



# The interest group origins of the Bank of France

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## Abstract

This paper contrasts different interpretations of the creation of the Bank of France. I argue that the Bank of France was the product of rent-seeking behavior rather than the pursuit of public interest, as is commonly supposed. I explain how the changing institutional constraints faced by both politicians and bankers can account for changes in France's monetary constitution. The creation of the Bank in 1800 followed the fall of the Directory and the establishment of Napoléon's autocratic regime. I argue that as parliamentarism and the separation of powers were weakened by Napoléon, the cost of establishing and maintaining a monopoly privilege in banking evaporated and the creation of the Bank of France became more likely.

**Keywords** Central banking · Rent-seeking · Economic history

**JEL Classification** D72 · N23

You know that the Bank was recognized by Bonaparte's government and received from him, by the law of Germinal 24, Year XI (April 14, 1803), the exclusive privilege of circulating bearer notes. The apparent motive was to present to the public a more respectable guarantee of the notes issued. The real motive was to have the Bank pay for the exclusive privilege of having in circulation notes bearing no interest. It bought this privilege, like the Bank of England, by making advances to the government.

—Jean-Baptiste Say (1847) in a letter written to Napier, August 14, 1816.

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## 1 Introduction

On June 26, 1815, after the battle of Waterloo, the vanquished Napoléon had to escape the British. He went to Lafitte, the director of the Bank of France, asking for help. According to Lafitte's recollections, Napoléon asked, "M. Laffitte, how's it going?" and then inquired serenely, "Can you charter me a ship to America to save myself?"<sup>1</sup> (Laffitte 1932, p. 74). Although the mistrust between Napoléon Bonaparte and the financial community was real, the emperor cultivated close relationships with bankers from the beginning of his political career to the end (Tulard 1983). In his seizure of power, Napoléon had received help from a few bankers and arms dealers. Two of those bankers, Perregaux and Lecouteulx-Canteleu, were to become the two co-founders of the Bank of France, which was created officially on January 18, 1800, barely 2 months after Bonaparte's coup.

Central banking often is considered to be a necessary condition for the development of an advanced and stable capitalist society. From that assumption, it sometimes is inferred that the driving force behind the creation of the Bank of France and the granting of its monopoly privilege in 1803 was an attempt to modernize the French economy. Bopp (1952), for instance, wrote that, "One of Napoléon's purposes in forming the Bank of France in 1800 was to make credit generally available at low rates of interest." Ramon (1929, p. 19) claimed that Napoléon "was, it seems, above all guided by his intelligence and pushed by public opinion." Jacoud (1996, p. 46) declared that "The objectives [of the creation of the Bank of France] were to promote business activities while increasing the circulation of banknotes." Prate (1987, p. 46) wrote that its creation was the result of "a strong political power which had understood the need to give France a solid financial system." Finally, anticipating arguments made by Ugolini (2017), Leclercq (2010, p. 30) contended that, "When bankers and traders come together to create a hegemonic issuer, it is not ... to found a sort of cartel, but to create an organ that aims to fuel and control the payment system."

Rather than treating public policy as "a curious mixture of benevolent public interest and unintentional blunders" (Stigler 1982, p. 9), the creation of the Bank of France is considered here to have been the result of rent-seeking behavior by private actors. Because political action is a means of redistributing wealth, private interest groups have an incentive to organize so as to capture rents, or avoid politically imposed losses. Regulation tends to be created by, and for, an industry and to be "operated primarily for its benefit" (Stigler 1971). That viewpoint is equivalent to considering the creation of the Bank of France as a change in political rather than economic equilibrium. Consequently, this paper emphasizes the political incentives and constraints, i.e., the relative payoffs faced by both the banking community and by the politicians involved, rather than the welfare costs, or benefits, of the change in France's monetary constitution.<sup>2</sup>

To account for the creation of the Bank of France, I postulate that individuals choose to establish rights over a political privilege only when they believe they can gain from it. For rent-seeking to occur, parties engaged in political exchange must be able to capture enough of the gains from trade. Conversely, agents will choose not to establish a privilege when costs exceed the anticipated benefits. In the latter case, the "political asset" (here the

<sup>1</sup> All subsequent quotes, including this one, are my translations.

<sup>2</sup> The Federal Reserve System is an historical example of rent-seeking as it pertains to the creation of a central bank (Selgin 2015). Similarly, the Bank of England in 1844 suggested that the Currency Principle be imposed on its note issues in exchange for keeping its banknote monopoly (White 1992, pp. 73–74).

monopoly charter) will remain in the public domain. I argue that the move from an unstable parliamentary regime to Napoléon's centralized autocracy enabled political agents to better appropriate gains from political exchange in the banking sector, and led the Bank of France to gain its monopoly privilege.

The French case is particularly relevant to the study of the impact of institutions on rent-seeking behavior by bankers because of the rapid and radical changes in political and financial institutions that occurred between 1789 and 1815. The crisis in the public finances of the monarchy, inherited by the National Convention in 1792 after the fall of the *Ancien Régime*, led to chronic budget deficits associated with aggressive economic dirigisme and hyperinflation. The Revolution obliterated the existing financial institutions; in 1793, the *Caisse d'escompte*, which was the only bank of issue in Paris, was liquidated. After the fall of the National Convention in 1795, and its replacement by the Directory, the right to create banknotes was left in the public domain and "free banks" developed rapidly. That situation changed with Napoléon's coup d'état (November 9, 1799), and later with his proclamation as consul for life in 1802. With changes in the political regime came changes in the monetary constitution. The Bank of France, created in 1800, acquired its monopoly privilege in 1803. Although the Bank of France gained a monopoly of currency issues in Paris, it shared all the attributes associated with a typical central bank (Bignon and Flandreau 2018).

The theory outlined in this paper is straightforward. For political property rights to be valuable enough to be established and maintained, rent seekers and politicians must first be able to appropriate enough of the potential gains from political exchange, i.e., political transaction costs must be low enough. For instance, rent seeking rarely takes the form of cash transfers, because their value will tend to be dissipated among an increasing number of claimants (Stigler 1971). Rent-seeking theory affirms that the degree to which potential gains from political exchange can be appropriated will be a function of the political regime in place. I identify two channels through which the move from parliamentarism to autocracy generates sufficient incentives to abolish the competitive issue of banknotes.

The first channel acts on the demand for political rents. Enforcing political property rights often will be more costly in an unstable parliamentary regime than under a centralized autocracy. That is because decision-makers are not distributed evenly between the executive and the different legislative houses,<sup>3</sup> and because rent seekers cannot easily rely on the discipline of repeated dealings. When engaging in rent seeking, bankers face a tradeoff between the probability that politicians will violate their contract (either by not enforcing it, or by direct expropriation), and the benefits bestowed by a monopoly privilege. Because of the difficulty of relying on a third party to enforce contracts with the State, a series of political exchanges with a positive net present value will be discontinued whenever the value of the relationship to one of the parties becomes negative (Barzel 2002). In other words, any political exchange ultimately must be self-enforcing. In a parliamentary regime such as the Directory, political instability and turnover among politicians will limit the capacity to negotiate deals and engage in self-enforcing exchanges. To reduce shirking and the probability that politicians will take over, bankers may offer their political patrons a partial residual claim over the profits generated by privilege. Under an unstable

<sup>3</sup> McCormick and Tollison (1981) develop a theory of why lobbyists are more successful when the legislature is smaller. Ekelund and Tollison (1981) apply the theory to mercantilism.

parliamentary regime, however, such solutions are unlikely to work, because politicians occupy their offices only for limited times.<sup>4</sup>

The second channel acts on the supply of rents. In contrast to politicians under parliamentarianism, an autocrat who has established a stable regime will be able to appropriate more of the benefits of the public finances, because he is the residual claimant over the State's budget. Hence, public finance considerations are predicted to play more of a role whenever a powerful autocrat, such as Napoléon, is residual claimant over state finances.

