Historians commonly assume that the Old Regime monarchy in France attempted to eliminate corporate society in order to create liberal institutions. They also assume that the centralization of state power occurred at the expense of such corporate bodies as provincial estates, the municipal corporations, and the village communities. By contrast, I argue that those institutions were not vestiges of an earlier society waiting to be swept away by the stronger, more unified modern state. Instead, I believe that corporate bodies not only flourished under the Old Regime, but contributed to the functioning of the absolute state.

Tying the King's Hands

CREDIBLE COMMITMENTS AND ROYAL FISCAL POLICY DURING THE OLD REGIME

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Episodes of fiscal irresponsibility—debt repudiation, currency devaluation, expulsion and persecution of state creditors and financiers—are ubiquitous in the history of most Western European nations.[1] This is especially curious since from medieval through modern times, most European governments relied more heavily on credit than on taxation

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to support the rapidly expanding needs of armies and other state functions.[2] An instructive example is found in the financial history of Old Regime France. There, credit operations accounted for more than half of the state's revenues by the middle of the seventeenth century, and by the eve of the French Revolution, debt service consumed the majority of current revenues (Morineau 1981, 289-337). Nevertheless, policies that were hostile to and destructive of the long-term stability of royal credit were commonplace. Such policies have been routinely condemned by historians as manifestations of the fundamentally corrupt and venal structure of traditional French society.

Another aspect of Old Regime venality, the corporate institutions that characterized Old Regime society, have also been condemned by historians. We are told that institutions such as the village communities, the provincial estates, and the guilds were useless remnants of the corrupt old order waiting to be swept away by the revolution. But recent research, including David Bien's research on chancelleries of royal secretaries, Gail Bossenga's research on municipal corporations and my study of village communities, suggests that corporate groups were more vital and that their corporate privileges received greater royal protection during the Old Regime than under the Renaissance monarchy (Bien 1978, 153-67; Bossenga 1986; Root 1987).

I believe that an important function of those corporate institutions that expanded in seventeenth- and eighteenth-century France was to create trust among partners involved in state finance: corporate bodies contributed to fiscal stability in an environment otherwise characterized by unrestrained kingly discretion. I link the proliferation of corporate bodies to the king's reputation for repudiating his promises; in my view, corporate institutions evolved not as methods to enhance the gains from corruption, but rather as restraints needed to prevent opportunistic sovereigns from defaulting on their creditors. The king supported the expansion of corporate society because corporate institutions enabled him to obtain credit.[3]

Historians generally argue that a desire to promote economic individualism and a free market economy led the crown to attack corporate groups and corporate privilege. Because strong corporate institutions allowed the king access to credit at a lower cost than would have otherwise been possible with competitive markets, one might doubt the "modernizing intentions" of the Old Regime monarchy. Corporate identification and the rise of the modern state were not opposites. My analysis suggests that the elaboration of corporate responsibility and the application of corporate liability facilitated the rise of much stronger state structures in Western Europe than those that had previously existed.

THE ECONOMIC FOUNDATIONS OF CORPORATE SOCIETY

THE EVOLUTION OF FINANCIAL INTERMEDIATION UNDER THE OLD REGIME MONARCHY

During the Old Regime the main obstacle to efficient state finance was that the principal player — the king — was above the law. This meant he could not be compelled to honor his debts and often chose to repudiate them.[4] Because the reliability of the king's commitments was questionable, his credit was weaker than that of many of his wealthiest subjects. For this reason, during the seventeenth century, the growth of state power depended upon the king's cultivation of financiers. The king in effect called upon these financiers to act as intermediaries in the contracting of the loans needed to support the state's expanding military and bureaucratic apparatus. Financiers constructed networks among themselves through intermarriage and contracted with the king's fiscal agents on a personal basis.

