

The French monarchy and its creditors

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To understand the role of the Genevan bankers, one must first recall the financial situation of the French monarchy in the eighteenth century. The kingdom was the most populous state in Europe and one of the richest, but its finances were chronically out of balance. Wars were costly: the War of the Austrian Succession, the Seven Years' War, the American War of Independence.¹ The tax system was complex, unequal and unproductive, because the nobility and the clergy enjoyed substantial exemptions and the collection of many taxes was entrusted to private financiers.

Unable to raise taxes sufficiently, the monarchy borrowed. It resorted to a wide variety of forms of borrowing: perpetual annuities, life annuities, tontines, offices sold to private individuals, advances on future revenues, and loans from intermediate bodies such as the clergy, the provincial estates and the towns.² The debt grew over the decades, and its service absorbed a growing share of revenue.

The monarchy had no central bank comparable to the Bank of England, capable of managing the debt centrally and reassuring creditors. It had gone through several partial defaults in the course of the century, in the form of interest reductions, suspensions of payment or forced conversions.³ These precedents raised the cost of its borrowing, since creditors demanded a premium for the risk they were taking.

In this context, the bankers who placed royal loans with foreign investors rendered a valuable service. They widened the base of creditors, mobilised capital that would not otherwise have found its way to France and brought technical expertise. The Genevan bankers, who had a wealthy clientele in Geneva and networks in Switzerland, the Netherlands and England, were particularly well placed to perform this role.

Key point. The French monarchy of the eighteenth century, rich but poorly organised in financial matters, depended on borrowing to cover its

deficits. The Genevan bankers helped it to place its loans with foreign investors, Genevans in particular, which created a deep interdependence between the Geneva financial centre and the credit of France.

1 Notes

1. Larousse, online encyclopaedia, “guerre de la Succession d’Autriche” [War of the Austrian Succession]: a conflict “from 1740 to 1748”, closed by the Peace of Aix-la-Chapelle (18 October 1748); Wikipedia (fr), “Guerre de Sept Ans” [Seven Years’ War]: a war “from 1756 to 1763”, Treaty of Paris of 10 February 1763, France losing Canada and most of its colonial empire. ↩
2. Finance Watch, “Les leçons de l’histoire II : les ‘Trente Demoiselles de Genève’ et la Révolution française” [Lessons from history II: the “Thirty Maidens of Geneva” and the French Revolution] (finance-watch.org): French public debt at the end of the eighteenth century rested largely on life annuities; around 1760 the monarchy adopted life annuities at a uniform rate, paid regardless of the subscriber’s age; by about 1782 roughly three quarters of the year’s life annuities were placed on the lives of children. See also Marc Cramer, “Les trente Demoiselles de Genève et les billets solidaires”, *Revue suisse d’économie politique et de statistique*, 1946 (sses.swiss). ↩
3. Article “Joseph Marie Terray” (fr-academic.com, after Wikipédia): Controller-General of Finances from December 1769 to 1774; “by a decree of the Council of 18 February 1770, he suspended payment of the rescriptions of the receivers-general and of the notes of the farmers-general” (120 to 150 million livres of paper in circulation); conversion of tontines into life annuities, reduction of the interest on annuities and pensions above 600 livres. ↩

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