

**Banking on the King: The Evolution of Organizations Dedicated to Tax Collection
in Old Regime France**

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Noel Johnson*

* Washington University at St. Louis, Economics Department, 205 Eliot Hall, Campus Box 1208, St. Louis, MO 63130-4899, johnson@wuecon.wustl.edu. I would like to thank, the following people for generously reading drafts or otherwise offering advice on my research: John Nye, Douglass North, Gary Miller, Sukkoo Kim, Philip Hoffman, Alain Guéry, Philip Keefer, Jean-Laurent Rosenthal, Lee Benham, the participants at this years University of Missouri Economics conference where I had the opportunity to present an early draft of this work, the members of the economic history group at Washington University and Alexandra Mislin. Of course, any mistakes are my own.

Economists and political scientists generally agree that economic growth and political stability are dependant upon institutions which respect and enforce private property rights. Any set of institutions which successfully fulfills this requirement, however, must also constrain the government from abusing its enforcement power by encroaching on the very rights it is meant to protect. During the early modern period, Britain overcame this commitment problem by creating a check against royal authority in Parliament and an independent Bank of England. France, on the other hand, did not develop similar representative institutions until after the Revolution. Nonetheless, despite massive amounts of debt, the French Monarchy was able to maintain its status as the arbiter of Europe during the seventeenth and eighteenth centuries without introducing “British-like” institutions. The question is how.

Public finance was a primary driving force behind institutional evolution in early-modern economies. There was a constant search by rulers for ways to increase revenues from existing sources, or, to create new ones. The manner in which institutions were altered to secure these revenues had important effects both on the cost of finance for the state and, more broadly, on the types and securities of property rights throughout the economy. Central to the allocation and enforcement of property rights was the credible commitment problem faced by the Monarch. A short-sighted Ruler (i.e. with a low discount rate) was confronted with two possible paths. He could respect existing institutional arrangements, such as loan contracts, or, he could choose to undermine those arrangements by, for example, defaulting on a loan. He thereby guaranteed himself a “one-off” increase in revenues at the cost of a decrease in future revenues due to the necessity of paying higher risk premia. Depending upon the value of the King’s discount rate and the ability of others to constrain him within the framework of existing institutions and

organizations, the credible commitment problem could paralyze the public finances of the state and, more generally, undermine property rights across the economy.

Economic historians of the early-modern period have concentrated on the development, or lack thereof, of formal capital markets as an indication of the ability of the sovereign to credibly commit to uphold property rights in the long-run.¹ The fundamental insights in this literature have been: (1) That the creation of long-term debt at “low” interest is a good indication of a Ruler’s ability to refrain from preying on property rights. (2) That in the absence of formal representative institutions such as an independent central bank and parliament able to credibly constrain a ruler, the state will be unable to create and maintain debt. The quintessential example giving rise to these insights is that of Great Britain which, in the aftermath of the Glorious Revolution (1688), developed an independent bank and parliament which allowed them to credibly sustain a long-term debt at low interest.² France, on the other hand, is typically presented as the example, *par excellence*, of a government subject to predation and fiscal irresponsibility during the seventeenth and eighteenth centuries.

Amongst historians, the exposition of the British financial revolution has been eloquently made by John Brewer.³ In *The Sinews of Power* he argues that the institutional innovations emerging from the Glorious Revolution allowed the British to discard the shackles of private interest and lending dependant on monopolistic financiers who were dissipating the revenues of the state. The creation of the Bank of England coupled with Parliament’s control of the purse

¹ See Douglass North, *Structure and Change in Economic History*, (New York: Norton, 1981) pp 146-157; Margaret Levi, *Of Rule and Revenue*, (Berkeley: U.C. Press, 1988); Douglass North and Barry Weingast, “Constitutions and Commitment: The Evolution of Institutions governing Public Choice in Seventeenth-Century England,” in *The Journal of Economic History*, Vol. 49, No. 4 (December, 1989), pp. 803-832; Douglass North, *Institutions, Institutional Change and Economic Performance*, (Cambridge, England: Cambridge University Press, 1990); Philip Hoffman, “Early Modern France, 1450-1700,” in Philip Hoffman and Kathryn Nordberg, *Fiscal Crises, Liberty, and Representative Government, 1450-1789*, (Stanford: SUP, 1994).

² North and Weingast, (1989).

³ John Brewer. *The Sinews of Power: War, Money, and the English state, 1688-1783*, (Cambridge: Harvard University Press, 1988), 96-97.

strings allowed the government to credibly commit to its debts. This separation of borrowing from tax gathering, allowed for the “bureaucratization” of the tax machinery thereby opening the path for the rise of “Magnanimous Albion” during the eighteenth century.

At the core of Brewer’s argument is his presentation of budgetary data illustrating the rapid and sustained rise in customs revenues which followed the financial revolution. From 1690 to 1790, the value of British excise revenues increased by nearly thirteen times. This coupled with the organizational reforms of the Excise after the Glorious Revolution and the decreasing reliance upon costly expedients for raising funds suggests that Britain was unique amongst early-modern states in having a financial revolution. Should we then believe Brewer’s claim that France was too venal, bellicose, and decentralized to undergo its own fiscal revolution?⁴

If we expand our scope by several decades, the “uniqueness” of the British fiscal revolution is called into question. Early-modern royal budgets typically place revenues into one of two categories: “Ordinary” revenues which primarily included tax revenues, and, “Extraordinary” revenues which, as the name implies, were typically short-term expedients used to cover expenses during periods of fiscal crisis.⁵ Examples of Ordinary revenues include, receipts from established taxes and anticipations, or, loans, made through those taxes. Examples of Extraordinary revenues include the sale of venal offices, short-term loans taken at high rates of interest from agents outside the “fiscal system”, and receipts from taxes created as a temporary expedient to cover budget short-falls. It would be mistaken to place too much emphasis on the distinction between Ordinary and Extraordinary revenues, the two often blended

⁴ Ibid, 21-22.

⁵ Marcel Marion, *Dictionnaire des institutions de la France: xvii^e-xviii^e s.*, (Paris: Editions A. & J. Picard, 1923), “Finances” and “Affaires Extraordinaires”; Daniel Dessert, *Argent, pouvoir et société au Grand Siècle*, (Fayard: Paris, 1984), 59-60.

together. Nonetheless, they do offer a rough guide concerning the extent to which the Crown undermined property rights in order to secure funds. Ordinary revenues were, in general, collected *within the existing property rights structure*, Extraordinary revenues, on the other hand, required the alteration of existing property rights. For example, when the King engaged in venality, he was altering property rights in two fundamental ways. First, he was alienating his own right over some resource. After the introduction of the *Paulette* in 1604 which, for a fee, transformed temporary offices into permanent ones, he was, in effect, alienating his right over the resource indefinitely. The more pernicious effect of the King's altering of property rights, however, was the infringement of existing rights held by others. Thus, for example, an office would be sold to one individual, only to be re-sold several years later. By the 1660's many offices were held by more than one official who would rotate in their exploitation of the resource, as was the case with many of the collectors of the one of the Crown's major taxes, the *Taille*. On the most basic level, when the King created an office for the sole purpose of raising revenues, he was inevitably altering other, seemingly unrelated, property rights. These statements are easily extended beyond venality to most forms of Extraordinary finance.

Figure 1 shows the ratio of Extraordinary to Ordinary revenues in France from 1600 to 1695.⁶ As can be seen, the Crown's reliance on Extraordinary finance was characterized by infrequent spikes during periods of fiscal crisis.⁷ Figure 2 shows the amount of Royal

⁶ The data used for Figures 1 and 2 were compiled from two sources: M.M. and R.J. Bonney, *Jean-Roland Malet: premier historien des finances de la monarchie française*, (Comité pour l'histoire économique et financière de la France, Paris, 1993), As reproduced by the European State Finance Database (ESFDB), www.le.ac.uk/hi/bon/ESFDB/rjb/malet/malm034.txt; and data I collected on my own from AN KK335 which gives data on Extraordinary revenues from 1661-1695. Unless otherwise noted, all figures are given in Livres Tournois, the standard unit of account used by the Monarchy.

⁷ Much of the massive increase in extraordinary finance in the 1630's and 40's came from the borrowing necessitated by France's entry into the Thirty Years War. Major wars and civil disturbances include: Infrequent fighting against the Protestants throughout the 1620's; The Thirty Years War, 1635-1648; The Fronde, 1648-1653; The War of Devolution, 1667-8; The Dutch War, 1672-9; The Nine Years War, 1689-97; The War of Spanish Succession, 1701-1713.

expenditures during the same period. Before 1661, the relationship between increases in Extraordinary finance and increases in expenditures, as in 1635 when France entered the Thirty Years War, is fairly close. After 1661, however, expenditures change little from the previous thirty years while the proportion of Extraordinary finance decreases dramatically. This is not to say that the Monarchy ceased to borrow after 1661. On the contrary, as will be argued below, borrowing increased after 1661 to finance the numerous and costly wars of Louis XIV. However, the Crown did not rely as heavily on Extraordinary finance to fill these needs. A greater proportion of borrowing came from *within* the existing property rights structure. How was the French Monarchy able to significantly reduce its reliance on financial expedients, despite the fact that two wars lasting a total of nine years were fought at the end of the seventeenth century?

Figure 3 offers an explanation of why Extraordinary finance decreased after 1661.⁸ Ordinary revenues experienced a dramatic increase at precisely the time that the Crown's reliance upon Extraordinary revenues was diminished. Figure 4 offers further insight into the causes of the dramatic increase in Ordinary revenues.⁹ Before 1661, the two most important permanent taxes collected were the *Taille* and those collected by the Royal Revenue Farms.¹⁰ Before 1661, the *Taille* formed the most important of these taxes, typically accounting for two-thirds of Ordinary revenues. After 1661, however, the importance of the *Taille* decreases while that of the Tax Farms experienced a remarkable increase in value from 8,400,000 *livres* in 1655

⁸ Data for Figure 3 compiled from Malet as reproduced in the ESFDB and M. Baulant and J. Meuvret, *Prix des céréales extraits de la mercuriale de Paris, 1520-1698*, (2 vols., Paris, 1960, 1962), as reproduced in the ESFDB, frindc\indd007.txt.

⁹ In Figure 4 I use data on net receipts from the *Taille* and the Tax Farms (Net Receipts = Gross Receipts – Charges) as reproduced in Malet on the ESFDB, rjb\malet\mald6-14 and 30-44. The data on the Silver content of the *livre tournois* from N. de Wailly, “*Mémoire sur les variations de la livre tournois ...*,” *Mémoires de l'Académie des Inscriptions et Belles lettres*, 21, pt. 2 (1857), table 3, as reproduced in ESFDB, \frindc\indd001.txt.

¹⁰ As will be described below, the *Taille* was, primarily a direct tax on wealth, the Tax Farms were indirect taxes on transactions (such as on wine and spirits). Before 1661, in an average year, they constituted about 80% of Ordinary revenues.

to 39,200,000 *livres* by 1661 and then a steady increase to its peak in 1690 of 64,700,000 *livres*.¹¹

The most obvious explanation for the increase in Tax Farm revenues observed in Figures 3 and 4 is that either economic growth was so high after 1661 that this led to an increase in taxable resources, or, that tax rates were augmented. Such arguments, however, fall short of offering a satisfying explanation. While some of the increase in Ordinary revenues in 1661 was certainly due to the return of peace after the *Fronde*, a quadrupling of receipts would not be expected. It is generally recognized that for the period from the 1660's to the 1690's, "... the whole of France was suffering from a deepening recession".¹² During the 1670's, when the greatest increases in tax revenues were occurring, there was a recession in the agrarian sector.¹³ Tax rates were augmented between 1635 and 1648 when the burden of the *Taille*, was increased by about three times, only to be lowered again in the 1660's.¹⁴ According to Charles Cole, the historian of Mercantilism, the changes in tax rates wrought after 1661 were aimed at "rationalizing" the tax system to make tax rates more equal.¹⁵ None of these accounts alone seem powerful enough to explain the observed increase in receipts. Perhaps there is an institutional explanation for our observations?

The marked change in the composition of French public revenues, characterized by a rapid increase in customs revenues coupled with a decrease in reliance upon harmful expedients, bears a remarkable resemblance to the one undergone in Britain some forty years later. Indeed, one could call the transformation of French public finance in the 1660's a "financial revolution",

¹¹ As the accompanying price series in Figure 3 and 4 suggest, adjusting the receipts from the Tax Farms for changes in the price level does little to change the overall trend.

¹² Robin Briggs. *Early Modern France: 1560-1715*, (Oxford: Oxford University Press, 1977), 40.

¹³ Richard Bonney, "The Failure of the French Revenue Farms, 1600-60", *Economic History Review*, 2nd ser., xxxii (1979), 25.

¹⁴ Briggs, 50.

¹⁵ Charles Woolsey Cole, *Colbert and a Century of French Mercantilism*, (New York: Columbia University Press, 1939), Vol. 1, 422 – 423.

but with two important caveats. First, that it was not accompanied by the constitutional reforms which accompanied the Glorious Revolution. Second, that it was not as complete as that in Britain. Venality and other harmful practices still existed in France after 1661. Indeed, by the beginning of the eighteenth century, at the end of the War of the League of Augsburg and during the War of the Spanish succession, these expedients were heavily used. However, after 1661 the character of venality and these other expedients was permanently altered. The Crown still raised revenue in the short-run by alienating its assets. After 1661, however, these transactions were worth more because the rules of the game governing their transaction were defined in a more secure and complete manner. At the core of this institutional revolution was the Royal Revenue Farms, more commonly known as the Tax Farms.

