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# Rent seeking as an evolving process: the case of the *Ancien Régime*

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**Abstract**
Rent-seeking behavior can thrive in democratic and other forms of government where the government is able to hand out exclusive privileges or positions. One of the most famous examples is the venal aristocratic *Ancien Régime* of seventeenth- and eighteenth-century France. This paper presents the Revolution as guided by private interests rather than as an uprising powered by aspirations of peasants for the provision of public goods. While taxation, income distribution, and multiple other causal factors played a role, opposition to rent seeking, from merchants, tradespeople, upper-income members of the Third Estate, and others negatively affected by French policies, was the tipping point leading to the Revolution in 1789. In constructing a public choice–based theory to make this argument, we bifurcate the mercantilism that characterized the French economy into seventeenth- and eighteenth-century types.

**Keywords** Rent-seeking · French mercantilism · Public choice · Revolution

**JEL Classification** N · H3 · K0

## 1 Introduction

France was one of the richest countries in Europe on the eve of Revolution in 1789. France also had a large population, estimated at 25–27 million people, divided into 39 provinces and many economic divisions and districts, some of them clerical. The largely untaxed First and Second Estates (clergy and nobility, respectively) comprised only about 300,000 individuals. The Third Estate, with a widely varying income distribution but overwhelmingly poor, comprised the vast majority of the rest. About 200,000 bourgeoisie belonged to the Third Estate. Historians generally emphasize that the burdens of taxation and famines on the poor, the massive debt incurred through ill-advised wars, and the lavishness of the monarchy, nobles and aristocracy were the chief causal factors in the Revolution as a public-interested event.

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Clearly, however, a multiplicity of causes must fit together. We believe that a unifying theme helps explain how the distribution of income and a maturing and evolving *internal* mercantilism intertwined with the interests of upper-income members of the Third Estate to create revolution in 1789: political conflicts among rationally self-interested monarchical and local interests over the structure of the French economy in the seventeenth and eighteenth centuries—that is, roughly between the monarchy of Louis XIV and Louis XVI's execution in 1792. A key consideration is that the Third Estate contained not only the poor but "merchants, businessmen, professionals, and artisans, who all had demands for greater power" (Acemoglu and Robinson 2012, p. 287) and were left out of French society's growing venality. While elements of income distribution, fiscal disaster and external factors (e.g., wars) also were involved, we maintain that it was the latter subset of the Third and other Estates, ultimately joined by the poor, that helped power the Revolution and its aftermath.

Additionally, we argue that French rent-seeking mercantilism can usefully be bifurcated into (a) Colbertism, the early mercantilism that characterized the latter part of the seventeenth century, and (b) what might be called mature mercantilism of the eighteenth century up to 1789. Such rent seeking (Tollison 1982) reduced economic growth and slowed the introduction of technology. The two variants of mercantilism, both centered on rent seeking, the creation of artificial scarcity, and increased tax burdens on the Third Estate, together with evolving interest groups in the economy. go far in explaining the French Revolution.[1] And, despite post-revolutionary fits and starts, it was a turning point for the French economy in an almost century-long transition. In the language of North et al. (2009, pp. 219–27), France ultimately transitioned from a "limited-access society" to an "open-access society" in which economic growth was sustained and fostered with political stability, enhanced open competition, and economic growth—a public good "byproduct" of the Revolution.

## 2 Public choice, rent seeking and revolution

Historians' emphasis of the public-goods aspects of revolution, for example liberation, has been forcefully amended in the theory of rational choice as manifested in public choice theory. Olson (1965, p. 106) and, even more so, Tullock (1971) argue that public-goods benefits are not the motivator of revolution but are "byproducts" of private, self-interested revolutionary activity. Tullock (1971, p. 92) demonstrates, with a "payoff equation," that "the important variables are the rewards and punishments offered by the two sides and the risk of injury during the fighting". In general, Tullock argues that when the benefits to an individual from an additional unit of a public good are small relative to the cost of revolution to that individual, "selective incentives" are required: noncollective (private) benefits to self-interested individuals are necessary for revolution (the collective good) to be produced.[2]

[1] The relative paucity of French data from the eighteenth century, with some exceptions (Morrisson and Snyder 2000; Beuve et al. 2017a), precludes formal econometric hypothesis testing. However, scholars have assembled reconstructed estimates from assorted statistics, some of which are used in the current paper.

[2] Some historians and political scientists reject the "byproduct" theory, but with little convincing evidence. Muller and Opp (1986) reject the rational choice approach using survey-interview data on nuclear energy. Reduced real income produced by inflation was shown empirically to induce participation in revolutions in African countries by Cartwright et al. (1985, p. 272).

Educated revolutionaries, such as the bourgeoisie of the Third Estate, may constitute the private motivation behind revolutions. Silver (1974, p. 66), building on Tullock's equation, shows that revolutionary activities may be "induced because reforms, especially those loosely termed 'revolutions from above' raise the probability of victory." Importantly, Silver also notes that revolutionary activity may be a form of investment in "human resources", possibly by giving political and leadership capacities to certain participants. Specifically, the highly educated revolutionaries are the "educated participants who get to manage the nationalized industries and serve in the expanded government bureaucracy" (Silver 1974, p. 69) after the revolution.

This theory applies directly to the French internal polity in the two centuries preceding the Revolution. Specifically, France and its seventeenth- and eighteenth-century economies are prime examples of mercantilism as a process—an evolutionary process that we argue culminated in the French Revolution as a "private interest" revolt.[3] European mercantilism (borne of feudal institutions), as a private-interest, monopoly-inspired revenue tactic existed well before the seventeenth century. It was a perennial favorite of monarchs, the nobility, and aristocrats from the earliest days of organized rule. It gained ascendance in the Middle Ages and with the stirrings of nation-states. Louis XIV (1638–1715), the "Sun King", was no exception. He inherited a strong guild system and other feudal economic structures from the reign of Henry IV (1589–1610), in which uniform rules were observed and confirmed by royal letters patent. Royal privileges, but not only those enjoyed by the royals themselves, dominated local guild regulations, and industries were regulated for profits and rents.

