

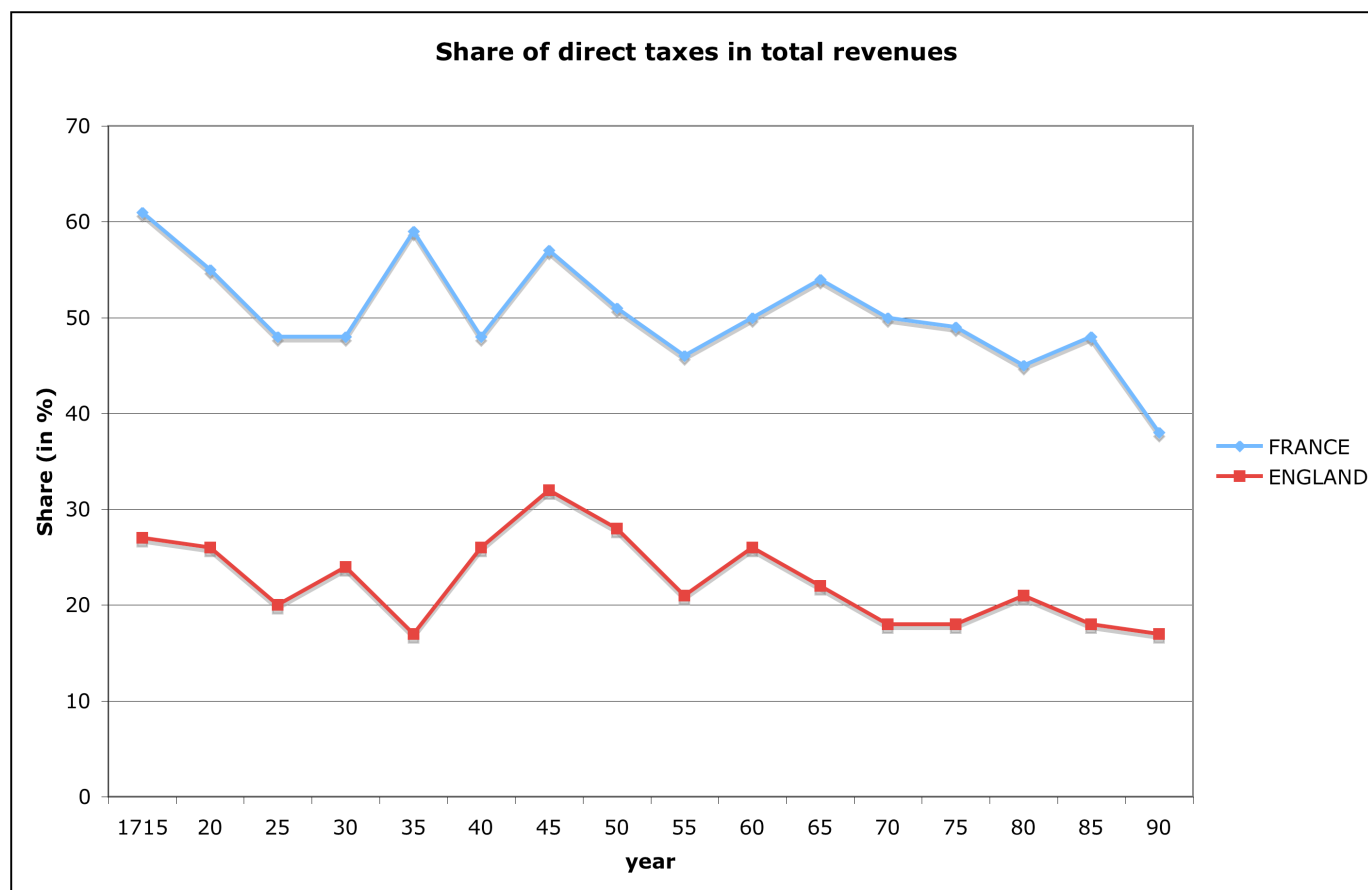
# The fiscal path to the French Revolution

*Ec 565*

October 31, 2024

# Tax policy in France

- Share of direct taxation is much higher in France than in England



# Tax reforms France 1715-1815

- Critical transition from the *Ancien Régime* to a more modern structure
- Repeated failures before 1789, why?
  - comparison with cases where the way out was found
- England XVIII
- France under Napoleon
  - institutions in Ancien Régime
- “absolutism”
- Parlement
- Church
  - Structure of the economy”
  - France is too large, drive toward centralization, completed by the Revolution (Tocqueville, “the Ancient Régime and the Revolution”)
  - Ideas about economics, physiocrats, “les économistes”

