French Public Finance Between 1683 and 1726*

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Abstract

Preliminary and rough draft.

Between the era of the great Colbert and the the French revolution, French public finance was far less static than commonly thought. I focus on the period of the last wars of Louis XIV and the early reign of Louis XV, and I follow the Paris brothers, famous but poorly known financiers of the era, to show the wealth of innovation and experimentation that took place in public finance, including multiple attempts at establishing a source of credit for the government, innovations in book-keeping and monitoring of the flow of public funds in real-time, debates over the merits of tax-farming versus direct collection, etc. In the end, the relatively poor performance of the French government in comparison with its Dutch and British rivals is not a matter of tools or instruments.

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I Introduction

Between the great crisis of the mid-seventeenth century and the catastrophe of 1789, a century and a half elapsed during which France became the dominant power in Europe. The same period saw the rise of Britain, both politically and (ultimately more importantly) economically. Public finance is one of the areas where the contest between the two powers, and the contrast between the methods they used, is the clearest. From the point of view of France, which did not undergo the transformation that North and Weingast (1989) identify as crucial in this respect, this stretch of time may appear as just as much time lost, when compared with the innovations in Britain (Dickson 1967, Brewer 1989). Yet I want to argue that the middle period, extending from 1683 to 1726, offers the spectacle of considerable turmoil and innovation. I will use the career of the Paris brothers as a thread through this narrative.

The Paris brothers

Who are these famous but poorly known figures of French financial history?

The Paris brothers were the children of Jean Paris (1643-97) and Justine Trenan- nay La Montagne (d. 1722). Of the seventeen children of this marriage, four rose to prominence, and were distinguished from each other, in the custom of their native Dauphiné, by nicknames: Antoine Paris the elder (1668-1733), Claude Paris La Montagne (1670-1744), Joseph Paris Duverney (1684-1770) and Jean Paris de Monmartel (1690-1766). Given the age differences, the quartet was really formed of two pairs: Antoine and Claude were the older, Joseph and Jean the younger. The older pair led the family affairs until the fall from grace in 1726, and although they both lived to see the family’s return to favor in 1732, their career was effectively ended. The younger pair embarked on a second career that lasted until the 1760s: this second career, which owed much to the prominence of their protégée, the marquise de Pompadour, will not occupy us here.

1 Extensive genealogical information can be found in Laroche (1992).

2 She was born Antoinette Poisson, the daughter of an employee of the Paris brothers; at her birth in 1721, Jean Paris was her godfather and Antoinette Paris, daughter of Antoine and wife of Claude, was her godmother.

3 Two lasting legacies of this second career, apart from financing the War of Austrian Succession and
The family came from Moirans, a small town in the Dauphiné. In 1675, Jean Paris took over the inn founded by his father-in-law and became a prominent citizen of the town, rising to the position of “consul” (alderman) and, when the office was created in 1693, he became the first mayor of the town. The family’s entry into finances came with the Nine Years War (1688–97). Savoy having allied itself with the Netherlands and England against France, an army was sent to Dauphiné to attack the duchy. In 1690, the father, who was a merchant as well as inn-keeper, take up the task of providing the army with food. At the end of the war, Antoine and Claude went to Paris to collect on some of their debts, and with the help of a cousin who was a cloth merchant, were introduced to various officials in the finance ministry. When the War of Spanish Succession began in 1701, Antoine and Claude went into business again, providing food for the armies in the Low Countries and Germany, and training their younger brothers Joseph and Jean. They forged close ties with the indispensable banker of the time, Samuel Bernard. By the end of the war, Antoine had become receiver general of direct taxes in Dauphiné (a position in which he first experimented with new accounting methods), Claude was a secrétaire du Roi (an honorary but prestigious position), and Jean was general treasurer of the Ponts et Chaussées. They had thus become part of the financier establishment.4

The rest of their career (up to 1726) falls in two phases, separated by the interlude of John Law’s System: from 1716 to 1719, and from 1721 to 1726. Although they were never far from the affairs of State, it was really after 1721 that their influence reached their highest point. In the first phase, the Paris brothers completely reformed the collection of direct taxes, introducing double-entry bookkeeping and close monitoring of the tax collection, oversaw the Visa of 1716 which reduced and consolidated the floating debt inherited from the war, and began the reform of the collection of indirect taxes (the General Farms). In the second phase, the Paris brothers liquidated the enormous debt left over from John Law’s System in the Visa of 1721–23, and implemented the financial

Seven Years War, were the foundation of the École militaire in 1751 and launching the career of a famous writer, Beaumarchais.

4 Or the establishment more generally, since one daughter of Paris La Montagne married a Choiseul in 1734, and Paris de Monmartel married in 1746 a Béthune. The family links with the financier establishment persisted throughout the eighteenth century. Paris Duverney’s only, and illegitimate daughter, married a receiver general of finances, and their daughter married the future finance minister Calonne. Marthe, sister of the Paris brothers, married a receiver of the tailles, and of her three children the son became receiver general of finances, and the daughters each married a farmer general.
policies of the government of the duke of Bourbon (1723–26). The fall from power of the latter precipitated their exile in 1726.

We are relatively well informed about these important figures because they wrote considerable amounts of material. Much is lost, but some has survived. The most important document is an autobiography composed in 1729 by Claude for his children, known as “Discours de Paris La Montagne à ses enfants,” which I use heavily here.\(^5\)

The geo-political context

Figure 1 shows military expenditures (war and navy) in France from 1662 to 1816. The period captures all of the wars between two defining moments in European history, the peace of Westphalia in 1648 and the Peace of Vienna in 1815. For comparison purposes, I calculated the HP-filtered trend for peacetime expenditures. The trend indicates a long-term upward movement in the peacetime level, partly due to secular inflation. To better compare military expenditures over such a long period of time, figure 2 show the percentage deviation from this peacetime trend.

As is well known, the main source of variation in government spending came from wars: nonmilitary spending (excluding debt service) was relatively small and varied much less. Each of the peaks in figure 1 is recognizable as one of the periodic European wars in which France was engaged.

Although we have better documentation for the reign of Louis XIV (1660 to 1715) than for the eighteenth century, it is clear from the graph that the last two wars of his reign were very substantial, both in size and duration, when compared to the other wars of the period. Not until the wars of the Revolution and Napoleonic period did France exert similar military efforts.

The causes and value of these wars is outside the scope of this paper. A few points can nevertheless be made. (1) Aside from 1792–93 and 1814, these wars were all fought outside of French territory: the Low Countries, Germany, Italy and Spain were the main theaters in Europe. This is because the driving force was not so much defending

\(^5\)At least five copies are known: Grenoble 1049, Arsenal 4494, Archives nationales KK 1005D, Aix Bibliothèque Méjanes mss 616, University of Chicago Mss 1026. Two other memoirs to justify their conduct are in AN K885. This manuscript was the main basis for Luchet (1776). Aside from Dubois-Corneau (1917), there is still no study of their career and policies.
The realm as establishing and maintaining France's hegemony over the Continent, either by outright conquests or else by imposing her will on others. (2) France usually had allies, but in most of these wars (and in all but one after 1688), Britain, whose war goal was to counter France's attempt at hegemony, was an enemy. For this reason, this century and a half has been called the second Hundred Years War. (3) From a purely geo-political perspective, the end result of these wars was essentially a draw. From 1648 to 1793 France steadily increased its size and population by a total 18%, gaining Alsace, Roussillon, Franche-Comté, Lorraine, parts of Flanders and Hainaut, Comtat-Venaissin, Savoie and Nice. In this sense, the wars achieved one of the main goals of French policy since the early seventeenth century, Richelieu's pré carré with natural

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6In terms of fiscal revenues, the French monarchy's tradition of levying relatively lower taxes on the newly conquered provinces meant that the gains to the treasury from annexations was actually lower. The territorial gains up to 1789 were about 15% (whether in area or population); but using numbers from Panckouke (1784–85, 2:683), I find that the tax revenues from the new provinces amounted to 52mL (about 10% of total revenues) or, for the provinces conquered before 1715, 41m. This means that the wars of Louis XIV, at a cost of nearly 6 billionL, yielded a paltry 0.7% rate of return.
boundaries at the Alps and the Rhine. But the overarching goal of hegemony over Europe was only partially achieved. The Austrian Habsburg monarchy was weakened, but to the benefit of Prussia. Kindred Bourbon dynasties took root in Spain and Italy, but the rise of northern Europe (the Netherlands and Britain) reduced the importance of this success in southern Europe. And, in the course of these wars, France was unable to protect her colonial empire, losing all but Haiti and a handful of Caribbean islands in 1763 (although the values of these colonies was highly debatable).

