

The wars of Louis XIV and Huguenot credit

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The first great test of Protestant banking comes during the last wars of Louis XIV. Between the late 1680s and 1714, France wages two long and costly wars against European coalitions: the War of the League of Augsburg, followed by the War of the Spanish Succession.¹ These wars demand considerable expenditure, which taxation is insufficient to cover. The monarchy resorts massively to borrowing and to financial expedients.

The financing of the armies poses a particular problem. French troops fight in Italy, Germany, the Low Countries and Spain. They have to be paid on the spot, in local currency, which requires considerable transfers of funds. The bankers organise these transfers by means of bills of exchange drawn on the centres where the armies operate or on intermediate centres, such as Geneva and Amsterdam.

The paradox is striking. Louis XIV, who has just revoked the Edict of Nantes and driven thousands of Protestants into exile, depends for the financing of his wars on Protestant bankers, some of whom are refugees or relatives of refugees, and whose networks extend into enemy countries. The most famous court banker of the end of the reign, Samuel Bernard, came from a Protestant family, even though he had converted to Catholicism.² Around him gravitate Genevan and Huguenot bankers who supply the necessary funds and correspondents.

This system reaches its limits during the War of the Spanish Succession. The accumulation of commitments, the depreciation of royal paper and the exhaustion of resources provoke a serious payments crisis. A crisis that arose at the settlement of the Lyon fairs, at the end of the first decade of the 1700s, shakes the network of Samuel Bernard and his correspondents, several of whom go bankrupt.³ The Genevan capitalists who had advanced funds suffer losses.

The crisis at the end of the reign of Louis XIV offers a lesson that the Protestant bankers will not entirely forget, and that their successors will sometimes forget: the credit of a state at war is fragile, and the intermediaries who organise it bear a share of the risk. Financing an over-indebted sovereign can yield high profits for a time, followed by brutal losses when confidence collapses.

Worked example. A Genevan banker agrees to supply 200,000 livres to a French army in Italy, against bills of exchange on the royal Treasury payable at six months, with a commission and interest representing 12 per cent of the amount. If the Treasury pays at maturity, the banker earns 24,000 livres, an annual return of 24 per cent. If the Treasury pays only two years late, in paper depreciated by 40 per cent, the banker recovers only 134,400 livres in real value and loses 65,600 livres, without counting the cost of his own borrowings. The figures are fictitious; they show why the financing of royal wars combined spectacular profits with the risk of ruin.

1 Notes

1. Larousse, online encyclopaedia, “guerre de la Ligue d’Augsbourg”: “Conflict which, from 1688 to 1697, set France against the second European coalition”, ended by the treaties of Ryswick (1697); “guerre de la Succession d’Espagne”: Grand Alliance of The Hague (7 September 1701), war declared on 15 May 1702, treaties of Utrecht (11 April 1713) and Rastatt (6 March 1714). ↩
2. Encyclopædia Universalis, “Samuel Bernard”: from “a Protestant family of Parisian artists”, converted to Catholicism after the Revocation; “from 1700 to 1714 he supplied the king with two hundred million livres”; ennobled, Count of Coubert (1725); Wikipedia (en), “Samuel Bernard (financier)”: Louis XIV turned to him in 1708 to finance the War of the Spanish Succession. ↩
3. Encyclopædia Universalis, “Samuel Bernard”: “in 1709 he extricated himself from an outright bankruptcy in Lyon, where he could not honour his commitments”; Herbert Lüthy, *La Banque protestante en France de la Révocation de l’Édit de Nantes à la Révolution*, 2 vols, Paris, S.E.V.P.E.N., 1959–1961 (reissued Paris, Éditions de l’EHESS, 1998), vol. I. ↩

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