Literature Review and Financial Historiography of The French Revolution

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The French made, in 1789, the greatest effort that has ever been made by any people to sever their history into two parts, so to speak, and to tear open a gulf between their past and their future. In this design, they took the greatest care to leave every trace of their past condition behind them[]... I have always fancied that they were less successful in this enterprise than has been generally believed abroad, or even supposed at home.

- Alexis de Tocqueville, The Ancien Régime and The Revolution

The popular imagination of The French Revolution is like a kaleidoscope of perspectives, opinions, lessons to be gleaned, and facts to be known. A history so rich with characters, momentous events, and radical upheavals of society that many who choose to recollect it and record its progress deem it to be the key turning point in Western History. My aim in this paper is not to revise any previous historiography, but to evaluate a range of analyses related to the financial history of France before and during the Revolution. I will also draw on sources from outside this specific historiographic framing in the hopes of broadening and generalizing what we can learn about the role of monetary and fiscal policy in statecraft. Most prominent revolutionaries were Enlightenment thinkers and lawyers who believed that the State should not be an instrument of royal dictate, but an expression of popular sovereignty through the furnishing and protection or property rights. To succeed in this radical transformation, they would find need of money and a currency system to replace the Ancien Régime. My goal in this paper is to discover how the revolutionaries attempted to accomplish this task, how well did they achieve their ambitions, and where and why did they fail.

To begin this exploration, I will start by formulating a theory of finance in statecraft by discussing <u>Fragile by Design</u> by Charles Calomiris & Stephen Haber, <u>Why Nations Fail</u> by Daron Acemoglu & James Robinson, and <u>The Mystery of Capital</u> by Hernando DeSoto. Each text provides a unique scholarly theory of the nation-state that will support the construction of a general theory of finance, and each references the French Revolution if only in passing. Acemoglu & Robinson dwell the longest on the Revolution and give us the most effective linguistic tools (extractive vs. inclusive institutions) to discuss the political economy and sociology of public finance. Then I will summarize three financial historiographies of the French

Revolution; A Free Nation Deep in Debt by James Macdonald; Capital and Ideology by Thomas Piketty; and Stuff and Money in the Time of the French Revolution by Rebecca L. Spang.

I will conclude with an appraisal of the Revolutionaries goals at the intersection of finance and statecraft. I divide their goals into two respective genres that are not mutually exclusive, but serve to delineate a useful means of analysis. The first goal, as de Tocqueville writes, was to sever ties to the past and dismantle the Ancien Régime. The second more nebulous goal was to manifest the ideals of the Enlightenment into government administration by sanctifying property rights. Both of these goals depended on the new government's control of currency in a time of extreme change in every part of French society.

Theoretical Framework

Fragile by Design is an incisive and illuminating examination of the political history of banking. Nation-states and banks are mutually supportive institutions that depend on each other to provide different kinds of power. Governments have the legal authority to charter banks and to regulate their financial behavior. Banks fund government operations and allow them to exert influence over citizens, subjects, and even other countries. Banks and nation-states emerge at roughly the same time as a means to coordinate larger scale societies attempting to emerge from the medieval period. The modern nation-state would also not be possible without a third group: the merchant class. As kings desired more territorial influence, they required financiers to pay their armies efficiently and merchants to maintain trade networks through their realms. The latter two relied on kings to enforce contracts and fend off would-be plunderers, thus gaining cooperation and allegiance from wealthy mercantilists. As the title of their third chapter clearly states, Calomiris and Haber identify banking systems as tools of conquest and survival. By intertwining their fortunes with the state, financiers and merchants endorsed a political system that made them very, very rich. This arrangement was subject to political strains when kings overborrowed to fund their extravagences causing institutional incentives to become misaligned.

Why Nations Fails is a relatively short book with vast implications and enormous scope. Acemoglu and Robinson use as the centerpiece of their work The Glorious Revolution of 1688 in England, which codified into law specific limitations on the monarch and expanded power to the Parliament. Such broadening of political power is what the authors refer to as inclusive political institutions as opposed to an extractive political institutions which concentrate power with a few people at the top of government and deploy the influence of the elites in society to their own ends. Inclusive political institutions that include legal structures catered to merchant class and have the potential to give rise to inclusive economic institutions. Examples of extractive economic institutions are the norm of most of human history and not the exception. Perhaps the perfect illustration of collaboration of extractive political and economic institutions is a gold mine in a developing country. The workers are exploited for their labor to produce wealth for a small group of elites who help secure the position of a despot who gives them legal or military support to continue operation. Much in the same way mineral wealth is extracted from the earth, political and economic power is extracted in a narrowly controlled path to maintain a persistent hegemony.

