

The Financial Crisis that Contributed to the French Revolution

By Walter S. Zapotoczny Jr.

"The revolution that was to sweep away the political institutions of France did not begin on 14 July 1789," writes William Doyle in *Origins of the French Revolution*. On 20 August 1786 the comptroller-general of the royal finances, Charles-Alexandre de Calonne, went to King Louis XVI and informed him that France was on the brink of financial collapse. According to Calonne, the 1786 deficit would be 112 million *livres* (currency of France until 1795). This represented about a quarter of the annual revenue of France. When Louis XVI had come to power in 1774 the deficit had been 40 million, and had even fallen over the next two years. Since 1777, however, the deficit had risen steadily, largely due to an enormous rise in state borrowing and consequently in the annual interest and repayments that the treasury was obligated to disburse. While costs associated with the upkeep of King Louis XVI's extravagant palace at Versailles and the frivolous spending of the queen, Marie Antoinette were high approximately 5 percent of public expenditures in 1788, the main reason for the overload of the government was the cost of war.

In 1774, Louis XVI appointed Jacques Turgot to be the comptroller-general of the royal finances. Turgot believed that subsidies, regulations, and tariffs were crippling productivity and enterprise in France. He advised the king to end them, believing that business would thrive and revenues would increase. He proposed an ambitious reform program that included taking down internal custom barriers, lifting price controls on grain, abolishing the guilds and the forced labor service, and giving political power to newly created provincial assemblies.

There were both aristocratic and popular opposition to his reforms, but what really doomed them was Turgot's opposition to French intervention in the American War of Independence. Many in France were still upset over the humiliating and catastrophic defeat suffered by France in the Seven Years War. The French foreign ministry calculated that by helping the Americans gain their independence they could weaken the British Empire, gain revenge, and restore France's previous position as one of the world's superpowers. Turgot argued that another war with England would derail his reform program, bankrupt the state, and, even if successful, do little to weaken British power. International power politics and considerations of national prestige took precedence over domestic reform and the king dismissed Turgot in May 1776.

The French began covertly supplying war material to the American colonists in 1777. Throughout the war, they supplied money loans and underwrote others for the purchase of war supplies in Europe. Turgot's successor Jacques Necker, a Swiss banker, financed these expenditures almost entirely through loans. Although successful, France's intervention cost 1.3 billion *livres* and almost doubled her national debt.

By 1788 the French government devoted about a quarter of its annual expenditure to the maintenance of the armed forces and about half to the payment of its debts. Most large countries at the time struggled with the same burden due to past wars. British expenditures showed almost the same distribution as that of France. By then, the French debt stood at almost four billion *livres*. It had been swollen greatly by the Seven Years War and the War of American Independence. Yet it was only half as great as the national debt of Great Britain, and less than a fifth as heavy per capita. It was less than the debt of the Dutch Republic. It was apparently no greater than the debt left by Louis XIV three-quarters of a century before. Why then could the debt not be carried and why did it contribute to revolution?

The French debt could not be carried for the simple reason that the revenues fell short of the expenditures. This was not due to national poverty but to the tax exemptions and tax evasions of the privileged classes and the complications in the fiscal system, or lack of it. Much of what taxpayers paid never made it into the hands of the Treasury. The most important tax, the *taille*, was generally paid only by the peasants. The tax was imposed on each household and based on how much land it held. Nobles were exempt by virtue of their class privilege and office holders and bourgeois obtained exemptions in various ways. The church too insisted that its property was not taxable by the state. Its periodic gifts to the king, though substantial, were less than might have obtained from direct taxation of the church's land. Therefore, although the country was prosperous, the government treasury was empty. A long series of responsible persons had seen the need for taxing the privileged classes. Necker made moves in the same direction and, like his predecessors, was dismissed. Between 1777 and 1781 he raised 520 million *livres*. The return on investment for most of the money borrowed was up to 10 percent per year, leading to a harmful expense to the state.