Two new developments characterize the evolution of state finance during the eighteenth century. The general farms that collected the king's taxes became more bureaucratic and office holders organized into corporations. They were joined by many of the traditional corporations in providing loans to the crown. However, not all office holders were linked in corporations and certainly not all corporations were comprised of office holders. For example, the *receveurs généraux des finances* (collectors of direct taxes) were office holders who became a corporation in 1716; the *fermiers généraux* (who collected indirect taxes and who, according to the historian Yves Durand, provided the crown with about 40 percent of total revenues during the eighteenth century) were not office holders but did enjoy corporate privileges.[5] The Bureaux des Finances of Lille, studied by Gail Bossenga, did not fully succeed in establishing a strong corporate structure (Bossenga 1986). In short, corporate finance did not replace but supplemented the role played by individual financiers. Nevertheless, the corporations that did become involved in the king's finances provided the crown with an important additional borrowing capacity.[6] In this article I will examine the economic principles underlying this new capability and its political consequences: the expansion of corporate finance provided a method for numerous small investors to participate in the profits of financing the state.[7] This wider participation in state finance was to have implications for the revolution because it deprived the crown of a popular base for support of another royal bankruptcy.[8] Understanding the rise of corporate finance also has important implications for our interpretation of the relationship between state and society during the Old Regime: it demonstrates that the crown could not have acted as a champion of competitive markets because the royal government would have been less capable of financing itself in a competitive environment. The king paid a higher rate of interest than his wealthiest subjects due to his reputation for reneging on his debts.

In short, recent research reveals that certain corporations were increasing in importance and that new corporations were being formed during the seventeenth and eighteenth centuries. The evolution of corporate governance was motivated by the need for credible commitments from a monarch who claimed to be above the law.[9] If the king could credibly commit to honor his obligations, then his credit would be strengthened, thereby increasing his ability to finance his government. The institutions of corporate society persisted and even expanded during the Old Regime because they provided an effective method for the crown to make credible commitments to uphold its financial obligations.[10] These commitments were needed to obtain the volume of credit that state functions demanded. In other words, corporate institutions evolved partly as a kind of commitment technology designed to expand the state's fiscal capacity. There might have been a causal relationship between the decline of government interest rates during the eighteenth century and the shoring up of corporate institutions by the crown. By strengthening corporate institutions, the king made royal default more costly and difficult; perhaps lower interest rates reflected the diminished probability of a royal bankruptcy (common in the seventeenth century). The 9 to 10 percent interest rates accorded to certain kinds of annuities under Necker, often deemed responsible for the bankruptcy of 1789, never came close to the 25 percent rates registered toward the end of Louis XIV's reign.

FINANCIERS: PUBLIC CREDIT SUPPORTED BY PRIVATE ARRANGEMENTS

The definition of financiers common during the eighteenth century differed in important respects from what became common in the nineteenth century, for it expanded to include banking and other various financial services both public and private. In the eighteenth century, however, the definition included only those who handled the king's funds.[11] Since the financiers were essentially private business people who managed state finance, they can be thought of as surrogate royal functionaries. Unlike functionaries working in a modern bureaucracy, this group of financiers used its own property as security for loans intended directly or indirectly for the crown. Investors did not make unsecured loans directly to the crown, but insisted on making such loans to highly placed officials of the state whose personal fortunes secured the loans. Therefore, these officials had to possess substantial monetary reserves and enjoy significant credit. At all stages of the financial system, the crown's credit depended on the personal resources of its intermediaries (Dent 1973).

The superintendent of finance was the crown's chief financial official; the arrangement of credit was his principal function. For instance, between 1610 and 1661, such financial superintendents as Nicolas Fouquet were appointed because of their ability to attract funds from their networks of clients.[12] There were two bases from which Fouquet operated to mobilize credit. One involved the use of his own property as security for loans intended directly or indirectly for the crown; the other involved loans contracted by the superintendent using the state's resources as security. The superintendent's clerks were appointed to help him to extend links with the financial elites. The clerks' role was to persuade potential investors to lend money against future receipts of the financial system at large. Their success depended on their ability to ensure repayment when necessary.[13]

The superintendent's clerks often mobilized funds by arranging interest rates for their clients well above the legal limits set by the crown. Such arrangements had to be made without the formal complicity of the superintendent of finance. However, the crown could exploit the fact that its agents (the clerks who worked for the superintendent of finance) had acted illegally. The excessive interests rates paid to private investors could be cited later as a justification for the crown to renege and to persecute its own agents. The financiers could not protect themselves legally from such persecution since they had agreed to interest rates that were above the legal limit. Thus, creditors were unable to find a legal sanction to apply against the king when he wanted to default.