# Attempts at reforms before 1789

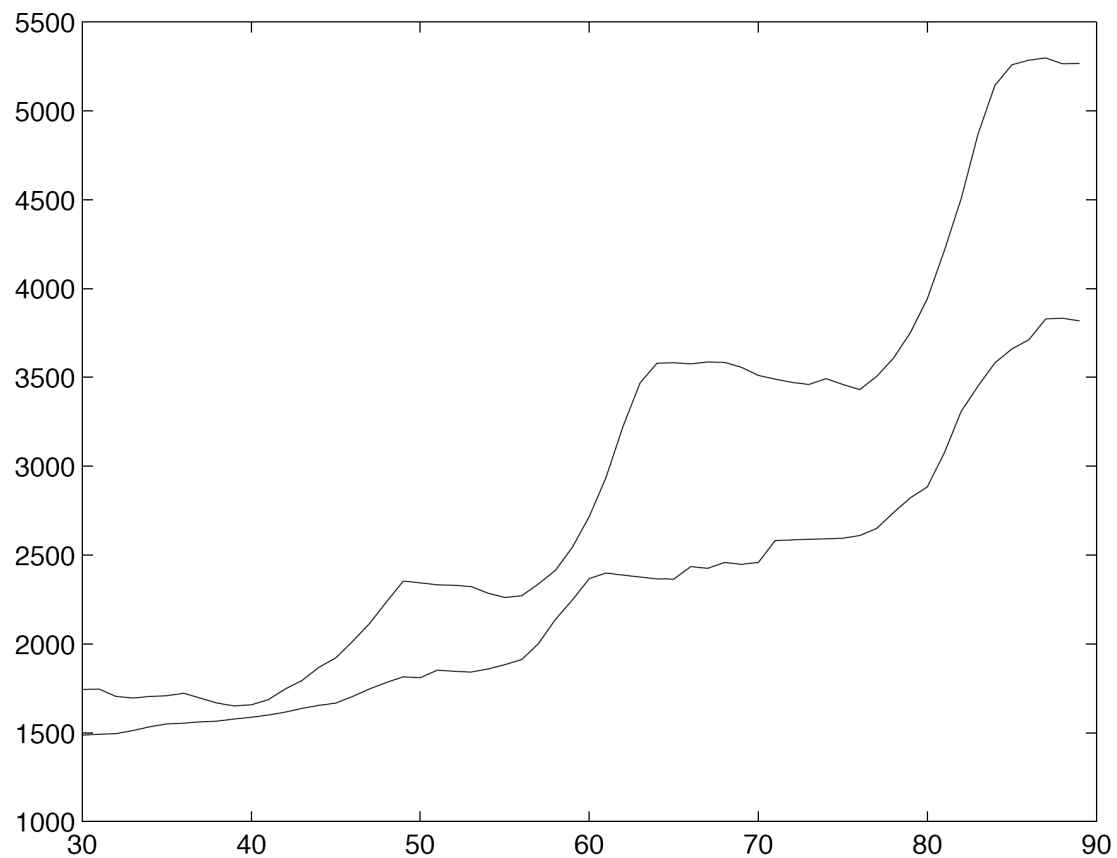
- Under Louis XIV
  - Existing state
  - Reform:
    - Capitation
    - Proposal of Vauban
  - all reforms are toward direct taxation
- After 1725
  - Indirect taxes
    - Ferme Générale or regulated administration
  - Direct taxes
    - land tax, attempts at reforms

# Financiers

- Wealthy individuals (families) who could lend large sums on short notice.
- Not bankers; typically later tax farmers
- Resistance to reforms of capital markets and to banking institutions

## LEASES ON THE GENERAL FARMS, 1726-1786

<i>Lease</i>	<i>Date</i> <sup>a</sup>	<i>Lease Price</i> (in Livres)	<i>Advances</i> (Bonds- money and loans)
Carlier	1726	80,000,000	8,000,000
Desboves	1732	84,000,000	8,000,000
Forceville	1738	91,830,000	8,000,000
La Rue	1744	92,000,000 (peace) 91,153,000 (war) <sup>b</sup>	8,000,000
Girandin <sup>c</sup>	1750	104,265,000 <sup>d</sup>	20,000,000
Henriet	1756	110,000,000	60,000,000 <sup>h</sup>
Prévost	1762	124,000,000 (peace) 118,000,000 (war) <sup>e</sup>	72,000,000
Alaterre	1768	132,000,000	92,000,000
David	1774	152,000,000	92,000,000
Salzard <sup>f</sup>	1780	122,900,000 ( <i>prix rigereux</i> ) 126,000,000 ( <i>prix espéré</i> )	62,400,000 <sup>i</sup>
Mager <sup>g</sup>	1786	144,000,000 ( <i>prix rigereux</i> ) 150,000,000 ( <i>prix espéré</i> )	65,520,000 <sup>j</sup> 68,840,000 <sup>k</sup> (in 1788)



The debts are measured by their face value. When the data is not available for France with capitalized value of payments discounted at 5 percent. The same rate is applied to the rentes issued in the resolution of the Law system. For example, 1720 rente at 2.5% with a face value of 1000 millions is counted only for 500 millions. All amounts are in livres. A pound sterling is 24 livres. Sources: England, Clark (2001); France, see text.

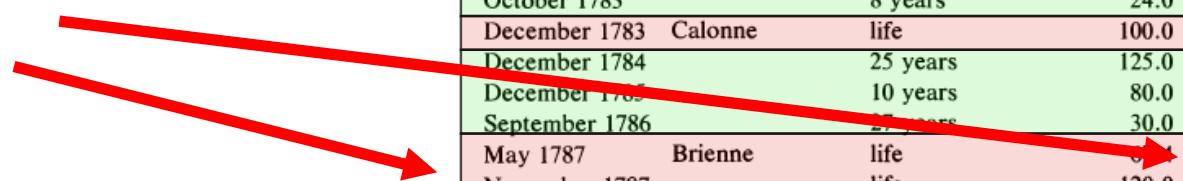
**FIGURE 1 Public debts in England and France**

# Types of loans

- Term loans
  - (fixed term, 8 to 32 years)
- Tontines
- Life annuities
- Paper by Velde and Weir