The Mystery of Capital, similarly, is a book low on page count and tremendous in consequence. Hernando DeSoto's thesis provides a powerful conceptual tool to link the other two texts used in my framework and the French Revolution at a human scale. The mystery contained within capital is that it is all around us, but remains inert and diminished in value without the inclusive political institutions that secure property rights. Impoverished countries contain many assets individually or mutually owned by people and are thereby rich in a material sense. But because they lack the institutions to convert material assets into new forms of production through investment, their economies remain stagnant and vulnerable to extractive institutions. This book delivers a rich ethnographic approach to the study of extractive economic institutions that has useful parallels to the life of the French serf before the Revolution. In politically corrupt countries, it takes hundreds of steps and sometimes several years to establish a business or claim property, and each administrator is waiting behind a desk to take a cut. Similarly, the Ancien Régime was characterized by a dizzyingly complicated patchwork of overlapping taxing authorities based on feudal titles and composed of the aristocracy and clergy who were protected by the state to exploit the peasantry.

The thread linking all these foundational texts is that politics leads economics, although both generate collaborative institutions that maintain the other. The Bourbon Dynasty and the Revolution that would upended it were, each in its own way, bound to the financiers that they despised and depended on. Running a nation-state on the scale and arbitrary complexity of 18th Century France required an extensive administrative reach and political influence that could only come from the minting and distributing of money. The Industrial Revolution and the Enlightenment created immense pressure on ruling elites to open markets and create inclusive institutions. The vast majority of people in Pre-Revolutionary France languished under the Ancien Régime that deprived and exploited them as little more than subjects to profit from, much less guaranteeing access to ever growing productive capacity of technological expansion. The story of how Louis XVI lost his kingdom and how the Revolution succeeded or failed to deliver on it's promise of emancipation runs through a common narrative about public finance and the role of money in projecting political power.

A Free Nation Deep in Debt

Following the debacle of the Mississippi Company that bankrupted the French monarchy, attitudes in France were decidedly antagonistic to the financial class:

> In Paris, the revulsion against the whole Mississippi episode was so deep-seated that all records of the great system were publicly burned. Gradually calm was restored, and as time passed, it became possible to see the events of the period as a timeless monument to human weakness and folly, and as a timely reminder to governments to confine themselves to financial orthodoxy (Macdonald 2003, 220).

This would not be the last public immolation of public records during the 1700s, nor the only default of the monarchy. The political fallout from John Law's swindle of the nation was the retreat of the financier class as a political force, at least for a time. Bankers were portrayed as parasitic opportunists eager to seduce royal favor to their ends at the expense of the people.

Yet, the bankers could not be dispensed with and they continued to finance the Crown's general activities and its seemingly endless wars, though they demanded much more generous terms for their loans. Settling the books of the Mississippi affair resulted in a write-down of nearly 1.5 billion livre and a range of new rentes and annuities offered by the Crown to its creditors. Macdonald estimates that 'the typical rentier [lost] at least three-quarters of the amount originally contracted in hard currency.' (Macdonald 2003, 223). Had their loans been completely written off, it stands to reason that no further credit would ever be forthcoming to the Bourbons, and they would be vulnerable to conquest from abroad or revolt from within. The Fronde (an armed revolt led by the nobility against Louis XVI's grandfather and his arbitrary imposition of taxes) was still a near enough memory to inform the King's financial maneuvers.

Macdonald poses the following question at the beginning of his chapter on the French Revolution: why did the default of 1789, which was a comparatively minor fiscal blunder at a time when France was much more prosperous, precipitate 'the greatest political convulsion in European history'? Part of the answer stems from a comparative financial history of the two great European rivals and their financial management of the Seven Years War. England defeated France in 1763 largely because it was able to field more cash (£73 million vs. £53 million) and therefore more military resources. The British had adopted the so-called Dutch Finance system that employed various publicly owned debt instruments to keep its government perpetually funded. Instead of viewing public debt (royal debt in the context of the times) as a temporary means to a discrete end, say winning a war, the British instituted a legal system that could manage public finance on a rolling basis. This system had the additional benefit of building a state apparatus to efficiently enforce private contracts and build confidence in the nobility that the Monarchy was committed to the rule of law over the rule of divine right.