REPEAT PLAY: THE CREATION OF A MINISOCIETY

In the absence of public institutions, the crown relied on networks of family financiers to organize the complex credit transactions which supported state finance between 1610 and 1661. A minisociety of financiers evolved from intermarriage and worked according to the logic known to game theorists as repeat play. Intermarriage among financial families provided a basis for continuity in trade and reasons to limit opportunism. Since the value of the relationship with a family member exceeded the value of a relationship with a stranger—one expects to trade with a family member much more frequently than with a stranger—the future costs of reneging on credit obligations to one's kin were far greater than repudiating obligations owed to a stranger.[14] Therefore, credit relationships that might be impossible between strangers could exist among family members. Whereas repeat play provided some regulation among family networks, it rarely restrained the king. As we will soon see, the benefits of repeat play were not enough to discipline the king from plundering the financial families he had built up.

KINGLY DISCRETION

When it proved convenient, the king used a kind of special court, the *Chambre de Justice*, to prosecute individual financiers.[15] These special court sessions were often spectacles designed to inspire public indignation against financiers. The language used to describe financiers in the edicts announcing the *Chambre* of 1716 was typical:

> the immense and steep fortunes of those [the financiers] enriched by criminal means, the excess of their luxurious living insults most subjects; it is not surprising that they dissipate with profusion what they have acquired by

> injustice. The riches they [the financiers] possess are the spoils of our provinces, the subsistence of our people, and the patrimony of the state.[16]

In 1629, the principal minister of King Louis XIII, Cardinal Richelieu, had gone so far as to propose that the *Chambre* then in session could save the crown many millions of *livres* by confiscating the offices of all the financiers (Bosher 1973; 19-40). Nevertheless, the most spectacular example of such prosecutions was the one in 1659 against the chief financial minister Fouquet, which resulted in the confiscation of his property and his imprisonment for life (Dessert 1974; 847-71).

In effect, these courts were created to drum up public support so that the crown could cancel its debts to private financiers. Such prosecutions generally set off a wave of private bankruptcies among the financiers. Even the vague threat of punishment for ill-defined crimes could cause an individual financier to lose his credibility among his peers and force him into bankruptcy. The surviving financiers inevitably demanded more favorable rates from the king and more costly guarantees for the future.

Another measure the French monarchy commonly employed to cancel its debts was currency reform. The crown could repudiate debts by reducing the value of the unit of account in which such debts were denominated. Since coinage (*louis*) was written up in terms of the unit of account (*livre*), by allowing the value of the unit of account to decline, the crown reduced some of its debt (Riley 1986; 167). For example, between 1689 and 1726 the equivalent of the *livre* in grams of silver declined from 8.33 grams to under 4.45 grams.

In summary, kingly discretion characterized the private arrangements between individual financiers and the crown. Financiers, as individuals or networks, could do little to protect themselves from repudiations.[17] The king reneged by using devices ranging from devaluation to prosecutions to outright default because he assumed that networks of financial families could be easily replaced by rival families.[18] This is what happened during the seventeenth century when the king played the families of one province off those of another. Nor was debt repudiation a practice the king reserved only for the large financiers. The crown constantly reneged or "held up" small officeholders by demanding additional payments for offices already purchased, threatening, for instance, to discontinue interest payments for the office, to cancel tax exemptions, or to withhold the promised payments of salary or pension due on offices.[19] In addition, the crown would squeeze officeholders by selling new offices that could diminish the value of those that already existed. The new offices might be designated to supercede the functions of existing offices. Current officeholders, then, were often compelled to purchase the new offices to minimize their losses from the creation of additional offices. It is to this group, the officeholders, that I will now turn. They represented a new terrain from which the state could borrow in the eighteenth century and at interest rates that were less onerous for the crown than those offered in the direct sale of the crown's bonds or annuities.