Close to the analysis presented here is Calomiris and Haber's (2015) discussion of the "game of bank bargain", which emphasizes the role of politics for financial institutions. As in the theory outlined above, they argue that centralized autocracies lead to the creation of rents in the financial sector, while liberal democracies will allow for more competition in banking. Rents must be granted in autocracies to compensate bankers for the risk of being expropriated, and the more unstable is the autocracy, the greater is the likelihood of expropriation (Calomiris and Haber 2015, p. 49). When politicians face a low enough discount rate, however, repeated dealings are adequate means of limiting political discretion (Barro and Gordon 1983). I argue, on the other hand, that the discipline of repeated dealings was weaker under the unstable parliamentary regime of the Directory than under Napoléon's relatively more stable autocracy, making the establishment of a central bank more likely to happen after the affirmation of Napoléon's rule.

The rent-seeking view yields several predictions. First, the terms of political trade will depend on the prevailing conditions of supply and demand in political markets. Those conditions will be institutionally contingent as explained above. Second, both politicians and bankers need to be able to limit the scope of opportunistic behavior prior to engaging in political exchange. Third, and following from our second prediction, the monopoly bank will maintain close relationships with the political establishment to avoid being expropriated. Fourth, powerful outsiders are likely to be part of the decision process of the new monopoly bank, because those who lose by the regulations will themselves lobby against their negative effects. To maximize support among the population, politicians must find a balance between the benefits given to the monopolists and the corresponding costs imposed on the losers (Peltzman 1976).

The rent-seeking view also differs from the public interest theory of central banking on some fundamental margins. Arguments based on public interest considerations interpret the development of central banking as a deliberate policy aimed at enhancing the efficiency of the financial system.<sup>5</sup> Scholars supporting that view have argued that central banks developed naturally because the banking sector faced constraints on its development—namely asymmetric information—which could not be solved by private market institutions.

It is theoretically possible for the government to correct market failures while making policies favoring the politically powerful (Becker 1983). But if that were the case, one would then expect the financial sector to have flourished after the monopoly of note issue was granted to the Bank of France. As we will see, the evidence seems to point in the

<sup>4</sup> A parliamentary regime with well-defined political property rights, on the other hand, may be conducive to successful rent seeking. Political parties are one way to reduce political transaction costs. Stasavage (2007), for instance, shows that "Whig supremacy" was crucial for the successful establishment of the Bank of England.

<sup>5</sup> For an overview of the arguments for central banking during the nineteenth century, see Smith (1936). For more recent contributions supporting the public interest view, see Goodhart (1988), Gorton and Mulineaux (1987) and Ugolini (2017).

opposite direction, giving more credit to the rent-seeking view. Overall, public interest considerations are unlikely to play a large role in the political process (Tullock 1971; Lee-son 2006), and rationalizing the development of central banking is not the same thing as providing an explanation for its development (Wagner 1986).

The present paper contributes to three distinct literatures. The first is the literature on the origins of central banking. However, it conceives the switch from competitive to central banking as an institutionally contingent change in the rent-seeking equilibrium rather than as a response to market failures (Goodhart 1988), or to demands by the treasury (Selgin and White 1999). The paper also contributes to the historical literature on rent seeking. Ekelund and Tollison (1981) apply a similar framework to the study of mercantilism, while Ekelund and Thornton (2019) describe the French Revolution as the outcome of a rent-seeking process. Other studies have used the economics of interest groups to shed light on US bank regulations (White 1982), the Banking Act of 1933 (Shughart 1988), financial crisis (Calomiris and Haber 2015), and emergency lending by the Fed (Blau 2017). Finally, the paper contributes to French financial history (Sargent and Velde 1995; Hoffman et al. 2000) and the economic history of the Bank of France (Jacoud 1996; Leclercq 2010; Bignon and Flandreau 2018).

Primary and secondary sources leave very little doubt that the establishment of the Bank of France and its monopoly was indeed a rent-seeking project. The founders of the Bank initiated the idea of establishing a monopoly of note issue and systematically lobbied the government for that monopoly privilege. To support my claims, I rely on a variety of primary and secondary sources, and especially archival material from the Bank of France and the French national archives.<sup>6</sup> The episode studied suggests that the government, rather than being seen as a black box choosing the welfare-maximizing monetary regime, should instead be considered as redistributing wealth from one interest group to another.<sup>7</sup>

## 2 Accounting for the changed rent-seeking equilibrium

Between 1789 and 1815, France experienced varied political institutions, going from absolute to parliamentary monarchy, from an unchecked parliament to strict separation of powers and, finally, with Napoléon, to autocracy. Constitutional changes were accompanied by changes in financial institutions. France went from having a de facto monopoly bank before 1789 to competitive banking, from competitive banking to hyperinflation, and from hyperinflation to competitive banking once again until the Bank of France gained its monopoly.

Changes in institutions generally are associated with changes in the costs and benefits of rent seeking. Before 1789, the absolute monarchy had established a proto-central bank under the name of *Caisse d'Escompte*, which benefited from a monopoly on the issue of banknotes. During the revolution, and with the establishment of a constitutional monarchy, the *Caisse* saw its privilege revoked and the competitive issue of notes backed by *assignats* was allowed (White 1990). As the war broke out, with the toppling of the monarchy and The Terror, competitive issues of notes were outlawed and the government engaged in

<sup>6</sup> *Archives Nationales*. AF/IV/1070 with respect to the bank of France. Police reports are under the series F/7/3831, F/7/3832 and F/7/3688/11 and all were compiled and made accessible by archivists, especially Aulard (1906). *Archives Nationales* is from here on abbreviated as *A.N.*, and *Archives of the Bank of France* as *BoF*.

<sup>7</sup> Toma (2005) applies the same framework to the early history of the Fed.

rapid money creation leading to hyperinflation (Crouzet 1993). By 1796, the value of paper money had collapsed completely, and metallic currency was reintroduced.

It was during that period of hyperinflation that the Directory was established. The explicit goal of the Constitution of the Year III (1795), which founded the Directorial regime, was to have a strict separation of powers in order to avoid an autocratic parliament like the one that had prevailed during the Terror. The executive power was divided among five directors who were subject to severe restrictions. Their family members and allies could not be members of the Directory simultaneously. The directors themselves could not be reelected for 5 years after the end of their mandate. Public funds could be appropriated only with the joint authorization of the executive and legislative powers. Those constitutional rules limited the possibility of using repeated dealings to enforce political exchanges, or to appropriate the public purse for personal benefit. The directors' capacity to allocate rents mostly was channeled through the assignment of public offices and the payment of military contractors rather than the granting of monopoly privileges, since the former did not require long-term commitments.

This strict separation of powers led to uncertainty owing to turnover in the legislature and the lack of political stability (Le Bozec 2003). Such uncertainty increased the cost of rent seeking for the banking community significantly. Although a few bankers tried to establish a monopoly of note issue, all of those projects failed. Under the political institutions of the Directory, competitive banking triumphed over central banking (Nataf 2002; White 1991).

