

Financial crisis of the french monarchy



**ASSIGN
BUSTER**

What was the nature of the financial crisis that faced the monarchy in 1789?

The financial crisis of the French Monarchy during the 17th and 18th centuries has been an issue of controversy amongst historians, on one hand some historians do not consider the financial crisis to have been of great influence to the French revolution, whereas others believe that the financial crisis was a significant factor of the French revolution. Of the historians that believe the latter, there remains dispute over the nature of the financial crisis. There is somewhat of a classical interpretation, which maintains that the financial crisis was due to the system of taxation and privilege of France. This interpretation has been widely contested in recent years however, with a number of new factors coming to light. Historians such as Joel Felix, now speculate that the financial crisis was due to a vast number of factors such as, War, the government's policy of borrowing, finance ministers and the system of vested interest. In this essay I will examine each of these factors to determine what the nature of the financial crisis was, however it is my argument that despite these factors being important, evidence seems to suggest that it was nature in which the government handled the financing during the war that was the biggest contributing factor to the economic crisis.

Firstly it is important to consider the crisis that the monarchy faced. In the 1780's it was suggested that the French government was burdened with a debt of 5 million livre, J. Brewer assessed that between the years of 1753 and 1764 the cost of the debt rose from 30% of ordinary revenue to 60% (Brewer, 1989). This debt was huge, however when considered against the history of the French Monarchy, which J. Bosher does in 'French Finances',

<https://assignbuster.com/financial-crisis-of-the-french-monarchy/>

there appears to have been deficits and debt burdens throughout, which did not amount to the financial crisis like that seen in 1789. For example Francois I began his reign with unresolved debt and borrowed heavily from Lyon bankers. Similarly Henri II ended his reign in a grand financial crisis; it seems on examination of the Bourbon monarchy, few had not struggled with finances and all had used emergency measures to control government finances. It is important, then, to understand that the situation that the French monarchy was in during the 17th and 18th century was different to the financial problems faced by previous monarchs but not new in its conception. With this in mind a clear evaluation can be made of the nature of the financial crisis of 1789.

Firstly I will start with the classical interpretation that the financial crisis was caused largely by a system of taxation and privilege that drained money from the French people. Crucially the argument focuses upon the great tax burden. It was understood from this interpretation that because the first and second estates were exempt from taxation, the whole burden fell upon the third estate, and that these taxes were unusually high. There are several problems with this theory of tax burden upon the third estate as an explanation for the financial crisis. Firstly the 'Cahier de Dolances' evidences that most complaints about taxation were concerned with the inequalities of the tax system as well as collection, complaints about tax burdens namely concerned seigneurial or feudal dues that did not contribute to the Kings annual revenue. Secondly a study by Peter Mathias and Patrick O'Brien, which focused on respective tax rates of Britain and France, found that in fact the British were more heavily taxed than the French (Felix, 2006). This

evidence suggests that the financial crisis did not come from a reaction to a tax burden. But what of privilege? It is clear that the system of privilege made the financial system of France unjust; also privilege was a crucial part of the ancien regime. Within this opinion it is argued that the privileged orders of France blocked reform methods that would have enabled the monarchy to receive more revenue and correct its huge deficits.

It is true that there was opposition to tax reforms from the nobility, and example of this comes from the Parlements rejection of the third vingtieme, which led to Marion commenting, 'they only had self-interests at heart'[1]. This view point that the privileged sort to block reform to maintain their lifestyle is one that many classical historians attribute to the fall of the ancien regime, and it does enable one to link the issue of privilege to the issue of tax reform, but it does seem to be lacking in some crucial elements that need to be accounted for when evaluating the financial crisis. Firstly, the issue of privilege confuses taxation with finance as Joel Felix points out, 'it doesn't account for the lack of financial disclosure which caused the finance ministers difficulty in securing loans'[2]. Secondly, the argument that the privilege blocked reforms for selfish interest is destroyed by the 'Cahier de Dolances' which shows that with rare exceptions the members of the nobility had unanimously expressed the desire to give up pecuniary privileges and become full'[3]. Thirdly, and probably the most damning criticism of this classical interpretation is that the 'clergy and nobility would have only added 32-36 million livres well below what was needed to balance the budget'[4].