The Varieties of Taxation and Colbert's Reforms

The early 1660's were a politically significant time marking both the solidification of Louis XIV's hold on power after the Fronde and the beginning of the tenure of one of France's most infamous Ministers, Jean Baptiste Colbert. Colbert is most often remembered for his introduction of Mercantilist policies, such as high tariffs and government sponsored monopolies. Less well known, however, is the fact that the institutional and organizational structure of tax collection in France underwent fundamental changes under Colbert's leadership. These changes persisted until their dismantlement during the French Revolution and offer an explanation as to why the composition and performance of Royal finances changed so dramatically in the 1660's.

In order to understand the nature and impact of Colbert's reforms on the French tax system, we must understand something of the institutions and organizations dedicated to tax collection in the mid-seventeenth century. Broadly speaking, taxes were collected using one of two organizational forms. "Direct" taxes, on wealth, such as the *Taille*, *Capitation*, *Dixième*, and

the *Vingtième* were collected under *Régie* by agents of the Crown who were compensated with a salary and a relatively small share of the revenues they collected.¹⁶ “Indirect” taxes, on transactions, such as the *Gabelles* (salt taxes), *Aides* (sales taxes, usually on wine and spirits) and, *Traites* (internal and external customs duties) were typically farmed out to individuals known as Tax Farmers. Under tax farming, the Tax Farmer agreed to make a fixed payment to the Crown in exchange for the residual claim to any tax revenues collected above the fixed amount. Before 1661 about two-thirds of Royal tax revenues came from the *Taille* and about one-third came from those taxes collectively known as the Royal Revenue Farms, or, Tax Farms.

Traditionally, scholars have justified the existence of tax farming in terms of risk aversion. Under a simple tax farming arrangement a principal, such as the King, transfers the right to raise taxes to an agent in return for the payment of an agreed upon sum. The agent then becomes the residual claimant to the taxes he collects in excess of this sum. In years of prosperity and good fortune the agent will usually make a profit from the farm. In times of dearth the tax farmer could, and often did, lose everything when taxes raised were not sufficient to cover the fixed payment owed to the government. The nature of the trade-off is that the risk-averse government sacrifices some of its potential income in return for the guarantee of a fixed stream of revenues from a risk-neutral, or, risk-seeking agent.

Weber and Wildavsky cite risk as the primary purpose for tax farming in ancient Greece.¹⁷ In his study of the Tax Farms during the eighteenth century, the historian George T. Matthew’s cites risk aversion on the part of French kings as the most important factor in its

¹⁶ Strictly speaking, there were two different sort of *Tailles* collected in France. The *Taille Réelle* was collected on property in, primarily, the *Pays d’Etats*. The *Taille Personelle* was collected on heads of households, primarily in the *Pays d’Elections*. In general, the *Taille Réelle* was considered more equitable than the *Taille Personelle*. See Marion, 526.

¹⁷ Carolyn Webber and Aaron Wildavsky. *A History of Taxation and Expenditure in the Western World*, (New York: Simon and Schuster, 1986), 114-115, 119.

adoption and persistence in France. In describing French tax farming, Daniel Dessert claims that, “Ce mode de perception répond bien aux nécessités de la monarchie. Il lui permet, alors qu’elle se trouve constamment aux prises avec des problèmes de trésorerie, d’avoir des rentrées nettes et certaines.”¹⁸ The economist Hal Varian has developed a formal model explaining organizational forms such as the tax farm in which risk aversion is explicitly invoked as their *raison d’être*.¹⁹

Upon first examination, the argument that tax farming serves primarily as a means to transfer risk from the principal to the agent seems to make sense. The King was supposed to get a fixed payment from the Tax Farmers. In reality, however, the King rarely received the full contracted payment. The primary reason for this was that the Tax Farmer would typically pass certain costs of running the Farm back to the King. Many of these costs were anticipated in the tax farm contract, such as reductions in payments due to a decrease in economic activity during wartime. Others, however, might simply be due to lending between the Farmer and the King, or, defaults on the contract by either party. Figure 5 shows the effect of these reductions on the actual yield of one of the largest Tax Farms, the *Gabelles*.²⁰ As the diagram shows, the actual receipts from the *Gabelles* differ greatly from the contracted amount and are not related to it in any consistent way.

As a result of deductions and defaults, the receipts from the Tax Farms actually exhibit quite high variance when compared to other revenue instruments. The *Taille* was one of the most important sources of revenue for the King. Table 1 shows the mean adjusted standard deviation of tax receipts from both the Tax Farms and the *Taille* for the periods 1600-1635, 1636-1656, and 1661-1695. These periods are chosen since before 1635 there was relative

¹⁸ Dessert, 1984, p.55.

¹⁹ Hal Varian. “Monitoring Agents With Other Agents,” *JITE*, (146), 1990.

²⁰ Data drawn from the Appendix to Bonney, 1979.

peace, the second period was marred by France's costly involvement in the end of the Thirty Years War, and after 1661 there were institutional changes which make comparison with early periods specious. In two of the three periods, the receipts from the Tax Farms exhibited a considerably higher degree of variance than those from the *Tailles*. Only during the second period, corresponding to France's involvement in the Thirty Years War, was variance lower for Tax Farm receipts, and then only marginally so. Furthermore, the variation in receipts from the *Taille* during the second period probably had as much to do with changes in tax rates as changes in output.²¹ Table 1 implies that if the King was primarily interested in a certain stream of revenue he should have turned to the *Taille*, not the Tax Farms, to secure it.

Table 1: Mean Adjusted Standard Deviation of Receipts from the Tax Farms and the Tailles: 1600-1695

	1600-1635	1636-1656	1661-1695
Tax Farms	.32	.37	.16
Tailles	.17	.40	.07

The use of tax farming in France may be better understood in the context of transaction cost economics than with a risk-aversion framework. Tax collectors fulfilled two functions in *ancien régime* France. On the one hand, they collected taxes at low cost. On the other hand, they acted as “bankers” for the King. Each role entailed its own specific sort of transaction costs. Tax Farm contracts were better, or worse, suited to minimizing these costs depending on the institutions, or, rules of the game, that structured their writing, monitoring, and enforcement.

One of the functions of tax collectors was to collect taxes at low cost. The transaction costs associated with transferring funds from the populace to the King were, to say the least, enormous. The Tax Farmer Antoine Lavoisier estimated that between 1768 and 1772, the average cost of paying local tax collectors working for the Farms was about 4,964,115 *livres*.

²¹ Briggs, 63.

The King was obligated to bear an additional cost of running the Farms of about 1,962,112 *livres*²² These numbers translated into a cost of collecting the *Aides* of about 13% of gross collections. For the *Traites* the figure was about 15.9%. The collectors of the *Tailles* faced similar figures.²³ As compared to the fixed wage received by the collectors of the *Tailles*, the tax farm contract was uniquely suited to minimize the transaction costs associated with collecting revenues. There were two primary reasons why this was so. In the first place, the Tax Farmer inherited more of the residual claim to tax collection, and thus faced stronger incentives to hold down costs than did his counterpart in the *Régie*. If a Tax Farmer did not collect the contracted amount for the King, then he was obligated to pay out of his own pocket. One of the implications of this difference was that revenues collected under *Régie* tended to come in more slowly than those run under Tax Farm. For example, in 1664 the amount of *restes*²⁴ in the Farms was 790,388 *livres* out of a total owed of 53,964,509 *livres*, or, 1.5% of total tax receipts. On the other hand, in the same year, the size of the *restes* associated with the largest tax collected under *régie*, the *Taille*, was 16,369,726 *livres* out of 22,518,260 *livres* which were owed, or, 73%.²⁵ Similar numbers could be given for other years, the point being, that the Farmers were subject to much stronger incentives since they were contractually obligated to pay the King a certain amount, regardless of other factors. The collectors of the *Taille* were not confronted with the same incentives.²⁶ If the receipts from the *Taille* were not received in a timely manner, the collector would still get his salary.

²² Matthews, 165. Especially during the later 18th century the King typically bore some (relatively small) percentage of the cost of running the Farm.

²³ Jean Villain, *Le Recouvrement des Impôts Directs Sous L'Ancien Régime*, (Paris: Librairie Marcel Rivière et Cie, 1952). 37-40.

²⁴ The *restes* were the amount of a tax that was owed to the King but not paid when due.

²⁵ AN KK355, 1664.

²⁶ Indeed, the King would often subcontract the collection of the *restes* from the *Taille* to a different individual at a discount, much like a Tax Farm contract.

The second reason why the Tax Farm contract worked so well at minimizing costs of collection is that the contract was auctioned off to the highest bidder. In theory, in a competitive auction, the person willing to pay the most for the Tax Farm, and thus offer the highest bid, will be that person who faces the lowest costs in collecting the tax. By contrast, there is no information revealing mechanism such as an auction if the contract calls for the payment of a wage rather than a share of output. For all intents and purposes, a fixed wage is worth the same amount to all individuals, regardless of their costs of collecting the tax. It should come as no surprise, then, that allocation of ownership over the *Tailles* was typically subject to venality and preferential treatment. Indeed the extent of venality within the *Tailles* reached the point that by the time Colbert took power many of the *Tailles* were being collected on a rotating basis by several individuals each of whom had paid for the right to collect the same tax!²⁷

The second major function of tax collectors in early-modern France was to act as “bankers” for the King. As mentioned above, because of transaction costs, there could be a great deal of time and energy involved in actually transferring funds from the area of collection to the King’s coffers.²⁸ It was often easier for both the King and the tax collector if the collector would simply give the King payment from his own accounts in Paris rather than spending the time and energy necessary to physically transfer tax receipts. Alternatively, the King could have his tax collectors pay-off, say, debts in Burgundy using local tax collections rather than sending the receipts back to Paris, only to be transferred back to Burgundy to make payments. In this way, tax collectors of both the *Tailles* and the Farms became, in effect, local bank branches for the King. It was a small step from this, to having the tax collectors make outright loans to the King in anticipation of future tax receipts. In making an anticipation, the tax collector would take out

²⁷ Daniel Dessert, 1984, Appendix 1 lists the collectors of the *Taille*, many of whom served on a rotating basis.

²⁸ Martin Wolfe, *The Fiscal System of Renaissance France*, (Binghamton: Vail-Ballou Press, 1972), Appendix D discusses the prohibitive costs of transferring funds in renaissance France.

a loan, on his own credit, and forward a certain sum to the King. When taxes were eventually collected, this loan would be paid back to the collector out of those receipts. This differed substantially from loans made between the King and anonymous parties, as was typical with Extraordinary finance. Tax collectors, such as the Tax Farmers, were in a position to have lower costs of collecting on Royal loans than “outsiders” since they already had property rights over a portion of the King’s revenues.²⁹ As we will see, *how much* better this position was would depend on the institutions structuring Tax Farming and the protection of those property rights.

When the *Tailles* and Tax Farms were first permanently established in the fourteenth and fifteenth centuries, banking was not a major role of the tax collector. Beginning with the reign of Francis I, however, the importance of loans hypothecated on receipts from the various taxes became vital to crown finances.³⁰ By 1623 the Farmers of the *Aides* were making loans to the Crown of 1,300,000 *livres* in anticipation of future tax revenues of about 2,300,000 *livres*.³¹ The King was anticipating about half of his receipts from the *Aides* before they were collected. In a like manner, the King borrowed 1,668,212 *livres* from the *Tailles* in 1688 in anticipation of future payments of about 2,000,000 *livres*.³² Figures 8, 9, and 10 show the estimated amount of borrowing occurring through the three largest Tax Farms before 1653.³³ By the seventeenth century, the role of tax collectors as intermediating agents for the King on financial markets was

²⁹ The role of tax collectors as intermediating bodies fits well with recent research demonstrating that, contrary to the accepted paradigm in the literature, the choice between “traditional” absolutist policies and “modern” constitutional arrangements is a false dichotomy when it comes to funding government debt. For the ability of certain *corps* to borrow large amounts at relatively low interest see Mark Potter, “Good Offices: Intermediation by Corporate Bodies in Early Modern French Public Finance,” *Journal of Economic History*, Vol. 60, No. 3, Sept. 2000, pp.599-626; For evidence from Parisian capital markets see Philip T. Hoffman, Gilles Postel-Vinay, Jean-Laurent Rosenthal, *Priceless Markets: The Political Economy of Credit in Paris, 1680-1870*, (Chicago: UCP, 2000).

³⁰ See Wolfe, 1972, for this process.

³¹ Bonney, 1979, 31.

³² AN, KK355, 1688.

³³ Data compiled from Appendix to Bonney, 1979.

just as important as their role in collecting taxes. Indeed, it could be argued that in periods of fiscal crisis, such as wartime, the banking role of the tax collectors was predominant.