**The tools of public finance**

Financing these wars was obviously the main challenge faced by public finance. It is obvious from the high variance in military expenditures that these conflicts could not be financed in the traditional medieval way, namely by increased taxation in wartime. Raising taxes remained an important tools, and some of the innovations took place on the fiscal side, but tax-smoothing was a necessity. Financing meant borrowing, in some form or other, during the wars, and managing the resulting debt in peacetime.
To review the main fiscal tools, Table 1 presents fiscal revenues in selected peacetime years. The first is the year that Colbert died, the second falls in the brief interlude of peace between the two major wars of Louis XIV, the third at the death of the Sun-King, and the last is at the end of our period.

<table>
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<td></td>
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<td>47.7</td>
<td>41.6</td>
<td>51.8</td>
<td>80.9</td>
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<td>capitation</td>
<td>—</td>
<td>—</td>
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</tr>
<tr>
<td>dixième</td>
<td>—</td>
<td>—</td>
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<tr>
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<td>4.0</td>
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<td>6.2</td>
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<td>112.1</td>
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<td>121.4</td>
<td>103.5</td>
<td>165.6</td>
<td>128.9</td>
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</tbody>
</table>

Table 1: Revenues of the French state, 1683–1715. The livre index measures the silver content of the unit of account (1 in 1715). Sources: Mallet (1789), Boislisle (1874–97), Forbonnais (1758, 5:212), Affaires Étrangères, M & D, France 1258, fol 200-4.

The table follows the traditional breakdown into indirect and direct taxes, which can be understood in a variety of ways.

Indirect taxes are taxes on consumption, levied at some point along the chain of production of the taxed good. The bulk of indirect taxes comprised five main elements: the salt monopoly on distribution to consumers, with mandatory minimum per capita purchases (gabelles), beer and wine taxes (aides), duties levied at internal and external boundaries (traites), tariffs at the gates of Paris (entrées) and various regalian rights (domaines). By 1680, these five groups of taxes had been collected into a single farming contract on a standard 6-year lease. Tax farming, medieval in origin and widespread in seventeenth century Europe, was relatively straightforward: private entrepreneurs bid at an open auction and the highest bidder carried the lease. For the duration of the lease (typically six to nine years), the lessee made an annual payment equal to his original bid and collected the specified taxes. The tax rates were set by the king beforehand: any increase or decrease in tax rates were made up at the end of the contract. Disputes between taxpayers and the lessee were handled by specialized tax courts (the cours des aides).
Direct taxes were taxes levied on individuals rather than on goods, and were somewhat closer to income or wealth taxes. In 1683, the only one was the taille, levied on commoners since the fifteenth century. The king decided every year on the amount he would levy (the brevet de la taille), which was then allocated among the various provinces based on information supplied by the king’s officials, the intendants. Each intendant in turn allocated his province’s tax liability between districts, and so on down to the parish level, where residents figured out how to apportion their liability between themselves.

![Graph showing primary surplus and debt service in France, 1662–1715.](image)

Figure 3: Primary surplus and debt service (interest payment) in France, 1662–1715.

Figure 3 shows the evolution of the primary surplus (revenues less non-debt spending).\(^7\) The figure highlights the main features of the time. The medium-term movements in the primary surplus are driven by wars (each fall in the primary surplus carries

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\(^7\)The numbers are based on series published by three historians whose coverage varies: Mallet (1662–95), Boislisle (1683–1707) and Forbonnais (1682–1716). The series themselves Richard J. Bonney’s European State Finance Database (URL <http://www.le.ac.uk/hb/bon/ESFDB/> accessed June 2002, datasets rjb/boislisle, rjb/forbon, rjb/frmalet). Roughly, I use Mallet’s numbers until 1695 and then Forbonnais’s numbers, complemented with Boislisle’s numbers.
the name of a conflict). The first half of the reign (1660–85) looks different from the second half (1685–1715): wars are shorter and better managed financially. By 1715, in spite of a partial default (the fall in debt service in 1713) and serious efforts at cutting spending and increasing tax revenue (the rise in the surplus in 1715 and 1716), a large gap remains in 1716 as the Regency begins.

2 Experiments and Innovations (1683–1715)

The “Great Colbert,” who would remain the beacon and exemplar of French public finance and administration until the Revolution, died in 1683. His legacy survived through his nephew Desmaretz, who was minister of finance from 1708 to 1715 and indirectly through Desmaretz’ protégés and admirers such as Noailles and the Paris brothers. But the great minister, who started his administration with a default in 1661 and spent twenty years establishing the framework within which finances continued to operate until the Revolution, never faced as difficult a task as his successors. How did France marshal the resources that it did during the grim second half of Louis XIV’s reign?

Direct Taxation

In Table 1, there seems to be little difference between 1683 and 1700, but the war saw one major innovation, the introduction of a new direct tax called the capitation. As it name suggests, it was a per capita tax. The taille was assessed on a geographical basis first, then broken down at the village level between inhabitants. The resulting inequalities between taxpayers of different villages or provinces were well known. The capitation tax, instead, was based on each head of household’s social status: 22 classes were defined, with corresponding taxes ranging from 2000F to 1F, applicable across the whole realm to all individuals. No one was exempt except the king (the first name in the highest category was the heir apparent), although in practice the clergy bought itself out with lump-sum payments. Moreover, the collection of the tax, and the resolution of disputes related to it, was entrusted to the king’s officials, the intendants. Its yield in the 1690s was about 24m per year, a sizeable addition to annual revenues. The tax was to

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8 Necker, the last great reformer of the monarchy's finances, wrote an “Éloge de Colbert” (1773) to establish his credentials as more than a banker.
cease with the war, and it did, punctually, in March 1698. But it was levied again from March 1701, and one of Louis XIV’s last acts was to make it permanent. It continued to be levied until the Revolution, becoming increasingly complicated over time with more detailed tax schedules for some groups, lump-sum payments (abonnements) for others, and assessment in proportion to the tailles for many.

The War of Spanish Succession led to the levy of another direct tax in October 1710, this one more explicitly an income tax, the dixième (tenth). The dixième, levied in 1710 after the breakdown in peace negotiations, played a role in convincing the Allies that France was not as destitute as they had imagined. It was again a wartime tax, and ceased in 1717; restored from 1733 to 1737 for the War of Polish Succession and again from 1740 to 1748 for the War of Austrian Succession, it became permanent after the Seven Years War under the different name of vingtième.

Both taxes represented major innovations for French finances (Kwass 2000): they were the first new direct taxes since the 15th century, and were based (at least ideally) on nominal lists and assessments of each individual’s income or status, even if their practice was far from the income taxes we know.

Where both taxes retained a medieval flavor was in their duration. Consistent with the original theory of taxes as an “aid” to the king, they were to last only for the duration of the emergency. This theory made sense only when the increase of expenditures could be matched by the increase in taxes, obviating the need for debt. Thus, these innovations, as initially implemented, were of little use for supporting debt. As the eighteenth century progressed, the taxes were made more permanent, and long-term loans were issued on the basis of their revenues in the 1740s.