TABLE 2  
DIRECT LOANS OF THE FRENCH GOVERNMENT, 1747-1788

Date of Edict	Finance Minister	Loan Term	Net Sum Raised	Loan Yield	Bond Yield
November 1740	Orry	life	6.0	5.88	
October 1741		life	8.0	5.82	
June 1742		15 years	12.0	5.00	
December 1743		life	8.4	?	
November 1744		life	4.7	8.18	
July 1747	Machault	life	11.8	7.95	6.03
October 1747		12 years	30.0	6.71	6.22
September 1748		12 years	20.0	6.71	5.70
May 1749		12 years	36.0	5.00	5.18
May 1751		22 years	<30.0	?	4.88
May 1751		life	21.8	6.04	4.88
October 1752		9 years	22.5	6.17	4.55
November 1754	Séchelles	life	56.7	5.10	4.36
November 1755		12 years	30.0	5.86	5.86
July 1756	Moras	10 years	36.0	5.00	4.95
March 1757		12 years	36.0	6.20	5.02
June 1757		11 years	40.0	7.35	5.08
November 1757	Boullongne	life	60.0	6.4-9.0	5.15
April 1758		30 years	40.0	6.65	5.19
November 1758		life	39.0	7.0-9.0	5.20
April 1759	Silhouette	"shares"	72.0	6.50	5.23
December 1759	Bertin	tontines	46.9	9.53	6.85
May 1760		10 years	20.0	9.66	6.87
May 1760		32 years	<60.0	?	6.87
July 1761		32 years	<30.0	?	6.58
November 1761		life	43.5	6.4-9.0	7.30
January 1766	Laverdy	life	60.3	5.2-8.0	6.15
December 1768	Maynon d'Invau	life	44.6	5.2-8.0	6.34
June 1771	Terray	life	62.4	8.8-11.0	10.32
January 1777	Necker	life & perpetual	24.0	5.8-7.0	6.07
December 1777		7 years	25.0	5.00	5.87
November 1778		life	48.4	5.2-8.0	6.08
November 1779		life	69.4	5.2-8.0	6.12
October 1780		9 years	36.0	6.29	5.79
February 1781		life	77.3	6.4-9.0	6.04
March 1781		life	90.5	5.2-8.0	6.02
January 1782	Joly de Fleury	life	190.3	7.6-9.0	6.07
December 1782		15 years	50.0	8.00	6.00
April 1783	d'Ormesson	8 years	24.0	7.49	5.79
October 1783		8 years	24.0	7.49	5.78
December 1783	Calonne	life	100.0	7.0-9.5	5.95
December 1784		25 years	125.0	6.76	5.90
December 1785		10 years	80.0	6.67	5.49
September 1786		27 years	30.0	6.50	5.58
May 1787	Brienne	life	87.4	6.4-8.0	5.58
November 1787		life	120.0	7.6-10.0	5.79

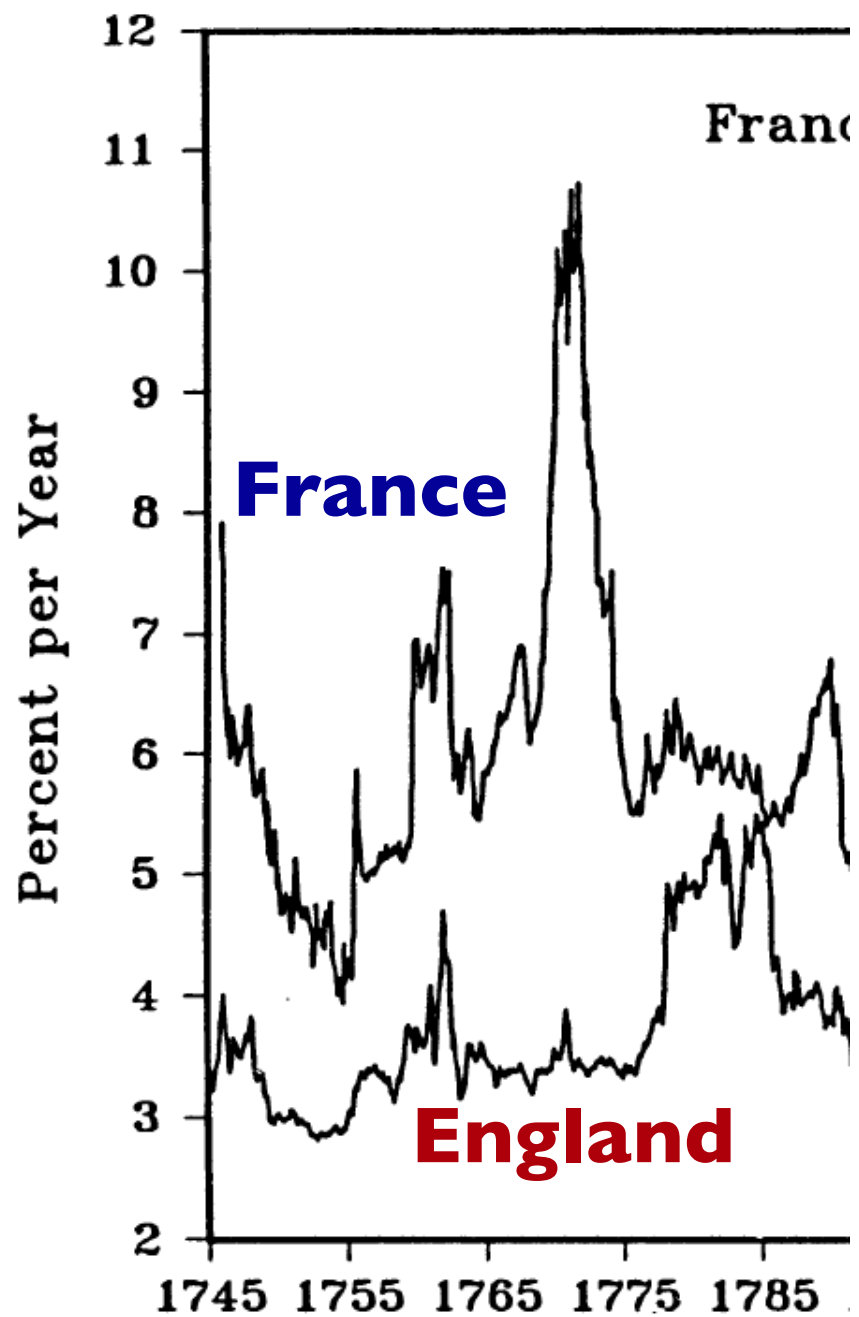


## Players

- Four main players (or homogenous groups)
  - King
  - Nobles
  - Church
  - Parlement
- Parlement
  - Parlement is a judicial court, not a representation of the population
  - Taxes are laws and require the validation by the parlement (and regional parlements)
  - In case of conflict, very formal assembly with remonstrating by the parlement with the king present; ultimately the king prevails, but may be substantial transaction costs; possible costs in other areas by the functioning of the parlement.
  - much obstruction against the court spending (rivalries)
- In 1770, Louis XV, finally attempts strong reforms
  - dismisses the Parlement
  - partial bankruptcy
    - no redeemable debt: no contingent financial instrument, annuities have a fixed rate no matter the state of the economy or the public finances



- Patial default in 1770



Borrowing cost  
s(Velde & Weir)