It seems obvious then, that neither the tax burden nor the system of privilege can be attributed to the financial crisis of 1789, what needs to be

<https://assignbuster.com/financial-crisis-of-the-french-monarchy/>

considered is the system of taxation itself? It has been suggested that 'the labyrinth of taxes, franchises and laws amounted to the most powerful block of Monarchy's desire to tax more equitably'[5]. The Crown relied on the service of intermediaries to manage. These agents were largely independent and often engaged in profit making enterprises. The financiers controlled the borrowing process and had a vested interest in keeping the French finances the way they were. Not only would they lend money to the King at high interest rates, which I shall deal with later, but they took money away from the Kings revenue by charging to collect taxes. An example of this is the Farmers General, a collection of private entrepreneurs that made profit in collecting taxes, arranging payments and money transfers and lending to the Crown. Typically 'they made a profit of 10 - 25% or more of the revenue collected'[6] for the Crown, Darigrand suggested for this reason that 'there was no need for tax reform, just a means of recovering what was lost from collection'[7], he suggested that from 15, 000 livre collected '3, 000 was left for the Royal Treasury'[8]. Roussel also made this distinction and suggested that the defect of the current financial system was the 'inability to close the gap between what people paid in taxes and what the King received'[9]. Collection agents also strongly opposed the idea of French Bank system, 'The accountants, Farmers General and other financiers would not tolerate a Central bank system because it would have cut down their profits'[10], which would have helped the French monarchy secure finance dramatically, I shall assess the consequence of this later on.

Here it is necessary to make a comparison between Britain and France in terms of tax collection, which many historians such as White, Riley and

Bosher, do when evaluating French finances. In Britain tax collection was in the hands of centrally appointed government officials, instead of the French system using independent tax collectors under the Farmers General, who were largely untrained and did not come under the control of the King. The British system was also largely centralised unlike the French system which varied according to region which made revenue policing and administration difficult (Brewer, 1989).

It is clear that the tax system in France did contribute more than any other element considered so far to the financial crisis. Other than what I have considered already one of the most dramatic elements of the taxation system was the affect it had on public opinion. There was a deep sense of hatred for the Farmers General within French society, this coupled with the secrecy over French finances bred an attitude that considered the financial crisis to be a result of lavish spending of the government and poor management of finance, rather than other more important factors, J. Felix comes to this conclusion about the public, 'public who continually blamed the deficits on poor royal administration and expenditure of court rather than on cost of war and burden on privilege'[11]. Despite the damaging effect the taxation system had on French finances it should be considered that the Farmers General in reality took no greater percentage than any other tax collection agency of this period in history, with this considered it seems necessary to evaluate Louis XVI management of his finances and his contribution to the financial crisis.

It was commented that France was not overburdened by taxes, but the political economy constrained the ability to finance state expenditure. By this <https://assignbuster.com/financial-crisis-of-the-french-monarchy/>

I am not implying that the reason for the financial crisis was due to the King's lavish spending at court, however the King did undertake in lavish spending in terms of Wars, and it is this which seems to be the most damaging factor concerning French finances. There are many issues to consider when looking at France's involvement in wars. Many underestimate the impact of war on a countries economic situation, as 'war was often fought on foreign soil or at sea and is therefore less directly harmful to a kingdoms domestic economy'[12], however an in depth look at the nature at which the French government financed wars provides many answers in understanding the financial crisis.

Some historians have said that the financial crisis was largely attributed to wars. The War of League of Augsburg 1688 - 91 and the War of Spanish Succession 1701-13 for example both occurred during the first 25 years of a cycle of economic depression which resulted in financial difficulties for the monarchy early on. Later in the 17th and 18th centuries three major wars contributed massively to a strain on the government finances. The war of Austrian Succession 1740-8, The Seven Years War 1756-63 and the American War 1778-83, overall the French were involved in '22 years of war compared with 21years peace'[13]. The costs of these wars were huge and resulted in a huge increase in government expenditure. An example of this is the War of Austrian succession in which 'expenditure exceeded normal income by 112million by 1748'[14]. This resulted, as Joel Felix points out, 'in 8 years the government had to secure a sum of money that without war it would have taken 12years to collect'[15]. Obviously war increased the strain on

government finance, but it was the government's handling of this that resulted in real financial crisis.