Indirect Taxation

Among indirect taxes, the changes were not as visible. The dominant theme of the period (indeed, all the way to the Revolution) is experimentation with tax farming. The

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9The abonnement (Panckouke 1784–85, 1:1) was a practice whereby a region, a town, a community or corporation, could win an exemption from a particular tax in exchange for an annual payment. The term applied properly to indirect taxes, and the general farmers were free to enter into any such arrangement they saw fit. Often, this was done for taxes which involved high collection costs. With direct taxes, the abonnement was obtained by the clergy as a whole, and by those provinces annexed after the creation of the taille in the fifteenth century and which had negotiated to collect the taille by themselves (the so-called pays d’État). See Del Negro et al. (2006) for theoretical arguments in favor of the practice.
near-complete monopoly set up by Colbert did not survive very long, as the increase in other farm revenues shows. Nor was it really a monopoly, contrary to appearances: the general farmers typically turned around and subleased tax collections (by type of tax and by region) to “subfarms” (sous-fermes). Furthermore, when new indirect taxes were created during the wars, they were farmed out on separate contracts, not to the general farms. The years 1725 and 1726 mark the high point of a process of dismemberment of the monopoly in search for more competition among lessees, sometimes at the risk of inefficiencies, as when a given tax and a 10% surcharge on that tax (the 2 sols pour livre) were farmed separately (I return to this later).

Here too, looking at peace years masks some wartime changes. The lease contract placed all the risk on the lessee: if tax collection fell short of his annual payment, he was expected to make up the loss from his funds, but conversely the profit was also his. In practice, lessees sometimes defaulted, obviously during wartime when tax collection fell drastically short. This happened in 1709, and the united farms were placed under direct administration (en régie): the same personnel remained in place, but salaried rather than as tax farmers. Only in 1716 was the united farm lease reconstituted. The same process occurred after the end of Law’s System: the General Farms were run by the farmers for the king’s profit (or loss) until 1726. Only after 1726 did the General Farms gradually evolve into the familiar centralized, for-profit behemoth White (2004).

Long-term borrowing

Contrary to the theory behind the wartime levies of the capitation and the dixième, the budget was not balanced during wars. Typically, the government went into deficit and financed expenditures with a mixture of short-term debt and long-term debt. The short-term debt was converted into long-term debt after the hostilities ended, and (conditions permitting) the long-term debt was converted into lower-interest long-term debt as market interest rates fell. This model worked well for the first half of the reign, until 1685, and Colbert was able to successfully carry out a (voluntary) debt conversion in 1680. Another conversion was carried out partially in 1698 and 1699.

The other main form of long-term borrowing was through the sale of offices. An officer was someone who held a government position not on commission or at the king’s leave, but as of right, and enjoyed various privileges attached to the position (in particular the collection of fees related to his activities). Offices were sold (to qualified
purchasers), and the king paid interest on the original sale price, which was called the wages of the office (gages). A wage increase was really a forced loan, requiring the officer to put up the additional capital. Officers could not be removed except for misconduct; however, the office itself could be abolished, as long as the king repaid the original sum. Thus, offices as a form of debt also carried the same repayment option as annuities. Creation of offices was a feature of wartime, and the War of Spanish Succession gave rise to extraordinary ingenuity in the invention of new offices by the thousands. Offices and annuities could be transferred or sold, but with fairly high transaction costs. Both were considered forms of real estate, and could be mortgaged.

To the extent that the main attraction of an office was the right to collect a fee of some kind, the creation of offices was very similar to another type of operation, which consisted in both creating a new tax (levied for a fixed period of time) and selling the right to collect it in exchange for a lump-sum payment: this combined into a single operation the creation of a tax and the issue of a loan backed by the revenues of the tax, in an efficient manner (subject to the caveat that the government had to properly estimate the future revenues of the new tax).

In the late seventeenth century the French government, like others in Europe, had begun experimenting with life annuities (1693) and tontines (1689; see Weir 1989). In 1700, taking advantage of a craze for private lotteries, the government sold 0.5mL in life annuities for 10.4mL, a rate of 4.8% far lower than the actuarially fair 7 to 14% it had offered on the same amount of annuities in July 1698. The sum was raised by selling 400,000 tickets at 26L each, to which 475 prizes ranging from 400 to 20,000L were awarded.10 The government explicitly allowed the formation of associations to buy blocks of tickets and made it possible to divide the prizes as long as the resulting annuities were no smaller than 75L (a quarter of the smallest prize).

**Monetary Manipulations**

The peacetime snapshot misses a large number of alternative sources of revenues. Aside from many small indirect taxes levied and auctioned off (often for a single upfront

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10The lottery tickets in principle bore the name of the lender/purchaser, but it was possible to inscribe instead a motto or phrase by which the owner could identify himself; this made the tickets into easily traded bearer instruments.
payment), a major source of revenue was seigniorage, which added about 100m over
the course of each war, not far from a year’s worth of peacetime revenue.

The monetary system of the time consisted of two distinct elements. One was
made up of the monetary objects themselves, coins made of gold and silver bearing
the king’s effigy but no indication of value. The specifics of the coins (weight, fineness,
size, imprint) are set by edicts of the king. The other was the unit of account, the
livre or franc. The use of the livre is general and required for all contracts and debts,
including bills of foreign exchange. The relation between the two elements is set by the
king with an order in council (arrêt du conseil) which has immediate effect and is not
subject to control or registration in any court. In other words, the king can, literally
overnight, change the legal tender value of coins.

The use of monetary manipulations to generate seigniorage had by and large ceased
with the Hundred Years War in the 15th century. Changes in legal tender values were
henceforth used to adjust legal values of coins with their relative values in the market
(either bimetallic issues, or small change problems as in Sargent and Velde 2002). From
1640 to 1686, the French coinage and its legal tender values had been stable. In 1676,
Colbert had even abolished seigniorage altogether, on the English model. The period
from 1690 to 1726, however, represented a complete break with centuries of practice,
even if the form taken by the manipulations differed from medieval times.

In a nutshell, a reformation consists in levying a tax on the whole stock of coinage.
To do so, the following method is used. The legal tender value of each coin is increased
from 1 to 1 + x, but only in exchange for a payment by the coin-holder of y with
0 < y < x. To verify that the payment has been made, the coin needs to be surrendered
to the mint where it will be restamped with a new design (“reformed”). After a
while, however, the government decides to return to the old face value of coins, and
announces a decreasing path of face values for the coin: \(\{1 + x(t_i)\}_{i=1}^\infty\) returning the
coin to its original value of 1. If the situation requires it, the operation is repeated. It
was carried out in 1690, 1693, 1701, 1704, and 1715. More traditional forced recoinages
(where all coins are demonetized and everyone is obliged to buy new legal tender at
the mint and pay the seigniorage rate) occurred in 1709, 1718, 1720 and 1726. Figure 4
shows the mint equivalent (the face value of a fixed weight of coins) and the mint price
over time; the distance between the two lines measures the seigniorage rate, and the

\[\text{In practice, the old coins were also given a temporary legal tender value of } 1 + y \text{ during the exchange}
\text{period, so that they were worth the same in circulation and at the mint. After the exchange period}
\text{ended, the old coins ceased to be legal tender, and were only worth the mint price of their content.}\]
monetary reforms are plainly visible.

![Graph showing mint equivalent and mint price of silver, France, 1685–1730](image)

Figure 4: Mint equivalent (upper line) and mint price (lower line) of silver, France, 1685–1730.

Table 2 summarizes the known figures for these monetary reforms. The money stock in 1690 was estimated to be about 500m (in pre-1690 livres), so the first reform was fairly successful, since minting amounted to about 85% of the existing stock. Later ones were less successful, especially since a livre was worth less and less over time, so that the 500m L of 1690 should have represented 750m L in 1715. Individuals were less willing to submit to the tax as they knew from experience that the operation would soon be reversed and that demonetized old coins were in fact remonetized at a later date. Also, counterfeiting proved to be an increasing problem, as people shipped their coins abroad to have them restamped by foreign competitors out of the reach of enforcement. In the 1709 reform, the weights and sizes of coins were changed so as to make counterfeiting more difficult. The difficulty of extracting profit from the operation is suggested by the rising seigniorage rates.