The most relevant issue to our discussion is that the “banking” role of tax collectors introduced a whole new set of transaction costs, different than those faced when simply collecting tax revenues. When a tax collector forwarded a certain proportion of tax payments to the Crown, the King was expected to pay this loan back, either by accepting less tax receipts, or, through some separate means. However, these loans always created an incentive for the King to default, or renege upon his agreement. Depending upon the discount rate of the King and the size of the loan involved, these defaults would be more or less frequent and severe. For the first part of the seventeenth century, this moral hazard problem was particularly severe with regards to the Tax Farms. The King could default on Tax Farm contracts in many ways. He could take away the Farmer’s contract by accusing him of engaging in “collusion” with other Farmers during the auction to hold down lease prices. This occurred in 1605 and 1653 with the *Aides* and in 1611 with the *Gabelles de France*.³⁴ The Crown could simply give the Tax Farm to another Farmer based on the excuse that the new Farmer was offering a higher lease price. This happened in 1623 to Rocher Portail who held the lease on the *Traites d’Anjou*. Another Farmer, Robert Pousset offered the King an additional 15,000 *livres* for the contract. Portail did not match the offer and had his contract revoked.³⁵

Sometimes, these activities degenerated into outright corruption on the part of the King. As, for example, in 1624 when André Duret put forth a high bid on the *Gabelles d’Amiens*, thereby driving the bids of his fellow Farmers up. He lost the auction, but for his troubles was

³⁴ Françoise Bayard, *Le Monde des Financiers au XVII^e Siècle*, (Paris: Flammarion, 1988), 123.

³⁵ *Ibid*, 123.

awarded a *dédommagement* of 2,000 *livres* from the King's *Conseil de Finance*.³⁶ Another way the Crown could, in effect, default on a Tax Farm contract, was by changing either the tax rate the Farmer could charge, or, the size of the tax base associated with the Farm after the signing of the contract. An example of the former includes the reduction of the tax rates associated with the *Convoi de Bordeaux* in 1638. An example of the latter includes when in 1626 the *Comptablie de Bordeaux et de Tonny-Charente* was unified with the *Anciens et le Nouveau Convois*. As a result, the old lease holders were dispossessed and a different Farmer was given control over the newly unified tax farms.³⁷

Of the 43 different Tax Farms for which we possess the contracts between 1598 and 1655, Table 2 shows what percentage of leases were broken.³⁸

Table 2: Percentage of Leases Broken on given Tax Farm: 1598-1655

Number of Tax Farms	1	8	8	11	11	1	3
Percentage of Broken Leases	< 10%	10% – 20%	20% - 30%	30% - 40%	40% - 50%	50% - 60%	60% - 70%

For example, contracts for the *Aides* were amongst the most frequently denounced by the King. Between 1598 and 1655, 64.7% of them were ruptured. Only one of the Tax Farms experienced less than a 10% default rate. 22 of the 43 Tax Farms experienced default rates between 30% and 50%. Table 2 perfectly illustrates the credible commitment problem which so plagued early-modern public finance.

Upon the ascension of Colbert, Tax Farming was organized such that there were many Farms subject to relatively competitive auctions. In total, the Tax Farms were responsible for about 1/3 of Ordinary revenues. In 1661, however, Colbert supported the introduction of a

³⁶ Ibid, 124.

³⁷ Ibid, 128.

³⁸ Ibid, 128.

Chambre de Justice which, under the pretext of combating corruption, imposed fines on many Tax Farmers and invalidated their leases. The historian Daniel Dessert has shown that a significant part of the purpose of the *Chambre de Justice* of 1661 was to invalidate existing Tax Farm contracts so that Colbert could award them to members of his own inner circle.³⁹ In 1663, 1664, and 1668 Colbert also negotiated successive leases on the Farms which each resulted in greater unification. The Lease Legendre of 1668 combined most of the *Gabelles*, the *Traites*, and the *Aides*. After its signing, Colbert dropped the rate of the *Taille* and planned future reductions as well.⁴⁰ This reduction lasted until 1672 when the beginning of the Dutch wars necessitated an increase in the *Taille* to previous levels. Combined with the usual shocks to output associated with war, this led to a decrease in revenues from the Farms during the early 1670's. To raise lease prices, Colbert found it necessary to temporarily resume competitive auctions for the Farms.

In 1678, with the conclusion of hostilities against the Dutch, Colbert was once again able to negotiate a lease with the Farmers in which he unified several of the largest Tax Farms. This process culminated in 1681 with the signing of the Lease Fauçannet combining nearly all of the Farms dedicated to indirect taxation in France in a single organization known as the Company of General Farmers (CGF). In effect, during the 1660's and 1670's Colbert created an informal monopoly within the Tax Farm system. In 1681, he made this informal monopoly formal by creating the CGF and, along with it, a codification of its rules known as the *Titre commun pour toutes les fermes*, which served as the basis for Tax Farming until the end of the eighteenth century.

³⁹ Daniel Dessert and J.L. Journet, "Le Lobby Colbert: Un Royaume, ou une affaire de famille?" *Annales E.S.C.*, xxx (1975), 1303-36.; Dessert, 1984; Daniel Dessert, "Finances et société au xxi^e siècle: à propos de la chambre de justice de 1661," *Annales ESC*, xxix, (1974), 847-81.

⁴⁰ J.J. Clamageran, *Histoire de l'impôt en France*, II, 618-619.

In 1683 Colbert died, but he left in his stead the largest private corporation in all of *ancien régime* France. The major effects of Colbert's reforms on the organization of tax collection were twofold. First, the relative importance of the *Taille* and the Tax Farms was reversed. Figure 6 shows that the proportion of total Ordinary revenues collected by the Tax Farms went from 16% in 1656 to 46.7% in 1662.⁴¹ Furthermore, this predominance was long lived. Even in 1773 the Tax Farms were providing 41.7% of the Crown's Revenues.

The second major effect of Colbert's reforms was the nepotistic distribution of the Farms which culminated in the creation of the CGF. Figure 7 shows the "one-farm" and "two-farm" concentration ratios for the Tax Farms for three periods during the seventeenth century.⁴² These measures give, respectively, the proportion of total Tax Farm revenues collected by the largest single and largest two Tax Farms during each period. During the first half of the seventeenth century the largest two Tax Farms accounted for about 50% of the total Tax Farm receipts. By the last five years of the seventeenth century the largest *single* tax farm accounted for about 85% of receipts. Thus, the amount of concentration within the Tax Farm system due to Colbert's reforms was significant. Furthermore, as Figures 1 and 3 show us, at the same time as these institutional and organizational changes were occurring, the amount of taxes collected drastically increased while, simultaneously, the reliance upon Extraordinary finance was decreased.

Despite recent trends, Colbert has generally been cast by historians and economists as the epitome of that *dirigiste* and backward tendency to which Brewer associated the "failure" of French public finance during the early modern period. By all accounts, the creation of a state-sponsored monopoly fits this story and should have contributed to French decline. Indeed, this was the opinion of many contemporaries, who saw in the Tax Farms the epitome of venality and

⁴¹ Yves Durand. *Les Fermiers Généraux au XVIII^e Siècle*, (Paris: Maisonneuve et Larose, 1971) p.75.

⁴² Data drawn from Malet, 1789, as reproduced in Appendix to Pierre Roux, *Les Fermes D'Impôts Sous L'Ancien Régime*, (Paris: Librairie Arthur Rousseau, 1916).

corruption which was keeping France from attaining her true potential. In the *Cahiers du Tiers Etat* of 1615 the Third Estate called for the King to end the “oppression” of “free commerce” by the Farmers and to punish them for their exorbitant profits.⁴³ Such sentiments were echoed in the *Cahiers* of 1789 and the Tax Farmers were amongst the first to swing from the gallows set up by the Revolution.

Eighteenth century placards went so far as to accuse the Tax Farmers of oppressing the King! However, as shown above, the monopolization of Tax Farming culminating in the creation of the Company of General Farms was due to the efforts *of* the Crown, not against them. Colbert was not forced to monopolize the Farms. Furthermore, the results of Colbert’s institutional reforms were immediate and non-intuitive. The creation of the Tax Farm monopoly was accompanied by a decline in the Crown’s reliance upon Extraordinary finance *and* a steady increase in Tax Farm revenues. The explanation proposed by this paper for these facts is that, originally, the institutions surrounding Tax Farming were designed to minimize the transaction costs of using the Farms as a means to collect taxes at low cost. By the end of the sixteenth century, however, the role of the Tax Farmers was shifting from collection towards that of acting as financial intermediaries for the King. As lending between the Farmers and the King became more common, the old rules of the game structuring the writing, monitoring, and enforcement of contracts became inconsistent with this new role.

The institutions which ensured efficient collection of tax revenues by the Farmers were those that encouraged competitive auctions. This meant encouraging the participation in auctions of many Tax Farmers who could not collude. When lending was important, however, the incentives for the King to default on the Farmers by repudiating existing contracts and releasing the Farm increased. At the beginning of the seventeenth century this was common

⁴³ Roux, 1916, 124.

practice, resulting in decreased lease prices for the Tax Farms. One of the ways the Farmers could prevent predation was by colluding so as to prevent the King from re-leasing a contract after a default. This would, in effect, have forced him to accept a lower lease price than would otherwise have been the case. This punishment strategy would have been costly to enforce since an individual Farmer could typically get a higher return by accepting a lease from the King at the expense of his comrade. As such, the Farmers could only enforce a collusive strategy if the transaction costs of organizing were sufficiently low. In effect, this implied altogether different institutions than were required to minimize costs of collection. In particular, the fewer Farmers and Tax Farms there were, the lower the costs of collusion would have been. The next section we investigate how institutions surrounding Tax Farming evolved from the fourteenth to the eighteenth centuries in response to the changing role of the Farms.

Institutions, Institutional Change and the Performance of Tax Farming

Before the reign of Francis I (1494-1547), the role of “banking” for tax collectors was muted. The Tax Farms were predominantly set up to collect taxes as efficiently as possible. This implies that the Farms should have been organized to be as competitive as possible. In other words, laws and regulations concerning Tax Farming should have been written to encourage the existence of many Tax Farms and Tax Farmers. Furthermore, these rules should have been explicitly designed to prevent collusion between Farmers, or, the monopolization of Farms. When we look at the formal and informal rules concerning Tax Farming before 1661, we see that they were, indeed, largely designed to ensure that there were many Tax Farms and Tax Farmers who were unable to collude. One of the first official mentions of Tax Farming is in an *ordonnance* of April 1374 which stipulates that the auction for a Farm be announced by a local

official (the *élu*) publicly, “deux ou trois dimanches et marchés.”⁴⁴ This stipulation was reinforced by an *ordonnance* of 1508 requiring the farms to be leased at the Parish level.⁴⁵ The actual auction was to commence with the lighting of a candle, when the candle was burned to the wick, the auction was over. This process would be repeated for several consecutive days to allow for *enchères*, or, higher bids. Indeed, the *ordonnance* of 1374 allows the *élus* to take *enchères* on the Farm up to six months after the lease was signed.

Upon the finalization of a lease agreement, the *élus* were required to send the *Généraux des Aides* in Paris the contracts for the Farms in their diocese along with the names of the Farmers, their cautions, and the net worth of each Farmer. To prevent collusion, the *élus* were forbidden from leasing a Tax Farm to one of their “*parents*”, or, relations. They were further enjoined from leasing the Farm to, “nul homme d’Eglise, gentilhomme, ne nul officier du Roi.” These proscriptions against members of the First and Second Estates were, evidently, designed to serve two purposes. On the one hand, they prevented corruption, since nobles also typically played the role of local magistrate. Having judges collecting taxes would have created an obvious conflict of interest. The second reason was to encourage competition in auctions, as is shown by an *ordonnance* of 1393 which temporarily revoked the proscription against nobles bidding on Farms in the case where there were “not enough bids.” The result was to frighten away many Tax Farmers who were afraid to bid against a *seigneur*.⁴⁶

To prevent collusion between the *élus* and the Farmers, the *élus* were forbidden to be, “... compaignons ne participans à auscuns fermes sus peine de leurs biens estre confisque par le Roi.” To prevent collusion between potential farmers during the auction, the *élus* were required to include in the body of the lease a clause stating that if any Farmer were to be found making

⁴⁴ Roux, 37.

⁴⁵ Durand, 68.

⁴⁶ Roux, 48.

payments to another taking part in the auction, the Farmer would be required to indemnify the King. The Monarchy's fear of collusion was confirmed in an *ordonnance* of November 1508 which enjoined the *élus* to make it public in their auctions that, “aucuns par monopoles, associations, inductions, dons ou promesses ne soient cause de la diminucion de nosdictes fermes et qu'elles ne soient mises à pris raisonnable, sur peine de prison et amendes arbitraires”⁴⁷ There was nothing like the arbitrary wrath of an absolute Monarch to encourage following the rules.

Payments were to be made by the winning Tax Farmer to the King every month for the duration of the lease. The Farms leased by Parish level officials in this manner were, unsurprisingly, relatively small affairs. The historian, Vuitry records examples of the farms leased under the regulations of 1374 such as the “*1/4 sur les vins en détail*” for 1000 *livres*, the “*1/4 sur les cidres*” for 150 *livres*, and the “*1/13 sur les vins en gros*” for 60 *livres*. Everything about the early regulations concerning the Farms seems to have been designed to encourage competition in some way. In the beginning, the Farmers were not allowed to have even a single partner or investor. This rule was altered in January 1383 by an *ordonnance* allowing a *limited* number of associates if the Farm was large enough to justify it. Thus, he was allowed 1 associate for a Farm worth between 300 *livres* and 500 *livres*, 2 for a Farm between 500 *livres* and 1000 *livres*, and 3 associates if the value were above 1000 *livres*⁴⁸. The proscriptions against partners, or *cautionnaires*, as they were frequently called, is strong evidence that when the Farms were first developing their most important role was not banking for the King, but rather simply collecting tax revenues.