THE DEMAND FOR CORPORATE GOVERNANCE: CONSTRAINING KINGLY DISCRETION

As we have seen, there were few restraints that prevented the king from engaging in opportunistic behavior. This opportunistic behavior, however, had a cost for the king. When the king reneged on his officeholders, he decreased the value of the offices they often used as surety for loans. The officeholders found it harder to borrow when it was perceived that their offices could be easily confiscated. The possibility that the king could renege on his officeholders, either by increasing the supply of offices or by increasing the demands for repayment, reduced their ability to trade on his behalf.

To protect themselves from depredations by the crown and to protect the value of their offices, officeholders demanded the right to establish public corporations. Their motivation was clear: they wanted to limit their individual liability and, more important, to increase the sanctions against possible default by the king.

The evolution of corporate liability can be illustrated by David Bien's study of the institution of the *secrétaires du roi* (Bien 1978). Bien reports that in the seventeenth century the *secrétaires* were individuals who bought the office as part of their family's strategy of acquiring the status of tax-exempt nobles. He notes that the offices carried few real governmental functions and could be viewed as useless. As individuals, however, the *secrétaires* were subject to frequent fleecing and revocation of privileges. In fact, from 1701 to 1707 alone, the crown made four separate requests for additional capital sums from officers. Those who did not pay would lose their privileges and their salaries (*gages*). In fear of losing their investments, all paid—sometimes with funds borrowed from networks of friends and relatives. Later, by organizing, they would be able to borrow from the public at large.

In the 1720s, the *secrétaires* began to establish procedures of corporate governance that permitted them to use their collective credit to supplement the credit of individual members. The ability to borrow directly from the public as part of a collective unit protected and enhanced the value of their offices. The members established the principle of limited liability. A member's responsibility for the corporation's debt was limited to the value of his office. Potential office buyers wanted assurances that an officeholder's private property would not be subject to seizure for payment of the corporation's debt and that when an officeholder's office was sold, his obligations ceased and would be assumed by a new member. Once these assurances could be established, the offices would be worth more, and the corporation could borrow from the public at lower interest rates.[20]

The crown had much to gain from strengthening the corporations. When the king needed funds he could ask the corporation as a group. This was easier than attempting to contact and negotiate with separate officeholders or family networks, many of whom might be unavailable or unable to pay. With corporate responsibility, the group had to provide the sum and it was their responsibility, not the king's, to see that all members paid their share. When one member was unable to pay, another member could provide the share in exchange for a lien on the office. This way, the king got his money quickly. The corporation, more easily than an individual officeholder, could then go out and raise additional capital if needed from the public. Those corporations, like the *secrétaire du roi*, could borrow funds from the public at lower cost than the crown because the lending public had more faith in the chancelleries than they had in the king. Thus, the individual financier could borrow from his personal network of friends and relations, but the corporation borrowed from a broader segment of the public. Bien concludes that corporate organization facilitated borrowing from a wider range of individual citizens so that corporations could mobilize funds on a far grander scale than could individual financiers or the king. For example, in 1726 the Farmers General were syndicated, which allowed the company to negotiate with the king as if it were a single financier. In order to loan the king 25 million livres at an interest rate of 5 1/2 percent in 1741, the Farmers General, as a corporation, was able to borrow from the public at large (Morineau 1981; 305). Corporate liability was established so that the corporation, not specific members, was responsible for outstanding debts. Bosher too has argued that the corporation's efficiency was enhanced by its strong corporate organization (1970; 76).