The return to sound metallic money was the main problem faced by the Directory. The decree of November 8, 1792, made it illegal to create banks of currency issue. When Faipoult became Minister of Finances in October of 1795, he pushed for the creation of a privileged private bank. His opinions in favor of a monopoly were known from his *Essai sur les Finances* published on October 16, 1795, and were very popular in the circle of the banker Lecouteulx de Canteleu, the future co-founder of the Bank of France (Bruguière 1986). It was, however, the pro-free banking project of Eschassériaux, reporter to the finance committee of the Council of Five Hundred, which won the support of the chamber (Marion 1914a, p. 402).

The failure to establish a monopoly bank during the Directory was not for lack of trying. Numerous projects were proposed, without success, right through the end of the regime. On October 5, 1798, Legendre, member of the Council of Five Hundred, motioned for the creation of a bank whose role would be to manage the sale of 600 million francs worth of national assets (*biens nationaux*) thanks to the issuance of paper money (Crouzet 1993, p. 529). A few months later, Lecouteulx-Canteleu (1798) petitioned for the establishment of a national bank. Half a dozen other projects were presented to the assembly as well (Lecointe-Puyraveau 1799). In his report to the assembly in 1799, Lecointe-Puyraveau denounced the seeking of privilege by the authors of those projects and recommended that the Directory "use every means in its power to ensure and favor the establishment and the independence of private banks." Similarly, Saint-Aubin (1795, p. 18), wrote that the power of a monopoly bank "is too dangerous for its existence to be permitted in a free state."

During the Directory, a privileged bank failed to be established for several reasons. First, the government had on multiple occasions been unsuccessful in stopping hyperinflation. People saw the introduction of paper money backed by the government as inherently suspicious. Given that lack of credibility, the creation of a central bank was likely to generate time-inconsistency problems by making it easier to use inflation to finance government expenditures (Hayek 1925). In his report, Lecointe-Puyraveau emphasized the importance of leaving banks completely independent of the government to maintain trust.

Bankers did not trust the government either and rightly so. The Directorial government had had to default on two-thirds of its debt in 1797 and remained financially dependent on the plundering of conquered territories. Although it is not denied here that public finance considerations are crucial to understanding the development of central banking, they do not explain why the Bank of France gained its privilege when it did. The needs of public finance were no more stringent under Napoléon's rule than under the Directory and early Consulate (1795–1802), when competitive note issue prevailed. On the contrary, the Directory remained unable to balance the budget and relied on forced loans, as no banker was willing to lend the regime any money (Lefebvre 2011). The benefits to the Treasury could be exploited only because Napoléon, a powerful autocrat, was residual claimant over state finances.<sup>8</sup>

Figure 1 shows that the Directorial regime was indeed considered much less trustworthy than the alternative—Napoléon's centralized autocracy—at the time of Napoléon's coup (November 9–11, 1799). Indeed, the price of government bonds (the *Tiers Consolidé*) increased by more than 60% in the four days following the coup's start as it became apparent that Napoléon had succeeded at overthrowing the current regime. That evidence suggests that credible commitment issues may have been even more severe before Napoléon's rule.

After the Bank of France gained its monopoly in 1803, Napoléon's commitment to continue fulfilling his side of the bargain remained strong. In a letter to Perregaux dated November 24, 1803, Napoléon assured the director of the bank that he would help the bank “in every circumstance.” (Bonaparte 1862, pp. 105–106). In a letter to Barbé-Marbois dated August 24, 1805, Napoléon went as far as declaring that, “The Treasury must help the Bank. I will stop, if necessary, the pay of my troops to support it.”

The second reason why a monopoly was not granted before Napoléon is that legislators too were afraid that bankers would act opportunistically. If banks were given any privilege, including that of making their banknotes usable for paying taxes (i.e., “legal tender”), moral hazard would ensue. In front of the Assembly, Boudin warned that giving a privilege to a bank would mean “putting the Constitution of 95 in the bankers' coffers” (*Le Moniteur Universel*, December 14, 1795, p. 331). The Directory was willing to sell a monopoly charter, but the price asked consistently was higher than that offered by bankers. That event led to the development of a competitive banking industry.

From 1796 to 1803, it generally was recognized that banks of issue could be created without any authorization from the administration; the capacity to issue banknotes remained in the public domain. In his report to the assembly, Lecoite-Puyraveau (1799, p. 19) wrote that after the creation of the *Caisse des Comptes Courants* in 1796, “It is well recognized that we can establish banks without the legislative authority.” The creation of the *Caisse des Comptes Courants* in 1796 soon was followed by that of the *Caisse d'Escompte du Commerce*, the *Banque Territoriale* in 1797, and the *Comptoir Commercial* in 1800. Other establishments of minimal importance operated in Paris. In 1802, six establishments were issuing notes in the capital (Ramon 1929).

The competitors of the Bank of France, while smaller, were not insignificant. The Bank of France had in Year X (1801–1802), between 19 and 46 million francs' worth of banknotes in circulation (Courtois 1881). The total circulation of banknotes in 1802 was, according to an article from *Le Moniteur Universel* (March 26, 1802), approximately

<sup>8</sup> During his reign, Napoléon became the richest monarch in Europe, with a total net worth around 100 million Francs at the end of the Empire (Branda 2007).

100 million francs. After the Bank of France received its monopoly privilege, that number would not be reached again before 1807 (Courtois 1881). The banks of issue in Paris sometimes would compete to keep the reserves of other credit institutions.<sup>9</sup> The major banks of issue mutually accepted their own banknotes, which circulated widely in Paris (Jacoud 1996).

Despite some privileges granted to the bank and its owners since 1800 (such as being the State's banker and being in charge of payments of *rentes*), Napoléon had to abstain from granting a monopoly privilege to the bank until 1803. One reason was the extreme distrust in the government's monetary operations. What is more important, other competing banks of issue had both political support and popularity among small merchants. Consistent with the theory outlined herein, the Bank of France gained its monopoly privilege only as Napoléon reinforced his grasp on power. In 1802, Bonaparte became consul for life and the Consulate was transformed into a full-fledged dictatorship. The Senate became more powerful and Napoléon secured the right to appoint 40 senators directly as well as to present a list of candidates from among whom 80 were co-opted. The interests of the shareholders were well-represented in the Senate. Three senators were regents of the bank while 14 senators were among the original 200 largest stockholders (Table 1). As such, at least 15% of senators had stakes in the Bank. Finally, in January 1802, Bonaparte purged the Tribunat of the *laissez-faire* "ideologues", such as the economist Jean-Baptiste Say, who had opposed granting the privilege. Hence, with the constitutional change of 1802, the Bank of France clearly was at an advantage relative to the other banks of issue. As predicted, the weakening of the division of power in 1802, which continued until Napoléon declared himself emperor in 1804, was associated with the Bank of France's attempts to rent seek.