The rents were not monolithic (see Tollison 1982): On the one hand, *sanction rents* arose from the recognition, licensing, or franchising of cartels generally at the national level. *Enforcement rents*, on the other hand, emerged from day-to-day activities of local cartels created by local officials, called *intendants*, who were tax farmers and representatives of crown interests at the regional level. Dispute resolution was carried out by local *parlements* (bodies with judicial functions). Well-paid *intendants* remitted monopoly rents to the monarch and local aristocrats, often retaining some for themselves. Power to collect rents between the crown and local interests evolved throughout the seventeenth and eighteenth centuries with, we argue, the eighteenth-century version of private-interest mercantilism being the economic linchpin of the French Revolution.

Monarchical rent seeking worked well at raising funds during the reign of Louis XIV (Ekelund and Tollison 1997, pp. 102–103), especially under the systems put in place by

[3] The concept of mercantilism has undergone changes over the past half century. The classic understanding has been that it consists of a litany of policies used to protect domestic industries or to promote state power. Some of those familiar policies include fostering a positive balance of trade, preventing gold outflows and promoting inflows of specie, import substitution by using tariffs and trade controls to protect domestic industries and employment, export of finished goods and import of raw materials, and a host of other economic goals. Some scholars see mercantilism as attempting to develop state power. The problem with those conceptions is that the modern mercantilist literature shows self-interest rather than economic principles as the driving force. What, for example is "the state"? At the root of many of the state-centric views and issues are the classic and critically important works of Heckscher ([1934] 1939), Viner (1937), and Cole (1943). Ekelund and Tollison (1980, 1981, 1997) and later Root (1994) argued that mercantilism was a process of rent seeking on the part of monarchs, aristocrats, entrepreneurs, local regulators, large landowners, and other interest groups. Focusing on internal regulation rather than international trade, those authors maintained that outright venality and attempt to monopolize segments of the economy *where it was profitable* was at the heart of royal, aristocratic, entrepreneurial and business motives for internal policy in the powerful economies of England, France and Spain as they emerged from feudalism and the medieval period.

Finance Minister Jean-Baptiste Colbert in the period 1661–1683. Over that period, in which Colbert lent his name to the process of mercantilism (Colbertism), enforcement of monopoly privileges and collection of monopoly rents reached high levels. Both Cole and Heckscher characterize the period as an example of successful rent seeking. Tax farming continued, of course, but a lucrative form of rent seeking in textiles, salt, tobacco and many other products took place as well. Cole's (1943, pp. 164–177) example of the suppression of cotton calicos (imports and household production) in favor of the guild production of wool, cloth, silk and linen textiles, as well as luxury goods, underlines the point (see Mikosch 1990, for example).

Colbert's successful cartel enforcement at the local or department level began to reveal cracks after his death in 1683, which ushered in a new phase of French mercantilism when Louis XIV took direct control of economic policy. Under Colbert, the judicial rights of "veto" by local *parlements* had been suppressed.[4] After Colbert, Louis was free to expropriate enforcement rents, but the struggle of local interests (*parlements*, merchants, local tradespeople and other bourgeoisie—many were members of the Third Estate) against the royal appropriations began to limit that source of royal revenue after the death of Colbert, but before the death of Louis in 1717. The locus of monopoly rent seeking was changing. Crown expropriation of the *parlements*' enforcement rents ultimately led, in the eighteenth century, to capture "by the permanently entrenched *intendants*, who had lately [certainly by the 1770s and 1780s] become part of the nobility" (Lefebvre 1947, p. 17). The intendants, along with powerful clerical interests, largely were tax exempt. Repudiation of the monarchs' edicts by the local *parlements* also checked royal prerogatives. Rent seeking still existed and expanded in the eighteenth century, but the locus of collection changed from primarily royal interest to a combination of royal and local interests. As Ekelund and Tollison (1997, p. 121) conclude, "Conflicts engendered between crown and *parlements* over the power to seek enforcement rents had a great impact upon the decline of the monarchy and upon the manner of the Ancient Regime's end. Monarchical mercantilism in France declined contemporaneously with this struggle, but the struggle was not over the legitimacy of cartel formation or rent seeking. It was simply a contest over the locus of the rent-seeking power."

Beuve et al. (2017a) provide empirical evidence of the control and direction of sanction rents through localized grants of privilege to commercial enterprises during the 30 years (1724–1754) after the death of Louis XIV and during the reign of Louis XV—well into the second phase of French rent-seeking mercantilism. Firms requesting privileges were not private in the liberal sense since attaining privileges meant gaining a state-sponsored franchise monopoly. Beuve et al. (2017a) study 267 out of 284 requests made to the Bureau du Commerce—the privilege-granting authority—over those years and examine the content of their privileges (Beuve et al. 2017a, p. 541). Beuve et al. claim that the requests granted were partly for welfare-enhancing purposes.[5] (Data on the franchise grants are available between 1700 and 1791.[6]) The requests were for privilege extensions, new innovations,

[4] According to Doyle (2018, p. 2), 13 *parlements*, or sovereign courts of appeal existed in 1776, with the Paris *parlement* covering a third of France.

[5] Beuve et al. (2017a) use documents from the Avis des Deputes, the provincial intendants, and the Bureau's minutes summarizing deliberations on the requests. The complicated decision-making apparatus is discussed in Beuve et al. (2017b).

[6] Beuve et al. (2017a) use models to study specific decisions of the Bureau—four blocs relating to status (right to produce, for example), territorial exclusivity, personal tax exemptions and custom-duty exemptions—on the elaborate privilege-granting apparatus. They do not consider that decisions from the 90-year period depend on the stock of prior grants. For instance, the "technical innovation" significance (and per-

intellectual property rights, expansion of the scope of existing privileges, and so on. They were granted for more than two-thirds of the requests, some accompanied by "many bribes being handed out, from the very bottom to the very top of the *Controle* [final government decision-makers on applications]."