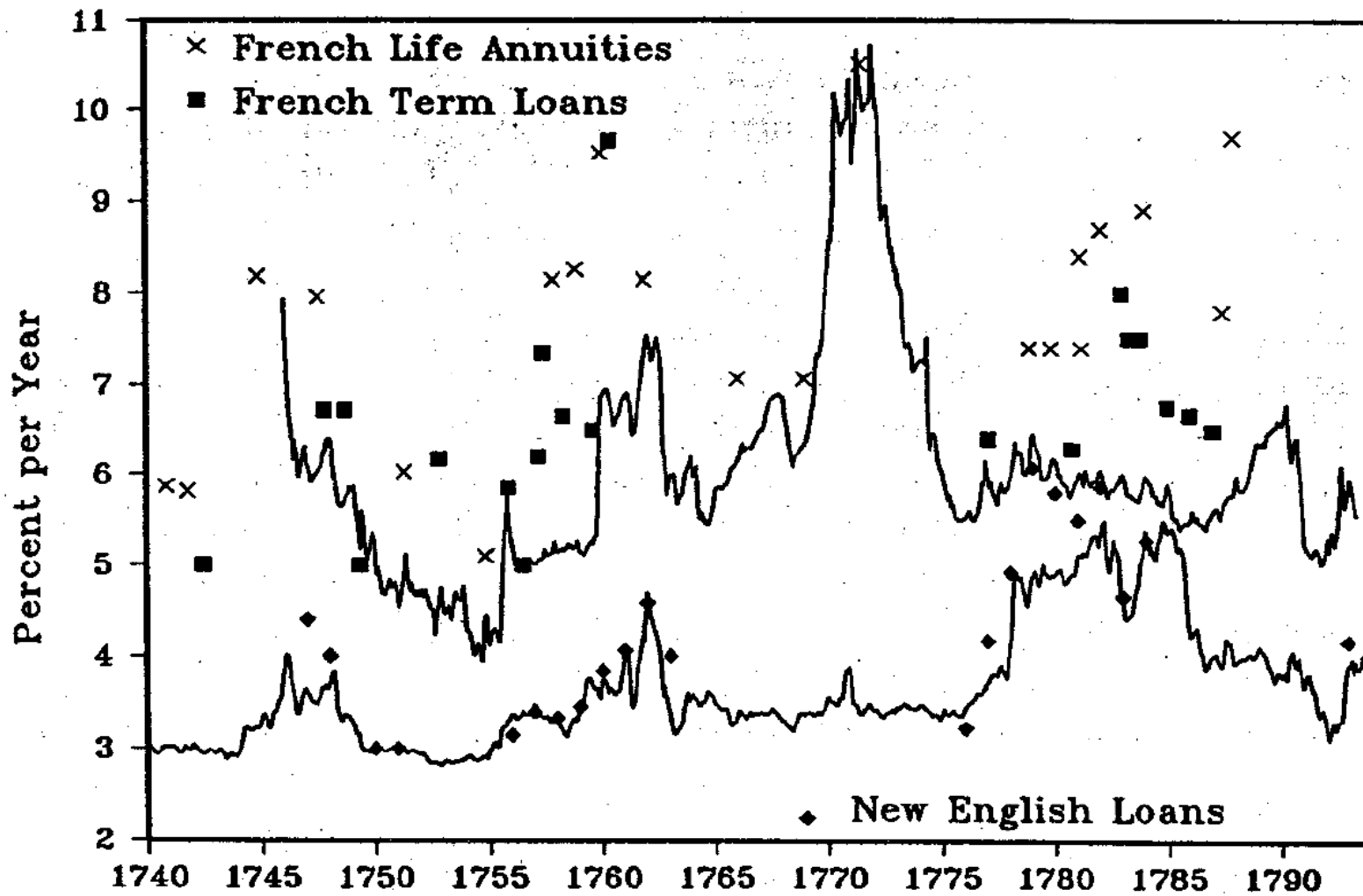


FIGURE 2

YIELDS ON NEW LOANS AND OLD BONDS, 1740-1793

# Sale of offices

- Major issue in France 1500-1789, both for public finance and for the incentive in the whole economy.
- Office sales took off with Francis I (1515-). Expansion of the system in the rest of the century.
- Office is a saleable commodity. The crown sells an office like a bond: the buyer pays to the crown the right to collect some future income.
- Some limits were put, at first, on inheritances. (No sale 40 days prior to death, but insurance or permissions could be purchased).
- Purchase of office was financed by loans. Lenders had first claim on the office (like a bank in today's mortgages). Hence the ``market" (with little risk premium) interest rate. Indirectly, the crown could benefit from that interest rate.

# Large loans before the French Revolution

- Life annuities not based on the life expectancy
- Intermediation by banks in Geneva
  - annuity would be written on a healthy girl of 5-6 years old
  - like an investment
    - pooling girls by groups to diminishing risk
    - intermediation by banks
  - high rate of return, 9 percent or even higher