Necker's successor, Calonne came to even more revolutionary conclusions, as the crisis mounted. A number of options are available to governments in times of financial crisis. Unfortunately for Calonne, most options were not available to him. One option would have been to effect economics. Calonne presented to the Assembly of Notables a number of money-savings proposals, but none of the major items of public expenditure could be reduced. The greatest expenditure was debt service which, could only be reduced by reducing the capital of the debt. He established a sinking fund in 1784 in the hope of paying off 3 million *livres* a year.

The second major item of public expenditure was the armed forces. This could only be reduced at the cost of threatening France's position during a time of international uncertainty. Another possibility of affecting the national debt was to raise taxes. According to Doyle, "France already thought of itself as one of the most highly taxed nations in Europe." In 1749, a new tax, *vingtieme*, of 5 percent on property was introduced. It proved to be a permanent tax. In 1756 the land tax was doubled and it too became permanent. Doyle goes on to explain the third *vingtieme* that was levied:

Between 1760 and 1763, the most costly period of the Seven Years War, a third *vingtieme* was levied; and in 1782, it was reintroduced. With the assurance that it would end three years after peace was concluded. That moment came at the end of 1786 and this imminent fall in revenue was another of the factors which led Calonne to confront the crisis when he did.

In 1786 he produced a program in which enlightened despotism was tempered by a modest resort to representative institutions. He proposed, in place of the *taille*, a general tax to fall on all landowners without exemption, a lightening of indirect taxes and abolition of internal tariffs to stimulate economic production. He proposed a confiscation of some properties of the church and the establishment of provincial assemblies in which landowners, nobles, clerical, bourgeois, and peasants would be represented without regard to estate or order. He thought these initiatives would interest the propertied classes in the government.

One reason it took Calonne so long to come up with a reform program was due to the lack of a central treasury. Doyle writes, "Most of the state's finances were handled by independent financiers who had bought the right to handle government revenues." These independent financiers often lent the government their own money and the king found himself borrowing and paying interest on the state funds.

Calonne had many courses of action closed to him or they were considered impractical based on the political structure and due to the influences of many. Realizing the challenges that confronted him he said to the king:

I shall easily show that it is impossible to tax further, ruinous to be Always borrowing and not enough to confine ourselves to economical Reforms and that, with matters as they are, ordinary ways being Unable to lead us to our goal, the only effective remedy, the only course left to take, the only means of managing finally to put the finances truly in order, must consist in revivifying the entire State by recasting all that is vicious in its constitution.

Calonne's program, if carried out, might have solved the fiscal problem and averted the Revolution. But it struck not only at privileges in taxation but at the hierarchic organization of French society. Knowing from experience the Parlement of Paris (high court of justice) would never accept it, Calonne in 1787 convened an assembly of nobles hoping to win its endorsement of his ideas. The nobles insisted on concessions in return, for they wished to share in control of the government. A deadlock followed and the king dismissed Calonne. Appointed as his successor was Lomenie de Brienne, the archbishop of Toulouse. Brienne tried to push the same program through the Parlement of Paris. The Parlements rejected it, declaring that only the Estates General (the bourgeois, artisans, and peasantry) had the authority to consent to new taxes. Brienne and Louis XVI at first refused, believing the Estates General, if convened, would be dominated by the nobility.

Brienne and Louis XVI tried to break the parlements, replacing them with a modernized judicial system in which law courts should have no influence over policy. This led to a revolt of the nobles. All the parlements and Provincial Estates resisted and army officers refused to serve. The government hesitated to act and nobleman began to organize political clubs and committees. With his government brought to a standstill, and unable to borrow money or collect taxes, on 5 July 1788, Louis XVI promised to call the Estates General for the following May. The various classes were invited to elect representatives and also to draw up lists of grievances. The gathering of the Estates General led to the National Assembly and the storming of the Bastille and the Revolution.

While no one reason can be attributed to the beginning of the French Revolution, a number of ill-advised financial maneuvers in the late 1700s certainly worsened the financial situation of a government already in financial crisis. France's involvement in the Seven Years War and its participation in the American War of Independence drained the treasury. Adding to the situation was the cost of maintaining a sizable army, attempting to service the national debt, and the fiscal policies that favored the noble class. Despite the efforts of Turgot, Necker, and Calonne, and Brienne decades of fiscal irresponsibility was the primary factor that led to the French Revolution.

Bibliography

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