Rent seeking with or without bribes over the period systematically was rule-based and supported technical innovation and diffusion, local economic development, and import substitution, with only a third of applications being "crude rent seeking."[7] Beuve et al. (2017a) claim to be correcting the "dark story" they believe has been told of French mercantilism.[8] Indeed, some privileged and unregulated production during both early (Colbertian) and late (approximately after 1700) periods of French mercantilism enhanced technology and innovation and benefited consumers in some ways, a point that no writers have denied.[9] However, all applicants to the Bureau du Commerce simply were *local or regional private-interest* rent seekers, obtaining privileges largely at the expense of open competition and taxpaying peasants. And the *aim* of the privilege-granting bodies, whether correctly identified by Beuve et al. or not, is quite irrelevant to the importance of the actual rent collections in both periods—practices that did little good and much harm for economic growth and per capita income.

Privileges granted by the Bureau du Commerce were instituted before the death of Louis XIV, as noted earlier. The bureau "investigated and administered demands for state support" (protected monopoly privileges) and "handed out tax exemptions or production monopolies to chosen firms" (Beuve et al. 2017b, p. 1145). Although local interests and

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Footnote 6 (continued)

haps the "local economy") may be determined by the regulators' efforts to work around what has already been done. There exists a stock of regulatory capital, so to speak, that limits subsequent decisions. Additionally, much structure is imposed on the model by using a time trend rather than time fixed effects. Unless the pattern of decisions follows a linear trend, the results may reflect peculiarities of years. Period fixed effects would be the natural choice, which may not lead to the anticipated results.

[7] Some of the grants (if not all) are defended by business interests and by Beuve et al. (2017a) as furthering the public interest. As in the modern world described by Holcombe (2018, p. 270), "by protecting their business interests, they are protecting and creating jobs…. They are maintaining governmental competence and professionalism. Institutions that convey advantages to political incumbents increase legislative professionalism…. Nobody is arguing for cronyism. The arguments that support political capitalism are arguments that are built on the hope of benevolent government and governmental professionalism. And, they are arguing for policies that support domestic business and that create jobs." This is precisely the rationale for the type of mercantilism supported by the Bureau du Commerce.

[8] A sequence to the bureau's decisions is identified by Beuve et al. (2017a): one set of grants is conditional on receiving another grant. The sequence may involve one or more decision trees (it could be quite complex), but certainly one does not obtain an exclusive territory or tax relief if one can't operate a business. That is, before one obtains an exclusive territory (model 3), one must obtain a business license (model 1). Yet model 3 includes observations of applicants who that did not receive a business license (about 30% of the sample), and the model does not account for the relevance of model 1's results to model 3's results (perhaps a Heckman-type selection correction, or limiting the data to those observations that were successful in model 1, the latter of which may or may not be valid. A model containing all of the conditional probabilities needs to be crafted to understand exactly how to estimate the model and what the results mean). Presumably, the failure to obtain the business license implies a failure to obtain an exclusive territory, meaning a large number of the observations in models 2–6 have no possibility of getting a grant. The model is almost certainly tainted by selection bias. Furthermore, the "ordered" nature of the dependent variables must be accounted for. For instance, does a very successful outcome in the business-license model (model 1, outcome 3) affect the subsequent decisions? The model does not help answer that and other key questions.

[9] It may well be the case that in situations of sequential monopoly it was unnecessary to skim profits from both inputs and outputs using those inputs. An industry may be cartelized at the output stage, eliminating the necessity of input regulation.

local judicial resistance to the creation of those monopolies retarded some of the incursions, the locus of rent seeking and monopoly control expanded to local jurisdictions in France.[10] Whatever the aim of the bureau—innovation, economic development, or consumer welfare—or however much it resembled a "professional bureaucracy" (Beuve et al. 2017b), it was still a rent-producing device paid for by consumers to the benefit of rent seekers. Even according to Beuve et al. (2017b, p. 1149), "Patronage and corruption were widespread and considered normal to some extent…. Many positions in the local and central administrative machinery were farmed out", leading to other sources of corruption.[11] Without question such factors skewed the income distribution in late eighteenth-century France for the worse.

## 3 Factors affecting private interest

Evolving private interests contributed to the developing form of French rent-seeking mercantilism. Shifts in tax burdens, the purchase of titles of nobility, and changing income inequality all played roles in shifting the nature and locus of self-interest.

### 3.1 Taxation

Fiscal crises were common during the eighteenth century and the demand for revenues was strong. Deficits and debt largely were precipitated by wars, including conflicts with the English. The Seven Years' War (1754–1763), wherein the French lost Canada, and France's participation in the American Revolution were particularly costly; a debt crisis developed as Louis XVI came to the throne in 1784. Taxes, with a few exceptions, were not levied on the First and Second Estates. This inability to tax "even minor nobility put severe limits on its [France's] revenues" (Acemoglu and Robinson 2012, p. 286).

The *taille* was a tax levied on both real and personal property. (Naturally property values had to be accurately assessed for tax purposes, a difficult problem for the authorities since evasion was possible, making rent collections an attractive alternative). The tax was regressive. Nobility and clergy were exempt from the *taille*, which meant that the burden fell almost exclusively on the poorest proprietors and lower segments of society. In the eighteenth century, large landowners and merchants bought their way out of the tax by purchasing titles of nobility (see below). Outright venality riddled the administration of the tax further since collection was farmed out to tax collectors (Chanel 2015, p. 75), who could be aggressive or capricious. Local tax farmers remitted taxes to upper-level royal collectors, and many farmers became venal over time. They were hated by all who were taxed in the Third Estate. In May 1794, after the Revolution began, 28 tax farmers were executed by guillotine, an indication of the hatred they generated in society.