The corporation could act as an intermediary between the king and the investing public because the public could bring the corporation, unlike the king, to court in the case of default. Consequently, members of the public who might invest in bonds issued by a corporation had greater assurances that their investments were protected than if they had loaned to the king directly or to an individual financier or officeholder. The ultimate goal of corporate organization was to increase the direct sanctions the king suffered if he defaulted. By organizing into a cohesive unit, the *secrétaires* made it more difficult for the king to default and simply replace them as he had replaced Fouquet with Colbert in 1661. There was greater opportunity cost to the king if he defaulted on a group of financiers than on individual financiers. Individuals could more easily be replaced than a corporation that included hundreds of families. Thus, by diminishing the king's temptation to renege, the offices held by members of a corporation became more valuable than those belonging to isolated individuals. Because the offices were more valuable as sources of credit, the king was less likely to default.[21] As discussed earlier, such additional discipline was beneficial to the king because his temptation to renege, and thereby the equilibrium interest rate, could be reduced by increasing the sanctions against default.[22] The institution of the *secrétaires du roi* provides but one of many examples of how corporate privilege was expanded by the absolute monarchy. The clergy was perhaps the most important corporate body. It provided the crown with an annual free gift, and, in turn, borrowed heavily from the public. Other prominent corporate groups that had state financial functions were the Ferme Générale, the Régie Générale, the Administration des Domains, the Ferme des Postes, the Trésor Royale, the Procureurs de la Chambre-des-Comptes, the Notaires de Paris, the Huissiers du Châtelet de Paris, the Professeurs de Théologie de Sorbonne and Navarre, the Faculté—de—Droit, and the Faculté de Médicine à la Université de Paris (Le Bon de Cormère 1789). In addition, there were hundreds of municipal corporations, professional associations, and guilds that acquired a corporate status and borrowing functions during the eighteenth century.

GOVERNMENT BONDS

The government's *rentes perpétuelles* worked according to the same principles as offices. Just as owners of offices received a yearly *gage* or salary from the crown, the owners of *rentes perpétuelles* or perpetual annuities (to be referred to as perpetuities) were entitled to a permanent revenue. An owner could sell these rights to another individual, but he could not cash them in. The market value of the perpetuities fell when the king did not pay the interest due just as the value of offices diminished when the king delayed payments of gages. A tendency toward late payments inevitably diminished the long-term value of both perpetuities and offices, making additional perpetuities or offices harder to sell.

There was one important difference between these two fiscal expedients. Although the owners of offices could organize in corporations to protect the value of their possessions, the owners of perpetuities were too diffuse to do so. Perpetuities circulated privately, and their circulation was difficult to trace. Moreover, perpetuities rarely sold at their face value, which makes it difficult to determine their real interest rates. This difference should help to explain why offices held their value and were generally easier for the crown to sell than were perpetuities. Unable to sell perpetuities, the crown had to depend on more costly short-term loans or on the sale of life annuities. The annuities proved to be more marketable, but, in the long run, much more costly than perpetuities for the king.[23] In light of these difficulties, the factors motivating the crown to place great value on its relationship with the corporations, which were able to provide funds at lower cost to the king than any of the available alternatives, become more evident. The French crown's inability to effectively sell perpetual bonds contrasts very sharply with the success enjoyed by the Bank of England, which was able to finance an important percentage of the nation's debt through the sale of perpetual bonds that held their face value and carried low interest rates.

TOWARD MORE PUBLIC FINANCE

As noted, with the reign of Louis XIV (1661), the crown concentrated on building up the corporate character of the already constituted bodies like the village communities, the guilds, the provincial estates, and the chancelleries of royal secretaries. The crown had discovered that these traditionally constituted bodies could help contribute to the establishment of sound public credit. To create conditions in which the public would place confidence in their financial solvency and predictability, the crown in many cases expanded the privileges and protected the property belonging to these constituted bodies.

For example, giving cities the right to collect taxes on goods entering and leaving their jurisdiction allowed municipalities to sell bonds or annuities for the king and use the anticipated revenues from the taxes (*octrois*) as surety. Here too, local privilege was reinforced in the collection of local taxes so that the crown could expand its fiscal resources (Maillard 1984). A good example was the province's right to collect tolls on all traffic using the Saône, given the Estates of Burgundy by the king in exchange for an advanced yearly payment (Archives Nationales, 1773).