The monetary reforms and recoinages of 1690, 1693, 1701, 1704, 1709 all took place in wartime. The recoinage of 1720 can be excused in part as a recreation of the coinage after the disorders of the Law period. But the reforms of 1715, 1718 and 1726, although
Table 2: Minting volumes, seigniorage rates, profits from monetary reforms, and index of the livre at the beginning of each reform; 1688 = 1, 1689–1719. * indicates a full recoinage.
Source: Forbonnais (1758, 4:98, 136, 195, 220, 392, 5:269); AN, G71414, 1445; BN, Fr11159, f. 287; BN, Joly de Fleury 566, f. 199, AE MD 1258, fol. 63.

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<th>Date</th>
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<th>Profit (m L)</th>
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<td>20</td>
<td>75.5</td>
<td>1.50</td>
</tr>
<tr>
<td>May 1718–Nov 1719*</td>
<td>452.7</td>
<td>33.3</td>
<td>34.4</td>
<td>2.24</td>
</tr>
<tr>
<td>Sep 1720–Aug 1723</td>
<td>n.a.</td>
<td>16.0</td>
<td>(24)</td>
<td>3.36</td>
</tr>
<tr>
<td>Feb 1726–Jun 1726*</td>
<td>n.a.</td>
<td>18.0</td>
<td>n.a.</td>
<td>1.55</td>
</tr>
</tbody>
</table>

carried out in peacetime, are clearly on the same pattern as the wartime reforms. Although governments were never too proud when resorting to this method (and faced vehement political opposition in the unmuzzled Parlement in 1718), it seemed difficult to dispense with it. It is all the more remarkable that 1726 marks the last instance of a seigniorage-driven debasement in French history.

**Short-term borrowing**

The flows of revenues and expenditures were very complex, because of the multiplicity of individuals involved in the collection and disbursement (the Paris brothers speak of eight to nine thousand *comptables*). For direct taxes, the receivers general collected sums from the local receivers; for indirect taxes, the farmers often subcontracted to “sub-farmers” by tax and by region. Similarly, the Royal Treasury was but one of a number of treasuries. Various individuals with the authority to spend funds (e.g., the ministers) issued orders to their respective general treasurers to disburse funds (they, in turn, typically had local treasurers in various provinces). The finance minister funded the treasurers by issuing orders to the tax collectors to transfer funds. If the treasurers lacked the funds in cash, they could issue promissory notes payable at a future date. Likewise, the finance minister could specify that the transfer be carried out at some
future date. To net out the cash flows from the provinces to Paris and back to the provinces, the minister often ordered a local receiver to transfer his funds directly to a local treasurer, or to a rather than to the general receiver of his province.

In practice the treasurers’ notes, as well as as the minister’s orders, were negotiable instruments, bearing a variety of names such as billets d’emprunts, billets de subsistance (issued to military officers to pay their expenses), assignations, rescriptions, promesses, etc. These instruments were endorsable and negotiable. It was often said that the king was using the credit of private parties for his purposes, and it is true that some were legally the liabilities of of their issuers, but others were like checks written by the government on its tax collectors, and nothing prevented the former for going overdraft. The promissory notes were indeed frequently rolled over until payments were suspended, as happened in October 1710 for the assignations on the revenues of the next three years, which were converted into perpetual annuities at 5%. Similar suspensions occurred in 1759 and in 1770, as a consequence of the Seven Years War.

Colbert had created a new institution in October 1674, the Caisse des emprunts, a facility where private parties could buy short-term loans (lend) to the government. Dissolved after his death, it was recreated in March 1702 and backed by the credit of the salt tax collectors; these notes came to be known as the promesse des gabelles. These notes were bearer bonds, carrying 8 to 10% interest. Their reimbursement was suspended in October 1704, the interest reduced to 5% in October 1710, and reimbursement resumed on a limited basis (6m per year) in 1713.

Finally, another sort of paper was issued in 1710. A common treasury was created to collect all the payments of the receivers general (the direct taxes), and it issued its own notes in part to redeem some of the existing paper, in part to finance continuing expenditures. These notes were known by the name of the cashier, as the billets Legendre.

There existed an active market in these instruments, as witnessed by the numerous quotations in the Gazette d’Amsterdam from January 1711 to May 1715 (Dutot [1738] 1935, 2:241 provides additional quotations from March to August 1715). Figure 5 displays the implicit interest rate in the prices for perpetual annuities (rentes), promesse des gabelles, and billets d’État which will be discussed shortly. The rates are high, Sussman and Yafeh (2004) have recently argued that British rates remained at a similar level long after the Glorious Revolution.
graph showing interest rate on various liabilities of the French government, 1711–19. Sources: *Gazette d’Amsterdam, Amsterdamse Courant*, AN G/7/1122, Reims mss. 2086.

**The Billets de Monnaie**

The monetary reforms of the War of Spanish Succession occasioned one early experiment in paper money.

When the reform of 1701 started, the mints did not have sufficient inventories of bullion on hand to pay for old coins with new coins immediately, and even though restamping (instead of melting) reduced the turnaround time, it was still not possible to return the restamped coins immediately to their owner. The mint directors began to deliver receipts payable to the bearer for the exact amount brought in, to be redeemed a few days or weeks later in restamped coins. These *billets de monnaie* were issued in increasing quantities, and their redemption postponed repeatedly, although they were given an interest. The government started issuing them to make payments rather than for their original purpose. When the reform of 1704 ended in 1706, there was no way to redeem them in restamped coins. They were made legal tender for private debts in Paris (including for bills of exchange) in August 1706, then legal tender for a fourth of all payments in October 1706. They ceased to bear interest, were reissued on demand...
in smaller standardized denominations (200L, then 50L). In 1707, they ceased to be legal tender, and were converted partly in 5-year notes on the tax collectors (54mL) and partly in circulating notes ultimately redeemable for perpetual annuities (72mL). From October 1707 to February 1708 they were again made compulsory tender for a fraction of all payments. y large payment). Most of the remaining billets were retired through the reminting of May 1709. All coins were to be reminted, subject to a 18.75% seigniorage tax, of which 16.67% was payable in billets de monnaie. The rest was eventually converted into perpetual or life annuities, and they were withdrawn from circulation in October 1711.

The Visa of 1716

The mass of floating debt created during the War of Spanish Succession, a total of 596mL, was subjected in December 1715 to a liquidation process. All notes had to be submitted to commissioners who would verify the validity of the claims and liquidate them to a nominal value, for which a new form of instrument would be issued. These bearer bonds were called *billets d’État*, carrying a 4% interest with no specified redemption date. A total of 250mL were issued, although only 180m represented conversion of the existing notes; the rest was used by the Treasury to finance its deficit (AN G/7/728-735, BN, Fr 7759).

A reduction from 596m to 180m looks like a disguised default, and the Visa of 1716 is often described in these terms. However, it was the occasion for a wholesale examination of the accounts of the war, and it is not clear what proportion represented an audit of the notoriously unscrupulous methods of financiers and accountants. An example illustrates the point. A decree of May 2, 1716 (AN E* 886, fol. 309) appointed François Brehamel to examine the accounts of the treasurers of war expenditures (*trésoriers de l’extraordinaire des guerres*). At his suggestion, Brehamel was promised a 10% bonus on all the notes of the treasurers he could identify as having been lost, and therefore for which the treasurers could be held accountable in discharge to the king’s obligations. From his after-death inventory (AN MC XXXVIII/309, 6 Nov 1739) it is possible to determine that he earned a total of 206,544,225L as a result: in other words, he managed to cancel over 2mL of the king’s obligations. The Visa had other advantages:

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12It is no doubt to such demonstrated talents that Brehamel later owed his appointment as chief accountant of the Visa of 1721 by the Paris brothers.
Paris brothers were able to start from the clean slate created by this audit to initiate their accounting reforms among the receivers general (see below).