[10] While Beuve et al. (2017a, b), if statistically accurate, interpret such policies as means of fostering economic development and an implementation of early industrial policy based on a mercantilist worldview, the change did not advance the French economy to the level of England in terms of technology or growth.

[11] Nowhere do Ekelund and Tollison (1981, 1997) claim that the establishment of a Bureau du Commerce would only have "increased the overall capacity of the Crown to extract fiscal resources and redistribute them as rents" (Beuve et al. 2017a, p. 530). They argue instead that self-interest guided a mercantilism that evolved over the eighteenth century.

The *aide* was a general excise tax on commodities, including wine. It was an insidious internal and indirect tax levied at both the wholesale and retail levels. The tax also imposed tolls on river and road transportation and was farmed out, so corruption was rampant. Yet another tax, called *douanes*, was a levy on transporting goods going into and out of France but also between provinces on rivers and roads. It either eliminated trade altogether or raised prices to levels that inhibited the poor from consuming some goods in some areas. This opaque web of taxes and regulations between districts, regions, and localities reduced France's GDP by stifling trade and economic growth; hence, a growing chorus over time began calling for free trade.

In France, one of the premier high-tax states of modern Europe, taxation in the eighteenth century helped skew the distribution of income to the disadvantage of the Third Estate. Merchants, artisans, agricultural and nonagricultural workers, and small landowners paid taxes, while the nobility and the clergy were exempt from most, but not all, taxes (they were sometimes paid by the clergy as "donations"). In addition, the *gabelle* was the tax levied on salt, a necessity, making it a cruel tax on the poor; it sometimes reached ten times the price of salt. And peasants remitted a tithe (*dime*) in kind to the Catholic Church and were obliged to participate in the *corvée*—forced unpaid labor on roads and other public works. By the time of the Revolution, indirect and other taxes on the Third Estate were mounting, shifting the burden of taxation to the lowest quintiles of income distribution. The growth in taxes occurred because of increasing venality by local interests after Colbert and especially after the ascendance of Louis XV. Tax farmers, hated by the Third Estate, were among the wealthiest groups in French society, and intendants (tax farmers and royal enforcers) became more corrupt over time.

Most of the tax burden fell on the Third Estate (the peasants), but it is critical to recognize that the distributions of income in all three estates were not uniform. Thus, the top levels of the clergy (especially in larger cities) could be extraordinarily wealthy, as was also the case with the nobility, but, in rural areas especially, the clergy and rural nobility often lived hand to mouth, with the nobility expending most of their limited resources maintaining their "dignity". As Chanel (2015, p. 67) notes, "The Third Estate was an extremely heterogeneous group. In part, it comprised the bourgeoisie—the financiers, real estate investors, artisans, merchants, teachers, notaries, lawyers and magistrates that had not yet bought their way into the noble class." However, the upper-income members of the Third Estate (mostly city dwellers) were dwarfed in numbers by the approximately 25 million poor peasants living primarily in rural areas.

The usual suspect for the cause of Revolution is the overtaxed peasant. But the idea of Revolution led by the overtaxed peasant largely is a myth. The truth is more complicated. Many groups in the three estates were taxed. Even the nobility was burdened with required "grants" to the monarch. The true culprits are both the complexities of a feudal tax structure and a rent-seeking administration of that structure that riled the French populace and lowered the economy's performance. Reform, as we will see, was repulsed time after time prior to the Revolution by those who benefitted from the status quo fiscal structure. As Bossenga (2010, p. 46; quoted in Chanel 2015) points out, "The real problem with French taxation seems not to have been its crushing weight, but its inequities, inefficiencies, and imperviousness to true reform"—a result of the rent seeking.

**Table 1** Ennobling venal offices under Louis XVI

| Municipal (*noblesse de cloche*) | 31 |
|---|---|
| Court (*noblesse commensale*) | 26 |
| Council of state | 42 |
| Masters of requests | 80 |
| Provincial governors | 39 |
| *Parlements* | 1250 |
| Grand council | 70 |
| Courts of aides, accounts, and moneys | 780 |
| Bureaux of finances (treasurers of France) | 769 |
| *Chatelet* | 80 |
| Chanceries (king's secretaries, e.g.) | 857 |
| Total | 4224 |

*Source*: Doyle (1996, p. 70, Table 3.1)

### 3.2 Buying out of taxation

Members of the Third Estate could purchase tax exemptions, increasing the burdens of taxation on those who paid taxes. Large farmers and merchants attempting to gain status and evade taxes often purchased positions in the nobility. Estimates vary widely, but some calculate "that between 35,000 and 45,000 newcomers entered the French nobility between 1725 and 1789, equivalent to about two persons per day" (Doyle 1999, p. 18). The ranks of nobility expanded dramatically by all estimates. Table 1 in Doyle (1996, p. 79), reproduced here, gives an estimate of the ennobling civil offices purchased during the reign of Louis XVI. More than half of them were court positions (in *parlements* and financial courts).

As Beuve et al. (2017a) suggest, privileges at local levels continued to be advanced to collect both sanction rents for the Bureau du Commerce and enforcement rents for local interests. Local judicial interests—the *parlements* and others (see Table 1)—used veto powers to thwart the collection of rents for the central authorities. Rents, in short, were paid at two levels by those who could not obtain exemptions. Both taxation and monopolization pressed upon the Third Estate and hampered the economy's performance.

Nascent capitalist tendencies, encouraged by the Physiocrats and French Enlightenment philosophers, undoubtedly played a part in providing "bourgeois dignity" to merchants and tradespersons. Perhaps several decades later than the English, the French found "dignity" in trade and production, but, according to McCloskey (2010, p. 294), they "did not give complete liberty to innovation." For example, hereditary nobles caught engaging in commerce could be stripped of their rank (McCloskey 2010, p. 315), but a growing army of new nobles (nobles not born to traditional nobility) further reduced productivity, technological improvements (Moykr 2018) and economic growth. The emerging bourgeoisie also contained some people from the guild or the parliamentary and intendants apparatuses. They became accustomed to economic hedonism. They sought to capitalize on titles and special privileges from the monarchy as permitted by the Bureau du Commerce, many attained by bribes. Other members of the bourgeoisie, those unable to obtain privileges and possible nobility, were disadvantaged, becoming increasingly impoverished in the decades preceding the Revolution.

