

Why did the monarchy accept this bargain?

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It may seem surprising that a state as powerful as France sold life annuities for decades on terms so unfavourable to itself. Several factors explain this situation.

The first is financial urgency. The monarchy had considerable and pressing needs, particularly in wartime. Life annuity loans made it possible to raise large sums quickly by attracting a broad body of subscribers. Pricing differentiated by age would have complicated the issues and reduced their appeal for some of those subscribers.

The second is the inadequacy of actuarial tools within the administration. The mathematicians of the period had nonetheless drawn up mortality tables and methods for calculating the value of life annuities. The English astronomer Edmond Halley had published, at the end of the seventeenth century, a mortality table based on the registers of the city of Breslau, and the French mathematician Antoine Deparcieux had published, in the middle of the eighteenth century, an essay on the probabilities of the duration of human life, drawing in particular on tontine data.¹ But this knowledge was not systematically applied to borrowing policy.

The third is political logic. Life annuity loans had the apparent advantage of expiring with the lives on which they were written, which made it possible to present the debt as temporary. Their real cost, spread over decades, was less visible than that of a new tax or a perpetual annuity. A minister concerned for his popularity and for the confidence of the markets could be tempted to resort to them.

The fourth, finally, is information asymmetry. The Genevan investors knew exactly what they were doing: they chose young lives in order to maximise the value of their annuities. The administration, which processed thousands of subscriptions, did not necessarily have the means

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or the will to scrutinise the composition of the lives and to draw the consequences.

Voices were raised to denounce this situation. Critics of Necker pointed to the cost of life annuity loans for the Treasury. Reform proposals suggested differentiating rates according to age. But these criticisms did not prevent the issues from continuing until the eve of the Revolution.²

Key point. For decades, the French monarchy sold mispriced life annuities, under the combined effect of financial urgency, the insufficient application of actuarial knowledge, political considerations and an information asymmetry with astute investors, among them the Genevans.

1 Notes

1. Edmond Halley, “An Estimate of the Degrees of the Mortality of Mankind, Drawn from Curious Tables of the Births and Funerals at the City of Breslaw; with an Attempt to Ascertain the Price of Annuities upon Lives”, *Philosophical Transactions*, vol. 17, 1693, pp. 596-610 (Breslau data transmitted by Caspar Neumann via Leibniz; James E. Ciecka, “Edmond Halley’s Life Table and Its Uses”, DePaul University); Antoine Deparcieux, *Essai sur les probabilités de la durée de la vie humaine* (1746) and *Addition à l’Essai* (1760), facsimile reprint, Paris, INED, 2003 (ined.fr): the first French mortality table, constructed from tontine registers and the necrologies of Parisian religious orders, with a view to “a sounder and fairer management of the system of life annuities and tontines”. ↩
2. Rodama, “The “Thirty Maidens of Geneva” (rodama1789.blogspot.com, April 2017): annuities paid at 10% on a single life and at 8-9.5% on several lives; the syndicate of the Thirty Maidens formalised in 1771; the Conventionnel Pierre-Joseph Cambon denounced these loans as proof of the “imbecility” of the monarchy, judged ruinous for the state between 1779 and 1787. ↩

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