

Napoleon, Money, & Bitcoin

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It was the 200th anniversary this week of the lonely death on the British possession of St Helena of that great scourge of Europe, the man that the Duke of Wellington described as the best general, “In this age, in past ages, in any age,” Napoleon.

We tend to look at history through the eyes and actions of “great men,” rather less often through the eyes of “great women,” although that is changing. But underneath the sound and fury of the great narrative sweep of history, ticks the ineffable, beating clock of financial flows; credits, indemnities, sinking funds and guaranties.

Empires end when they run out of money. In the end Rome could not finance her armies, Venice her fleet, Byzantium her mercenaries and Britain her obligations to the US amidst the costs of decolonisation.

Napoleon was to inherit a state in great political and financial disarray. The combination of the fall of the King and the depredations of John Law early in the 18th century (the Scottish gambler, chancer, duellist, financier, and economist who amongst other achievements, founded the Banque Generale, inflated the Mississippi Bubble, and introduced the Banque Royale to paper money) had very nearly bankrupted his country.

The onset of the Seven Years War in 1759 did push the French Crown into bankruptcy. The Revolution ignited with the Estates-General of 1789 when the public refused to pay taxes to fund continued borrowing by the Crown.

But even revolutionaries need revenue. Unable for practical and political reasons to raise taxes, the revolutionary council issued “assignats,” a form of paper money. Backed by nothing more than a “revolutionary” promise, these quickly became worthless leading to the hyper-inflation of 1795.

Lenin is supposed to have said that to “destroy a country, one should first debauch the currency.” The post-World War I hyper-inflation like in the Weimar Republic, is a reminder that currency, at any time, is very much a matter of confidence. If it becomes detached from the underlying economy, if it ceases to be backed by the productive potential of its citizenry, money can become worthless surprisingly quickly.

It is a lesson from history worth heeding because one of the dominant trends in finance today is the emergence of so-called “crypto-currencies.” Bitcoin is the most famous, but others include Dogecoin and Ethereum, and there are many others.

John Law persuaded the French aristocracy that the use of “new” paper money rendered old standards irrelevant and would unleash the potential of France.

Not so; Napoleon was forced to sell Louisiana to Thomas Jefferson for \$15 million to raise “hard” currency to fight Britain. Not a great deal of money for half of the territory that would become the United States of America.

Napoleon had assumed power during a period of financial crisis. The 18th century had bankrupted France and the country was unable to access international financial markets; no lender had “confidence” in the capacity of France to pay its debts.

The lessons of French history had turned Napoleon into a “hard-money” man deeply opposed to borrowing. He reformed French tax collection and fiscal policy. Unable to borrow, he was dependent on tax, plunder, and asset sales to pay for his

imperial ambition. Ironically, having restored France's finances, the costs of the march on Russia destroyed them. That was where Napoleon met his real Waterloo.

Napoleon could not borrow to fight his imperial wars, but Britain could. The last of the loans issued to fund the Napoleonic wars was repaid by the British government as recently as 2014.

History does not repeat itself, but it can rhyme.

At Tacit we see crypto-currencies as an asset akin to Gold. They have no cashflow and are not a currency backed by central banks and national treasuries at present. They are, however, limited in supply which makes them a potential long term 'store of value' just as paper and Gold were to previous generations. The fact that it is digital rather than physical is not a reason to ignore it in the modern world.

For investors, the price of such a store of value is not set relative to other assets in the short term and as we have seen over the past few hundred years, the price of Gold is extremely volatile from year to year. In conclusion, as Napoleon found out, it is all about confidence. If holders of crypto-currencies lose confidence and become forced sellers for any reason, prices can fall very quickly as there are a limited number of buyers due to its limited productive use at the moment. A digital IOU is only valuable if it is recognised as an IOU.

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