What became of the billets d’État? The interest payments (a total of 10m) were assigned on several farms whose income were already pledged, and the payment of the interest remained uncertain. Ultimately, they were eliminated through a variety of channels, the most important being the seigniorage tax levied by the reformation of May 1718, which was partially payable in billets d’État, and the creation of John Law’s companies (the Banque and more importantly the Company of the West).

3 The John Law episode (1716–20)

I will not retrace here the long and complex episode known as John Law’s System,13 but rather describe its most innovative aspects. Suffice it to say that John Law, who arrived in France in 1712 or 1713 with proposals to improve the government’s credit, was finally allowed in May 1716 to establish a privately owned bank issuing notes payable to the bearer on demand into specie of a particular type. Soon after he launched a venture to develop the hitherto profitless colony of Louisiana, under the name of the Company of the West. Both companies began with initial public offerings of shares payable in the form of billets d’État, which became the companies’ assets and provided working capital through the earned interest. To better ensure the payment of the interest, Law proposed to take over the tobacco monopoly farm on which they were assigned, and cancel out the interest payment with the lease price. This started the company on a series of mergers and acquisitions that led to its merger with the existing French Indies Company, whose name it took. By December 1718, the Bank, which took credit for the coincident economic recovery, was nationalized and became accountable only to the king, and, in practice, wholly managed at the discretion of Law.

The summer of 1719 brought far-reaching changes in Law’s operations. Having bought out virtually all the trading companies then in existence, the Indies Company branched into tax collection and mint management. In August 1719, it had the existing lease on the General Farms rescinded, and was awarded a new lease. At the same time, it proposed to refinance the whole national debt at a lower interest rate. To finance this gigantic operation, the Company proceeded as it had done with its earlier acquisitions, with further share issues, at prices that tracked the bullish market. The operation ended

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13The more recent works include Harsin (1928, 1933), Faure (1977), Neal (1990), Murphy (1997), Hoffman et al. (2000).
up being a conversion of government debt into equity in a company that, at the same
time, collected virtually all the taxes in France. I call this “government equity.”

The plan might have worked, but a particular feature of the share issues, a form
of down-payment and installment plan, made the operation contingent on the former
bondholders being willing to exercise options on the shares of the Company. To induce
them to do so, Law felt compelled to sustain a rising share price, through covert and
then overt price manipulations and interventions on the stock market. For this purpose,
the Bank proved very convenient, as further note issues went essentially unchecked.
By January 1720, when Law became finance minister and seemingly omnipotent, the
System’s apparent success pushed the British authorities into their own version of the
scheme with the South Sea Company.

Law’s peak was short: the price support for the shares had the effect of monetizing
the debt and unleashing foreign exchange depreciation and incipient inflation. Law
tried to contain this side effect by demonetizing gold and silver coinage to shore up the
demand for his currency; then, he tried to reduce the nominal money supply in the
way governments before him had done the same, by cutting the nominal value of notes
and shares in May 1720. This led to a run on the Bank and a major crisis of confidence.
Law briefly lost his position as finance minister, but was partially reinstated. He spent
another six months searching for ways to save his Company and his Bank, reducing
the money supply by other means (purchasing notes on the open market where they
were sold at a heavy discount, issuing more shares, creating bank accounts modelled
on the Bank of Amsterdam). Finally, in the fall of 1720 he demonetized the notes. The
Company, meanwhile, had exhausted its funds and was nearing bankruptcy, which
meant the government itself was broke as well. In December 1720, he fled France;
cleaning up the wreck would be left to others.

Centralization of the fiscal system

Although Law had made plans to radically change France’s taxation system, as oth-
ers such as Vauban had proposed before him, he never came near to implementing
such changes. Nevertheless, the brief period in 1719–20 was as close to a rational and
centralized fiscal system as France ever got before the Revolution. Not only was his
Company awarded the lease for the general farms: it also bought out the offices of the
receivers general in October 1719, transforming them into mere employees. Almost all
taxes were now being collected by a single entity. Furthermore, the existence of the Bank (whose notes had been made redeemable by the tax collectors as early as 1717, and had been made the mandatory instrument for all financial flows in 1719), meant that a single system was also available for the transfer and management of funds.

The Company was a privately owned, for-profit concern: in that sense it stood in the tradition of French finances. The novelty, however, was the structure of ownership. Whereas public finance had been the preserve of the financiers, gens intéressés aux deniers du Roi, the owners of the new system were a vastly larger class: not only the six or eight hundred shareholders the Company had in the summer of 1719, but by the fall of the same years thousands more, all the former office-holders and debtors of the Crown. Whereas the farmers had to finance their ventures with their own funds or by appealing to friends and associate investors, Law’s System was financed by a broad class, whose membership was completely open since the shares were not registered and were freely traded on the open market. In his later writings, Law would remark on the element of “shareholder democracy” as we might call it that his System imparted to the old absolute monarchy. It aligned the interests of the taxpayers with those of the King.

It also made it possible to think of debt financing in a whole new way. Instead of issuing bonds with a fixed, nominal rate of return whose constancy was far from assured, as any rentier who had lived through the painful reductions of 1710 and 1713 knew well, the government made explicit the fact that the stream of revenues backing its commitments was inherently stochastic. In times of war, dividends could be expected to be lower; there was no need to readjust the value of the debt, either by default or through monetary manipulations, to satisfy the government’s budget constraint. In particular, by freeing the price level from any demand that the budget constraint places on it to maintain balance (as the fiscal theory of the price level asserts it does, e.g., Sims 2001), Law opened the way for monetary stability. It had been one of his long-standing theoretical arguments for the superiority of paper money that it could deliver better price stability than the metallic currencies in use at the time.

4 Policy during the influence of the Paris brothers (1721–26)

When Law left France in December 1720, he left a mess behind him. The first act of the new finance minister was to recall the Paris brothers from the exile into which Law had sent them six months earlier.
An Accounting Revolution

The Visa of 1716 allowed the Paris brothers to carry out their first attempt at introducing monitoring and accountability in the tax collection mechanism (see the excellent description in Lemarchand 1999). One of the elements of the Visa was to close all the accounts of the general receivers of the direct taxes. Beginning in July 1716, they were subjected to a new accounting regime designed by the Paris brothers. Although the receivers were not obliged to adopt double-entry bookkeeping, they were obliged to keep a day-book with an exact record of all their receipts and expenditures, and to forward a copy every two weeks to the ministry of finance. The Paris brothers gathered this information into double-entry registers, allowing them to monitor in real time the process of tax collection and the cash flows to the a central account, and thence to the Treasury.

Some material has survived and shows how they calculated on a monthly basis the recovery rate for each general receivers.

In August 1718, the Paris brothers won the lease for the General Farms, submitting a bid that took the incumbents completely by surprise. Their syndicate had one original feature: taking a leaf from John Law’s book, they issued shares to the public in their enterprise, payable in government bonds. This operation came to be known as the “Anti-System,” and is thought to have been set up as a rival to John Law’s System, although it is far from clear that Law opposed it, at least initially. Later, Law approached the Paris brothers and proposed a merger which they turned down: he then had their lease cancelled and took over the Farms in August 1719, as described above.

Thus their attempt at introducing the same reforms in the Farms initially failed. When they returned to power in 1721, they predictably tried to pursue their attempts. They easily extended the requirement of keeping day-books to the Farms in January 1721, since they were placed under direct management rather than farmed out, as I describe below.

By 1725 they had introduced the same reforms among most treasuries, both on the receipts and the expenditures sides, but the duke of Bourbon did not allow them to

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push to completion because of increasing political resistances. They were nevertheless in a position to compose a _livre du Roy_ in two copies, one which they kept and updated daily, the other kept by the minister of finance and updated weekly. The government was thus in a position to ascertain its fiscal position on a continuous basis, and make the necessary adjustments.

