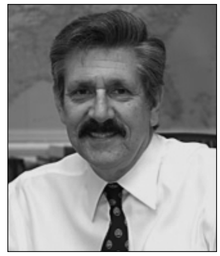

The Great French Inflation

BY RICHARD M. EBELING

Governments have an insatiable appetite for the wealth of their subjects. When governments find it impossible to continue raising taxes or borrowing funds, they have invariably turned to printing paper money to finance their growing expenditures. The resulting inflations have often undermined the social fabric, ruined the economy, and sometimes brought revolution and tyranny in their wake. The political economy of the French Revolution is a tragic example of this.

Before the revolution of 1789, royal France was a textbook example of mercantilism. Nothing was produced or sold, imported or exported, without government approval and regulation.

Within five years the money of revolutionary France became worth less than the paper it was printed on.

While the French king's government regulated economic affairs, the royal court consumed the national wealth. Louis XVI's personal military guard numbered 9,050 soldiers; his civilian household numbered around 4,000—30 servants were required to serve the king his dinner, four of whom had the task of filling his glass with water or wine. He also had at his service 128 musicians, 75 religious officials, 48 doctors, and 198 persons to care for his body.

The nobility and the clergy were mostly exempt from paying taxes, so the tax burden fell on the "lower classes." When Louis XVI assumed the throne in 1774, government expenditures were 399.2 million livres, with tax receipts only about 372 million livres, leaving a deficit of 27.2 million livres, or about 7 percent of spending. Loans and monetary expansion that year and in future years made up the difference.

In an attempt to put the government's finances in order, in July 1774 the king appointed a brilliant economist, Anne-Robert-Jacques Turgot, to serve as finance minister. Turgot did all in his power to curb government spending and regulation. But every proposed reform increased the opposition from privileged groups, and the king finally dismissed him in May 1776.

It was the chaos of the king's finances that finally resulted in the Estates-General's being called into session in early 1789, followed by the beginning of the French Revolution with the fall of the Bastille in Paris in July 1789. But the new revolutionary authorities were as extravagant in their spending as the king. Vast amounts were spent on public works to create jobs, and 17 million livres were given to the people of Paris in food subsidies.

On March 17, 1790, the revolutionary National Assembly voted to issue a new paper currency called the assignat, and in April, 400 million were put into circulation. Short of funds, the government issued another 800 million at the end of the summer. By late 1791, 1.5 billion assignats were circulating and purchasing power had decreased 14 percent. In August 1793 the number of assignats had increased to almost 4.1 billion, its value having depreciated 60 percent. In November 1795 the assignats numbered 19.7 billion, and by then its purchasing power had decreased 99 percent since first issued. In five years the money of revolutionary France had become worth less than the paper it was printed on.

The effects of this monetary collapse were fantastic. A huge debtor class was created with a vested interest in the inflation because depreciating assignats meant debtors repaid in increasingly worthless money. Others had speculated in land, often former Church properties the government had seized and sold off, and their fortunes were now tied to inflationary rises in land values. With money more worthless each day, pleasures of the

Richard Ebeling (rebeling@fee.org) is the president of FEE.

moment took precedence over long-term planning and investment.

Goods were hoarded—and thus became scarcer—because sellers expected higher prices tomorrow. Soap became so scarce that Parisian washerwomen demanded that any sellers who refused to sell their product for assignats should be put to death. In February 1793 mobs in Paris attacked more than 200 stores, looting everything from bread and coffee to sugar and clothing.

On whom did the burden of the inflation mostly fall? The poorest. Financiers, merchants, and commodity speculators who normally participated in international trade often could protect themselves. They accumulated gold and silver and sent it abroad for safekeeping; they also invested in art and precious jewelry. Their speculative expertise enabled many of them to stay ahead of the inflation and to profit from currency fluctuations. The working class and the poor in general had neither the expertise nor the means to protect the little they had. They were the ones who ended up holding the billions of worthless assignats.

Finally, on December 22, 1795, the government decreed that the printing of the assignats should stop. Gold and silver transactions were permitted again after having been banned and were recognized as legally binding. On February 18, 1796, at 9 o'clock in the morning, the printing presses, plates, and paper used to make assignats were taken to the Place Vendôme and before a huge crowd of Parisians were broken and burned.

Price Controls Follow

As the inflation grew worse, an outcry was heard from "the people" that prices must be prevented from rising. On May 4, 1793, the National Assembly imposed price controls on grain and specified that it could only be sold in public markets under the watchful eye of state inspectors, who were also given the authority to break into merchants' private homes and confiscate hoarded grain and flour. Destruction of commodities under government regulation was made a capital offense.

In September 1793 the price controls were extended to all goods declared to be of "primary necessity." Prices were prohibited from rising more than one-third in 1790. And wages were placed under similar control in the spring of 1794. Nonetheless, commodities soon disappeared from the markets. Paris cafes found it impossible to obtain sugar; food supplies decreased as farmers refused to send their produce to the cities.

During the Jacobin Republic of 1792–1794, a swarm of regulators spread across France imposing price ceilings and intruding into every corner of people's lives; they imposed death sentences, confiscated wealth and property, and sent men, women, and children to prison and slave labor. In the name of the war effort, after revolutionary France came into conflict with many of its neighbors, all industries any way related to national defense or foreign trade were placed under the direct control of the state; prices, production, and distribution of all goods by private enterprises were under government command. A huge bureaucracy emerged to manage all this, and that bureaucracy swallowed up increasing portions of the nation's wealth.

This all followed naturally from the premises of the Jacobin mind, which under the shadow of Rousseau's notion of the "general will" argued that the state had the duty to impose a common purpose on everyone. The individual was nothing; the state was everything. The individual became the abstraction, and the state the reality. Those who did not see the "general will" would be taught; those who resisted the teaching would be commanded; and those who resisted the commands would perish, because only "enemies of the people" would oppose the collectivist Truth.

In late 1794 the anti-Jacobin Thermidorians gained the upper hand in the government, and the advocates of a freer market were able to make their case. One of them, M. Eschasseriaux, declared, "A system of economy is good . . . when the farmer, the manufacturer, and the trader enjoy the full liberty of their property, their production, and their industry." And his colleague, M. Thibaudeau, insisted, "I know that when the government attempts to regulate everything, all is lost."

Finally, on December 27, 1794, the price and wage controls were lifted, and market-based terms of trade were once again allowed. And following the end of the assignats a year later, goods once more flowed to the market and a degree of prosperity was restored—until Napoleon's experiment in government planning.