### 3 Contracting with the state

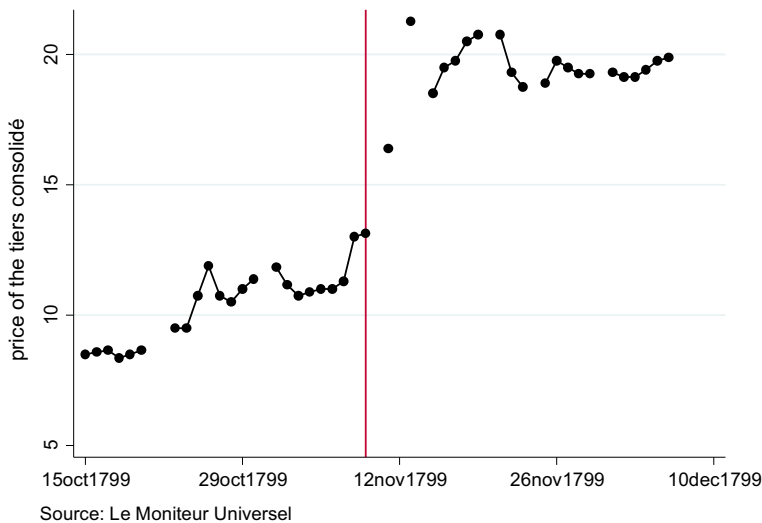
To support the theory of an institutionally contingent change in the rent-seeking equilibrium, constraints faced by bankers and the government must be studied in greater detail. One fundamental constraint is that political exchanges must be to a great extent self-enforcing, as the State is, by definition, the ultimate third-party enforcer of contracts. Because political transaction costs are positive, politicians and rent seekers potentially will act opportunistically. In their attempt to reduce the dissipation of wealth resulting from opportunistic behavior, political agents will draft contracts and allocate ownership to reduce the cost of enforcing property rights (McChesney 1991). I explain how in the rest of this section. I also explain how the terms of political exchanges were negotiated and why the idea that the Bank of France was hurt by its monopoly privilege does not hold water.

#### 3.1 Rent-seeking and the politically connected

The creation of the Bank of France was, for the most part, the result of the work of two bankers: Lecouteulx de Canteleu and Perrégaux. Lecouteulx, the product of a long lineage of Protestant bankers, had been a deputy at the Estates General for the Third-Estate and a member of the Council of Ancients during the Directory. Perrégaux, on the other hand,

<sup>9</sup> *Le Moniteur Universel*, Germinal 13, Year VIII, p. 780.





**Fig. 1** Price of the French Treasury bonds around Napoléon's coup

was a Swiss banker who had become the most prominent figure in Parisian banking during the Directory.

Bonaparte first met Lecouteux in January 1796 at a dinner with Director Barras (Les-cure 1875). After coming back from the Italian campaign, Bonaparte and Lecouteux began to meet regularly and revolved in the same circles until Bonaparte left for Egypt.<sup>10</sup> As for Perrégaux and Bonaparte, their relationship is harder to trace, although they probably had met at least before the campaign in Egypt. Perrégaux knew Talleyrand, one of Napoléon's most active collaborators, personally and saw him on a regular basis (Lhomer 1926, pp. 46–47). Napoléon's aide-de-camp and close associate, Marmont, became Perrégaux's son-in-law just before the Egyptian campaign and Napoléon apparently gave Marmont a dowry of 500,000 francs “in sign of friendship” (Lhomer 1926, p. 67). Given his connections, Perrégaux had been placed under strict surveillance by the Directory, and in the 5 Frimaire Year VII, the Minister of Police ordered, “Put under surveillance the bank house of Per-régaux and Girardot.” While claiming that “the government cannot ignore [the political disturbances caused by Swiss bankers], and that the government has the greatest interest in seizing all the sons of the conspiracies of which these merchants are the rings of an immense chain which extends over all points of France” (Mathiez 1920, p. 243). A police report from of March 8, 1797 states that Perrégaux was perceived as “a very dangerous enemy of the government [i.e., the Directory].”<sup>11</sup> Mathiez (1919) concluded that Perrégaux “was one of the sponsors of the coup d'état of 19 Brumaire.”<sup>12</sup>

<sup>10</sup> In his memoirs, Lecouteux writes that after the campaign in Italy, “[Napoléon] often wanted me to come to his home for dinner... My wife and I could say that we were in the privacy of his household” (Les-cure 1875).

<sup>11</sup> A.N. BB/3/85.

<sup>12</sup> After Napoléon's coup, Perrégaux became fully devoted to the Consular regime; a police report of the November 26, 1800 indicates that a Perregaux was in a secret meeting with Barbé-Marbois and other bankers to ensure Napoléon's power in his absence. See: A.N. F/7/3829 and AF/IV/1329.

**Table 1** Political connections of the first 200 shareholders of the Bank of France in 1800*Napoléon family's circle*

Barillon, Alexandre	After returning from Saint-Domingue, he became very close to Lucien Bonaparte
Beauharnais, Hortense de	Napoléon's step-daughter
Bonaparte, Lucien	Napoléon's brother
Bonaparte, General	<i>Himself</i>
Jame, Jean-Baptiste	Szramkiewicz (1974, p. 189) qualifies him as "Joseph Bonaparte's man in the council of regency." He was close to Napoléon as well

*Napoléon's ministers and military associates*

Barbé-Marbois	First made a member of the Council of State, then head of the Treasury from 1801 to 1806
Bourrienne, Fauvelet	Napoléon's classmate in military school; they became close friends. Bourrienne helped in the parleys leading to 18 Brumaire
Cretet, Emmanuel	He supported Napoléon's coup. Thereafter made a member of the Council of State. Minister of the Interior from 1807 to 1809. Governor of the Bank of France between 1806 and 1807
Cambacérès	2nd Consul and future Number 2 under the Empire
Duroc	Napoléon's <i>aide de camp</i>
Dubois	<i>Préfet de police</i> . He arrested the shareholders of the <i>Caisse des Comptes Courants</i> opposed to the merger with the Bank of France
Martin Gaudin	Minister of Finances for the entirety of Napoléon's rule
Lebrun	3rd Consul
L'Espinasse, Augustin	General under the command of Bonaparte during the campaign of Italy. Bonaparte appoints him senator in December 1799. He played a major role in the nomination of Bonaparte as Consul for life in 1803
Serrurier, Jean Mathieu-Philibert	General. Before the coup, on October 26, 1799, Napoléon invited Serrurier to his home, told him of his plan to overthrow the Directory and managed to convince the old soldier to join the plot. Cantoned with the reserve of the army in the district of Point-du-Jour, not far from Saint-Cloud, refrained from intervening to stop the coup d'état of 18 Brumaire. Napoléon managed to reward him by making him a senator. He was made Marshal of the Empire in 1804

*Conspirators of 18 Brumaire and supports of the Consular Regime*

Journu-Aubert	Favorable to Napoléon's coup; he became senator in 1799. Censor of the Bank of France
Lecouteux-Canteleu	Co-founder of the bank. Participated directly in the coup of 18 Brumaire. He was expected to be Finance minister in the days surrounding the coup. His family occupied two other seats among the 200 firsts stockholders (B-P. Lecouteux and J.J. Lecouteux Dumolay). Appointed senator by Napoléon himself
Perrégaux, Jean Frédéric	Co-founder of the bank. Father-in-law of Marmont, close associate, and friend of Bonaparte. His son also married one of Napoléon's marshals, E-J-J-A. Macdonald, Duke of Tarente. Appointed senator by Napoléon himself