**A Bureaucratic Revolution: the Visa of 1721**

The wreck of the System consisted of a number of liabilities or instruments that differed both in their nature and terms (notes, bonds, deposits, shares) and in terms of their issuer or originator: the crown, the Company, the Bank. It was debatable to what extent there was any real distinction between these entities. Initially, the government made the Company responsible for the Bank, but later realized that this was incompatible with one crucial premise of the Paris plan, namely the survival of the Company. Furthermore, it was difficult to make a distinction between the crown’s bonds, issued in June 1720 to reverse Law’s debt conversion scheme, and the shares and notes of the Company held by former bondholders. In the end, all liabilities and instruments went through the same process.

The procedure adopted was the following. The shares of the Company remained as shares, to form the basis for its legal ownership. All other liabilities and instruments were submitted to the government, to be exchanged for government bonds. The Company redeemed its liabilities from the government, as much as it could, using evidences of indebtedness it received from the government in 1719 and 1720. As these were insufficient, the Company remained a debtor to the crown for 580mL. The shortfall was simply written off by the government in 1725, thus securing the Company’s legal discharge, and leaving it free to continue its commercial activities.

How were the liabilities converted into government bonds? The Paris plan relied on two principles. One was to commit the government to the level of debt service that prevailed in 1718; to this effect, the government announced that it would reconstitute the debt to the level of 40mL in annual interest. The second was to treat the claimants as fairly as possible. The main distinction that the Paris plan saw between claimants was the manner in which they had acquired the claims they owned. A bondholder who had been led into the debt conversion scheme, or a private individual who had been forced to accept Law’s paper money as legal tender in repayment of a debt, should be
treated differently from a speculator who had bought the securities on the cheap on the open market, or sold goods of his own free will. Making such distinctions required precise knowledge of each individual’s claims and their origins.

To acquire this information, the Paris brothers set into motion what can only be called a masterpiece of the bureaucratic art. All claimants were required to present their securities for inspection, along with identifying information about themselves, and statements detailing the manner in which they had come to acquire their securities. About 510,000 individuals (out of a total population of 20 millions) filed claims. The claims were catalogued and tabulated by type and by origin. An alphabetical register of all claimants was created. The information being volunteered was obviously suspicious; to verify the claims, the government later required all notaries in France to submit copies of all financial transactions they had registered during the eighteen-month duration of the system. A total of 1,393,000 transactions were thus reported to the government.

Once in possession of this information, a total of the claims by type and origin could be tabulated. Given the total amount of debt the government was willing to take on, a matrix was created, with the rows corresponding to the type and size of claims, and the columns to the origin of the debt. The entries were the coefficient to be applied to the size of the claim, ranging from 100% for the best claims to 5% for the totally undocumented claims. Each claimant then received a liquidation certificate, whose nominal amount was the size of the claim multiplied by the relevant coefficient; the certificates could then be converted into government bonds. It is particularly remarkable that no account was officially taken of the status of the claimants: the decisions were made purely on the published criteria (although a few privileged individuals with special access to the Regent, and also diplomats based in Paris, were given a separate treatment; but all reclamations filed after the deadline were turned down).

This colossal enterprise mobilized thousands of clerks and lasted from January 1721 to September 1722, employing thousands of clerks and costing 9mL. The Paris brothers already had some experience in a similar operation, namely the Visa they conducted in 1716, although the scale of this enterprise was considerably larger. They were clearly proud of their achievement, because they hired an unknown writer to write a history of the entire operation, in five volumes (three volumes of text and two volumes of appendices containing all the decrees, regulations and instructions). The writer continued to be paid by them to finish the work after their dismissal in 1726. The work itself is lost,
but an abridged version still exists, in an unpublished document. This manuscript contains the detail of the operation, in particular the manner in which a “dictionary” of all claimants was compiled to cross-check all the information that was submitted, and also the various mechanisms by which fraud could be detected. One instance of fraud did take place: two of the twenty-four commissioners appointed to carry out the liquidations fabricated false certificates to sell them on the secondary market. The fraud was detected, a much-publicized trial took place and the guilty individuals were sentenced to life in prison. At the end of the process, all the information gathered by the government was solemnly burned in public, to preserve (le secret des familles).

A total of 2222.6 mL in instruments were presented to the Visa from January to August 1721. They were liquidated at a face value of 1700.7 mL, a 23.5% average reduction, but with much variation across individuals. The authors of the Visa (Paris-Duverney 1740) insisted that their goal was to bring back the debt to a sustainable level while maintaining fairness, by which they meant a bias for small holders. No claim of 500L or less was reduced: these small claims represent half of the individuals and 40% of the sums involved. This means that the remaining 60% of the sums were reduced by 39% on average.

Starting in February 1722, claimants were required to turn in the instruments they had presented in exchange for certificates bearing a liquidation face value. Only 2211.2 mL of instruments were turned in from February to November 1722; they were exchanged for 1661.6 mL of certificates of liquidation, of which 62.6 mL were never used. A supplementary tax on excessive profits from trading in the System was levied on about two hundred individuals (the most famous “Mississippians”) and further reduced the debt by 190 mL.

The certificates were convertible into life annuities at 4% and perpetual annuities at 2.5% and 2% created from 1720 to January 1724, of which a total of 1700 mL in capital, 47 mL in perpetual annuities, was available. These annuities became the core of the national debt; the bulk of the perpetual annuities were still in existence in 1789 (Marion 1914, 1:474).

The cash value of the liquidation certificates on the open market averaged 22% of face value from February 1722 to February 1724. This means that the average holder of

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15 Lettres sur le Visa (1732), Musée Dubois Corneau, Brunoy (France), fichier 731.

16 The original documents of the trial are in Bibliothèque de l’Arsenal, mss. 28,48–49 and Bibliothèque du Sénat, mss. 138–140; see also (Antoine 1970, 266), (Combeau 1999, 232–35).
a bank note ultimately got about 17% Figure 6 plots the interest rate on French debt, assuming that a liquidation certificate was used to buy a 2% perpetual annuity.

![Figure 6: Interest rate on French debt derived from the market price of liquidation certificates, 1722–24. Sources: Gazette d’Amsterdam, BN Fr 13771, Buvat (1865), Marais (2004).](image)

There was much growing about the Visa, but this unprecedented effort on the part of the government remains a powerful testimonial to its desire to treat the debtors of the System as best it could. It is hard to imagine a government intent on defaulting on its debt settling on such a costly and time-consuming way to go about it. The main concern was clearly fairness, and undoing as much as possible the redistributive impact of the inflation generated by Law’s System.

The event that dominates France’s eighteenth century is the one that closes it, the Revolution. The standard question is: What were its causes? A related, more difficult question is: Why did it not happen sooner? In recent years, the historiography has focused on the emergence of a public consciousness or discourse (shaped largely by the Enlightenment) within which the radical questioning of the existing institutions could be conceived. It remains acknowledged that a major fiscal crisis precipitated the events of 1789; the Revolution started out as a movement of stakeholders reclaiming
the conduct of policy from a government perceived as incompetent. The monarchy’s position was at least as financially precarious in 1715 or in 1721 as it was in 1788. I submit that the Paris brothers’ extraordinary action may have defused the kind of discontent and sense of injustice that could have fuelled radical changes much earlier.

A Financial Encyclopedia

The Paris brothers, in their narrow way, were in the same mould as the Encyclopedists of the later half of the century. Their belief that information was key to a good management of finances did not limit itself to the monitoring of fiscal flows. They knew well that the French fiscal system was an incredibly complicated accumulation of taxes created at different times and in different regions of France with little regard for coherence. It was universally believed that the ‘science’ of fiscal administration was extremely complicated and in the grasp of very few: they wanted to collect all this knowledge as completely as possible, and their privileged position inside the Bourbon administration gave them full access to it. In La Montagne’s autobiography there is a description of a plan général des finances, as well as a list of the treatises they had completed and those they did not have time to finish, a total of thirteen in all, each in several volumes.¹⁷

Some were historical in nature, like the history of all perpetual and life annuities created in France since the 16th century. Others were compilations, such as the listing of all import and export duties from 1664 to 1726, while others also included plans for improving the management and collection of taxes (such as the salt monopoly or the gunpowder monopoly). The treatise on salt included detailed maps of the location of every warehouse, as well as a listing of all villages and the number of households in each subject to compulsory salt purchases. A treatise on the navy and another on military spending were in the form of plans for expenditures, depending on the desired level of strength to be reached in wartime and peacetime. Another was a plan to improve the collection of taxes and the flow of funds to the armies for their supplies.