# Little girls of Geneva

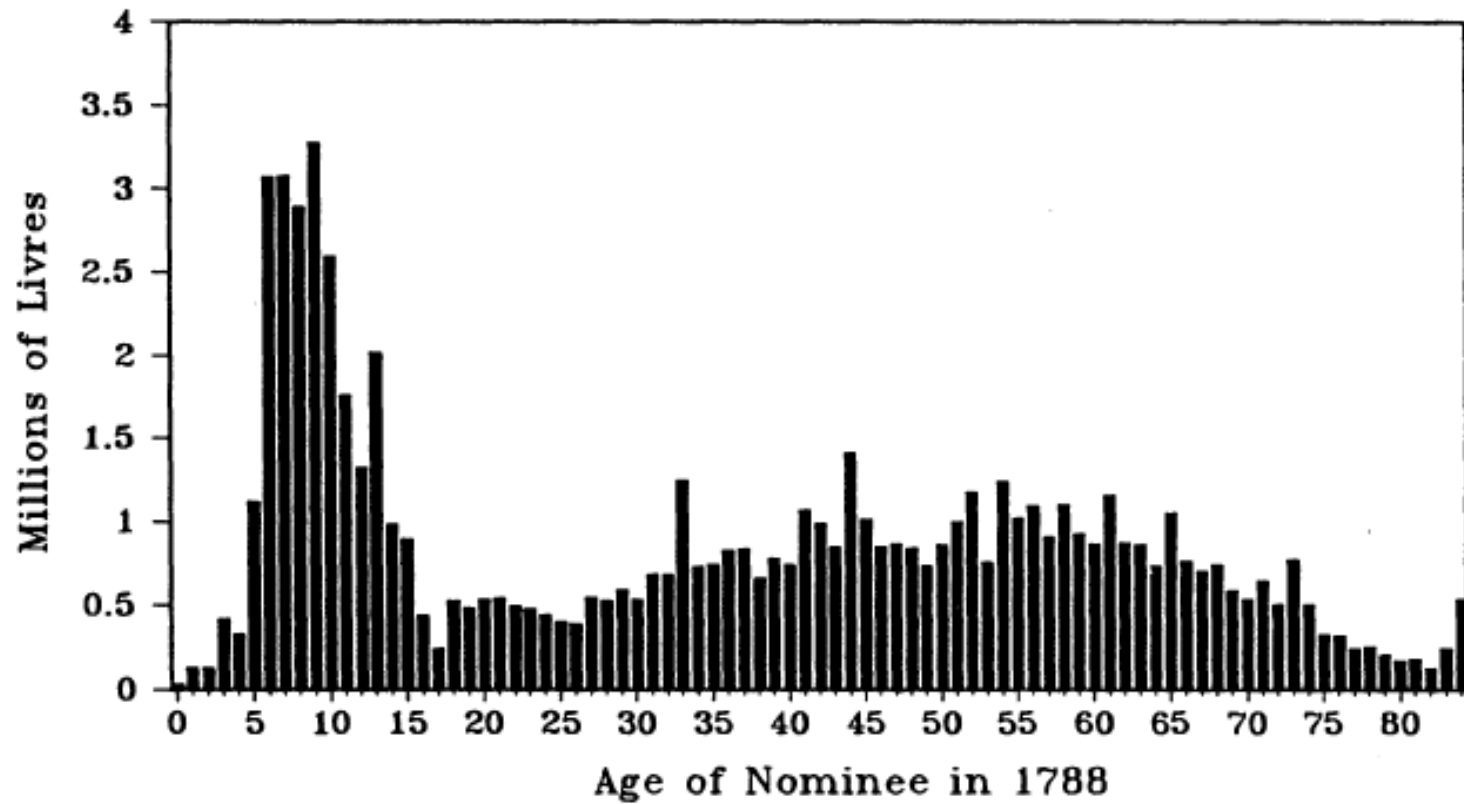
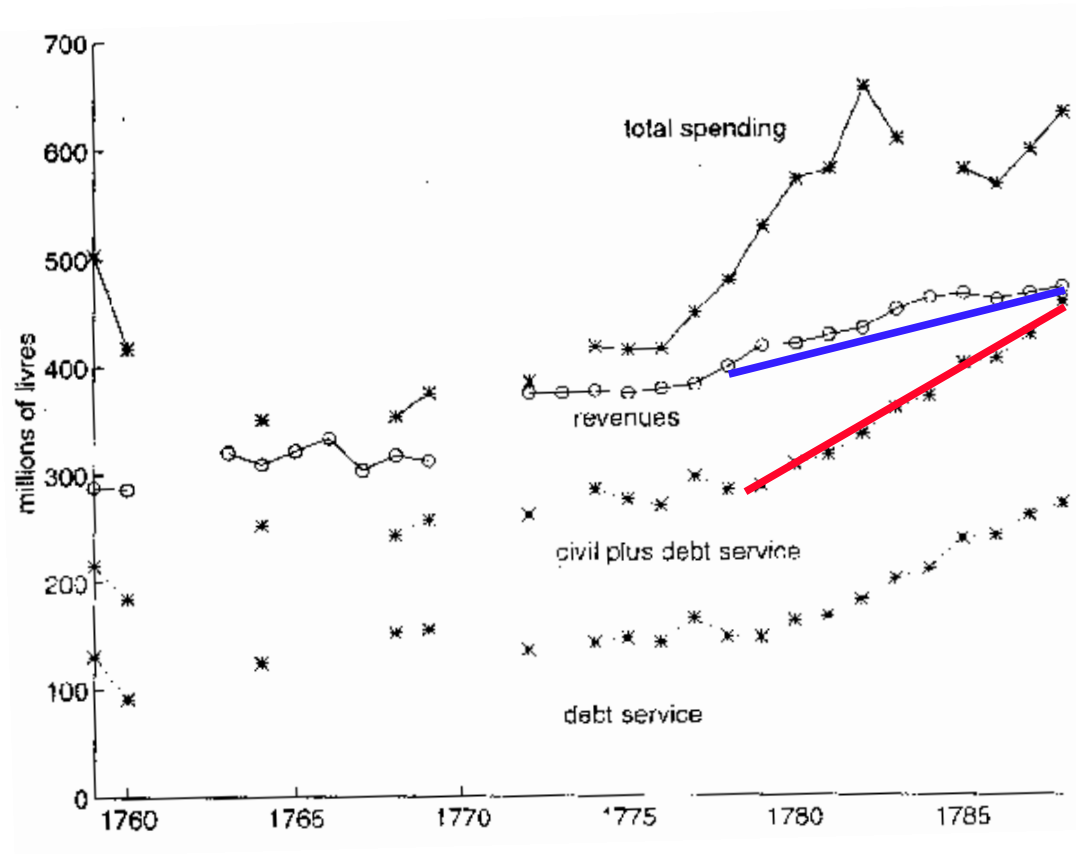


FIGURE 6

ANNUAL LIFE ANNUITY PAYMENTS BY AGE OF NOMINEE IN 1788

# The crisis of the eighties



Budget crisis

Last budget  
of the Ancien  
Régime

Indirect

Direct

PAGES  
du Compte.

REVENUS.

