

Isaac Panchaud and the Caisse d'escompte

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Isaac Panchaud, a banker of Vaudois origin, born in London and established in Paris, is a less familiar figure than Necker, but his influence on the financial ideas of his time was considerable.¹ An inventive mind, he proposed reforms designed to modernise public and private credit in France, drawing in particular on the British model. He also suffered setbacks: his house suspended payments after unfortunate speculation in the English East India Company, before he resumed his activities.²

Panchaud is associated with the creation of the Caisse d'escompte [Discount Bank], founded in Paris in the mid-1770s under Turgot's ministry.³ The purpose of this institution was to discount commercial bills, that is to advance to merchants the amount of their receivables before maturity, and to issue notes repayable on demand. It aimed to bring down the rate of interest, to facilitate trade and to give France an institution comparable to the public banks of Amsterdam and London.

The Caisse d'escompte made a promising start. It became an important participant in the Paris money market. It was, however, gradually drawn into financing the state, which asked it for ever larger advances. In 1783 a crisis of confidence provoked a run on its notes, and the government had to authorise the suspension of their redemption.⁴ During the Revolution the Caisse would again be called upon, before being abolished.

The history of the Caisse d'escompte illustrates a problem that central banks know well: the temptation, for a state in difficulty, to use the issuing institution to finance its deficits. That temptation threatens confidence in the currency and in the institution itself. The independence of modern central banks, discussed in Part B in connection with the Swiss National Bank, is precisely a response to this danger.

Panchaud also took part in the debates on speculation that stirred Paris in the 1780s. Together with other financiers and publicists, among them

Clavière and Mirabeau, he was involved in the controversies over stock exchange dealings and joint-stock companies.⁵ These debates, which set the advocates of free financial markets against those who denounced stock-jobbing, foreshadow questions about the regulation of speculation that remain topical today.

Key point. The Caisse d'escompte, to which Isaac Panchaud contributed, was meant to modernise credit in France. Its use to finance the state undermined confidence in its notes. The episode illustrates the danger of a monetary institution placed at the service of public deficits, a danger that the independence of modern central banks seeks to avert.

1 Notes

1. Wikipedia (fr), "Isaac Panchaud": born in London in 1737, died at Auteuil in 1789, a banker of English nationality and Swiss origin, son of Isaac Panchaud, a merchant from Grandson (Vaud) naturalised English in 1729; established in Paris in 1763 with his cousin Jean-François Panchaud and Thomas Foley; *Réflexions sur l'état actuel du crédit public de l'Angleterre et de la France* (1781); adviser to Calonne (1782) and to Talleyrand (1786). ↩
2. Wikipedia (fr), "Isaac Panchaud": the banking house suspended payments following "unfortunate speculation in the British East India Company"; Panchaud was accused of having helped, with Necker's circle, to ruin many individuals in the years 1766-1769. ↩
3. Wikipedia (fr), "Caisse d'escompte": "Created by decrees of the Council of 24 March and 22 September 1776, with the support of the finance administrator Turgot, by the Swiss banker Isaac Panchaud", in order to "discount bills of exchange and other commercial paper so as to bring down the rate of interest on commercial credit and to ease trade"; Wikipedia (fr), "Isaac Panchaud": Panchaud "was able, thanks to Turgot's support, to relaunch the Caisse d'Escompte in 1776". ↩
4. Wikipedia (en), "Caisse d'Escompte": liquidity strains at the beginning of 1783 connected with the American war; suspension of the convertibility of the notes (forced currency) by decree of the Council, then resumption of payments on 23 November 1783 after support from the Treasury; Wikipedia (fr), "Caisse d'escompte": the shares fell in November 1783 from 5,000 to 3,000 livres; a fresh crisis in 1787-1788 (forced currency from 18 August 1788); abolition by decree of 24 August 1793. ↩

5. Wikipedia (fr), “Isaac Panchaud”: Panchaud “drew closer to Mirabeau” (1781) and was “close to the Genevan Étienne Clavière”; Dictionnaire historique de la Suisse (DHS) [Historical Dictionary of Switzerland], article “Clavière, Etienne”: in Neuchâtel and then in Paris, Clavière formed ties with Brissot and Mirabeau. ↩

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