**Table 1** (continued)

Cabanis, Jean Georges	Member of the Council of Five Hundred, he supported the coup of 18 Brumaire. In his memoirs, Joseph Fouché (1825), Napoléon's minister of police, claims Cabanis actively participated in the coup. Senator until his death in 1808
Choiseul-Praslin, César-Antoine de Dabray, Joseph-Séraphin	Appointed senator by Napoléon himself Seating on the Council of Five Hundred during the Directory. Favorable to Bonaparte's coup, he was rewarded by being appointed a seat in the <i>Corps Législatif</i> in 1799 where he remained until 1803
Depère, Matthieu	Member of the Council of Five Hundred under the Directory, he gave Napoléon unambiguous support during his coup. Member of the <i>commission intermédiaire</i> in charge of the legislative power after 18 Brumaire. Thereafter Senator
Delaville Leroulx, Joseph	Supported Napoléon's coup and was rewarded accordingly by being appointed member of the conservative Senate in 1799
Doyen, Charles Martin	Regent of the Bank. Elected for 5 years by the conservative Senate to the <i>Corps Législatif</i> in 1802
Fargues, Henri	Member of the Council of Ancients under the Directory, he was one of the active conspirators in the coup of 18 Brumaire. Member of the <i>commission intermédiaire</i> in charge of the legislative power after 18 Brumaire. Thereafter Senator
Grouvelle, Philippe-Antoine	Favorable to the coup of 18 Brumaire. Appointed by the conservative Senate to the <i>Corps Législatif</i> where he remained until 1802
Jard-Panvilliers, Louis-Alexandre	Member of the Council of the Five Hundred during the Directory. Supporter of the <i>Consulat</i> , he becomes member of the <i>Tribunat</i> and then member of the <i>Cours des Comptes</i> . He supported the project of establishment of the Empire in front of the Senate in 1804
Jubié, Pierre	Member of the Council of the Five Hundred during the Directory. Favorable to Napoléon's coup, he was appointed to the <i>Corps Législatif</i> by the conservative Senate in 1799. He became préfet of Saint-Mercelin in 1803 where he remained in office until 1815
Langlois, Guillaume	Member of the Council of Ancients at the time of the coup of 18 Brumaire. He was called by the Conservative Senate to be a member of the Bonapartist majority in the <i>Corps Législatif</i> . He remained in this assembly until 1806 and was one of the most fervent supporters of the consular and imperial regimes
Louvet, Pierre-Florent	Member of the Council of the Five Hundred during the Directory. Favorable to the coup of 18 Brumaire, he was appointed by the Conservative Senate to the <i>Corps Législatif</i> where he remained until 1815. In 1810 he became an Imperial Knight
Ricard, Georges-Antoine	Regent of the Bank of France. Member of the Council of the Five Hundred during the Directory. He was favorable to the coup of 18 Brumaire and was appointed by the conservative Senate to the <i>Corps Législatif</i> where he remained until 1803
Sieyes, Emmanuel-Joseph	Supported Bonaparte for his coup thinking he would end up the great victor. Made senator thereafter

Table 1 (continued)

Périer, Claude	Supported the coup of 18 Brumaire. Thereafter member of the <i>Corps Législatif</i>
Peré, Antoine-François	Member of the Council of Ancients under the Directory, he supported Napoléon's coup. Member of the <i>commission intermédiaire</i> in charge of the legislative power after 18 Brumaire. Thereafter Senator
Perrée, Pierre-Nicolas	Regent of the Bank. Member of the Council of the Five Hundred during the Directory. He supported the coup of 18 Brumaire. He became thereafter member of the <i>Tribunat</i> . He was made Imperial Knight in 1808
Regny, Alexis-Antoine	Bonaparte rewarded him for joining the Brumaire regime by appointing him to the Departmental Council in 1800
Savoie-Rollin, Jacques-Fortunat	After 18 Brumaire he was appointed to the <i>Tribunat</i> . Prefect at Rouen between 1806 and 1812
<i>Cambacerès' circle</i>	
Basterrèche, Léon	Regent of the bank. Related to Cambacerès as he married his niece Jeanne-Catherine-Rose-Émilie Duvidal
Basterrèche frères	See: Basterrèche, Léon
Sabatier, Guillaume	Supported the coup of 18 Brumaire. Cambacerès' cousin, Banker from Languedoc

Most names that could not be identified were unlikely to be involved in politics. Many stockholders without clear political connections appear to be former stockholders of the *Caisse des Comptes Courants*, an establishment with which the Bank of France merged right after its creation

Sources: The table was built by cross referencing the names found in *Assemblée générale des actionnaires de la Banque de France* (BNF, FRBNF32703332) and the lists of ministers and members of parliament during the Consulate and Empire compiled by Robert (1890). We also relied on Szramkiewicz (1974). For Alexis-Antoine Regny, see: *Archives Municipales de Lyon*, registre BB 446: bourgeoisie, 1763–1789

By getting support from major players in the financial world, Napoléon, had secured a serious advantage over his competitors. To the support of bankers was added the financial backing of public contractors. Coullot, former purveyor during the campaign of Italy, financed the coup directly, while Simons, also involved in the conspiracy, obtained an important contract in the wood market as a reward for his services to Napoléon's cause (Tulard 1983).

Dauphin-Meunier (1936, p. 19) claimed that Perrégaux and Lecouteulx sent a Greek emissary, Bourbaki, to Egypt to inform Bonaparte that 2 million francs would be at his disposal if he were to come back to carry out a coup. Regardless of whether or not that story is true, Perrégaux and Lecouteulx were both actively engaged in the coup of the 18 Brumaire.<sup>13</sup> Less than 2 months after Bonaparte's seizure of power, the Bank of France was created with the explicit support of Napoléon, who attended the first general assembly of the stockholders. When meeting Bonaparte on February 25, 1800, Lecouteulx subtly reminded Bonaparte of the support he had provided him during his coup by describing the Bank of France as "a lasting monument the Revolution of 18 Brumaire."<sup>14</sup> As suggested

<sup>13</sup> Constantin Denis Bourbaki indeed was sent to Egypt as an emissary (Bonaparte 1858, p. 75). Lecouteulx does not mention Bourbaki in his memoirs but mentions a certain Sauveboeuf, sent to Egypt by Talleyrand "to urge the general to return to France" (Lescure 1875).

<sup>14</sup> *BoF*, 1069200901/1, p. 110.

by Hincker (1989, p. 203), “Bonaparte could only give the approval to the initiative of the bankers who had financed the coup d’état” (also see Wolff 2007, p. 51).

One way to reduce the probability of expropriation is to make politicians residual claimants over a given privilege. Involving higher-ups from Napoléon’s government was an effective way for the bankers and businessmen to protect their property rights. On the other hand, Napoléon used the creation of the bank to remunerate those who had helped him achieve his coup d’état. At least 22 of the 200 first shareholders in 1800 were either conspirators of the 18 Brumaire, or supporters of the coup (Table 1).

Having a connection to the Bonaparte family generally was a necessary condition for becoming a regent of the bank. Having men in favor of the regime as regents was a way for Napoléon to ensure the Bank would not act against his interests.

All of the major political connections of the 200 largest shareholders in 1800 are detailed in Table 1. The founders of the bank made Napoléon, his family, and his closest associates partial residual claimants to secure political support. Looking at the list of shareholders, we can see that all of the major politicians in the executive branch are represented. Napoléon’s ministers and military associates represented 5% of the 200 largest stockholders, while 11% were members of parliament (Table 1). Napoléon’s family also was well-represented. The close connection between the regime and the Bank persisted for the entire period of Napoléon’s rule. Among the 200 largest shareholders in 1808, 113 owning 36% of the capital could be identified. Twenty-one of those 113 were high-ranked public servants and military leaders and owned 3995 shares, with 28 bankers owning 8548 shares, and 41 retailers owning 7732 shares (Bergeron 1974, p. 316).