Similarly, fiscal incentives led the crown to reinforce guild monopolies over local production. By using state power to protect their monopolies, the crown guaranteed the solvency of the guilds. In exchange for that protection the crown could extract rents from the guilds in the form of forced loans. This, in turn, made it possible for the guilds to borrow money from the public to loan to the king. In moments of need, however, the king threatened to cancel privileges unless the guilds provided him additional funds or forced loans. For example, the king could create offices for supervising the quality of guild manufactures or he could sell new masterships. In both cases, the guilds would be compelled to buy the new masterships or posts. Royal policy toward the guilds shifted in the 1750s when the crown began a long and unsuccessful effort to divest the kingdom of guilds in order to prepare the way for an economy based on free trade. By that time the guilds had ceased to be effective sources of revenue. Many guilds had become so laden with debt they needed to borrow to maintain interest payments. In this debt-ridden state, guilds could no longer be counted upon to provide new loans. In February 1776, the crown promulgated legislation formally abolishing the guilds. Nevertheless, this effort to dispense with the guilds failed largely because the crown was unable to liquidate the substantial debts the guilds had acquired in the king's service. The crown's officials quickly learned that unless they could provide a method to liquidate corporate debts already acquired, they risked precipitating a crisis in public finance. Since the king was constantly short of funds, he was in no position to assume the debts of the corporations. Efforts to eliminate the debts by selling off corporate assets produced less revenue than was expected. Despite its public rhetoric in favor of economic and social reform, the crown had to restore the guilds.

THE FAILURE OF REFORM

The king never explicitly stated his dependence on corporate groups and mechanisms. There is no evidence from memoirs, speeches, and decrees in which the crown acknowledged the rationality of binding the king. If the monarch and his advisers did not consciously acknowledge the rationality of what had in effect become practice, it was because that rationality directly conflicted with the official rhetoric of divine right monarchy. In the public rhetoric the king never admitted responsibility to human institutions and repudiated any contractual theory of kingship (Antoine 1987; 2-29). Nevertheless, corporate management of the debt advanced with the king's consent. The king could have used his legal authority to challenge or veto the development of corporate rights. The fact that corporate charters were often granted by the king suggests that the king's cooperation was necessary for the concept of corporate liability to become credible. Assurances of protection by the king's courts were needed for the public to believe in corporate solvency. It was clearly in the king's interest to enhance the public credibility of the corporations.

It seems the king's dependence on corporate groups may have evolved as part of an implicit understanding, never formally stated by the king or his officials. It was an understanding that may have benefited both sides even though societal groups such as the financiers may have initiated the bargaining that led to the establishment of the corporate organization and management of the king's debt. The extent to which this implicit understanding had become an essential component of state finance became clear in the late eighteenth century when reforms designed to limit the role played by the corporations were blocked by the collective action of corporations. By then the fiscal functions of the corporations had become so formidable that efforts to abolish corporate control could jeopardize the king's ability to manage his government. This is what happened in the late eighteenth century when the crown attempted to limit the role of private interest groups in state finance. The guilds were able to resist complete abolition because their debts were too substantial for the crown to absorb. The fiscal corporations were similarly able to resist reform. The ability of a finance minister to succeed at his job depended upon his being able to secure the cooperation of the financial interests. By threatening to withhold advances, the tax farmers could cause the king and his ministers to panic. Corporate organization provided the financiers with leverage to dictate the terms of their relationship with the crown. Ministers that clashed with the financial elites did not remain in office long.

CONCLUSION: THE IRONY OF ABSOLUTISM

In sum, because the king claimed full discretion, he had less real power: claiming to be above the law in fiscal matters made it more difficult for the king to find partners for trade. The use of discretion reduced his payoffs in equilibrium because utilizing absolute power destroyed royal credibility. Creditors took into account the king's reputation for repudiating debts and therefore demanded higher interest rates than otherwise would have been needed to elicit loans. In fact, because he was above the law, the king had to pay more for loanable funds than did his wealthy subjects. In short, the crown had a problem obtaining credit because it had a history of reneging on commitments.

An attempt to resolve this dilemma was made by encouraging the growth of intermediary powers in the contracting of loans. Among the intermediaries the king called upon were the traditional corporations: the village communities, the guilds, and the provincial estates. In return for official recognition and privileges, these corporate groups acted as bankers for the king. However, the concessions made to the corporations made the system of tax collection inefficient. In the late eighteenth century when it became clear that state finance would benefit from being able to eliminate those privileges, the king found he was unable to do so. As managers of the king's funds the corporations were able to dominate the nation's financial resources. This power provided the corporations with the means to impose their terms on the crown and to block efforts to overhaul the fiscal system.

