changes and reforms can reduce the cost of government debt soon after they are implemented. Extended time series data on British government debt from the late seventeenth century until 1815 show that, for over a century after the Glorious Revolution and even in the nineteenth century, wars and episodes of instability were a significant and robust determinant of the cost of British government debt. Results reproduced from Sussman and Yafeh (2000) suggest that this was the case also for nineteenth century Japan as well as for large samples of emerging markets in the period 1870-1913 and in the 1990s (Mauro, Sussman and Yafeh, 2006). Our overall reading of the historical evidence is therefore that institutional reforms rarely have a rapid and significant impact on bond spreads which tend to respond, at least in the short run, primarily to wars and political events.

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