### 3.2 Limiting opportunistic behavior

The rationale of Napoléon’s government for the establishment of the bank was the benefit that it was anticipated to produce for public finances. In a letter to Crétet, dated April 13, 1802, Napoléon admits that the end goal for the establishment of the Bank of France was to create a monopoly that would “give us the same services which are given by the bank of London” (Bonaparte 1861, p. 435).<sup>15</sup>

The bankers, knowing Napoléon’s intent, were willing to accept the monopoly privilege only if they could effectively prevent opportunistic behavior. As we have explained above, making Napoléon, his family and his political allies partial residual claimants was one way of organizing political exchange. One other way was to shape the rules under which the bank operated.

The negotiations leading to the privilege provide evidence that the monopoly charter was designed in such a way as to reduce opportunistic behavior. The charter was changed four times before taking its definitive form. The first drafts of the law alarmed the shareholders because they did not limit government discretion enough. The General Council of the Bank reported that “The obligation to convert into treasury bonds part of the capital aggravates the mistrust because of the fear that the government will not use restraint and eventually requires that all the bank’s capital be converted into treasury bonds.”<sup>16</sup>

<sup>15</sup> In the same letter, he urges Crétet to keep the report, written by an agent of the Bank of France, and enjoined to the letter, secret.

<sup>16</sup> *BoF*, 1069200901/1, p. 187.

At first, Napoléon also wanted veto power over the nomination of the Censors of the Bank of France. The Censors were responsible for monitoring the everyday operations of the Bank and played an important role in controlling the allocation of loans. The shareholders refused Napoléon's involvement in their nomination, because they feared that he would attempt to appropriate them.<sup>17</sup>

Finally, the first draft of the monopoly charter specified that the Bank's capital was of "at least" 45 million. The shareholders did not accept that contract, because "those terms 'at least' seem to leave the freedom to increase [the capital] arbitrarily."

Whenever the conditions of the privilege were too unfavorable, the shareholders threatened to dissolve the Bank. On April 9, 1803, Napoléon received the council of the Bank for an audience that lasted two-and-a-half hours, during which the conditions of the privilege were renegotiated. The privilege was accepted by the bankers only after abandoning the provisions that, in their eyes, granted too much discretion to Napoléon.

### 3.3 Rent-dissipation and the terms of political exchanges

The purchase of privileges, like that of ordinary goods and services, has a price. That price is determined by the conditions prevailing in the market. Some authors have argued wrongly that in 1803, the Bank played no role in acquiring its monopoly, because the law of 1803 limited the dividend, forcing the bank to invest in government bonds and suppressing the privileged access to the discount window for shareholders (Marion 1914b, p. 210). It was the owners of the Bank of France, however, who first submitted the idea of a unique note issuer. On April 2, 1802, the regents of the bank met Bonaparte, complaining about "*the disadvantages of tolerating several private banks in Paris, which, in competition with the Bank of France, issue banknotes*" and asking "*that there is in Paris only one bank of circulation*"<sup>18</sup> [emphasis added]. On April 4, 1803, Crétet, the future governor of the Bank of France, declared in front of the *Corps Législatif* that the idea for a monopoly of note issue had first been suggested by the Bank of France which "has often exposed to the Government its anxieties and wishes that there should be only one banknote circulating in Paris." (*Le Moniteur Universel*, April 5, 1803, p. 878).

It is also noticeable that the Bank of France faced a tradeoff between the strength of its privilege and how much service it would provide the Treasury. The first draft of the monopoly charter presented by the bankers to Napoléon would have provided next to zero benefit for the Treasury.<sup>19</sup> The first draft, annotated by Napoléon himself and kept in the National Archives, illustrates that point perfectly. Napoléon writes:

It is because the commissioners ask for a free privilege that I propose to limit its duration, as a form of test, to 3 years instead of 30. If, better enlightened by their interest, they consented to the participate to the Public Treasury for a tenth in the bank's profits, the duration of the privilege could be increased to 10 years, but not to 30. (*Archives Nationales*, AF/IV/1070)

It was the bankers who accepted a higher price for a longer privilege (15 years).

<sup>17</sup> BoF, 1069200901/1, p. 187.

<sup>18</sup> A.N. AF/IV/1070.

<sup>19</sup> PVCG, t.2, p. 52. *Archives numériques de la Banque de France*. 1069200401.

Some authors, such as Jacoud (1996, p. 255), have argued that the subsequent fall of the bank's stock price from almost 1400 to 1100 francs shows that the price of the privilege was too high and therefore harmful to the bank. It would nonetheless be mistaken to argue that shareholders lost by the privilege. Even though it came at a price, the shareholders threatened the liquidation of the bank any time the price asked by the government was considered too high.

One should also be cautious in using the stock price as evidence. The acquisition of the privilege had been expected for months. It is possible that the stock price fell because the terms of political exchanges were not as favorable as expected, but it is unlikely that the Bank of France lost by gaining its monopoly privilege. In addition, the main problem with using the stock price to support the hypothesis that the privilege was harmful to the Bank is the timeline. The first draft of the monopoly charter was indeed opposed by the shareholders, but it was written only on March 12. The stock price of the Bank had been falling for a week before the project was known to anyone (Fig. 2). The monopoly charter was redrafted twice, first on March 19 and a second time on March 22, before it took its definitive form on April 14.<sup>20</sup> Each new draft made the deal more favorable to the Bank of France, but did not seem to affect the price of its shares. That evidence suggests that those changes may have been considered part of the negotiations and largely may have been expected.

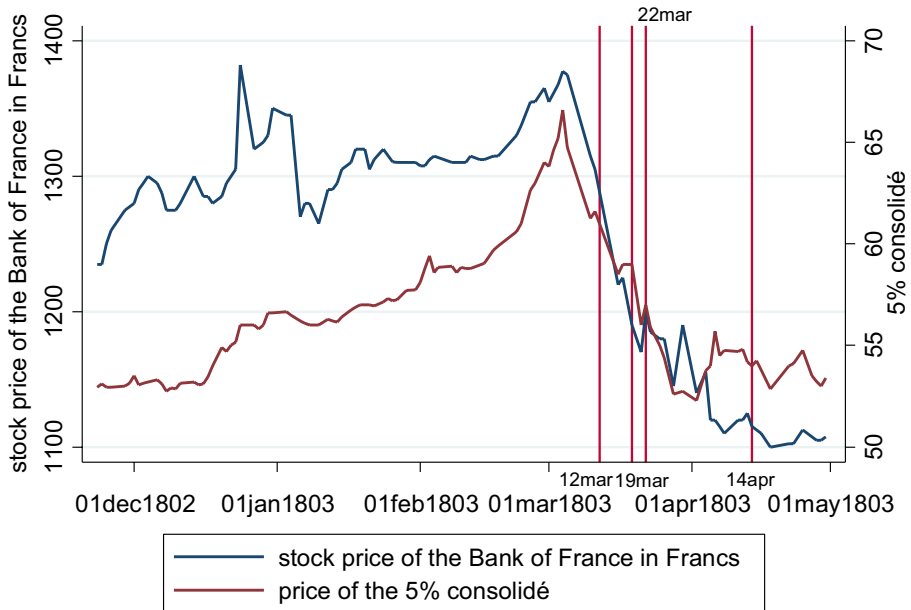
Overall, the decline in the bank's stock price during the period had little to do with the privilege. The rupture of the Treaty of Amiens (May 18, 1803) between France and England was well under way at that point, which seems more likely to explain the fall in both bond and stock prices. Reading the reports of the period written by the Parisian police supports that idea. A police report of March 8, 1803, mentions the hawkish attitude of some British politicians. Another report dated March 12, 1803 mentions a meeting of Englishmen in Paris who were very worried that war soon would be declared. The police report of March 13 declares that, "The English only speak of war" and that the price of government bonds had declined mostly because of the rumors of war circulating on the stock exchange. The report of the following day explains that M. Talbot, the British ambassador's secretary, believed that "war is inevitable" and seemed to think that the stock market was overvalued for that very reason. The police report of the March 16, 1803 testifies that, "The English say that M. Whitworth is very unhappy about his last meeting with the first Consul and he complains about it bitterly." The report of the following day was more enthusiastic and the daily rumors among Englishmen were that "war might not happen after all." That same day, the price of government consols and the stock price of the Bank of France stopped falling and even rose slightly.<sup>21</sup>