At the local levels, individuals would have to save to purchase noble status, and conditions in each region of France differed. Purchasing ennoblement was a positive goad to

**Table 2** Income inequality in late eighteenth-century France

| Year | 1760 Quesnay | 1781 Isnard | 1788 Morrisson and Snyder |
|---|---|---|---|
| Gini | 37.4 | 48.8 | 54.6 |
| Max feasible Gini | 53% | 69% | 74% |
| GDP per capita | 240 | 173 | 143 |
| GDP (million current livres) | 7191 | 4170 | 4009 |

*Sources*: Morrisson and Snyder (2000), Milanovic (2015, p. 32) and Milanovic et al. (2011)

wealth formation in the short run, but when positions finally were obtained the capital invested largely was consumed by the monarchy.[12] The new nobles still were subject to some forms of taxation (*gages*, for example) and some were forced to make "loans and contributions" to government, although on net it was profitable to become a member of the nobility. The overall effect likewise was devastating to productivity because the system directed resources into lower-yield (agricultural) investment as opposed to more-productive (industrial, productivity-raising) work because agricultural land was easier to liquidate.

The more fundamental problem with the purchase of nobility (and tax exemptions) was a burden on those in the Third Estate who could not buy their way into privilege. Ennoblement meant that the tax burden was shifted to those with the least ability to pay. Resentment by private interests against the system grew (Doyle 1996, p. 169), especially among those whose tax burdens were the greatest within the Third Estate: the upper-income members. A smaller number of citizens were forced to cover the huge government budget and growing debt in the 1780s. A variety of data sources show an increase in the prices charged for offices over that decade, suggesting a rush to obtain privileges and a further impoverishment of the unprivileged. The income distribution changed as a result of both the sanction and enforcement rents charged throughout France and the shift in the tax burden brought on by ennoblement.

### 3.3 Income distribution

Changes in the distribution of income in the three decades prior to 1789 were an inevitable result of the unchecked new directions of rent seeking. Accurate calculation of the income distribution is difficult in any period, including our own. The distant eighteenth century would seem to be would seem *terra inconnu*, and no one claims absolute accuracy. However, some plausible contemporary estimates and those of modern writers are available.

The problems of estimating the distribution of income for the period in question begin with finding a proxy for income, allocating income among social groups, and estimating subsistence income. Morrisson and Snyder (2000, pp. 68–70) calculate income for 1788 by using adjusted capitation (income estimate) rates and identify their distribution by social group (eight categories). They use what they believe were the most accurate parts of the distributions presented by Francois Quesnay and Achille Isnard, calculating high and low

[12] Noble status could be purchased for life, as heritable titles or after a delay of three generations—all for different amounts.

estimates of the Gini coefficient and other variables for 1788 (see Table 2) and of the Gini for various years. Even for the low estimate, the top two quintiles in France commanded two-thirds of French income. Notably, the indigent and totally destitute numbered from 5% to 10% of the population and paid no taxes (destitution had to be certified by a local parish priest).

The group "nobles, clergy and the bourgeois", roughly 10% of the population, accounted for between 75% and 80% of the income received. Importantly, the members of that group primarily were individuals who were exempt from most forms of taxation. The Gini coefficient based on the Morrisson and Snyder (2000) estimates is 54.6. Roughly, about 80% of the population received only a third of income produced.

Table 2 compares Morrisson and Snyder's estimates with those of Francois Quesnay and Achille Isnard, which are analyzed in an interesting paper by World Bank economist Milanovic (2015) that also presents a Lorenz-curve. Milanovic found that both Quesnay's and Isnard's calculations were biased, with Quesnay's underestimating the high end and Isnard's eliminating the poorest segments of the French population.[13] Milanovic uses an alternative "inequality extraction ratio" devised by Milanovic et al. (2011, p. 256) to show "how close to the maximum feasible inequality is a society at a given time." Assume that each society must distribute income to guarantee a subsistence minimum to its poorer classes, the rest being a surplus going to its richer classes. As the surplus increases, inequality increases—the upper classes may extract more or less of the surplus in the new measure of inequality. Employing some given level of subsistence, Milanovic (2015, p. 34) reports that, with average income at 3.3 times some calculated subsistence level (according to Quesnay), the maximum feasible Gini is 70 and Quesnay's calculated Gini of 37.4 would extract only 53% of maximum inequality, far less than the ratios of 69 (Isnard 1781) and of 74 (Morrisson and Snyder 2000). Using the same table of social classes, the latter two estimates would produce Gini coefficients in substantial excess of England's at the time.[14] Such estimates indicate growing inequality and a declining economy in France, and the rising inequality and economic decline were principal ingredients in the Revolution of 1789. If Milanovic's (2015) data are accurate, rent seeking reduced GDI (Gross Domestic Income) and GDI per capita sharply over the roughly three decades prior to revolution. The magnitudes of both declines exceeded 40%. Furthermore, if population remained constant over that period, the decline in per capita income would be the result of reductions in GDI. In other words, the number of customers served by the bourgeoisie fell dramatically.

### 3.4 France compared to Spain and England

How did the structure of France's economy compare to those of other countries during the crucial pre-revolutionary period? The Spanish economy endured similar problems, but the clergy played a far larger role in repressing economic development than in France. Spain's rent-seeking interests and governmental form paralleled France's closely. Indeed, the tax system and venal economy of Spain would have been very much like France in the

[13] Isnard was a member of the Ecole des Ponts et Chaussées, a talented engineer who was the first writer to attempt a mathematical definition and a mathematical proof of an economic equilibrium. He did so in his *Traite des richeses*, 2 volumes (London: F. Grasset).