Just as Desmaretz had started a rational archiving system for the ministry of finance (Boislisle 1874–97), the Paris brothers wanted to establish a permanent library in the

¹⁷As far as I know they have disappeared, but one manuscript dated 1724, Assemblée nationale 1141–42, bound to the arms of the finance minister Dodun, is possibly their history of the perpetual annuities, although it is signed “M.D.C.”.
ministry to store this information for the use of future ministers.

One should not overstate the radical nature of the Paris brothers’ project. They did not seem to be animated by a desire for wholesale reforms, as Vauban had been earlier and as became increasingly common toward the end of the Monarchy. In this sense, they belong to an earlier generation than that of the Enlightenment. They were still working within an existing system of taxes, but wanted to be as efficient as possible in using the available fiscal tools of the monarchy, and be in a position to propose new ways to sustain the budget under future emergencies.

One of the Paris brothers’ great obsession was information. The adoption of their accounting reforms in the direct taxes in 1716, and their extension to the indirect taxes included in the General Farms in 1721, had provided them with the means to monitor all the financial flows of the French monarchy (they had plans to extend the accounting rules to the gunpowder and post farms, but they were not carried out).

The Debate over Tax Farming

In January 1721, the Indies Company was stripped of almost all its non-commercial activities. The receivers general were restored to their former offices, although they remained under the accounting regime established by the Paris brothers in 1716. As for the General Farms, the former farmers made a bid of 45mL (less than the lease of 1718, when the livre contained 25% more silver), which the government turned down. Instead, the taxes that formed the contract of the General Farms were placed under direct management (régie), with the former farmers as employees (earning 18,000L each). The receipts in the first year were 59m, and increased even further thereafter. The Farms (as well as several other taxes that had been farmed separately) remained under the régie system until 1726.

Which system was preferable, farm or régie? The debate had been going on within the administration for a while, especially after the experience with régie from 1703 to 1715 (during which time the farmers had been unwilling to commit to a lease contract). An undated memo comparing the régie and the farm (and clearly leaning toward the former) sheds some light on this debate.

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18 “Mémoire sur la proposition de faire des fermes générales et des soufermes,” AN G/7/1176; based on its contents it was written between 1724 and 1726. The volume 5 of Malézieu’s Histoire des fermes of 1746 (BN NAF 2565) also compares in great detail the two systems.
Under the régie system the king self-insured: “if he loses one year the surplus of another year compensates him.” Under the farm system, the farmer insured the king: this was touted as an advantage by the supporters of the farm, since it made fiscal planning easier. In effect, the farm system can be seen as the combination of a simple tax system with an insurance arrangement with the farmer. This insurance was deemed very valuable by finance ministers who wanted to rely on solid estimates of revenues to meet fixed obligations such as debt payments and wages of officers. The memo debated that much insurance was provided in practice, pointing out the difficulty of enforcing the contract in the times when it was needed most. Past experience showed that farmers could and did renegotiate ex-post their obligations. This took the form of an indemnité granted by the king after the farmers had convinced him that they could not meet their obligations. In 1701, the farmers’ lease price for the aides for the previous four years was cut by a third; in 1712, the lease price of the previous five years was cut by 18%.

The incentives for the farmer were one of the main advantages touted by supporters of the farming system. Under a régie, salaried tax collectors had no incentive to be efficient: “they don’t care to deserve their wages as long as they receive them.” The memo argued that, in fact, the indemnité system created a perverse incentive under certain circumstances: if the farmer expected to miss the revenue target, he had every incentive to make his losses worse so as to secure as large an indemnité as possible. Furthermore, incentives could be provided to the régisseurs, by giving them bonuses for meeting pre-determined revenue targets. The threat of being fired (an extreme penalty) was also present. The government separated some of the taxes from the General Farms and assigned them to a competing régie, and year by year shifted taxes from one to the other, possibly as a result of competition between the two sets of régisseurs.

The memo discusses other pros and cons of the two systems. It was also argued that farms offered the advantage of being a source of short-term finance for the government. The farmers were frequently called upon to make formal advances to the Treasury. But

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19 “Projet pour un bail des fermes à remise”, AN G/7/1175, from around 1722 proposes to add to the régisseurs’ wages 10% of the difference (positive or negative) of the net product of the régie over a target of 60m. It also proposes as a variant a non-convex function, of 5% on the first million, 7.5% on the second, 10% on the third, 12.5% on the fourth through sixth millions, 15% on the seventh through ninth and 20% above. In the end, the linear function was adopted on March 15, 1723, centered on a lower threshold of 57m; the farmers had enough cheek to ask that this bonus apply to the previous years (BN NAF 2564, p. 70).
the loans only came at a cost in terms of foregone revenues and high interest. Farmers were subject to legal difficulties: to prevent them from abusing their power, they were subject to elaborate procedures in cases of disputes with taxpayers. Such safeguards did not apply in the case of the régie. Farmers not having generally the resources to take on the collection of any given tax at the national level had to share its collection by region, through the mechanism of subleases (“sous-fermes”): this, according to the memo, did provide extra sources of credit for the government, but only at the cost of inefficiencies, incoherences and redundancies.

An attraction of the farming system were the minimal accounting costs, or more generally of any monitoring. The accounting costs were the motivation for a curious procedure that was used in 1714, namely, converting a régie into a farm ex-post. It was decided that the employees (farmers) would not have to account for their management of the revenues since October 1709, as long as they could document that they had turned over to the royal Treasury an amount, which was declared to be the lease price, for each year.

Finally, an important element in the debate over the merits of the two systems was the question of information. Malézieu (BN NAF 2564, p. 68–69) argues that the finance minister’s desire to acquire information about the real product of the Farms was a motivation for the choice of the régie system in 1721. Interestingly, when the taxes of the General Farms were increased by 10% in 1705, the collection of the increase itself (the so-called deux sols pour livre) was handled by a separate régie than the rest of the taxes; and, in 1715, after the return to the farming system, the farmers general maneuvered to have the deux sols pour livre taken out of the régie system, because they knew it gave the government information on the true amount of taxes collected. Of course, such an advantage of the régie system matters only if the government were to alternate between the two systems, regularly updating its knowledge of the tax income at the (potential) cost of inefficiencies during the régie period.

Price Stability

The period from 1723 to 1726 witnessed a remarkable and somewhat unprecedented period of monetary deflation. It had been customary, since the Middle Ages, for the government to undo currency depreciation after debasements. The multiple reformations of Louis XIV were likewise each followed by a programmed and pre-announced
return to the old parity of the unit of account with silver, although the onset of the next reformation often occurred before a complete return was achieved.

In the fall of 1720, when France returned to a metallic standard after the collapse of John Law’s paper currency, the explicit intention was to return from the current parity of 90L per mark of silver to the 1718 parity of 60L, or perhaps even that of 1716, 40L. More urgent tasks took priority, however, and the appreciation stopped at 75L. It resumed in 1723, and then took place in a series of four unannounced decrees, in August 1723, February, April and September 1724, by which time it was 41.5L. This last step was announced to be the last, and the stated policy was thereafter price stability, once the general price level had returned to its level of 1716–17.