The government relied on borrowing to finance these wars, especially in the 17th and 18th centuries, this resulted in numerous problems. The French system of undisclosed financial records and their lack of bank system meant that securing loans was difficult for financial ministers; the interest rates of loans grew according to the length of the war, accompanied by a general lack of confidence lenders had in the French finances. This meant that finance ministers had to offer higher interest rates and short term loans to lenders in order to generate enough revenue, for example Necker offered loans at rates between 6.5 - 9% (Felix, 2006).

This system of lending meant that peacetime became dangerous territory in terms of French finances as they could no longer revenue higher taxes on the public but had large debts to pay off after the war. In respect of this, another issue comes to light, the French public who were already unsatisfied with the system of taxation were unwilling to an increase in taxes come peacetime, and also the need for immediate credit required to fight a war, meant that an increasing demand was put upon finance ministers to finance the war through credit. This is what finance minister Necker did with the American War. Although this solved the difficulty of increasing taxes it left the impression that it was not necessary to increase taxes to finance a war, which was further compounded when Necker published his *Compte Rendu au Roi* which showed a balanced budget neglecting to show the deficit caused by the war. The result of these measures taken by the French government to

secure money for war was that it was increasingly incurring more debt without gaining an increase in revenue.

Considering this it is again fitting to compare French finances with British finances, for in the same period of time 'Britain encountered 5 wars but enjoyed a system of adequate finance due to superior system of credit'[16], despite the fact that they too borrowed in order to finance war. There are several reasons for this; firstly the interest rates the British paid were far less than the French, at 3% (Bosher, 1970). This explains why; when Necker estimated the debt of 3, 400, 000, 000 after the American war was equal to England he was wrong, as France was paying double the interest rate of Britain (Bosher, 1970). Secondly, the British had a different system in terms of administration and government control, and also a Bank, it left parliament in control of finances, giving them the control to raise taxes in order to suppress a deficit providing investment confidence. The same is true of its Bank system; it gave the British an effective way of raising funds. It is therefore understandable that Britain was preferable to France, as in Britain the debt was the states, whereas in France the debt was Royal (Bosher, 1970).

By far the war had the most impact on the French finances; it pushed the deficit into a sum so large that it could not be counter-acted by increased taxation. It can therefore be used as an explanation of the financial crisis of 1789, but as I have demonstrated in this essay, it is not merely one factor that caused the financial crisis of 1789 but several. What needs to be considered is that it was not Frances involvement in wars that caused the financial crisis, but more the way the French government handled its

finances. As can be seen the combined factors of the French keeping its financial details a secret from the public, the French borrowing at high rates, and the government's commitment to a system of privilege that seems to have formed the nature of the financial crisis. This conclusion of there being several factors that formed the nature of the financial crisis seems to have arisen fairly recently, one that modern historians draw upon more than old.

1. J. C. Riley - The Seven Years War and the Old Regime - Page 212 - Princeton University Press - 1986
2. Joel Felix - The Financial Origins of the French Revolution - Page - 44 - Macmillian - 2006
3. Joel Felix - The Financial Origins of the French Revolution - Page - 45- Macmillian - 2006
4. E. N. White - The French Revolution and the Politics of Government Finance, 1770 -1815 - Page 8 - The Journal of Economic History, Vol. 55, No. 2 (Jun., 1995)
5. Joel Felix - The Financial Origins of the French Revolution - Page 47 - Macmillian - 2006
6. J. Bosher - French Finances - Page 9 - Cambridge University Press - 1970
7. J. C. Riley- The Seven Years War and the Old Regime - Page 204 - Princeton University Press - 1986
8. J. C. Riley - The Seven Years War and the Old Regime - Page 204 - Princeton University Press - 1986
9. J. C. Riley - The Seven Years War and the Old Regime - Page 194 - Princeton University Press - 1986

10. J. Bosher - French Finances - Page 17 - Cambridge University Press - 1970
11. J. Felix - The Origins of the French Revolution - page 60 - Macmillian - 2006
12. J. Felix - The Origins of the French Revolution - page - 40 - Macmillian - 2006
13. J. Felix - The Origins of the French Revolution - page 40 - Macmillian - 2006
14. J. Felix - The Origins of the French Revolution - page - 41 - Macmillian - 2006
15. J. Felix - The Origins of the French Revolution - page 41- Macmillian - 2006
16. J. Bosher - French Finances - page 23 - Cambridge University Press - 1970