#### 4 The economic consequences of the monopoly

Overall, the process leading to the creation of the Bank of France was far from consensual in the banking community, contrary to the empirical implication of Goodhart's (1988) model. Merchants were the main losers from the Bank of France's monopoly. The minister of the Treasury, Barbé-Marbois, a fervent supporter of the Bank, recognized that the Bank

<sup>20</sup> *BoF*, 1069200901/1, p. 227.

<sup>21</sup> *A.N.* F/7/3831.



Source: Le Moniteur Universel.

Note: The correlation coefficient between the two variables is equal to 0.57.

**Fig. 2** Stock price of the Bank of France and price of treasury bonds

wanted to keep the merchants “in an embarrassing and expensive state of dependence.”<sup>22</sup> The *Caisse du Commerce* combated the privilege to the bitter end, calling it “a disguised invasion” and “a public calamity” in a petition to Bonaparte (Jacoud 1996, p. 256).

From the beginning, the establishment of the Bank (January 6, 1800) was the opposite of consensual. After its establishment, with the capital raised and the support of the First Consul, Perrégaux and Lecouteulx launched a hostile takeover bid against the *Caisse des Comptes Courant*, which then was the biggest bank of issue in Paris. To bend the hostile shareholders to others’ will, however, the easily corruptible police prefect Dubois arrested them and received 20 free shares of the bank in return (Manas 2016). Finally, Bonaparte imprisoned Ouvrard, one of the most renowned bankers in Paris, to put pressure on the *Caisse des Comptes Courants* to accept the deal (Dauphin-Meunier 1936). The takeover was a success.

The establishment of the monopoly in 1803 also resulted from the coercive force of the State. Prior negotiations with the competitors of the Bank of France to establish a monopoly in 1802 had failed. Given that other banks of issue were not willing to accept the monopoly peacefully, the government first tried to limit the rapid growth of the Bank of France’s main competitor, the *Caisse du Commerce*. That bank of issue had been created in November of 1797 to satisfy the demands of the merchants who did not have access to the services of the *Caisse des Comptes Courants*, whose clients and owners mostly were bankers. The rapid growth of the *Caisse du Commerce* is shown in Table 2.

<sup>22</sup> *Rapport aux Consuls de la République sur les banques* (an X). AF/IV/1070.



**Table 2** The growth of the Caisse du Commerce from 1797 to 1801

Date	Number of shares	Number of shareholders
Frimaire 4, Year VI	47	12
Frimaire Year VII	551	103
Frimaire Year VIII	456	253
Frimaire Year IX	1446	355
Vendémiaire 26, Year X	2400	596

Source: A.N. AF/IV/1070

On July 5, 1802, the administrators of the *Caisse du Commerce* decided to increase the number of shares by 50% (to 3600), which would enable the bank to issue an additional 10.2 million francs in banknotes and reduce the discount rate to 5%. The government opposed that project because it planned to grant a monopoly to the Bank of France and by law it limited the number of shares of the *Caisse* to 2400.<sup>23</sup> Soon after, the Bank of France tried to bankrupt the *Caisse* by presenting a massive number of banknotes all at once (Courcelle-Seneuil 1905, p. 237). On December 27, 1802, after that strategy had failed, a detachment of soldiers entered the *Caisse's* office, closed it and confiscated the bank's papers and effects.

After the monopoly was established, powerful outsiders were admitted to the Bank's council of Regency as predicted by Peltzman's (1976) model. The monopoly charter imposed by law that at least seven of the 15 regents had to be either merchants or manufacturers. Outsiders were included in the decision process to mitigate political opposition to the monopoly. Still, the Bank of France was unpopular among merchants who perceived its privilege as a threat to their interests. A police report from September 29, 1802, notes that, "The rumor that the *Caisse du Commerce* is going to be merged with the Bank of France contributes to alarm among merchants because, they say, the Bank of France only discounts the bankers' paper and is of no use to merchants and manufacturers."<sup>24</sup> A police report written April 13, 1803, states that, "The general opinion continues to regard [the Bank of France] as very detrimental to commerce" because it will reduce the access of merchants to discounting.<sup>25</sup> After the privilege was granted, a police report of September 2, 1803 says, "[Merchants] claim that the trade was ruined only by the combination of various plans on Santo Domingo and by the faculty granted to the Bank of France to make statutes which, far from supporting merchants, broke the bonds of credit and opened a wide path of bankruptcies."<sup>26</sup> Because of its unpopularity, Napoléon had to satisfy the interests of the mercantile community by putting constraints on the Bank's capacity to exploit its monopoly privilege. In September 1802, a report of the Minister of Justice claimed that, "The decline of government bonds and the rise in the interest of money are attributed to the noise about the union between the Bank of France and the *Caisse du Commerce*."<sup>27</sup>

The economic consequences of the Bank's monopoly seem to undermine arguments relying on market failures to explain its origin. One of the main arguments in favor of the

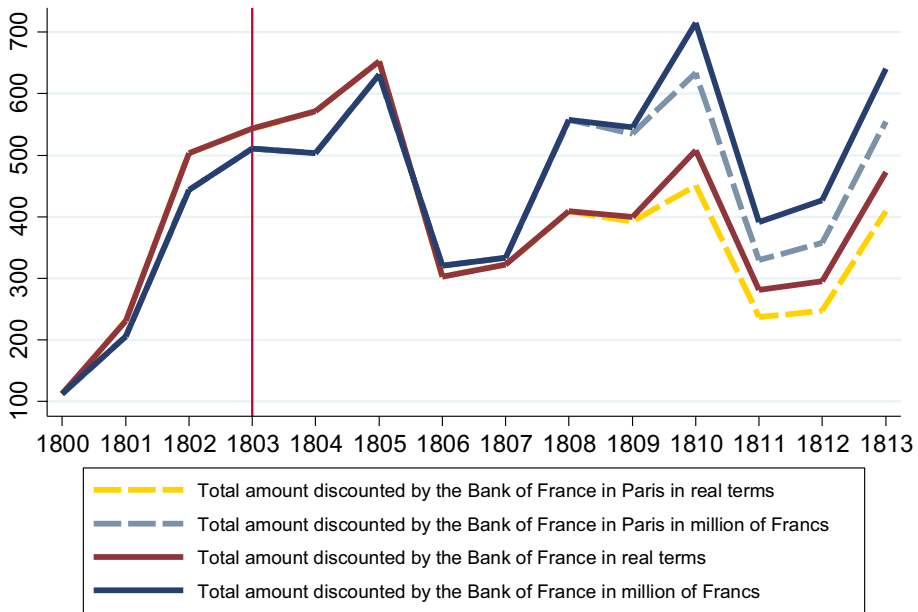
<sup>23</sup> A.N. AF/IV/1070.