⁴⁷ Ibid, 60.

⁴⁸ Ibid, 44.

Beginning with the reign of Francis I, the importance of the banking function within the Farms begin to grow. Plagued by civil disturbances and religious conflict, the finances of the Crown had reached the point that by 1576 Henri III found it necessary to summon the *Estates General* at Blois. During the discussions, a coalition formed consisting of “*financiers*” and “*gentilhommes de la cour*” against the Tax Farmers, who were, by this time, owed a large amount of debt by the King.⁴⁹ On the fourteenth of January, the Third Estate voted a program which gave substance to these back-room deals which called for the “Suppression de tous les financiers moins quatre trésoriers de France, révocation de toutes les pensions créés depuis 1560 et, s’il fallait une somme actuellement exigible, levée d’une taxe arbitraire sur les financiers et les fermiers généraux ou leurs héritiers”⁵⁰ Accordingly, the contracts for the *Domaines, Aides*, and other large farms leased within the last twenty years were “revised”, under the pretext that they had been originally leased at “well below” their true value. Furthermore, foreigners were forbidden to hold Farms and all “rebates” granted by the King in previous years were revoked.

With the increase in lending and “banking” by the Farmers, the first large defaults on the Tax Farms by the Crown had arrived. As the amount of finance in the tax farms increased, the incentives for Royal default also increased. As already mentioned, further defaults were to come in the 17th century, and, as indicated by Figure 4, lease prices during this time were low relative to both the *Taille* and their level later in the century. The persistence of predation by the King on Tax Farm contracts led to a depression of lease prices. The, very real, possibility of default made the Tax Farms a less attractive investment for the Farmers than would have otherwise been the case.

⁴⁹ Ibid, 68.

⁵⁰ Ibid, 69.

When there is money left on the table, economic agents will attempt to alter institutions so as to make it their own. During the first half of the seventeenth century, there was a lot of money left on the table within the Tax Farm system due to the moral hazard problem. One of the ways in which the Tax Farmers and the King could make themselves better-off was by reducing the likelihood and severity of defaults by altering the rules of the game. The Tax Farmers could do this by colluding so as to make it less costly to punish the King when he defaulted. This would have, in effect, prevented the King from re-leasing the Farm after a default and have forced him to accept a lower price for the Farms. By making default more costly, collusion could benefit *both* the Farmers and the King. It is not surprising, then, that we begin to see the introduction of new institutions which made collusion less costly such as in 1598 when the Crown unified most of the customs duties, known as the *Traites* into a single tax farm, henceforth known as the *Cinq Grosses Fermes*. The *Cinq Grosses Fermes* became one of the leading lenders to the Crown during the first half of the seventeenth century, as is shown by Figure 8. The *Aides*, *Gabelles*, and *Domaines* also experienced some unification at this time. In addition, the administration of auctions for the Farms was transferred from the Parish level to Paris, which gave the Crown more direct discretion over the writing and enforcement of contracts.

Fundamentally, however, few formal institutions were altered in the early seventeenth century in order to make the Farms better suited for their role as financial intermediaries. Laws still required the organization of auctions and the writing of contracts to ensure competition according to the old *ordonnances*. This persistence shows up in data on Tax Farming during the first half of the seventeenth century in several ways. In the first place, it is fairly clear that auctions were competitive. Figure 11 shows the number of bids submitted during the auctions

for each of the 156 tax farm contracts between 1598 and 1653 for which we possess data.⁵¹ Most auctions were fairly competitive, with between seven and eleven bids being submitted.

Furthermore, the bidding on the Farms had a real effect on their final prices. Of the fifty auctions which had between seven and eleven bids submitted, twenty of them had their lease price bid up between 20% and 50% higher than its initial offer. It is easy to conclude from this data that Tax Farm auctions were still relatively competitive during the first half of the seventeenth century.

A primary way in which institutions could have been altered so as to make banking through the Farms more effective would have been to lower the transaction costs associated with collusion between the Farmers. We know that no formal rules were introduced allowing this. Indeed, we have seen that the *ordonnance* of 1383 severely restricted the number of *cautionnaires* allowed to participate in a given Farm. Furthermore, we have seen that many of the regulations surrounding Farming were designed to prevent an individual Tax Farmer from achieving anything resembling monopoly power. Figures 12 and 13 show that, despite the increase in financial intermediation through the Farms in the early seventeenth century, collusion could not have been taking place on a large scale.⁵² On a typical Tax Farm contract, there was one Farmer who signed and assumed legal responsibility for running the Farm. This person was known as the *titulaire* of the contract. As mentioned above, the *titulaire* typically had several partners who invested with him in the Farm known as *cautionnaires*. Figure 12 shows the number of *titulaires* who signed multiple Tax Farm contracts between 1590 and 1653. Of the 266 signatures which appear in total, 219 of them appear only once. Only 4 Tax Farmers appear to have signed a lease more than 3 times. Of the Farmers whose names appeared more than

⁵¹ Bayard, 113.

⁵² Ibid, 151-3.

once, 24 of these acted for less than 5 years. Figure 13 gives the same information as Figure 12 concerning *cautionnaires* for the Farms. It shows how many times a given name shows up on multiple leases. Out of the 304 signatures, 232, or, about 76% of them show up only once. This means that 76% of *cautionnaires* before 1653 took part in only one lease. Taken together, Figures 12 and 13 offer compelling evidence that there was little collusion amongst Farmers during the first half of the seventeenth century.

The organization of Tax Farming, characterized by many small Farms, competitive auctions, and lack of collusion, was altered dramatically by Colbert. He revoked old contracts using the *Chambre de Justice* and began the unification of the Farms, putting personal relations at their head. All of this took place without any formal changes in institutions. Colbert was personally responsible for overseeing the leasing and enforcement of the Tax Farm contracts. From Figure 7 we know that the concentration of Tax Farm ownership increased under Colbert's guidance. Before 1656 about 52% of revenues came from the two largest Farms. Between 1661 and 1681 this concentration was raised to about 62%. This is not, however, a particularly large difference. More important to the ability of the Tax Farmers to perform their roles was the fact that Colbert actively encourage them to collude and guaranteed, through his position, that they would not be punished for it.

We see evidence for collusion between the Farmers after Colbert's reorganization in the data on the identity of *cautionnaires* between 1661 and 1680. Figure 14 shows the same data on *cautionnaires* as Figure 13 above.⁵³ By contrast to the period which preceded it, between 1661 and 1680, only 26% of *cautionnaires* participated in just one Tax Farm contract. About 40% participated in three or more. This data is even more indicative of collusion due to the fact that

⁵³ Data compiled from Dessert, 1984, Appendix 2, which lists each of the contracts and the names of its participants.

there are only 24 leases recorded in the sample. 18% of *cautionnaires* participated in at least 20% of the leases during this period.

What were the effects of Colbert's informal reorganization of the Tax Farms on their performance? Figure 4 shows that lease prices increased dramatically after 1661. However, our arguments are specifically concerned with the importance of the Farmers' role as financial intermediaries. If it is true that the Farmers were more suited to constrain the King and, thus, act as financial intermediaries when they were monopolized, then we should expect to observe a general increase in anticipations through the Farms after 1661. Table 3 gives us some idea of the amount of financial intermediation taking place through the Farms before and after 1661.⁵⁴ Getting accurate data on total lending through tax collectors during the sixteenth and seventeenth centuries is not straight-forward. Accounting practices were not consistent and it was occasionally in the interests of the Crown to hide certain transactions. Nonetheless, we can develop a proxy for all loans conducted through tax collectors by concentrating on anticipations on future revenues. These were regularly recorded for both the Tax Farms and the *Taille* and also were typically the largest component of lending.

Table 3: Average Real Anticipations Through the Tax Farms: 1600-1695

Years	Average Anticipations
1614-1647	200,420 <i>livres</i>
1671-1681	585,735 <i>livres</i>
1681-1691	586,652 <i>livres</i>

⁵⁴ Data on anticipations between 1614-1647 comes from the Appendix to Bonney, 1979, which appears in Figures 8, 9, and 10. I construct the measure of average anticipations during the period using only years for which data is recorded. The data for 1671-1691 comes from AN KK335 and is deflated using M. Baulant and J. Meuvret, *Prix des céréales extraits de la mercuriale de Paris, 1520-1698*, (2 vols., Paris, 1960, 1962), as reproduced in the ESFDB, frindc\indd007.txt.

Table 3 shows that the average amount of real anticipations through the Tax Farms nearly tripled from 200,420 *livres* between 1614 and 1647 to 585,735 *livres* between 1671 and 1681. Thus, an increase in lending through the Farms did accompany Colbert's reforms.

The organizational changes occurring in the Tax Farms based on Colbert's reputation and his informal network of associations could not last for two reasons. First, Colbert could no more credibly constrain Louis XIV from preying on the rights of the Tax Farmers than anyone else. Second, and vastly more important, Colbert would pass away in 1683, and along with him his reputation. Colbert, however, formally changed the rules of the game before this occurred by creating the CGF and codifying its rules in the *Titre commun pour tous les fermes*. The creation of the CGF, in effect, resulted in a legal, partial liability corporation bringing together *all* of the major Tax Farms.⁵⁵ The creation of the CGF had an even more dramatic effect on the extent of collusion between Tax Farmers than did Colbert's informal encouragement of collusion. Figure 15 shows the number of *cautionnaires* participating in the six Tax Farm leases between 1681 and 1708. Only about 10% of the Farmers names appear on just one lease. Over half of the Farmers participated in more than four of the leases. These numbers imply that, when the CGF was created, the Tax Farmers were a relatively tight knit group that knew they were in business together for the long-run.

Table 3 shows that there was, in effect, no appreciable difference in the average amount of anticipations coming from the Farms under the CGF as when Colbert was alive. Of course, comparing raw averages may not be very convincing. In particular, since what we would really like to do is compare the *cost* of borrowing through the Tax Farms at different periods. The cost of borrowing was contained within *Charges* passed on to the King by the Farmers every year. Unfortunately, there are two problems with using the *Charges* to compare the cost of funds

⁵⁵ Bonney, 1979.

through the Farms. First, *Charges* were not recorded before 1661, so we can only use them to discuss changes between when Colbert was running the Farms and when they were being run by the CGF. Second, *Charges* contain more information than simply costs of lending. They also include part of the costs of collection and local disbursement of funds by Farmers for the King. That said, given the size of anticipations through the Farms, this probably comprised one of the largest components of *Charges*. Furthermore, if we assume that costs of collection and the amount of local disbursement were relatively constant over time, then we can get a measure of the *relative* cost of borrowing through the Farms during different periods. Given these assumptions, a rough measure of the relative costs faced by the King of borrowing through the Farms would be given by the size of anticipations through the Tax Farms divided by *Charges*. Table 4 gives this measure for the periods 1671-1681 and 1682-1692.⁵⁶

Table 4: Average Real Anticipations and Cost of Anticipations Through the Farms: 1671-1692

Years	Anticipations	Charges	$\frac{\textit{Anticipations}}{\textit{Charges}}$
1671-1681	5,857,356 <i>livres</i>	12,816,071 <i>livres</i>	.46
1682-1692	6,504,914 <i>livres</i>	15,318,587 <i>livres</i>	.42

Table 4 shows that our rough measure of the cost of borrowing through the Farms doesn't change significantly after the death of Colbert. This implies that the creation Company of General Farmers lowered transaction costs sufficiently to allow the Farmers to continue in their role as the King's bankers.

Another way of testing whether the institutional reforms of Colbert actually had an impact on the cost of borrowing through the Farms is to look at the what proportion of the borrowing done by the King took place through the Tax Farms both before and after Colbert's reforms. In particular, we can compare the size of borrowing through the Farms relative to

⁵⁶ AN KK355.

another of the most important taxes through which the King borrowed, the *Tailles*. Direct measure of borrowing through the *Tailles* before 1661 do not exist and the data on the Farms is intermittent and difficult to interpret. However, we do have detailed data on the size of debts owed by the King to the collectors of the *Taille* and the Tax Farms in 1661.⁵⁷ This should offer evidence of the amount of borrowing through each tax before this date. In sum, the total amount of tax revenues anticipated in 1661 on the *Tailles* amounted to approximately, 16,815,488 *livres*. The corresponding size of anticipations on the receipts from the Tax Farms for 1662 was 9,552,034 *livres*. In other words, if we use size of anticipations as a proxy for total lending through the Farms and *Tailles*, then the *Tailles* were about twice as important to the King as were the Tax Farms in 1661. If we add to the total amount of anticipations the amount of “other” loans through the taxes, the size of lending through the *Tailles* rises to 19,194,914 *livres* while that for the Farms increases to 16,595,034 *livres*. Either way debt is measured, the *Tailles* were the most important lending instrument used by the King in 1661.

As the unification of the Tax Farms progressed after 1661, the relative importance of the collectors of the *Tailles* as financial intermediaries for the King began to fade. Figure 16 shows the total size of anticipations through both the Tax Farms and the *Tailles* from 1665 to 1695. What stands out in the data is that, at the beginning of the period, when Colbert’s unification of the Tax Farms was incomplete, they were by no means the predominant financial intermediary used by the King. However, by 1675 the Farms were, unambiguously, the financial intermediary of choice.⁵⁸ The Tax Farms would continue to be one of the chief sources of financial intermediation for the King into the eighteenth century.