Tensions between the political elites of France and financiers of Europe prevented such a system from emerging. Several critical factors kept the French Monarchy from raising the cash necessary to service its debts. First, no consistent or reliable taxing administration existed in the kingdom. Each lord had his own method for drawing tax receipts from serfs working his land, while provincial governments (Parelement) had their own boundaries and extractive levies. Not to be outdone, the Catholic Church also its own map and ledger of tithes that crisscrossed France with no reference to lordly domains or Parelement boundaries. Two banks of the same river could be under completely different taxing structures and be obligated to pay very different amounts to the Crown. Secondly, the nobility and clergy (the 2nd and 1st Estates respectively) were exempt from royal taxes. The people who owned nearly half the land in France were immune to whatever fiscal policy emanated from Versaille. The 3rd Estate, the commoners, not only worked the land to make the upper class rich, they also gave what income they could earn to the king, or rather private tax farmers who were often less than completely scrupulous in the execution of their office. Finally, tax revenue was still not sufficient to balance the royal budget. ‘By 1788, [tax receipts] had risen to 475 million livre. [] Measured against GNP, taxes had remained unchanged, at no more than 7% [since 1720]. Taken in combination with the rise in debt, this created a dangerous fiscal squeeze..’ (Macdonald 2003, 252).

The Game of Bank Bargains formulated by Calmiris and Haber played out in favor of the financiers over the Bourbon Dynasty for at least a century leading up to the Revolution. 18th Century France languished under a web of internally contradictory extractive political and economic institutions that prevented them from tapping into the mystery of capital enjoyed by rival modernizing European powers. Lacking any semblance of a fair or reliable fiscal policy plus a long history of defaults, the kings of France could borrow only at punishingly high interest rates. Bankers were only willing to lend to the Crown by pricing the high risk of default into the expected value of their repayment. Under these circumstances, the King could project no power befitting his station because he was simply out of money. Any guarantee he could make to support his reign could not be taken on good faith, and so, without credit and without creditors, Louis XVI was forced to call the Estates General that would ultimately be his undoing. In the next section, I will discuss why the revolutionaries were eager to dispense with the Monarchy, but, paradoxically, not with its financial obligations.

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Conclusion

Revolution can never be a permanent state of affairs. It must reach some conclusion and culminating point to complete its objective. The *assignant*, similarly, was never intended to be the currency of the revolution, but as a temporary and strictly deflationary finance instrument that would allow the Republic to resolve its debts and restock its treasury with cash. Instead it carried with it the fate of the Revolution, and when it failed, the Revolution foundered. Had King Louis XVI not been executed, he may have had an opportunity to seize power following the Thermidorian Reaction. Instead, France was transformed into an Empire that swept away many of Europe's continental dynasties. The Republic officially died when Napoleon seized power, but it began its death spiral when the *assignant* lost its value.

In judging whether the Revolution succeeded in its two goals (dismantling the Ancien Régime and building a nation based on Enlightenment ideals), it's helpful to draw on quotes from two revolutionaries. Antoine Barnave, "We have said a lot in this assembly about restoring order, but we cannot do so without money. Judges who are not paid will not judge; administrators who are not paid will not administer; . . . this measure [paying the entire current debt in *assignats*] is the only means to save the state." (Spang 2015, 89). Compte de Mirabeau, "Everywhere a *money-assignat* goes, there will be someone who wants it to be solid . . . and since the fate of the Constitution depends on the successful sale of the *biens nationaux* [church lands nationalized by the revolutionary government backing the *assignant*], everywhere you find someone with an *assignat*, there you will find a defender of your measures and a creditor interested in your success." (Spang 2015, 87).

Both goals of the Revolution effectively boiled down to the sanctity of property rights in national law, and property rights can only be protected by a nation-state with a stable currency. I perceive two fatal flaws in the creation and management of the revolutionary currency that prevented the Republic from gaining the power to guarantee property rights to French citizens. Wanting to distance themselves from the Royal prerogative that justified the King's repudiation of debt and thereby invalidated property rights, the revolutionaries decided to take the King's obligations as their own sacred trust as a matter of national honor. Then, in minting the first *assignant*, they were loath to create paper money and did not want a national currency at all. But by literally assigning a government note to a plot of land, the national treasury adopted a strictly deflationary currency that could not expand or contract in response to demand for money. In this way the financial security of the Revolution was built on an eroding shore that was continually propped up by inflationary printing of *assignant*.

When the National Assembly voted on August 4th, 1789 to abolish feudal system by declaring all titles, taxes, and tithes previously sanctioned by the King to be illegal, they wound up in a position like a dog that caught the car. As Barnave observed, state administration could not be achieved without staff and staff could not be motivated without payment. Mirabeau succinctly makes the case for currency as a projection of influence and state power. Although their aim was liberation from absolutist government, a strong central government was needed to fill the vacuum of power carved out by the guillotine. Into this vacuum stepped zealous nationalism, and its primary instrument was the *assignant* that allowed the revolutionary government to, for a time, project state power across a large geographic area. Had the key actors of the French Revolution not been so adamantly committed to their Enlightenment ideals, nor faced the real threats to their survival from within and without, they may have been able to establish a stable currency to save the Republic.

Citations

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