

A European comparison: England and the United Provinces

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France was not the only state to sell life annuities. The United Provinces had long resorted to them, and the Grand Pensionary Johan de Witt had presented, as early as the seventeenth century, a calculation of the value of life annuities according to age, regarded as one of the first works of actuarial science.¹ England issued, at the end of the seventeenth century, a loan in the form of a tontine and life annuities, before giving preference to perpetual annuities and then to consols.²

These comparisons show that the knowledge needed for correct pricing existed as early as the seventeenth century. Its application depended on the will and the capacity of the administrations. The states that priced their annuities according to age limited the opportunities for arbitrage, whereas France, which long maintained uniform rates, bore the cost. The investors, for their part, learned to compare the terms offered by the various states and to place their capital where the advantage was greatest.

The international mobility of capital, already a reality in the eighteenth century, thus penalised the pricing errors of states. This mechanism remains at work: contemporary investors constantly compare the terms offered by sovereign issuers, and errors of financial policy are quickly reflected in capital movements and in changes in borrowing costs.

Key point. The actuarial knowledge needed to price life annuities according to age existed as early as the seventeenth century, notably in the United Provinces. Since France did not apply it, the mobility of capital allowed astute investors, the Genevans foremost among them, to take advantage of this error.

1 Notes

1. James E. Cieccka, “Edmond Halley’s Life Table and Its Uses” (DePaul University, appendix): Jan de Witt’s formula of 1671 for the value of life annuities, twenty-two years earlier than Halley’s table, with no indication that Halley was aware of it. ↩
2. Wikipedia (en), “Tontine”: “The English government organised a tontine in 1693”, followed by four others in Great Britain up to 1789. ↩

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