⁵⁷ AN KK355

⁵⁸ For some years Figure 16 grossly *underestimates* borrowing through the Farms since it ignores the creation of the *Caisse des Emprunts* in 1678. Borrowing through the *Caisse d’Emprunts* averaged about 5,738,817 *livres* a year between 1678 and 1683.

Our explanation for the increase in lease prices after 1661 is based on the claim that the Farmers overcame the moral hazard problem created by forwarding tax receipts to the King. The institutional changes which allowed for this were, initially, Colbert's reputation combined with the informal monopolization of the Farms which he implemented. After 1681, it was the creation of the CGF which reduced the transaction costs of collusion between the Farmers sufficiently to allow them to punish the King by forcing him to accept the *Régie* value of the Tax Farm in case of default. Is there any evidence that the Farmers ever carried out this threat? Yes, with the outbreak of the War of the Spanish Succession in 1701, borrowing by the Crown reached all time highs at the same time that the economy was going into recession. The King began to miss payments on loans coming through the Farms. In 1703, when the Lease Templier expired, the Company only accepted the next lease on a three year basis. Moreover, the Company refused to include the *Cinq Grosses Fermes*, the Farm most heavily hit by fluctuations in trade, in the new Lease Ferreau. The Crown was forced to place the *Cinq Grosses Fermes* in *Régie*.⁵⁹ The Farmers again forced the *Cinq Grosses Fermes* into *Régie* in 1706 when they signed the Lease Isambert on a year to year basis. By 1709 the government owed a massive amount of debt and had no realistic plan to pay it back. It began to renegotiate this debt at a sharp discount from its original value.⁶⁰ At this point the Farmers did precisely what the model implies and they forced the entire Farm System into *Régie*. This *Régie* lasted until 1714 and was administered by many of the same Farmers who ran the CGF. However, they no longer acted as tax farmers and were paid a salary.

In 1711 the worst of the economic crisis was over and in 1713 peace was restored. By 1714 the Farmers had negotiated a new lease which was very favorable to their cause. The lease

⁵⁹ Clamageran, *Histoire de l'impôt*, III, 79.

⁶⁰ Matthews, 58.

price was set on a sliding scale from 26,603,000 *livres* for the first year to 44,099,328 *livres* for the last, with the King getting only three-quarters of the profits from the Farm in the last year.⁶¹ In 1715 the lease was cancelled by the death of Louis XIV. It was then revealed that the future yields of the Tax Farms had been anticipated to the year 1722!⁶² Such long-term anticipations, would never have been possible before the unification of the Farms. The debt would have to have been paid off at the end of every Tax Farm contract, successfully transferred to the next Tax Farmer, or defaulted upon by the King. Louis XV was five when he ascended to the throne, thus, authority was entrusted to the duc d'Orléans until his majority was reached. Louis XIV's professional ministers were replaced with a series of overlapping councils dominated by great nobles. These inexperienced *courtiers* embarked upon series of defaults on debt held by the Farm including a *visa* operation, which liquidated 350,000,000 *livres* of short-term debt and reduced the rate of interest on the remaining 250,000,000 to 4%.⁶³ A *Chambre de Justice* was introduced which taxed the financiers, including the Tax Farmers an additional 219,000,000 *livres*.

Soon after these privations, John Law rose to power and began to set up his new "System" based on his trading company known as the Company of the Occident from which he issued stock in exchange for depreciated government debt. This stock was declared legal tender for the payment of, among other things, taxes. The Tax Farmers responded almost immediately to this threat by setting up their own "Anti-System". They issued shares promising dividends between 12% and 16%. They sold brilliantly, reflecting the public's confidence in the security of revenues from the Farms rather than Law's Company, whose profits, dependent upon the performance of France's Mississippi colony, seemed less certain. The Farmers attempted to

⁶¹ Ibid, 59-60.

⁶² Marion, *Histoire financière*, I, 63-5.

⁶³ Matthews, 61.

undermine Law's System by redeeming their significant holdings of stock in the Company of the Occident for gold. Law checked this run on his new bank by fixing the value of the bank notes by law and then devaluing the gold content of the *louis d'or*. In 1719 the Occident Company, which had been renamed the Indies Company, took the Tax Farms away from the Company of General Farmers with the support of the Regent. His attempt to unify the administration of the Farms with that of the *Taille* and other major taxes failed when the public lost confidence in the credit of the System and it collapsed in 1720.

With John Law in exile and his System in shambles, the government was forced to return to the CGF to run the Farms. The Company offered the Crown a lease price of only 40,000,000 *livres* per year, as compared to the 52,000,000 *livres* that Law had brought in.⁶⁴ The Crown, finding this offer unacceptable, but unable to convince the Farmers to raise their bids and having nowhere else to turn, was forced to place the Farms in *Régie* once again. The *Régie Cordier* lasted from 1721 to 1726. It was, once again, run by the Farmers who received a salary from the government of 18,000 *livres* a year. The yield from the Farms suffered substantially during the administration of the *Régie*, and there is some evidence that the Tax Farmers took the opportunity to raid the Royal coffers. In 1727, with the signing of the Lease Carlier, the Tax Farms were once more administered by the CGF according to a "traditional" tax farming arrangement. The Farms would not disappear again until 1791 when the National Constituent Assembly finally dissolved them. Whether or not the Farmers forcing the Tax Farms into *Régie* after the dissolution of Law's system was a punishment for the behavior of the Crown is impossible to prove definitively. But it does fit the behavior predicted by our model and it was certainly effective from the point of view of preventing future predation against the Farms.

⁶⁴ Ibid, 71.

The story of the Tax Farms is one of institutional change in the long-run. It took over a hundred years to overcome the transaction costs of organizing the Farms so as to make them more suited as financial intermediaries for the King. Throughout the first half of the seventeenth century receipts floundered and defaults on loans through the Farms were common. It was primarily through the efforts of one individual, Colbert, that the institutional reforms prerequisite for the Farms to successfully play their new role took place. That Colbert managed to direct the Farm System while he was alive is a testament to his political savvy. His decision to create the CGF, however, lowered transaction costs so that the Farmers could continue to act as bankers for the King, permanently.

The creation of the CGF, however, came at a high price. As this paper has claimed, creating a monopoly out of the Tax Farms may have been good for constraining the King, however, it also implied the sacrifice of revenues due to the creation of a monopolistic Farm System. The benefit of monopolizing the Farms was that it allowed for their more effective use as financial intermediaries. However, monopolization also brought with it monopoly profits. There is no reason to think that this trade-off was always a good one for the King. By the end of the eighteenth century there were about sixty Farmers associated with each contract signed by the General Farms. Adrien Delehante estimates, conservatively, that each of these Farmers made profits of approximately 156,000 *livres*. This represented about 20% of the gross receipts from the Farm. Contemporaries of the Farmers such as François Nicolas Mollien and Antoine Lavoisier offer similar estimates.⁶⁵ By the end of the eighteenth century, another famous Minister, Jacques Turgot, would attempt, unsuccessfully, to break up the Tax Farm monopoly.

⁶⁵ Eugene White, *L'Efficacité de l'affermage de l'impôt: la ferme générale au XVIII^e Siècle*, (Comité pour l'histoire économique et financière, 1997), 112.

Ultimately, the Tax Farms were no panacea for the fundamental problem underlying absolute monarchy. Namely, the tendency for the King to act in his own, short-term, interests at the expense of his subjects. If France had experienced a constitutional revolution during the Fronde, rather than seeing Louis XIV solidify his power, then public finance would have probably been, permanently, better off. There was, however, a partial revolution in France which occurred within the context of existing absolutist institutions. The Company of General Farmers behaved as a sort of “parliament of *financiers*” to counteract the power of the King. The interests of the Tax Farmers may have been selfish, but in fulfilling them they managed to check the King to the middle ground between financial anarchy and constitutional constraint.

Figure 1: Extraordinary as a Proportion of Ordinary Revenues

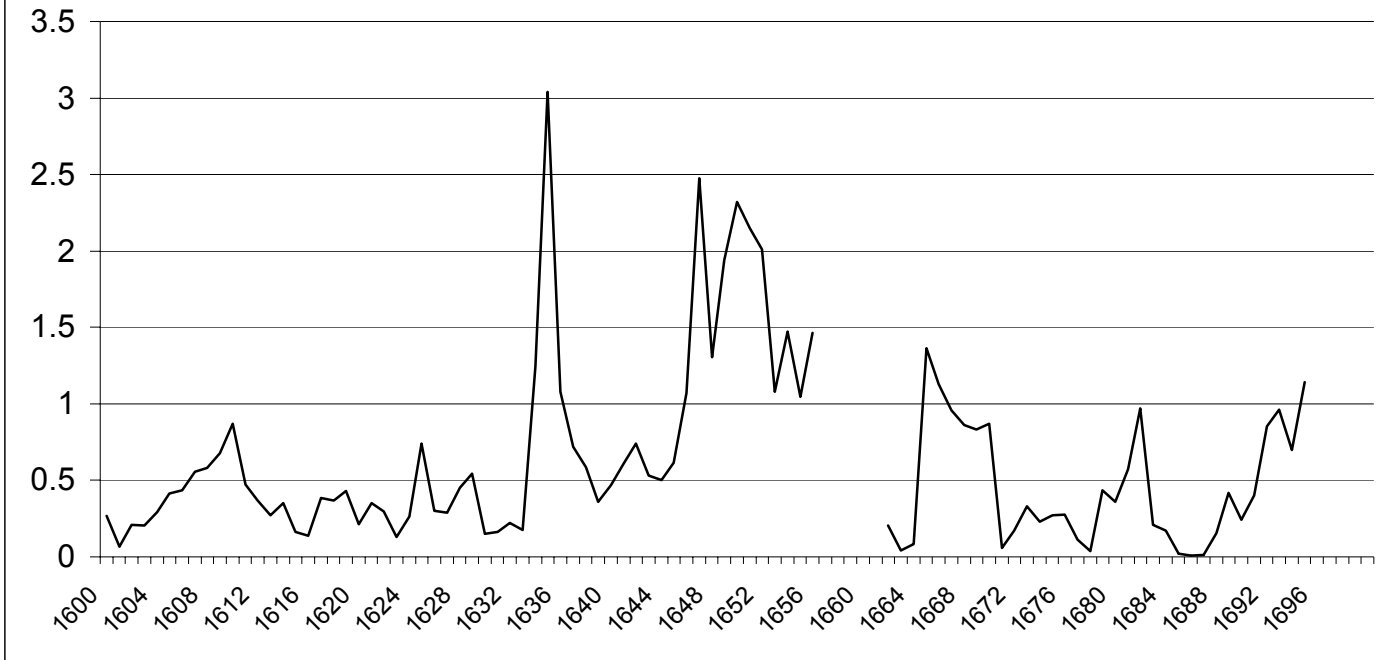


Figure 2: Total Expenditure of the French Monarchy

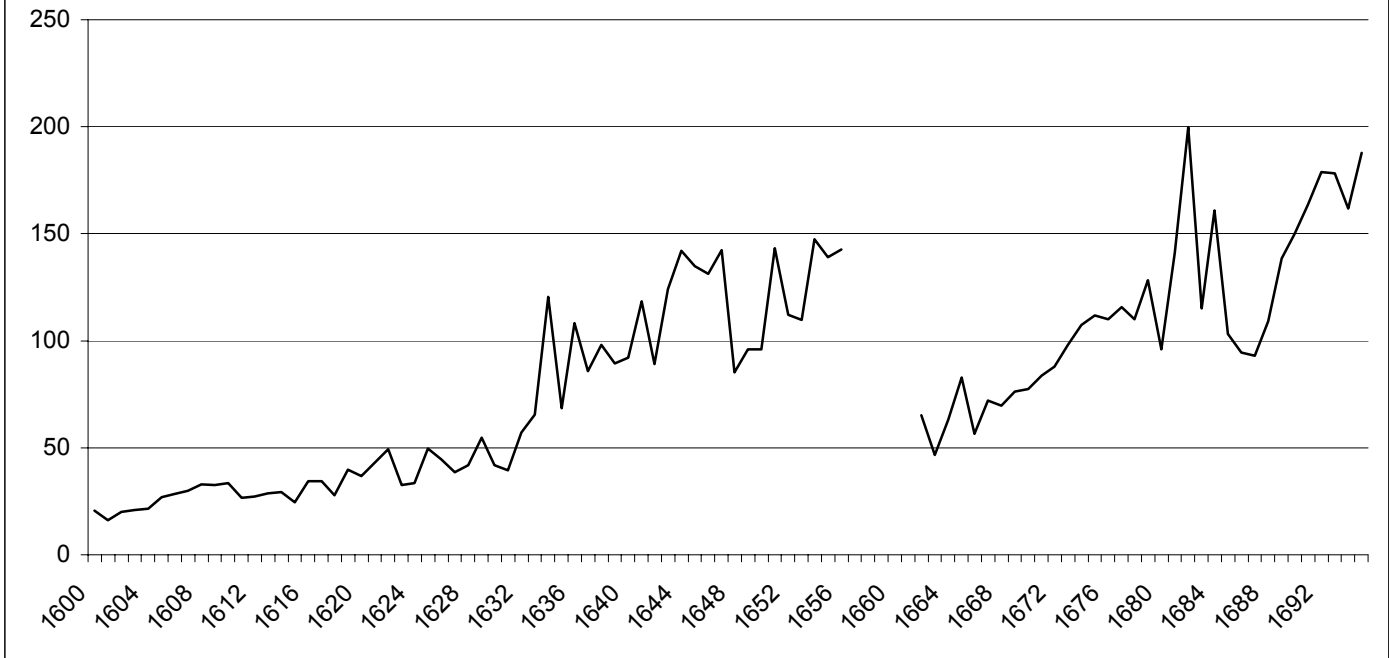


Figure 3: Ordinary Revenues from 1600-1695 (in Millions of Livres Tournois)

