

The Finances of Louis XVI (1788)

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In 1788, Jacques Necker, the finance minister of Louis XVI, released a full accounting of the king's revenues and expenditures. The spreadsheet below is an abridged and edited version of the full *compte rendu au Roi*. While most items have been consolidated into the general categories shown here, the most important lines—showing the “big picture”—are highlighted in bold.

To appreciate this data fully, you should know how the French tax collection system worked prior to the Revolution of 1789 and what made it different from current norms. In the modern United States, for example, there is a central government agency (the IRS) that collects most federal taxes. This money goes directly to the U.S. Treasury, which disburses the funds throughout the rest of the government. In France during the *Ancien Régime* (prior to the Revolution), there was no central tax-collection agency equivalent to the IRS, and the royal treasury did not hold or disburse most of the revenues collected in the king's name. Instead, the government relied on hundreds of private firms—we'll call them “financiers”—to collect taxes, tolls, and fees as well as manage the money once it was received. These financiers charged hefty fees for their work, not to mention interest on the money they held for the king. One type of contract, known as a *ferme générale*, stipulated that the government would receive a fixed sum at the end of each year, regardless of how much money was actually collected. This was advantageous to the government in times of recession, when tax receipts were lower; the government would be guaranteed a certain amount of revenue no matter what, and the financier or “farmer” would have to eat the loss. In times of economic growth, however, the financier would often collect more than the contracted sum, thus earning a substantial profit. Another type of contract, known as a *régie générale*, stipulated that all the money collected in the king's name belonged to the government, yet if it exceeded a certain amount, the remainder would be split between the crown and the financier. Regardless of the precise terms, each contract gave the financier a hefty share of the revenues collected on behalf of the king. These “deductions” are shown on Line 10. As you can see, of the 472 million *livres* (French pounds) that were collected in the king's name in 1788, over 260 million (55%) were taken by the financiers as profits, leaving the government with only 211 million to pay its expenses. As you can see from lines 22, 24, and 24, this was not enough. The government had a massive 160 million *livre* deficit, on top of its long-term debt of approximately 2 billion *livres*, which had been accumulating since the reign of Louis XIV in the seventeenth century. In order to keep the government running—and pay back his creditors—the king had to take out new loans at high interest rates (Extraordinary Income, lines 26-33), thereby increasing his debt. This cycle of indebtedness begetting indebtedness was becoming unsustainable.

Questions:

- 1.) Ordinarily, information like this was considered a state secret. Why would the king of France consent to make this information public?
- 2.) Modern historical accounts of the French Revolution often emphasize the lavish lifestyle and court culture of the king as a major contributor to the crisis. According to this financial report, how significant was the royal household (line 15) compared to overall expenditures? To what extent did it contribute to the financial crisis?
- 3.) If you were the finance minister, how would you resolve the deficit and long-term debt?

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	Ordinary Income	<i>livres</i>
1	Sales taxes, customs duties, tolls	210,671,875
2	Land and income taxes	161,278,134
3	Administration of Royal Lands and Forests (fees, rents, sales)	51,240,000
4	Post and Parcel	13,100,000
5	Royal Lottery	9,860,000
6	Estates (Provincial Assemblies) of Languedoc, Bretagne, Bourgogne, Provence	19,898,763
7	Loans repaid by the United States of America (for assistance in War of Independence, 1776-1781)	1,600,000
8	Miscellaneous Revenues (too small and numerous to list)	4,766,777
9	Total Revenue Collected in the name of the King of France	472,415,549
10	Deductions for expenses and allocations on the above revenue	-260,706,572
11	Net income available for use by the Royal Treasury	211,708,977
	Ordinary Expenses	
12	Army	100,230,000
13	Navy and Colonial Administration	45,000,000
14	Ministry of Foreign Affairs	9,130,000
15	Household of the King, Queen, Royal Family, Salaries of Attendants	31,917,700
16	Pensions	27,000,000
17	Infrastructure, Poor Relief, & Hospitals	3,867,000
18	Salaries of Government Officials	7,836,900
19	Miscellaneous expenditures	2,562,369
20	City of Paris Government	3,331,300
21	Payback of Loans (Interest and Principal)	55,979,100
22	Total Ordinary Expenses	286,834,369
23	Extraordinary Expenses (interest on total sovereign debt, estimated at 2,000,000,000 <i>livres</i>)	85,612,100
24	Total Ordinary + Extraordinary Expenses	372,446,469
25	BALANCE (Deficit)	-160,737,492
	Extraordinary Income (new loans, advances, funds to plug deficit)	
26	Loan of 1787	120,000,000
27	Loans or Buyouts from Provinces of Languedoc, Provence, Bourgogne	17,200,000
28	Advance from General Farmers, without interest	2,500,000
29	Remittance from Royal Life Insurance Company	11,400,000
30	Cash on hand as of January 1, 1788	8,000,000
31	Funds remaining from loans from Maritime Flanders and Gênes	3,227,500
32	Miscellaneous funds	5,803,000
33	Total Extraordinary Income	168,130,500