The Collateral Channel of Britain’s Industrial Revolution: The financial side of Land Enclosures

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Abstract

The purpose of this study is to examine the presence of the *collateral channel* in the context of the rapid rise in land supply due to enclosure acts passed by the parliament during Britain’s Industrial Revolution. The substantial rise in enclosure acts in the second half of the eighteenth-century had major financial implication as it enabled individuals to sell, mortgage, lease, and improve land, previously categorized as “common” or “waste”, and consequently increased significantly the share of collateral pledging. Given the limited access to credit in the eighteenth-century financial markets, this rise in enclosures may have therefore further crowded out non-securitized loans. Nevertheless, according to the *collateral channel* mechanism described by Bernanke and Gertler (1989) and Kiyotaki and Moore (1997), it also enhanced landowners’ financial capacities and amplified business cycles.

Interestingly, the financial aspect of the rise in enclosures did not receive attention in the literature so far and is not considered as one of factors that played a role in the eighteenth-century *Financial Revolution*. The main factor in the study of eighth century financial markets is in fact *public finance*. This research will show that the 1688 revolution had an additional effect on financial markets besides increasing the confidence in government debt payment. By increasing their relative power, it enabled the landed gentry to pursue acts in its own interest, such as enclosure acts, which have possibly stimulated investment in infrastructure, agriculture and industry. Nevertheless, it could have also crowded out investments in the non-securitized sectors, such as new technologies and delayed industrialization as pointed out by Eric Hall in his *History of the Firm of Boulton and Watt 1775-1805* (1968): *“This was the serious lack of capital which, perhaps, even more than all the external difficulties attendant on the introduction and marketing of the new engine, hampered the growth of the business and more than once presented the partners with prospects of immediate ruin”*.[1]

Although the results that are presented here are very preliminary results, they suggest that the eighteenth-century collateral channel was complex. Thus, return to land was counter cyclical and that it possibly crowded out non-securitized loans and therefore amplified the effect on bankruptcies. Enclosures, on the other hand, by reducing the price of land had a negative effect on bankruptcies.

[1] Sir Eric Roll. "An Early Experiment in Industrial Organisation: Being a history of the firm of: Boulton & Watt, 1775-1805. London: Cass & Co. ltd. 1968 (2nd edition) p.98.