NOTES

1. There were many notorious events linked to repudiations by sovereigns. The Jews were expelled from France under Philip IV and from England under Edward I in 1290. Philip IV also dissolved the Knights Templar in 1307. English kings continually repudiated loans made by Italian merchant societies between 1270 and 1345. Jews were expelled from Spain in 1492, and the Moors were expelled in 1502. In 1661 the Chamber of Justice under Louis XIV led to a life sentence for finance minister Fouquet. The Spanish declared bankruptcy in 1575, 1596, 1607, 1627, and 1647.

2. Because the government's expenditure occurred continuously, and was unpredictably distributed over time and geography, the king had a consistent need for credit.

3. Not all offices had financial functions. Many conferred access to lucrative opportunities connected with the office's function. This article will focus on those offices that provided the crown with financial services. I do not want to argue that the only purpose of officeholding was to help the king borrow money.

4. For a summary of the extensive literature on sovereign repudiations, see Hicks (1969). In a significant recent contribution to that literature, Veitch (1986) relates medieval interest rates to the probability of default.

5. The *Ferme général*, which handled the extraordinary financing, had grown from 16.6 percent of royal revenues in 1656 to a height of 54.7 percent under Louis XIV, stabilizing during the eighteenth century at about 45 percent of all revenue (Durand 1971, 1976). I plan to study the evolution of the contracts of the various fiscal groups to determine how corporate responsibility evolved.

6. Even though the percentage of the crown's total revenue that was supplied by the new forms cannot be determined, these new forms were rising and provided fiscal services that enlarged the crown's capacity to borrow (Guery 1978, 1984). Guery (1984) and Morineau (1981) are reconstructing the Old Regime budget, but have yet to determine the percentage of total revenues provided by corporations or by officeholders in general.

7. It is difficult to determine the percentage of the state's total revenues that flowed through the corporate structure. The budgets I possess for the Old Regime refer to ordinary financing. In those budgets, the *gages* owed to the various owners of offices were generally listed as part of the outstanding debt. However, the revenues produced by the sale of offices were not calculated as a single unit. Rather, they were listed according to the various companies of tax farmers responsible for their allocation. The sale of offices is only one part of a much larger story. Morineau (1981) also claims that during the mid-eighteenth century, the extraordinary debt was growing in relation to the ordinary debt. It is unfortunately not possible, based on Morineau's figures, to calculate what portion of the crown's extraordinary revenues flowed through the corporate structure. Bien (1987) estimates that in the 1780s the corporations collectively supplied about one-third of the king's loans. Their value appreciates when we consider that of the crown's loans, these were at the lowest interest rates. The picture gets even more complicated when the growing role of the provincial estates is considered. Those of Brittany, Burgundy, and Languedoc were major suppliers of loans to the king during the late eighteenth century. For a contemporary effort to reconstruct the public debt, see Marquis de Favras (n.d.). In his calculations, the provincial estates figured prominently as major sources of credit for the crown.

8. During the revolution, finance minister Cambon recognized the importance of the small investor and made significant efforts to win their involvement and financial support of the revolutionary government (Root 1987; 237).

9. By commitment, I mean a binding contract which specifies in advance the government's possible actions. Kydland and Prescott (1977) argue that rules can produce higher payoffs in dynamically competitive environments than the exercise of discretion. Drawing upon their insights, I argue that interest rates on government obligations demanded by competitive markets may be decreased by governmental commitments that increase either the direct or opportunity costs of debt repudiation. This application of the Kydland-Prescott logic allows us to understand the proliferation of institutions under absolutism that increase the costs to the king of behaving opportunistically toward his creditors. For a recent summary of the literature on time consistency, see Barro (1986; 23-37).