[14] Morrisson and Snyder (2000, p. 70) find their computed Gini coefficient for France in 1788 to correspond "fairly closely to the estimates of income inequality that existed during the 1960s in such Third World countries as Brazil, Kenya, and Mexico."

eighteenth-century. Taxation and the granting of privileges were the means of rent extraction. In the early period, taxes were levied by both the papacy of the Catholic Church and Spain's civil government to finance wars against the Moors.

The Inquisition and periodic repression of the Jews, along with oppressive taxation, took a toll on Spanish economic development. Consumption taxes, salt taxes and land taxes paid by towns under the Catholic monarchs all constituted a burden on the non-clerical, non-noble poor. Most destructive were the road tolls (*porazgos*) and the general sales tax (the *alcabala*). (The Spanish government imposed an in-kind tax, like the French corvée, requiring physical labor on roads and bridges called the *facendera*.) Tax farming was riddled with rent-seeking corruption as more than 150,000 collectors of the *alcabala* alone bought collection privileges from the clergy and nobility (Costillo 1980, p. 58). Spain was a limited-access economy until well into the twentieth century, with the Inquisition lasting, at least officially, until the nineteenth century. Using social tables, Milanovic et al. (2011, p. 261, Table 1, p. 263, Table 2) estimate Spain's Gini coefficient in approximately 1790 to be 63.5, with an estimated 755 in GDI per capita. France, by comparison, had an estimated Gini of 55.9 in 1788 with a GDI per capita of 1135.

England, in contrast to both France and Spain, was on its way to an effectively tripartite government as a foundation for economic growth and unregulated markets from the end of the Tudor reign. Parliament effectively had wrested a large share of the power to regulate away from the monarch. According to Holdsworth (1966, p. 320), regulated and chartered companies over time came under the control of Parliament rather than the monarch. Furthermore, the system of internal regulations and restrictions on particular lines of business began to break down since they were managed by *unpaid* justices of the peace. The predictable result was bribery and avoidance of regulatory rents by small-scale manufacturers and merchants. Parliament was becoming an effective check on monarchical rent seeking.

Public choice theory offers an important explanation for why Parliament was becoming a check: it is more costly to obtain agreement and division of bribes when a larger number of rent seekers (the English Parliament) provide regulation. France, by contrast, maintained the privilege-granting Bureau du Commerce right up to the Revolution to cater to rent seekers. The early restraints are reflected in a comparison of Gini coefficients and growth estimates. In 1759, prior to the French Revolution, England and Wales had a Gini coefficient of 45.8. Estimated GDI per capita, moreover, was 1418 (using constant dollars) in 1759, again using Milanovic et al.'s (2011, p. 261, Table 1, p. 263, Table 2) estimates. Differing opportunities to seek rents and privileges contributes to an explanation of those income estimates and to the relative paths of economic development. Britain, with early checks on aristocratic rent seeking, was ahead of France and Spain in fostering creative destruction and economic growth.

## 4 Public choice, enlightenment and revolution

The French situation on the eve of the Revolution differed from those of Spain, England and other European nations in that its clergy's economic power was less than in Spain and it had far fewer checks on rent-seeking interests than England. All of those nations, however, were being touched by the Enlightenment influences sweeping across Europe.[15]

[15] Such ideas, as noted by Hayek (1991), more than suggest that the intellectual revolution created by the Enlightenment ultimately was one of the factors that "paved the way for the political revolution." Hayek echoes Alexis de Toqueville ([1856] 1955, p. 138), who, writing *in retrospect* of the Revolution, believed that the fundamental problem was the Ancient Regime, but concluded that a more fundamental cause could

Those factors—especially tax burdens shifting increasingly to the upper-class merchants and entrepreneurs in the Third Estate—increased the probability of revolution. A whole line of French thinkers, including Richard Cantillon (c. 1685–1734), Sébastien Le Prestre de Vauban (1633–1707) and Pierre Le Pesant, sieur de Boisguilbert (1646–1714), advocated "liberal" economic reforms, attacking the rent-seeking apparatus as inhibiting economic development and growth (Hébert 1987; Thornton 2007a, b; Gide 1926). Their policy advice largely was rejected, but as the French fiscal crisis deepened, one philosopher became a political reformer.

The single most important writer, policy maker, and politician in the prelude to the Revolution was a free trader and fellow traveler of the Physiocrats: Anne Robert Jacques Turgot (1727–1781). Turgot was influenced greatly by Sabastien Vauban (1707), Richard Cantillon (2010), François Quesnay, Vincent de Gournay, Dupont de Nemours and the burgeoning Enlightenment. But unlike most of his contemporaries, Turgot became a politician who put his and other Enlightenment theories into practice. His first major assignment (1761–1784) was as intendant of the department (*genéralité*) of Limoges. There he was able to oversee reforms to the *taille* by modernizing a survey of the land, which made the tax structure less skewed in favor of large landowners, thereby reducing the required contributions of the peasants. In a move that must have endeared him to the poor, Turgot eliminated the dreaded corvée as it was then constituted. Road building and repair were now financed by a tax on the whole province. Limoges was an important economic success.[16]

Turgot's career and those of other finance ministers at the time support the public choice (rational interest) analysis we present. Turgot's writings and activities while at Limoges, together with important court connections, brought him to Paris, first as a minister of the navy and then, for 2 years (1775–1776), as controller-general of finances at the royal court. France was then and for much of the century in a desperate financial condition with enormous war debts. Additionally, 16 major famines occurred in the eighteenth century (Braudel 1981, p. 75; Du Boff 1966) and a lavish court was maintained.[17] Into that milieu, Turgot introduced strict financial discipline. Part of the fiscal discipline was to suppress indirect taxes (excises, tariffs, monopolies) and to support direct and proportional taxes on the large landowners. Critically, he supported removal of the economic privileges of the guilds and the freedom to work. (Many of those policies were promulgated in his Six Edicts of 1776.)