<sup>24</sup> A.N. F/7/3831.

<sup>25</sup> *Ibid.*

<sup>26</sup> *Ibid.*

<sup>27</sup> A.N. F/7/3703.



Sources: Courtois (1881), Pruneaux (2009), Mitchell (1988).

**Fig. 3** Total amount discounted

monopoly was that it would improve access to discounting. That effect, however, did not materialize in the data. As basic microeconomic theory predicts, a monopoly restricts output to get a higher price until its marginal revenue equates with marginal cost. Whereas the amounts discounted by the Bank of France grew until 1803, activity stagnated and even declined until the end of the Empire (Fig. 3). Filling in the picture requires adding the quantities discounted by competing banks before 1803. During Year IX (1800–1801), the *Caisse d'Escompte du Commerce*, the largest establishment after the Bank of France, discounted 153 million francs.<sup>28</sup> Another bank of issue, the *Comptoir Commercial*, had discounted 7,125,560 francs of paper between December 1801 and May 1802, a yearly rate of around 14 million francs (Ballot 1912).

Finally, branches of the Bank of France were established in Lyon and Rouen by the end of 1808, and in Lille by the end of 1810. Taking out the amount discounted in the provincial centers reduces the total by more than 10% after 1809. Hence, we can be confident that the total amount discounted in Paris declined after the establishment of a unique issuer of notes. Deflating by wholesale prices seems to indicate that after 1805 the total amount discounted by the Bank of France in real terms never surpassed its 1803 level.

One other argument in favor of the monopoly was that it would prevent financial panics and crises. Calomiris and Haber (2015), on the other hand, provide evidence that the financial system tends to be less stable in centralized autocracies in which the ruler restricts competition. Here, too, the predictions of the public good interpretation did not

<sup>28</sup> A.N. AF/IV/1070.

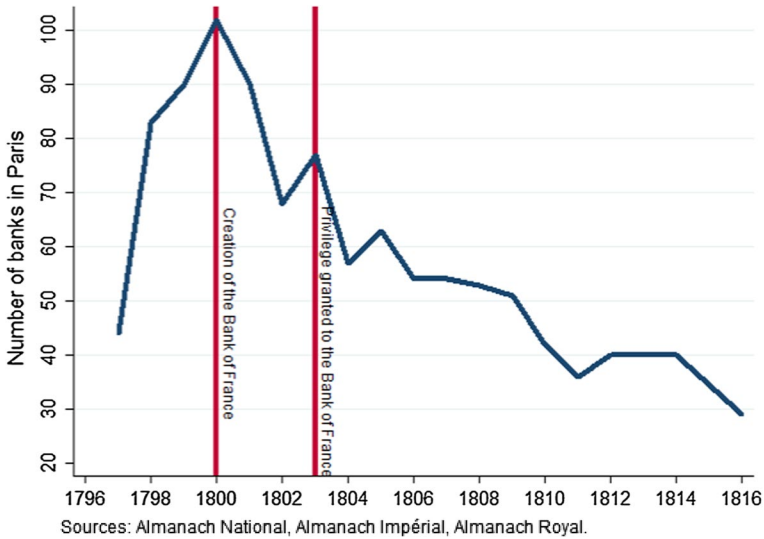


Fig. 4 Number of banks in Paris

materialize. Bankruptcies were even more common during the Napoleonic years than during the free-banking period. Numerous banks went bust. Even the regents of the Bank of France were not safe from bankruptcy. Barillon and Ricard & Carie under the Consulate in 1801, Recamier, Bastide & Desprez in 1805–1806, and Doyen in 1811 all had to declare bankruptcy.

After rapid development of the French banking system during the free-banking period, the sector leaned towards cartelization with the creation of the Bank of France and the grant of its exclusive privilege.<sup>29</sup> The number of banks shrank substantially with the creation of the bank in 1800, and even more with the privilege of 1803 (see Fig. 4). The switch from competitive banking, which prevailed in France between 1796 and 1803, to monopoly banking seems to have weakened the financial sector's growth. While the number of banks in Paris reported in the *Almanach National* increased from 44 in 1797 to 102 in 1800, their number fell from the moment of the creation of the Bank of France to the fall of the first Empire in 1814. By the end of this period, the number of banks reported in the *Almanach* was barely 40.<sup>30</sup>

Other qualitative evidence seems to suggest that the monopoly of the Bank of France had deleterious economic consequences. A police report written for Napoléon on September 2, 1803, notes that Parisian merchants “claim that trade was ruined ... by the faculty granted to the Bank of France to make statutes which, far from supporting the merchant, broke the bonds of credit and opened the wide road of bankruptcies.”<sup>31</sup> The move toward central banking seemed to have hampered financial development instead of favoring it.

<sup>29</sup> To estimate of the number of banks, we used those listed in the *Almanach National* from 1797 to 1804, the *Almanach Impérial* from 1805 to 1815 and the *Almanach Royal* for the year 1816.

<sup>30</sup> Although the Napoleonic Wars must have played a significant role in the decline of financial activity, Pressnell (1956) reports that the number of banks in England and Wales almost tripled during the same period despite war and the continental blockade, which severely crippled England's economy.

<sup>31</sup> A.N. F/7/3831.

Whereas before 1803, different banks of issue were responding to the demands of different groups of clients, the monopoly of the Bank of France was perceived as benefiting exclusively the largest shareholders and those merchants closely connected to the government. In a letter to Napoléon in 1811, the secret agent Fiévée (1836, p. 117) recognizes that the Bank of France succeeded in reducing the interest rate only for the largest merchants. In 1806, Fiévée (1836, p. 189) had already noticed a movement lobbying for the reestablishment of the *Caisse du Commerce* and the repeal of the Bank of France's privilege. He noted, "It would be difficult to form against it [the reestablishment of the Caisse] any valid objection." After Napoléon was dethroned in 1814, the former shareholders of the *Caisse* petitioned King Louis the 18th to reestablish a competing bank of issue. They observed that the monopoly of the Bank of France had made it impossible for small merchants and entrepreneurs to have access to discounting.<sup>32</sup> Napoléon, however, came back from the island of Elba and overthrew the Bourbon dynasty a few months later, so the project never materialized.

## 5 Conclusion

In this paper, I have argued that the creation and development of the Bank of France could not be explained satisfactorily by public interest considerations. Given the political constraints in place, they are better explained by the relationships between the politicians in office, their minions, and the mercantile community. Decisions to either monopolize, or allow for more competition, are considered to be the result of a change in the structure of political prices (Tollison 1982). While contemporary monetary theory has devoted much attention to the issue of credibility and seignorage, it has given little institutional detail on the organization of the supply for money (Toma 2005). This paper, on the other hand, focuses on political competition and constraints faced by interest groups to interpret the rise of central banking in France. Constitutional changes between the Directory, the Consulate and the Empire, rather than the public good, are adopted as the main explanation for the passage from competitive to central banking.

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<sup>32</sup> *BoF*, 1069200401/233.

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