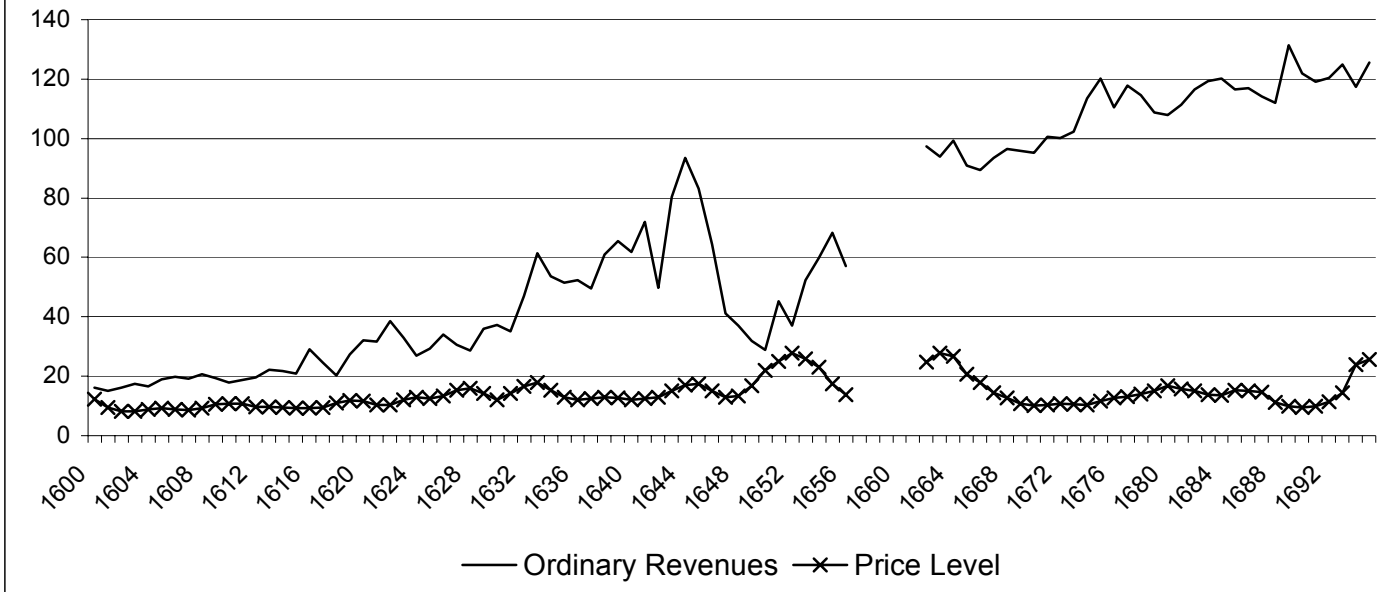


Figure 4: Sources of Tax Revenues, 1600-1695 (in Millions of Livres Tournois)

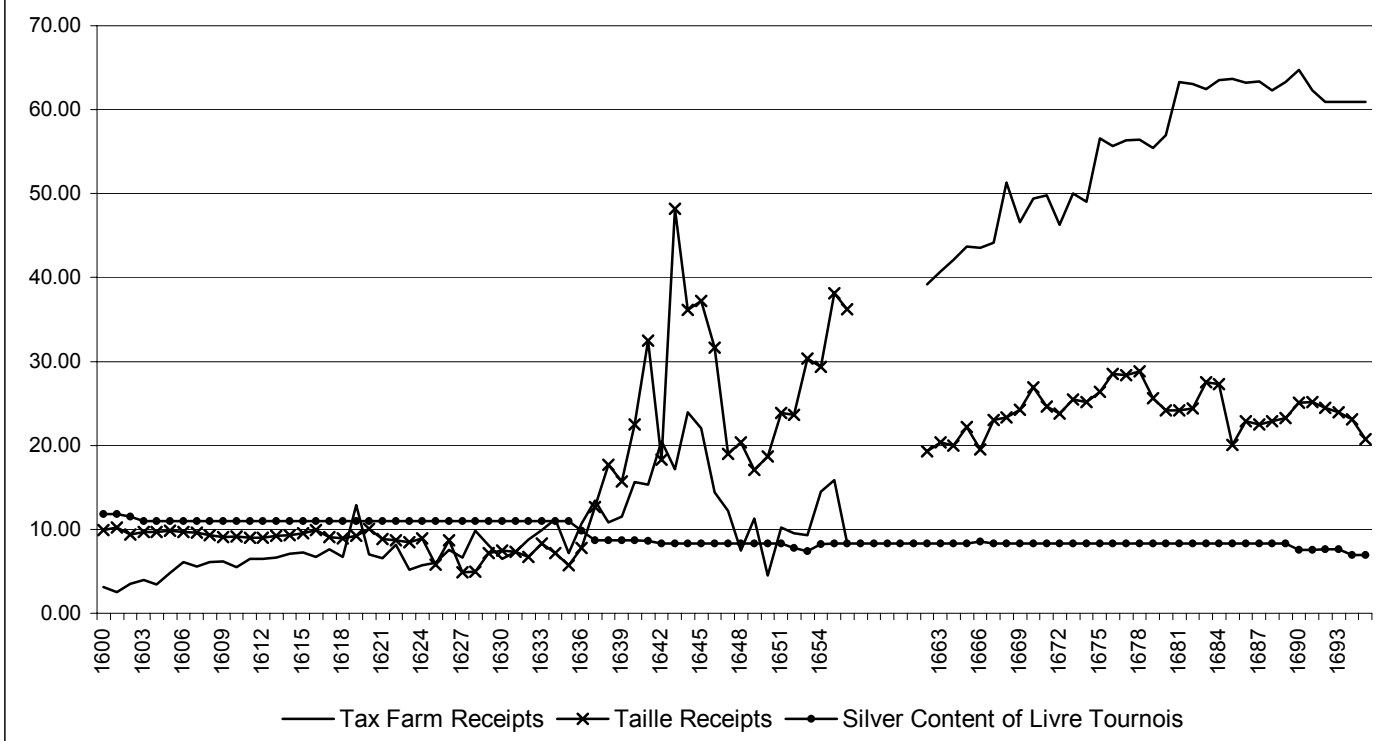


Figure 5: Contracted and Actual Yields from the Gabelles: 1600-1663 (Millions of Livres Tournois)