Turgot had brilliant insights into internal mercantilism. According to Turgot, poor consumers were taxed excessively in towns or rural areas just as citizens were penalized by French tariffs on imports. Monopolies created for the privileged local entrepreneurs, intendants, and ennobled landlords were the source of France's economic problems.

Footnote 15 (continued)

be traced "to the particular, more recent events which finally determined its [the Revolution's] place of origin, its outbreak, and the form it took." According to de Tocqueville in the *Old Regime and the French Revolution*, the significant impetus was provided by the mid-eighteenth-century writers and thinkers who began to take center stage with their bold ideas to change society radically by exercising human reason based on natural law. According to de Tocqueville (1955, p. 139), those writers had an enormous ideological effect on the people.

[16] Turgot enacted agricultural reforms and introduced the potato into the local diet. He suspended the stamp tax and the baker's guild and encouraged free trade. His reforms were popular and noticeably successful. His biographer, Say (1888, p. 73), notes that when Turgot was called into the king's service, a popular expression was "The king does well to take M. Turgot, but we are very unlucky to lose him."

[17] Braudel (1981, p. 91) summarizes the "biological ancient regime" on the eve of revolution as "a number of deaths roughly equivalent to the number of births; very high infant mortality, famine, chronic undernourishment; and formidable epidemics."

Early on as intendant of Limoges, Turgot pinpointed the main obstacle to production and economic growth. The problem was monopoly privileges, such as those handed out by the Bureau du Commerce. Turgot ([1763] 1977, pp. 100–101) writes:

> The ridiculous tariffs which the inhabitants of the towns have been allowed to establish, have almost completely the objective of placing the whole burden of the tax on what they call *foreigners* [neighboring districts or towns]. Foreign merchandise must therefore be sold at a higher price than local goods. This gives the local merchants a monopoly which is prejudicial to the ordinary inhabitants of the towns. In case of most of these duties, it is felt that everything must be taxed. Because of this, an inextricable labyrinth of valuations, disputes, etc. has been created.

Just as in the case of England (Ekelund and Tollison 1981), but without the looser controls on local monopoly and the unpaid nature of the regulators there, internal French mercantilism was a primary foundation for a skewed distribution of income and a retarded Industrial Revolution.

Turgot himself gained some successes in his brief stint at the economic reins, but when he released his famous Six Edicts in 1776, he was sacked quickly as a result of virulent opposition among the nobility, clergy and tax farmers. Furthermore, he lost favor among the king's courtiers and, ultimately, with the king himself. Despite his moderate and well-founded approach, Turgot's spending cuts, deregulations, attacks on privilege and other reforms were soon rescinded. Additionally, Turgot had lifted price controls on wheat in 1775 in response to famine. The predictable result was an increase in price (the controlled price had been below market equilibrium), which led to opposition from the Third Estate. Had Turgot been allowed to complete his reform agenda, France would have been more productive and prosperous, and revolution might have been avoided.

Many scholars believe that France's precarious fiscal problems—crushing debt and deficits brought on by profligate spending and entry into the American Revolutionary War—led to the revolt of 1789. Rather, it was the periodic returns to outright venality, with tax collection and monopoly privilege granting in the financial, agricultural and manufacturing sectors, that led to the Revolution. The rollercoaster of financial woes interacted with those factors, of course. The French economy faced an enormous fiscal crisis between 1769 and the Revolution. In 1769, the deficit was 60 million livres and the government could not borrow (White 1989). Progress was made over the five-year tenure of Joseph Marie L'abbe Terray (1769–1774). Terray employed Physiocratic and severe economic medicine to rein in the deficit by cutting venal rent-seeking officers attached to the royal finances. Although he was successful, Terray made bitter enemies among the rentiers and officeholders. Louis XVI ascended to the throne in 1774, dismissed the unpopular Terray, and appointed Turgot, who was dismissed for the same reasons, as noted above. Jacques Necker enjoyed a four-year stint (1777–1781), but was dismissed owing to supposed offenses against rent-seeking members of the court. The finance ministers that followed—Joly de Fleury, Henri Lefèvre d'Ormesson and Charles Colonne—all returned to the mercantile approach to finance. White (1989, p. 546) concludes that

> The origins of the *ancien régime*'s collapse are not to be found in the debt burden acquired either during the American War for Independence or before. Instead, it is the return of the venal financial aristocracy after 1781 that began the monarchy's problems. Fiscal policy and administrative reforms were reversed, and a large peacetime budget deficit appeared.

Ministers between 1781 and 1788, facing a backlash by privilege holders, allowed a return to outright venality in financial matters.

Nobles influenced by liberal ideas on finance were an encouragement to those who resorted to violence. Shapiro et al. (1973, pp. 188–89) find that, throughout the three estates surveyed in 1789, the sentiments of some nobles were as liberal as those of the Third Estate and that both classes were opposed to centralization and to the expansion of the central government. In a final irony, Necker was reappointed hastily and reluctantly in 1788 to try to rectify the French fiscal disaster, but was dismissed by Louis XVI on July 11, 1789. On hearing the news, the people stormed the Bastille and Necker again took office for a short time, but the French Revolution had begun.

The Estates General met in 1789, but attendees did not agree on reforms. Representatives of the Third Estate, opposed by the untaxed clergy and nobility, wanted more votes and political power. The meeting's attendees agreed to convene the more powerful National Assembly. According to Acemoglu and Robinson (2012, p. 287), "The Third Estate, particularly the merchants, businessmen, professionals, and artisans, who all had demands for greater power, saw these developments as evidence of their increasing clout. Their support in the streets all over the county by citizens emboldened by these developments led to the reconstitution of the Assembly as the National Constituent Assembly on July 9 [1789]." That assembly quickly introduced liberal reforms, deregulation, and abolition of guild privileges.