25..	FERMES générales.....	150,107,000 <sup>#</sup>
	— des Postes.....	12,000,000.
	— des Messageries.....	1,100,000.
	— des droits dans les marchés de Sceaux & de Poissy.....	630,000.
	— des Affinages.....	120,000.
	— des droits du Port-Louis.....	47,000.
50..	ABONNEMENT des droits des quatre Membres de la Flandre maritime.....	823,000.
51..	REGIE générale des Aides & droits y réunis.....	50,220,000.
52..	— des Domaines & Bois.....	50,000,000.
	— de la Loterie royale de France & autres y réunies.....	14,000,000.
	— des Revenus casuels.....	3,000,000.
70..	— du Marc d'or.....	1,500,000.
	— des Poudres & Salpêtres.....	800,000.
80..	IMPOSITIONS de la ville de Paris, des Pays d'Élection & Pays conquis.....	155,655,000.
90..	— de Languedoc (Trésorerie).....	8,584,820.
100..	— Idem..... (Recette générale).....	1,182,430.
110..	— de Bretagne.. (Trésorerie).....	6,115,400.
	— Idem..... (Recette générale).....	496,060.
120..	— de Bourgogne. (Trésorerie).....	3,190,060.
	— Idem..... (Recette générale).....	938,120.
130..	— de Provence.. (Trésorerie).....	1,997,030.
	— Idem..... (Recette générale).....	895,430.
140..	— de Pau, Bayonne & Foix (Recette générale).....	1,156,650.
150..	CAPITATION & Vingtièmes abonnés.....	575,000.
160..	CAPITATION & Dixièmes retenus au Trésor royal sur les Penfions, &c.....	6,200,000.
	IMPOSITIONS particulières aux fortifications des Villes.....	575,000.
	BÉNÉFICES sur la fabrication des Monnoies.....	500,000.
170..	— des Forges royales.....	80,000.
180..	REVENUS de la Caiffe de Commerce.....	636,000.
190..	INTÉRÊTS annuels des sommes prêtées aux États-unis de l'Amérique.....	1,600,000.
	LOYERS des maisons & des terrains des Quinze-vingts.....	180,000.
220..	INTÉRÊTS annuels de six millions que doit un Prince d'Allemagne.....	300,000.
	<b>TOTAL.....</b>	<b>475,294,000.</b>

PAGES  
du Compte.

DÉPENSES.

25..	DÉPENSES générales de la Maison du Roi, de celles de la Reine & de la Famille royale.....	25,000,000 <sup>#</sup>
26..	MAISONS des Princes, frères de Sa Majesté.....	8,240,000.
270..	AFFAIRES étrangères & Ligues Suiffes.....	7,330,000.
271..	DÉPARTEMENT de la Guerre, & dépenses accessoires.....	99,091,000.
320..	MARINE & Colonies.....	40,500,000.
340..	PONTS & Chaussées.....	5,680,000.
410..	HARAS.....	814,000.
440..	RENTES perpétuelles & viagères.....	161,466,000.
580..	INTÉRÊTS d'effets publics & diverses créances.....	44,856,000.
970..	ENGAGEMENTS à temps envers le Clergé.....	2,500,000.
980..	GAGES de charges représentant l'intérêt de la finance.....	14,729,000.
1000..	INTÉRÊTS & frais d'anticipations.....	15,800,000.
1010..	INDEMNITÉS.....	3,167,000.
1100..	PENSIONS.....	29,954,000.
1130..	GAGES du Conseil, & Traitemens particuliers de la Magiftrature.....	2,815,000.
1139..	GAGES, Traitemens & Gratifications à diverses perfonnes... ..	351,000.
1430..	INTENDANS des provinces & leurs bureaux.....	1,413,000.
1440..	POLICE de Paris.....	1,569,000.
1470..	GUET & Garde de Paris.....	1,136,000.
1500..	MARÉCHAUSSÉE de l'Île de France.....	251,000.
1510..	PAVÉ de Paris.....	627,000.
1511..	TRAVAUX dans les carrières sous Paris.....	400,000.
1520..	REMISES ou moins imposé, décharges, non-valeurs & modérations sur les impositions.....	7,123,000.
1550..	TRAIITEMENS aux Receveurs, Fermiers & Régiffeurs généraux, & autres frais de recouvrement.....	19,511,000.
1660..	ADMINISTRATEURS du Trésor royal, Payeurs des rentes, &c.....	3,372,000.
1670..	BUREAUX de l'administration générale.....	2,345,000.
1700..	TRAIITEMENS & Dépenses de la caiffe du Commerce, de celle des Monnoies, du Département des mines, & de la Liquidation de l'ancienne Compagnie des Indes.....	794,000.
1720..	FONDS réservés pour des actes de bienfaifance.....	173,000.
1721..	SECOURS aux Hollandois réfugiés en France.....	829,000.
1730..	COMMUNAUTÉS, Maisons religieuses & entretien d'édifices sacrés.....	2,082,000.
1770..	DONS, Aumônes, Secours, Hôpitaux & Enfants trouvés.....	3,635,000.
1840..	TRAVAUX de charité.....	1,911,000.
1850..	DESTRUCTION du vagabondage & de la mendicité.....	1,144,000.
1860..	PRIMES & autres encouragemens pour le Commerce.....	3,862,000.
1870..	JARDIN royal des Plantes, & Cabinet d'Hiftoire naturelle.....	129,000.
1880..	BIBLIOTHÈQUE du Roi.....	159,000.
1890..	UNIVERSITÉS, Académies, Collèges, Sciences & Arts.....	1,004,000.
1950..	PASSEPORTS en exemption de droits.....	400,000.
1951..	ENTRETIEN, Réparations & Construction de bâtimens pour la chofe publique.....	1,874,000.
1960..	DIVERSES Dépenses de plantations dans les forêts, &c.....	817,000.
1980..	DÉPENSES de Procédures criminelles & de Prifonniers.....	3,180,000.
1990..	DÉPENSES locales & variables dans les Provinces.....	4,500,000.
	DÉPENSES imprévues.....	5,000,000.
	<b>TOTAL.....</b>	<b>531,533,000.</b>

Interest payments

Direct / Rev = 162 / 425 = 38 %

[ Total - domain = 475 - 50 = 425 ]

TOTAL..... 531,533,000.