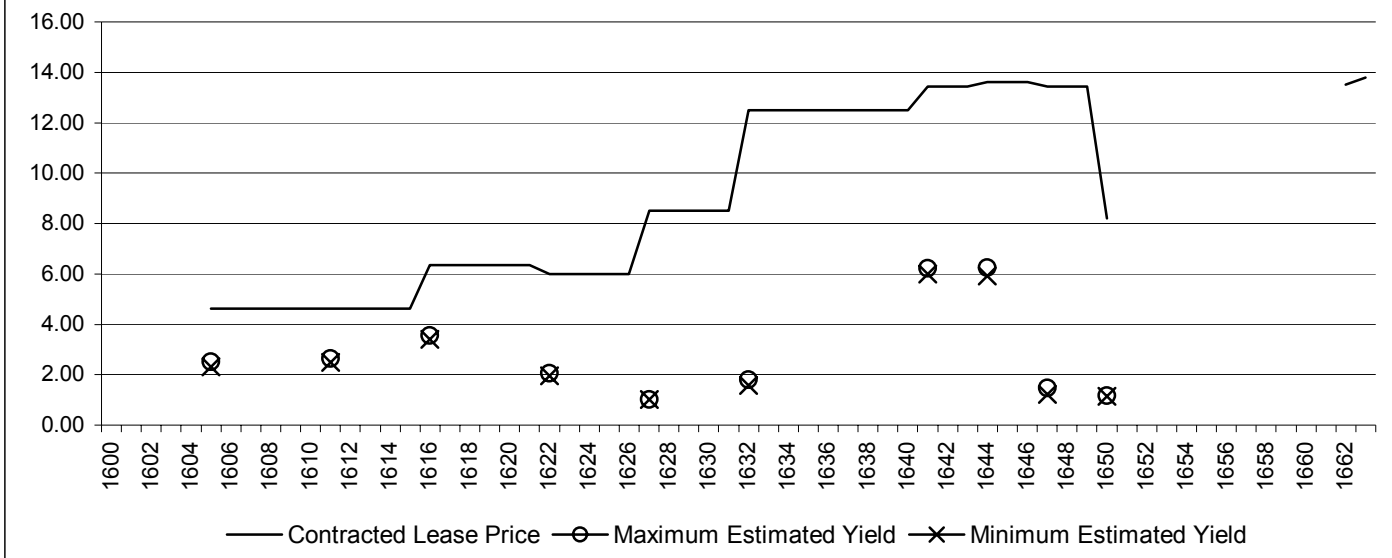


Figure 6: Tax Farm Revenues as a Proportion of Total: 1642-1773

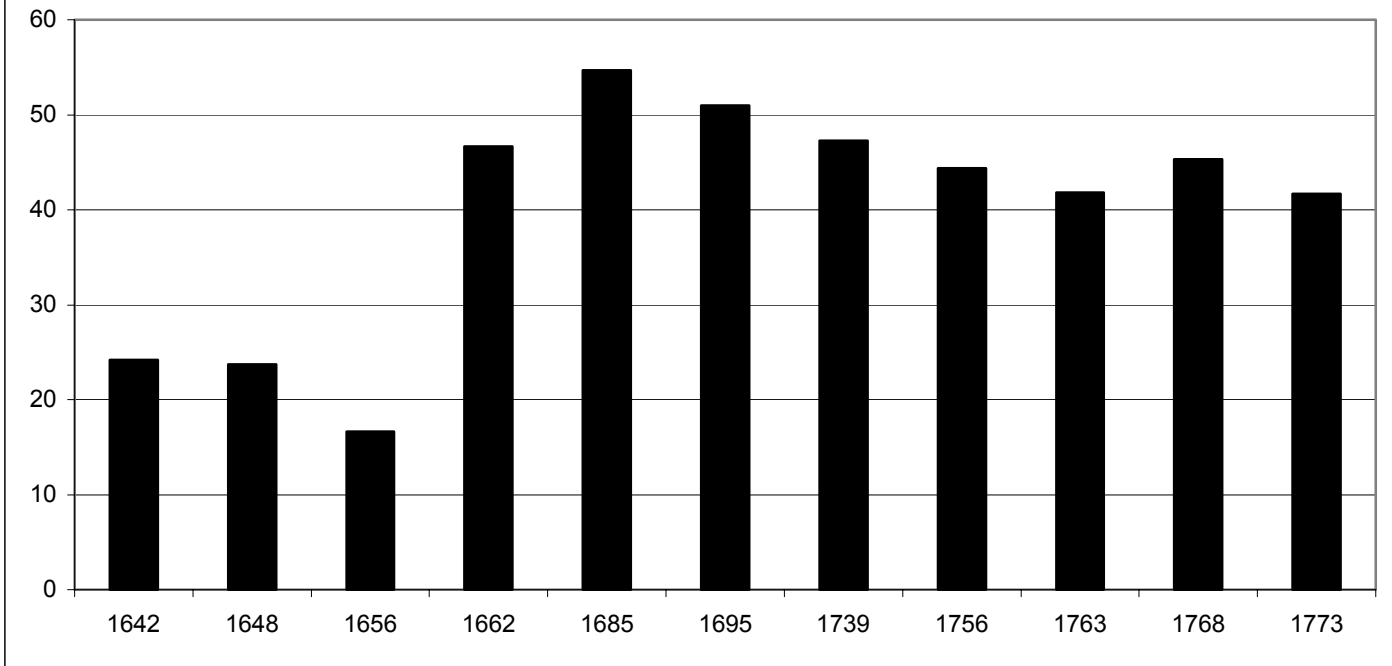


Figure 7: "One-Farm" and "Two-Farm" Concentration Ratios: 1600-1700

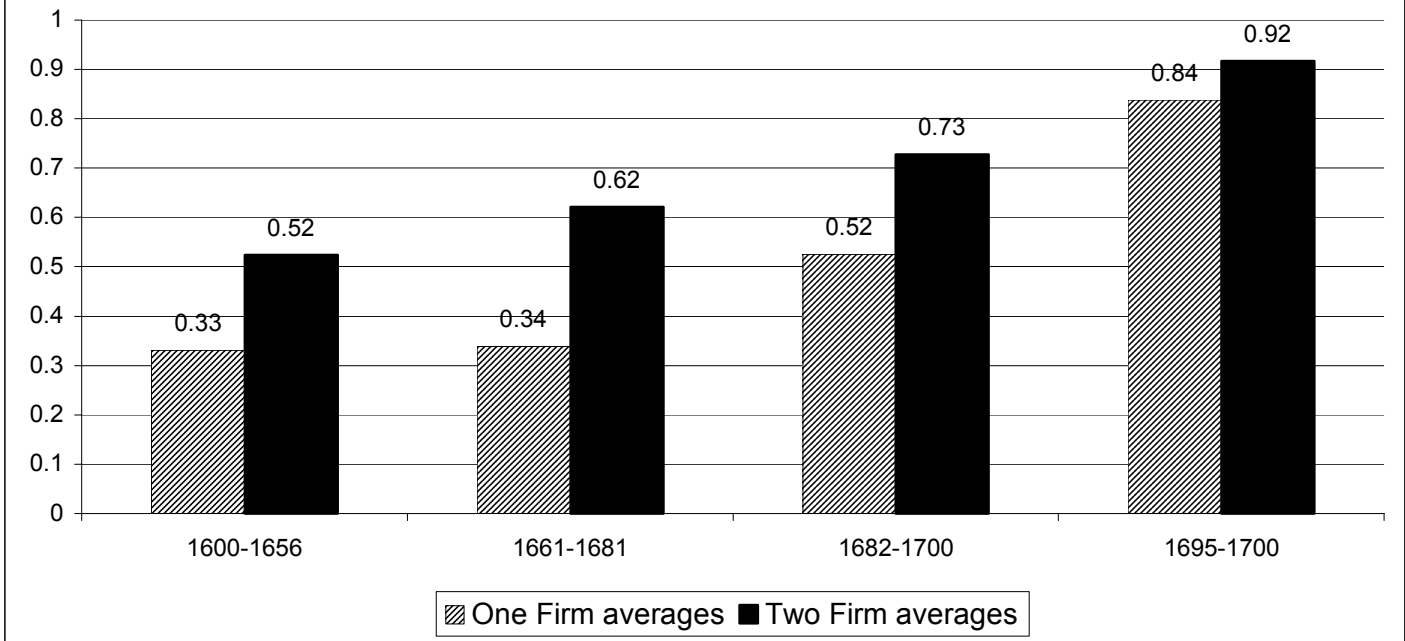


Figure 8: Anticipations thru the Traits: 1600-1653

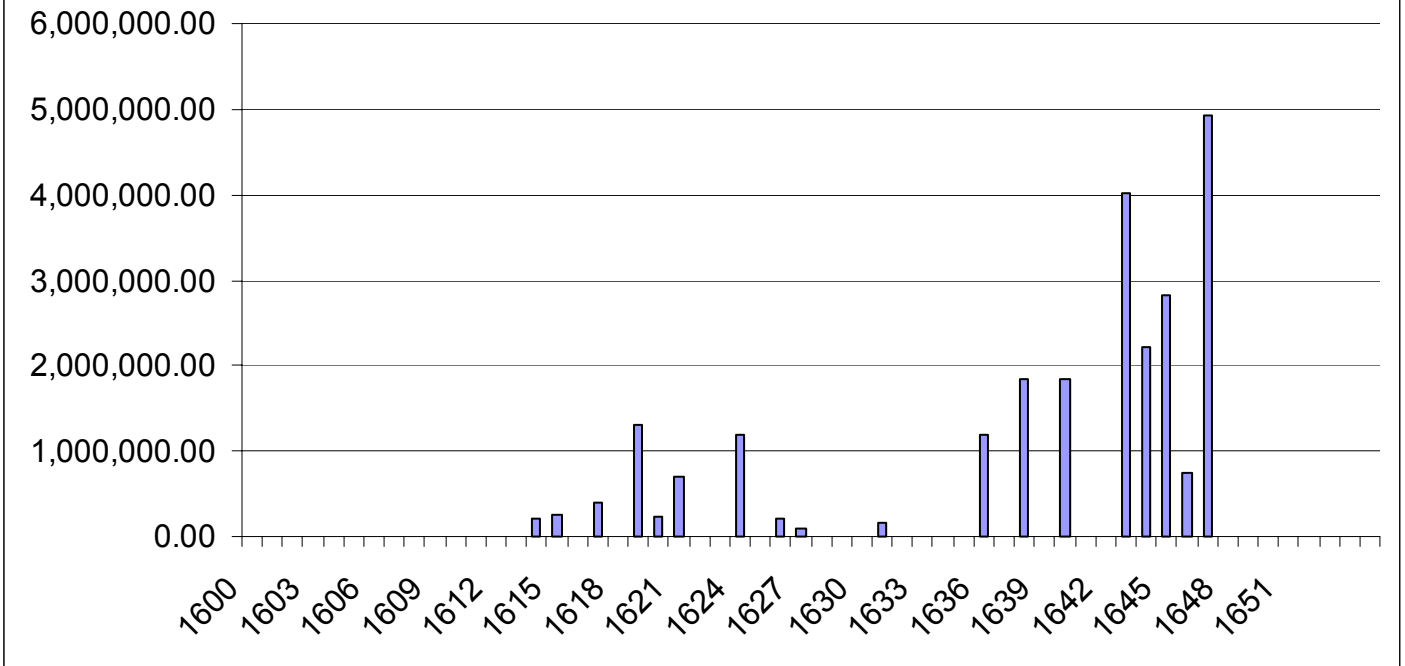


Figure 9: Anticipations thru the Gabelles: 1600-1653

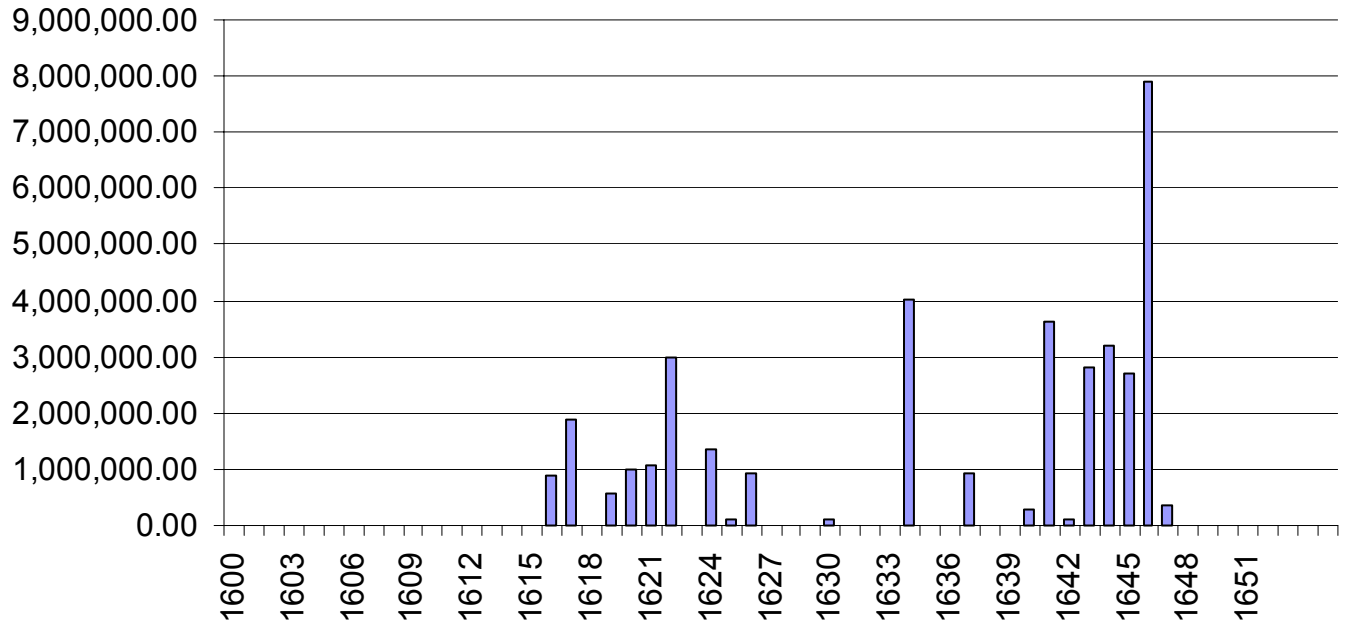
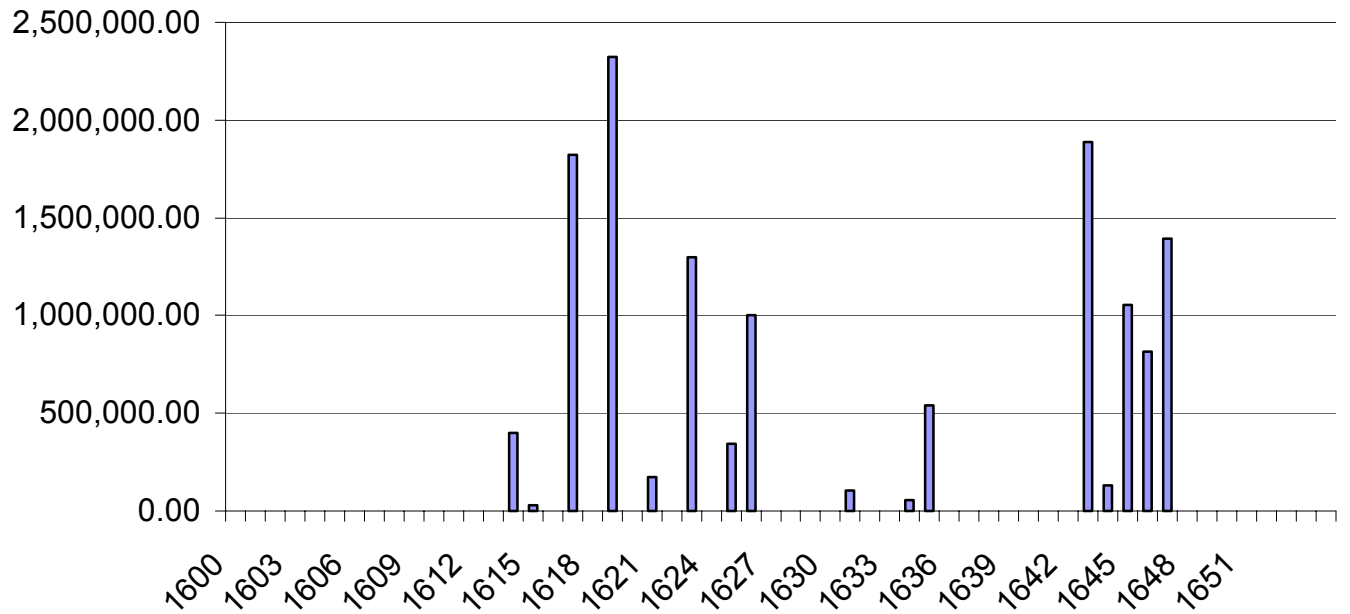