10. I do not argue that corporations necessarily originated as devices to raise money for the king. But there is considerable evidence that during the seventeenth century those corporations that could be used to raise funds thrived while those which did not were phased out. Collins (1988: chs. 1-2), for example, argues that the survival of provincial estates during the Old Regime depended on how effectively they raised taxes or floated loans for the king. Those that failed to do so were eliminated. The king would ask the Estates of Brittany for yearly advances on the indirect taxes. Because the Estates had to borrow the entire amount, good credit was necessary for their survival.

11. During the eighteenth century the term *financiers* did not have the pejorative connotation of *traitants* or *partisans*.

12. The *surintendent des finances* was suppressed in 1661. Colbert became the first *contrôleur général.*

13. This system was very successful in the seventeenth century, and it provided the French monarchy with financial resources that were far greater than those of its rivals. According to a contemporary analyst, Gregory King, Louis XIV possessed 175.5 million livres of revenue, while England had 43.6 million, and the United Provinces 61.7 million. The French fiscal system provided France with the means to dominate European politics throughout the late seventeenth century (Le Roy Ladurie 1968). *Natural and political obvservation and conclusions upon the state and condition of England*, 1696. Reprinted with introduction by George E. Barrett, Baltimore, the Johns Hopkins Press, 1936.

14. Anthropologists and economists such as Bardhan (1984) use the term *multiplex* to refer to such multistranded relationships as between family members.

15. Under discretion the rules or contracts taken at one point in time do not restrict subsequent actions. The king is therefore free to take those actions that best further his objectives later.

16. *Edit portant établissement d'une Chambre de justice* (Dessert 1984; 243). The same words were used in the opening of the edict creating the *Chambre* of November 1661.

17. Samuel Bernard loaned Louis XIV 15 million livres in 1703, 20 million in 1704, and 30 million in 1708. When Bernard refused further advances in 1709, he was denied payments on the outstanding debt. Unable to repay his creditors, Bernard went into bankruptcy. After the war he was able to recover what he was owed only after agreeing to a fine of 6 million livres (Kindleberger 1984; 95-96).

18. By the eighteenth century, however, the scale of operations had become too vast and too centralized for the king to use that strategy.

19. Those salaries were normally one-eighth of the capital cost of the office a year plus an additional pension.

20. Determining private interest rates accurately will be very difficult. Since it was a crime to loan above the legal interest rate of 5 percent, businessmen had to dissimulate in order to contract loans at higher rates. Nevertheless, qualitative sources suggest that interest rates were higher in France, where rates of 10 or 12 percent were not uncommon, than in England. Public interest rates declined significantly after 1720, falling from peaks of 16 to 20 percent during the War of Spanish Succession. To determine the interest rates for government bonds, we must establish how much they discounted when they were sold. Because the crown was legally restricted from increasing the rate over 5 percent, it sold its perpetual bonds at a discount. Discounts of 40 percent were common, bringing the real interest rates up to 6.7 percent (Luethy 1959; vol. 2, 58). Homer (1963) cites only nominal interest rates.

21. Consistent with my predictions, Doyle has argued that "the overall trend was for office prices to rise" during the second half of the eighteenth century. I would like to determine if increased corporate organization was a factor that contributed towards increasing the value of offices like those of notary and procurer, which Doyle reports benefited from rapidly escalating prices (Doyle 1984; 831-60).

22. In his study of French finances during the Seven Years War (1756-63), James Riley argues that the financial authorities, late in the regime, did not understand the system they administered. He observes that after 1725 royal officials "became convinced of the usefulness of paying the royal debt" (Riley 1986; 186) and were more reluctant to exploit officeholders than before. Even after incurring "a burden of debt that could not be borne," methods to reduce interest payments either through conversion, a partial debt repayment in paper currency, or a tax on debt service, were all rejected by what he calls an inflexibly cautious financial administration. Riley's observations correspond to my expectation that increased corporate backing of the debt would reduce the temptation of royal officials to renege on officeholders. Riley contends, however, that financial authorities were excessively cautious "because they did not possess an understanding of finance." I would suggest that it was precisely because they did understand the implications of repudiating debts that they resisted the temptation to do so (Riley 1986; 162-91).

23. Morineau calculated that since 1739 the real interest rate for life annuities was 10 percent or double the nominal value of perpetuities (Morineau 1981; 306)

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