# Final act

- Options in 1788
  - Primary surplus is negative
  - choice to default
  - (resistance to taxation)
  - calling the Estates Generals for May 1789
    - this time to avoid default and increase taxation
    - Mirabeau: “blessed public debt”
- Meeting of the Estates in June 1789
  - first move: double representation of the Third Estate
  - famous essay of Sieyès:
    - “What is the Third Estate? - everything
    - What has he been so far in the political order? - nothing
    - What does he want? - to be something”.
- privileges (no taxation) of the first and second order abolished in August 1789.
- Church domains nationalized in the Fall of 1789



# Composition of public debt in 1789 (Sargent & Velde)

Inflated number  
(reduce by 50%)  
from the Law system →

## STATE OF DEBT IN 1789

	Capital Outstanding	Debt Service
<b>1. Rents:</b>		
Perpetuals	1,136.0	56.8
Life annuities	1,154.0	105.0
<b>2. Fixed-term loans</b>	830.3	111.5*
<b>3. Anticipations</b>	322.3	15.8
<b>4. Bond monies</b>	201.8	10.2
<b>5. Financed offices</b>	119.2	5.0
<b>Total (May 1789)</b>	<b>3,763.6</b>	<b>304.3</b>
<b>Ratio to GNP</b>	<b>63.3%</b>	
<b>Ratio to revenues</b>		<b>64.4%</b>
<b>6. Offices</b>	616.7	9.7
<b>7. Feudal rights</b>	130.0	...
<b>8. Debts of clergy</b>	95.0	4.75
<b>9. Debts of abolished institutions</b>	228.4	11.4
<b>Total (November 1789)</b>	<b>4,816.9</b>	<b>325.4</b>
<b>Ratio to GNP</b>	<b>81.1%</b>	
<b>Ratio to revenues</b>		<b>68.9%</b>

SOURCE.—*Compte général* (1789), pp. 44–48, 50–54, 82, and 98–99; *Archives parlementaires*, 10:96, 72:199, 41:145–52, and 30:329.

\* 34.7 of this is interest payments.

# The French Revolution (1789)

- Fiscal crises at the end of the 80s
- Budget in 1789
- Solution: nationalization of the Church estates
- Assignats
- Inflation
- Eventual default

# Events of 1789

- Decision of Louis XVI not to default
- Estates General were called for the Spring of 1789 first meeting since 1610 900 members in three Estates (300 each).
- Rise of the Third Estate: (expanded from 300 to 600: representation for taxation
- Abolition of the special treatment of the first two Estates in August 1789
- Nationalization of the domains of the Church in the Fall of 1789
- At the same time crowd disturbances, and manipulation of these disturbances

# National domains

- National domains: about 2400 millions
- Essential issue: how sell the national domains
- Method: issue shares:
- Bills which are claims on the national domains.
- When the national domains will be sold, assignats will be used to buy the domains.

# Assignats I

- Assignats were negotiable
- What are they? bond or money?
- Initially they were of high denomination
- Because of the need for money, business opportunity:
- enterprise: financial intermediation

# Assignats II

- Bank notes are more valuable than assignats because they provide transaction services.
- The private bank provides these services and makes a profit.
- State reclaimed the supply of liquidity for transaction and suppressed the banks in the summer of 1792.
- The state issued small denominations.
- Debate on the role of assignats.
- Frontier between counterpart of estates and currency became fuzzy.
- Need for more revenues because of wars.

# New issues

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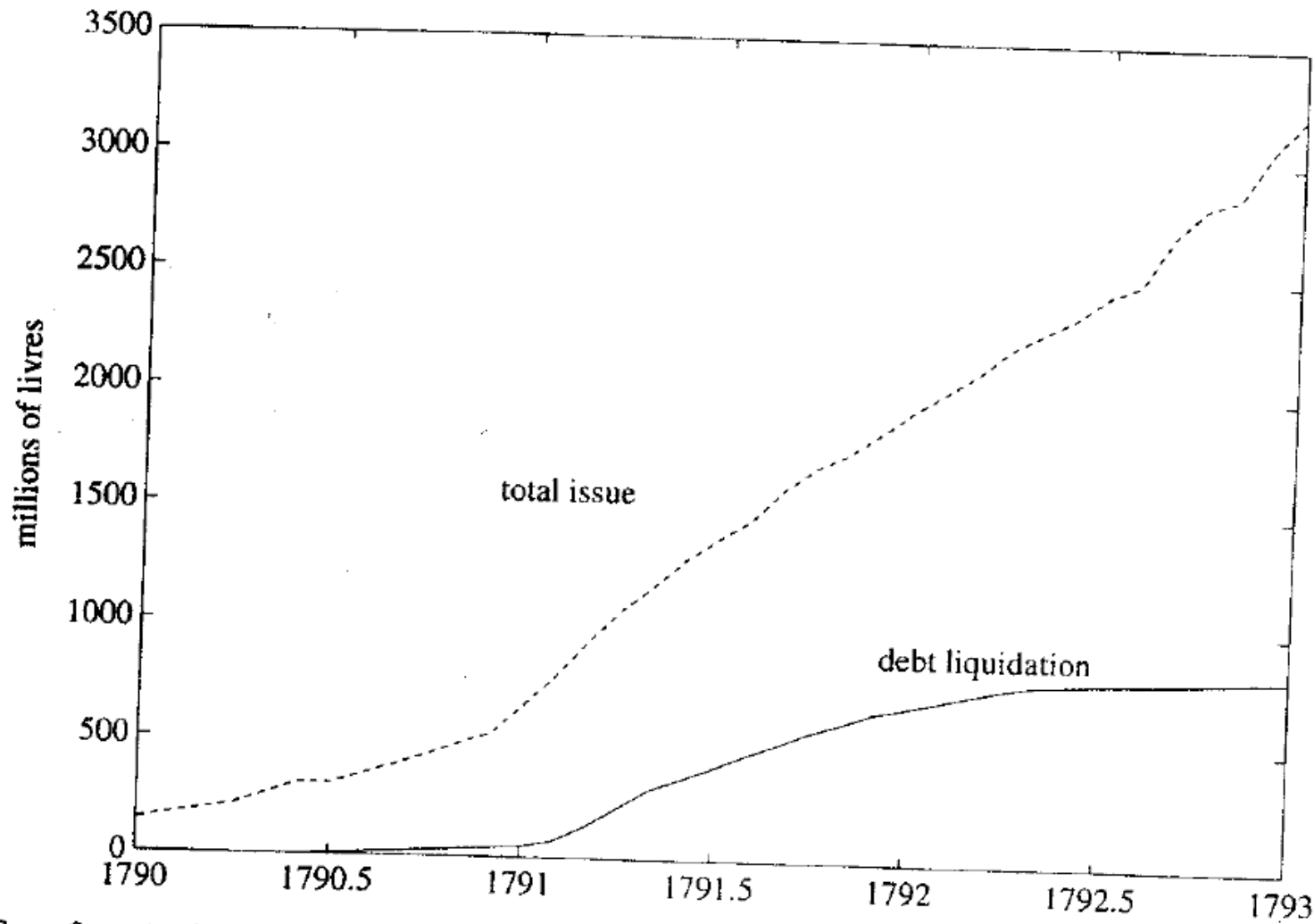