Those major concessions are clear benefits from a public choice, private interest theory of revolution. As Silver (1974, p. 66) argues, "Many persons will quite rationally interpret the reforms as a sign of weakness or submission."[18] The role of the merchant-bourgeois, or upper-class members of the Third Estate in fomenting the Revolution, aided by the enhanced participation of "the poor", has been underestimated.

Importantly, the interests of the bourgeoisie were not monolithic. Cobban (1955) examines the social and professional backgrounds of those elected to the Estates General and finds that two-thirds of them in 1789 were, like Robespierre, in the legal profession; only 13% of the bourgeoisie were "men of commerce". Historians link the concept of "bourgeoisie" with "capitalists" tightly. The revolutionaries were not necessarily capitalists, but simply the wealthy members of the Third Estate. McCloskey (2010) suggests that change came about with the acquisition of "bourgeois dignity"—a mental state rather than simply a profession. Certain "capitalists" may have even supported the regime in order to *protect* their monopolies and loans to the government. Lesser nobility—those who purchased noble titles and saw the value of their purchases declining—and clergy joined lawyers, officeholders, government employees and the professions mentioned by Acemoglu and Robinson (2012) in demanding reforms.

Some of the bourgeoisie wanted change because their self-interest was in eliminating the rent-seeking venality of regulation at local and regional levels. Other members of the bourgeoisie supported change in order to maintain or improve their positions in a new regime. Both were rationally inspired in a manner perfectly consistent with a public choice theory of revolution. Indeed, the leaders of the revolt, including Robespierre, were bourgeois members of the Third Estate, demonstrating that individuals who had strong private interest in the outcome of the revolt had the greatest incentive to participate. The huge

[18] Furthermore, the inequality within French society, according to Roeder (1982, p. 13), "everything else equal, increases revolutionary action in at least two ways—first, by creating political actors with fewer resources and, second, by creating objects of revolutionary action that promise higher returns."

benefits expected by that group would be more equality of tax rates for all Frenchmen plus more demanders and business revenue for them.[19] That the poor reacted to the participation of upper elements of bourgeoisie is revealed in an incident after Louis dismissed the popular and non-noble finance minister Jacques Necker on July 11, 1789. Protestors poured into the streets and harassed Louis's royalist soldiers. But instead of firing on the crowds, the soldiers fled Paris, and the mob seized armaments from the Hotel des Invalides and the Bastille. Royalist soldiers adopting non-violence by retreating represented a decline in cost to the revolutionaries and that cost reduction determined the timing of the Revolution.

## 5 Conclusion

An important driver of the French Revolution has been neglected. Historians and others place major blame on fiscal distress, oppressive taxation of the poor, and the high life of the French royalty and aristocrats. While those and other factors certainly were involved, the evolution of *private incentives* to revolt, particularly at the *upper end* of the Third Estate, was critical. Late French Mercantilism created (a) an increase in prices, which reduced the demand for bourgeoise-produced goods and services; (b) an increase in taxes, which reduced bourgeois net incomes and a reduction in Gross Domestic Income per capita. Such effects explain who the revolutionaries would be.

The originally effective and centralized *intendants* system so efficiently run by Colbert became diluted as a kind of general market for privileges came to dominate French society. The form of mercantilism and rent seeking evolved. Freedom and access to markets was a byproduct of the French Revolution, even though it took almost a century for that goal fully to be reached (North et al. 2009, p. 227).[20] The income distribution became more skewed leading up to the Revolution because of the privilege granting, taxation, and rent seeking in the several decades preceding 1789. That took place, in large measure, because growing cycles of local and regional monopoly privileges accompanied by a growth in the number of self-interested local officials purchasing aristocratic titles resulted in a widening number of tax-exempt nobles and other privileged officials. Those events increased the burden of financing government and of debt on the Third Estate. The continuing ability of the clergy and nobles to be exempt from various kinds of taxes and to effectively block reforms (such as those proposed by Turgot) also was a contributing factor. However strong Enlightenment principles were among the Third Estate and other classes, they were unable to penetrate adverse private interests in the First and Second Estates, again determining who the revolutionaries would be.

[19] Naturally, we do not preclude future attempts at rent-seeking within the new power structure.

[20] The hazardous route from initial democracy through dictatorship and monarchy ultimately to representative government also is noted by Acemoglu and Robinson (2006, p. 67). That view is amplified by North et al. (2009, pp. 221–227), who provide a detailed discussion of the Revolution's aftermath. In their view, France continued to be a limited-access economy (limiting economic growth) between 1789 and 1875, with 11 constitutions over that period and myriad forms of legislative and executive government. While the economy of Spain mirrored France in terms of few checks on privilege and rent seeking, France did reach a turning point toward open-access government and growth with the Revolution. Britain, with early checks on aristocratic rent seeking, was ahead of France and Spain in the process of creative destruction and economic growth. Income inequality is estimated to have grown in France up to 1870 (Morrisson and Snyder 2000), but was reduced afterward, at least up to 1929.

An exclamation point of sorts illustrating the sentiment against rent-seeking venality is added by the first of the nineteen decrees issued by the National Constituent Assembly. As promulgated in November 1789, it read: "*Décret portant abolition du regime féodal, des justices seigneurialees, des dimes, de la vénalité des offices, des privilèges, des annates, de la pluralité des bénéfices.*" That is, it was a decree to abolish the feudal regime, judicial sinecures, the (10%) income tax, the sale of (public) offices, privileges, church annates, and the multitude of venal offices created under eighteenth-century French mercantilism. Everyone negatively affected by the mercantile state—not only the Third Estate—together with the rebuffed liberal/Physiocratic groups became privately interested active participants in the Revolution. Thus, it was not only or primarily the weight of the tax burden on the poor or any other matter that might have been dealt with by more liberal policies that was the source of Revolution. Rather, the economic decline brought on by mercantile rent seeking and the inequities, inefficiencies and resistance to reform in the unrestrained privilege market (which increased income inequality for portions of all three estates) also were primary factors in instigating the French Revolution.

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