Figure 10: Anticipations thru the Aides: 1600-1653



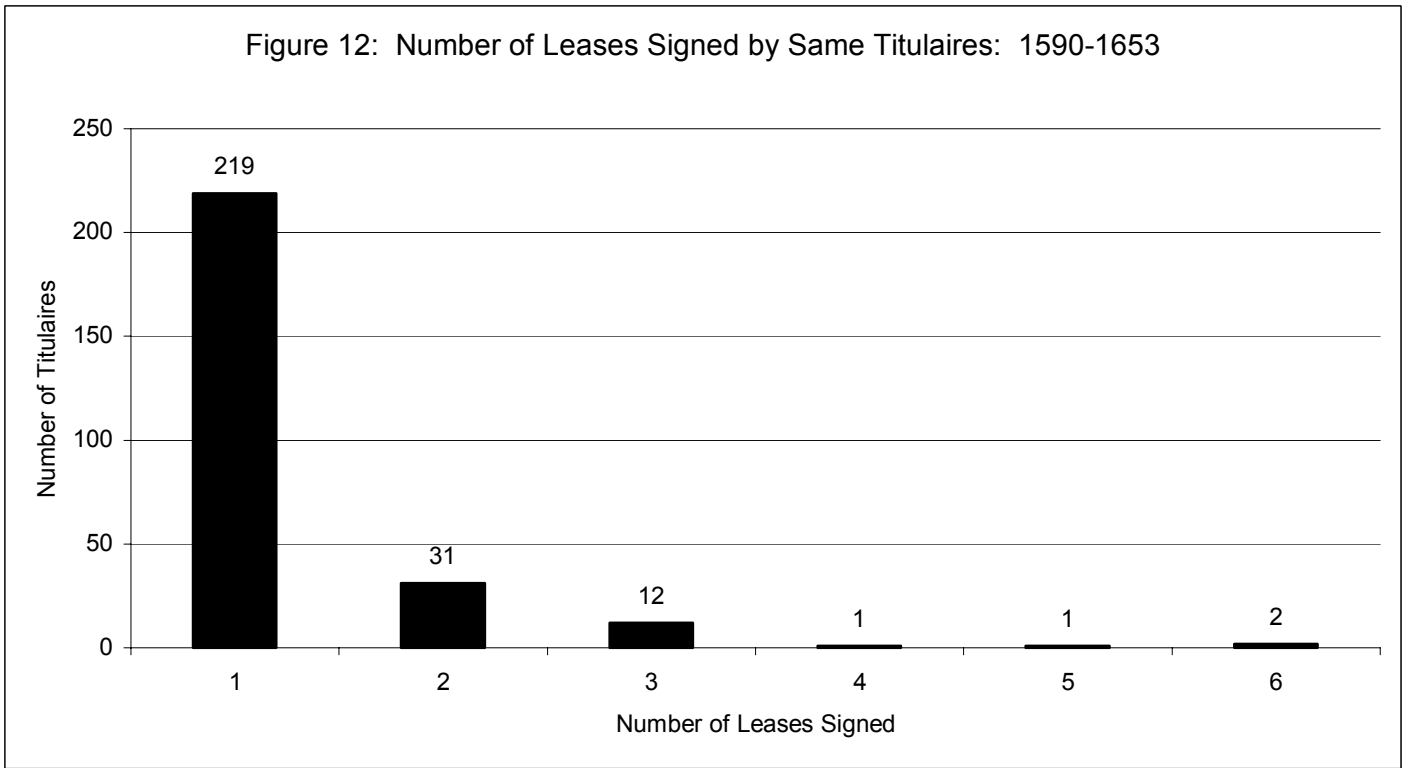
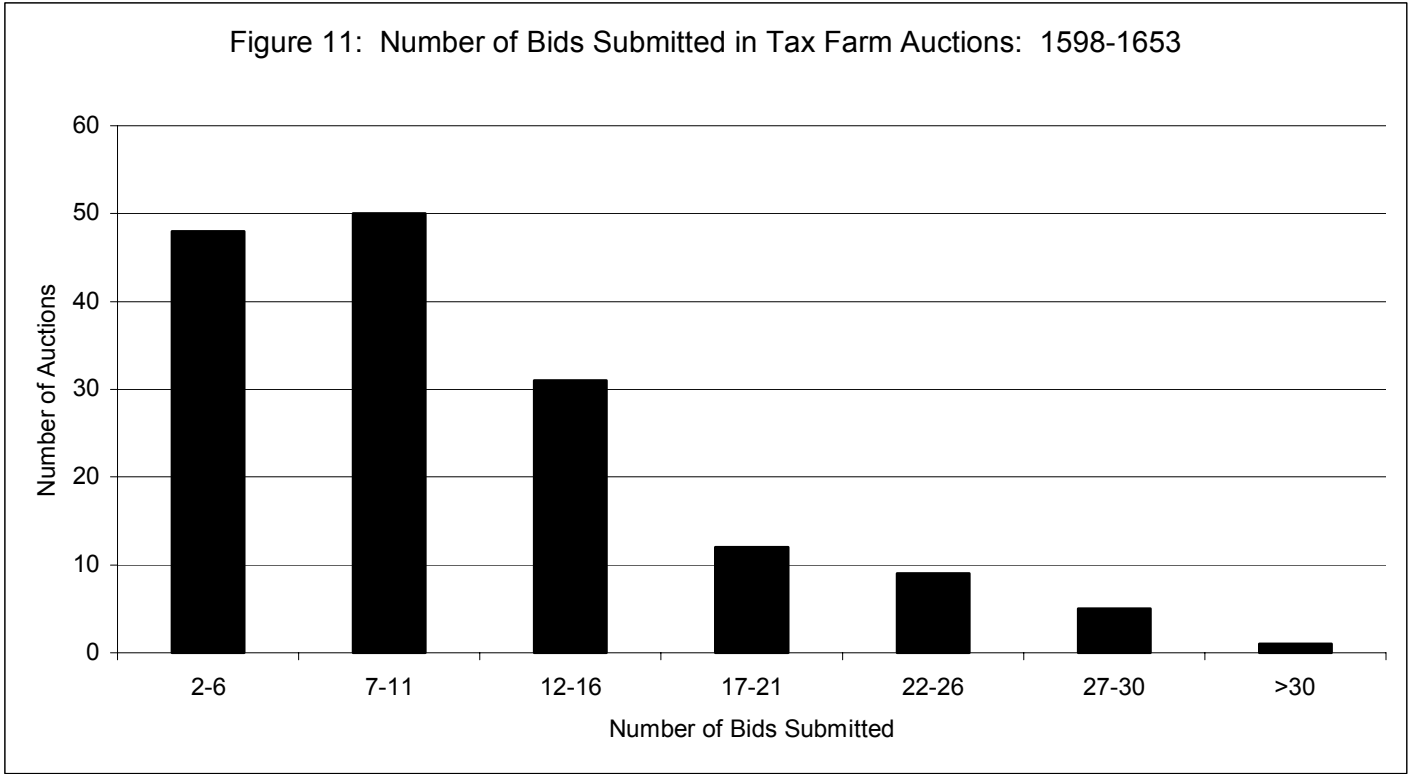


Figure 13: Number of Leases Signed by Same Cautionnaires: 1590-1653

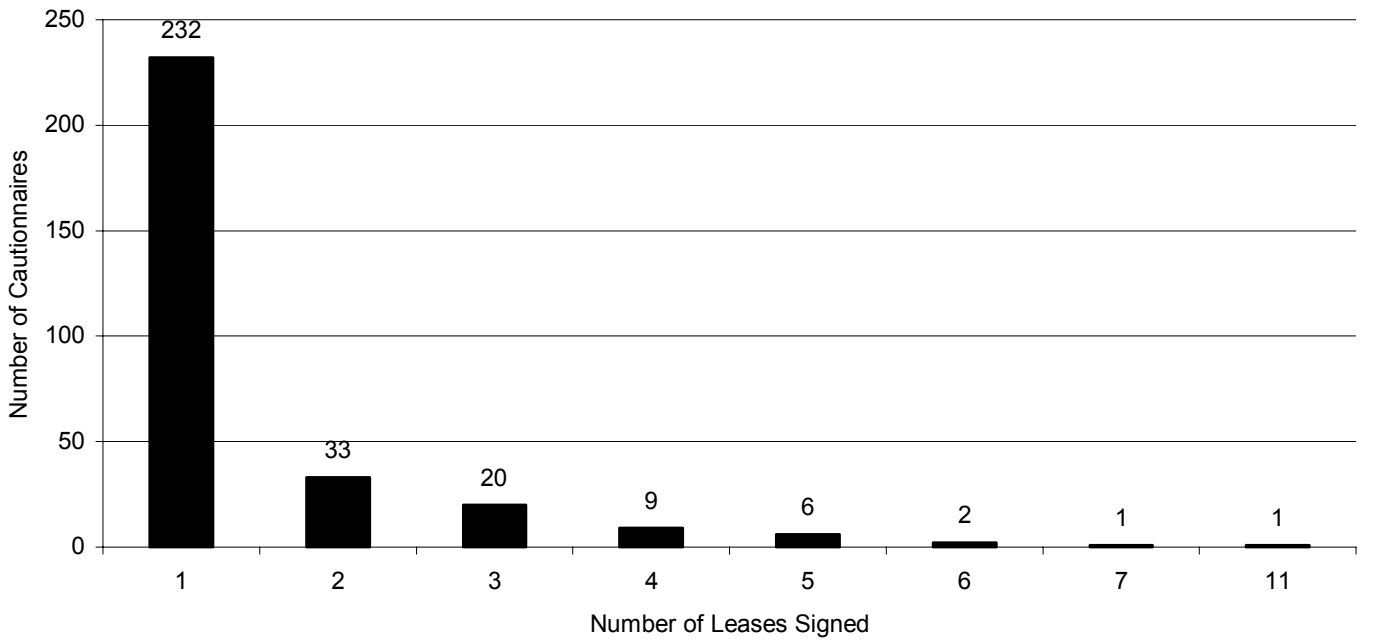


Figure 14: Number of Leases Signed by Same Cautionnaire: 1661-1680

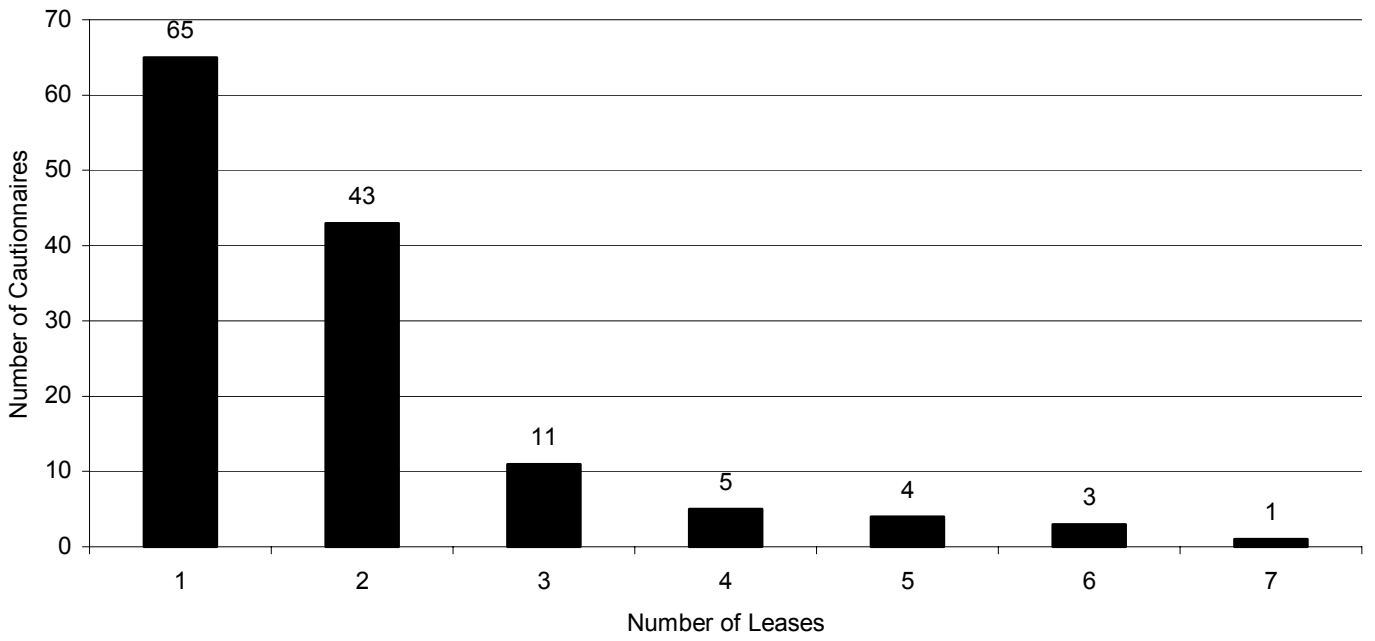


Figure 15: Number of Leases Signed by Same Cautionnaire: 1681-1708

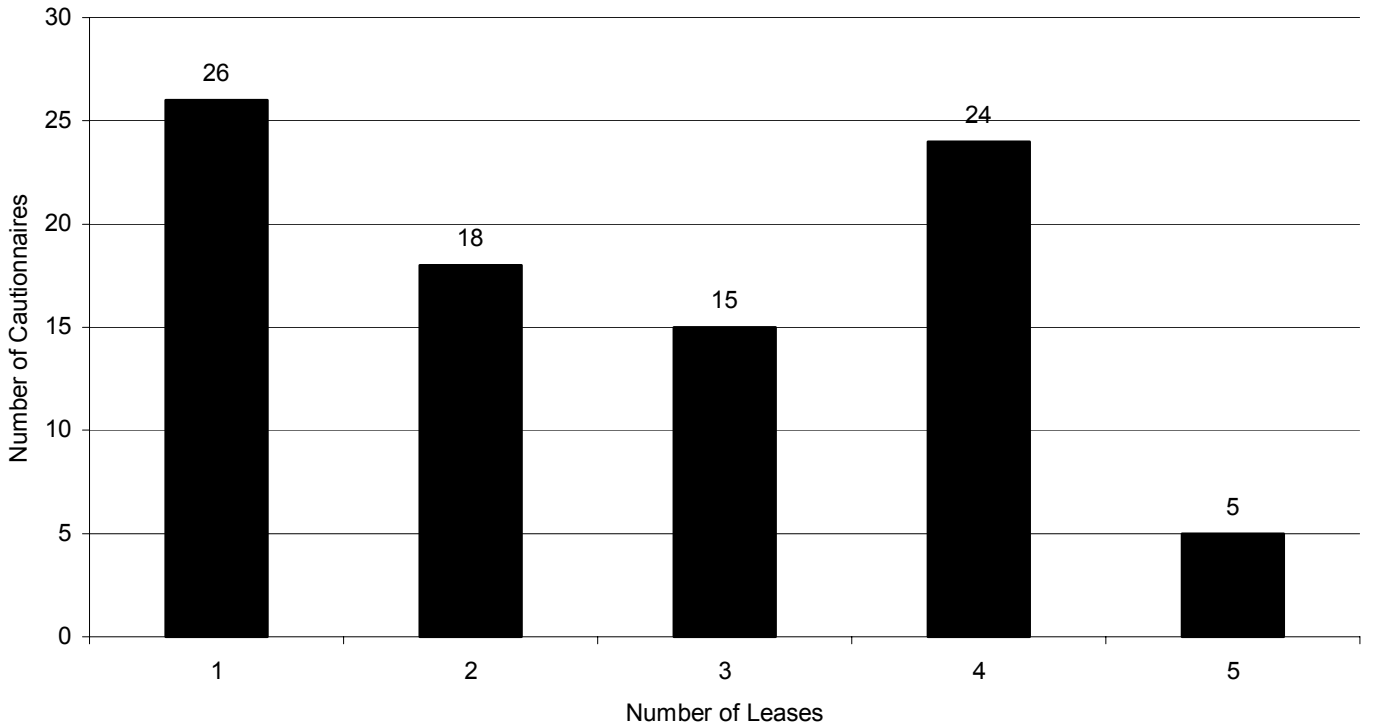


Figure 16: Anticipations Through the Tax Farms and Taille: 1661-1695 (Figures in Livres Tournois)