FIG. 6.—Assignats used for debt reimbursement and total issue, 1790–92. Source: Archives Nationales, Paris, AD IX 497bis and 586.

# The demand for money

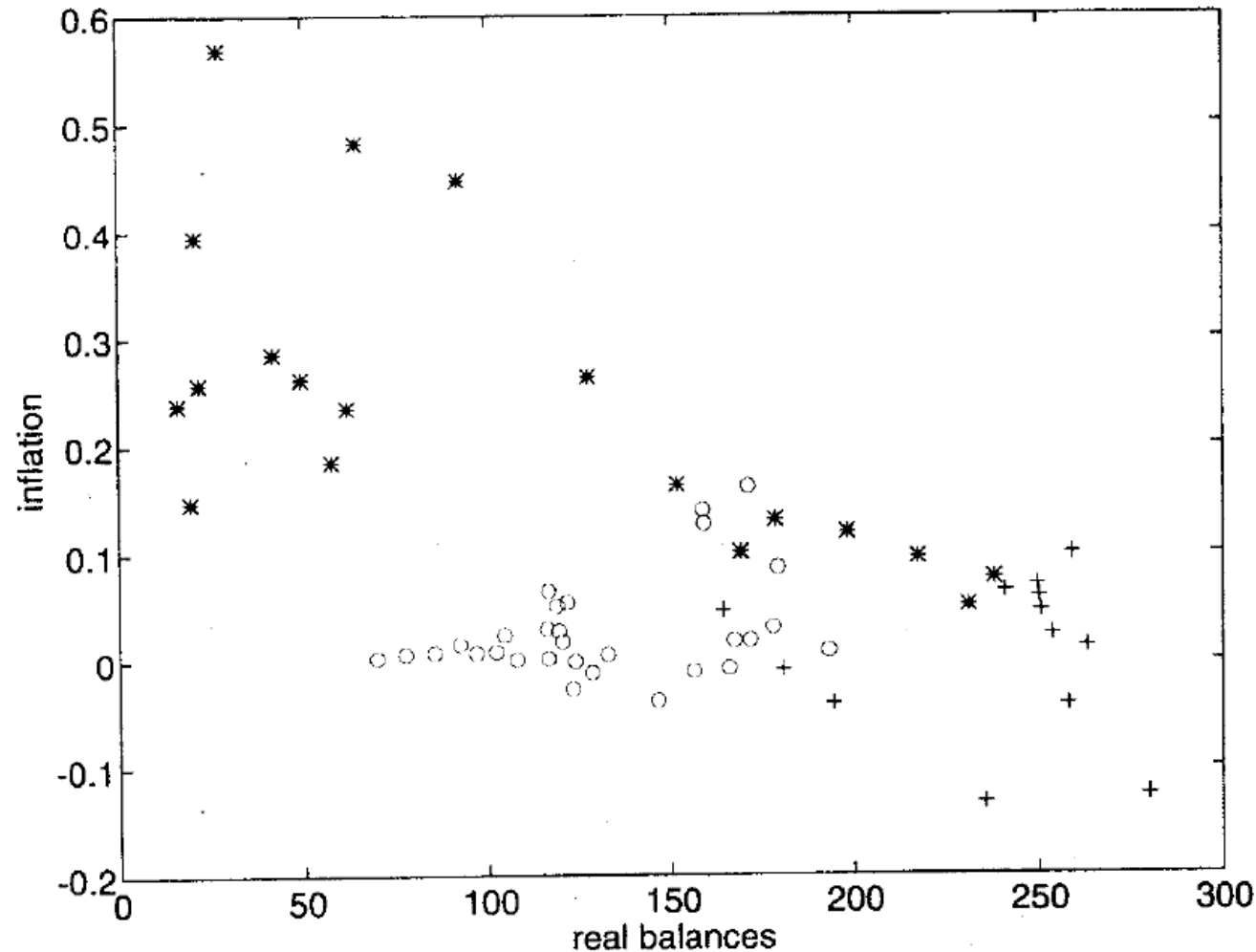


FIG. 7.—Scatter plot of the logarithm of the inflation rate ( $\log[p_t/p_{t-1}]$ ), on the vertical axis, vs. real balances of assignats, on the horizontal axis; the circles depict points from the “real-bills” period from January 1791 to July 1793; the crosses refer to the Terror from August 1793 to July 1794; the stars trace the hyperinflation from August 1794 to March 1796. Sources: Braesch (1934) for 1790–91; reports of the Treasury and the Caisse de l’Extraordinaire for 1791–95 (Paris, Archives Nationales, AD IX 497bis and 586); and Ramel de Nogaret (1801) for 1795–96.



# Comparison: Ancien Régime with Napoleon

Tax revenues after 1800 (year 0)

- most of the variation is in indirect revenues
- sharp increase and drop during napoleonic wars
- after 1815,
  - growth after 1815 with the economy
  - reduction of the rate of direct taxation