The motivation for such a drastic policy was that prices were deemed too high, and the government wanted to revalue the national debt, as it had been refounded in 1721–22. Of course, since many taxes were levied in nominal terms, this also implied to some degree an increase in tax revenues; the policy is nonetheless remarkable. France under the absolute monarchy is mainly remembered as an incorrigible defaulter; this episode is rarely noticed for what it is, a costly and seemingly unnecessary transfer to debtholders.

How costly it proved to be was not forecasted by the government. The economy simultaneously experienced a severe depression. As I document in other work (currently in progress), the textile industry contracted by a third from a peak in mid-1723 to a trough in mid-1726. Whether or not there is a causal relation remains to be determined. Prices did not adjust to the revaluation of the currency, with the single exception of the foreign exchange markets, where prices adjusted instantaneously and fully. All other markets that I have been able to document, whether it be foodstuffs at the Paris Halles, producer prices at the places of production, wholesale markets at the fair, retail prices, adjusted slowly, and never by the full extent of the revaluation. On top of this, the year 1725 was marked by a very poor harvest in the North of France, resulting in serious disturbances in Paris. The government’s attempts at improving supplies by purchases of wheat from more distant provinces and from abroad served to feed the first apparition of the “famine plot” legend (Kaplan 1985).

The policy proved costly in another dimension. In spite of the promise to maintain fixed parities, the government found itself forced to manipulate the currency once more, in February 1726. The international political situation deteriorated sharply in the spring of 1725, for dynastic reasons. The young king, whose health was still uncertain, had been engaged to a Spanish princess much younger than him, and the
government felt the need to secure the succession and avoid the risk of a war with Spain by breaking the engagement and marrying Louis XV with the daughter of the deposed king of Poland. The move outraged the Spanish court which, in retaliation, concluded a surprise alliance with its erstwhile enemy, the German emperor. The possibility of a renewed European conflict was very serious, and the French government felt the need to raise taxes to prepare for war. At the same time, however, it had decided to start a sinking fund for the debt with the revenues of a new income tax, the cinquantième. The quickest way to secure more funds was to launch yet another reminting; the value of coins were lowered by 12% in January 1726, then a reminting was ordered in February 1726 back to the earlier level. Although the parity remained the same in the end, the monetary manipulation still violated the spirit of the government’s earlier commitment.

Finally, in an abrupt reversal of the deflationary policy, the government increased the value of the mark of silver from 41.5L to 49.8L in May 1726. Again, coincidentally or not, textile output picked up immediately (and prices adjusted much more quickly), and the economy revived. The government’s credibility, however, was shattered, and discontent had grown large enough that the duke of Bourbon was fired on June 11, 1726 and the whole cabinet replaced. Its successor government, led by the cardinal of Fleury, would reap the benefit of the turnaround.

The role played by the Paris brothers in the formulation of this monetary policy remains uncertain, since it remained tainted by the concurrent depression, and in their later writings the Paris brothers were a bit cagey about claiming credit for it. What is nevertheless apparent from their contemporary writings is their attachment to the revaluation of the debt, both through the deflationary policy and through the establishment of the sinking fund, and to price stability. As Paris-Duverney wrote in a text published in the Gazette d’Amsterdam in August 1725, “the more one has acted hitherto in a way contrary to trust, the more the government must exercise care and punctuality

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20 As part of the peace treaties that concluded the War of Spanish Succession, Louis XIV’s grandson was allowed to remain as king of Spain on condition that he renounce his rights to the French throne. But he was also the closest heir to the childless Louis XV, and did not feel bound by his renunciation. Should Louis XV die, the king of Spain would certainly press his claim, provoking a succession war.

21 A memo by the elder Paris sent to the duke of Bourbon at his request in May 1726, shortly before his fall, condemns the diminutions (Affaires étrangères, Mémoires et documents France 1259, fol. 61r. There were contemporary rumors of an estrangement between Paris-Duverney, who became an intimate of the duke of Bourbon, and his brothers (Marais 2004, 760).
with its promises in order to regain this precious trust and use it with moderation for
the benefit of the State when its preservation is at stake.”

The Revolution of 1726

The fall of the duke of Bourbon had a number of other consequences for French
finances. His administration, and the Paris brothers, had fallen into such discredit that
the Fleury administration acted in precisely the opposite way. Among the first measures
taken in July 1726 was a return to the old system for both direct taxes and indirect
taxes. The caisse commune of the Receivers General was abolished, the inspectors were
suppressed, and the accounting system established by the Paris brothers was essentially
dismantled as too costly (it was claimed to cost over 2 million L) and too burdensome.\textsuperscript{22} For indirect taxes, the Fleury administration promptly returned to the farming system,
awarding a lease without any bidding. A serious competing bid was put together by
the former farmers in 1728, complete with a detailed comparison with the current lease
showing how undervalued it was. This counterbid forced the incumbents to raise their
lease price to some extent, but it ultimately failed.\textsuperscript{23}

Any plans to repay the debt were abandoned,\textsuperscript{24} and the cinquantième tax, which
had not been managed well, was abolished. Quite the reverse: in November 1726,
the new government simply eliminated the small perpetual and life annuities of less
than 20 L per year, annuities held by the small holders which the Paris brothers had
taken care to protect during the Visa. More seriously, the life annuities created since
1720 were reduced by a factor ranging from one sixth to two thirds, reducing the total
charge of the annuities by nearly 30\% (although in the end the cut was about 10\%;

\begin{footnotes}
\item[22]Paris La Montagne admits that it was initially difficult to find the personnel they needed, and they had
to bring skilled clerks from the Netherlands, Spain, Italy and the main commercial centers of France;
and even they had to be trained in the accounts of public finance. But he claimed that by 1726 they had
trained a large number of very able individuals.
\item[23]The leader of the competing syndicate was Durand de Mézy, who had been a farmer under the Paris
brothers; see details in BN NAF 2364, fol. 126sq, BN FR 11099 (written by Durand de Mézy), AN
G/7/1175 and 1176.
\item[24]Fleury did use Durand’s the competing bid to demand from the farmers an additional six millions per
year to fund a lottery reimbursing annuities, but after a year and a half the fund was used instead to buy
back shares in the Indies Company.
\end{footnotes}
Marion 1914, 1:147–49).

In monetary policy the new government changed nothing, and neither did any successor until the Revolution (save for an adjustment of the gold-silver ratio in 1785); the livre (and later the franc) retained the same silver content until 1914.25 Just before his dismissal, Dodun had decided to temporarily reduce the seigniorage rate on the ongoing recoinage from 11.7% to 5.8% until January 1727. The incoming administration published the decree, and regularly postponed the date at which the higher seigniorage rate was to resume, until it was made permanent in 1738.

Reject the cliché of Law versus the financiers. In reality, the period from 1715 to 1726 is one of persistent attempts at reform. Law was not brought down by the old guard. This only happened in 1726.

5 Conclusion

A discussion of French finance in the eighteenth century inevitably raises the comparison with France’s arch-rival, Britain. Figure 7 makes the comparison of per capita military spending in the two countries.26 The contrast between the early and the late parts of the period is stark. The Revolutionary and Napoleonic wars represented a quantum leap in terms of intensity and duration (France fielded 300,000 to 400,000 soldiers under Louis XIV, and 1.2m in 1794), just as World War I did a century later. While France’s efforts were comparable to Britain’s in the early period, they were clearly outpaced in the later period.

What accounts for this difference? The differential in per capita output alone is not enough to explain a ratio of four to one in the late eighteenth century. Is it a matter of financial technique? This paper argues that financial innovation was possible, indeed was tried frequently, in France. But French governments proved either incapable of successfully implementing these innovations, or else simply abandoned them. The means were there; was the will?

25The franc was made heavier by 1.25% to make its specifications round numbers in the metric system.

26Spending is computed in constant silver units. The exchange rate used is 23L per pound sterling. The period of suspension in Britain from 1798 to 1816 is deflated to account for fiat money inflation.
Figure 7: Ratio of British to French per capita military spending, 1689 to 1816. The shaded areas indicate periods when Britain and France were at war.
References


