

Final Words—on French Inflation

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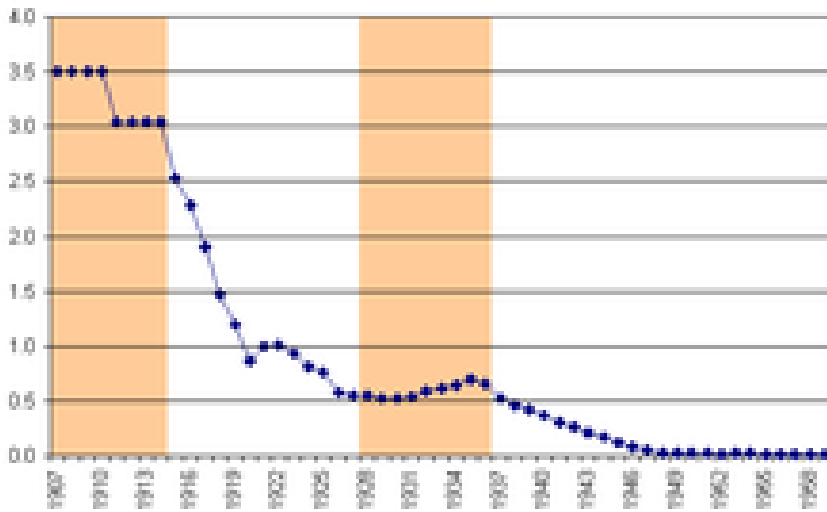


The Old Regime had gone bankrupt. France was bankrupt. People who had bought government bonds for their pensions could not be paid. Then in desperation the country turned to paper money guaranteed by the flow of cash that property could earn. The one at the left was for 500 livres—supposedly equal to about 500 pounds sterling, but soon to be discounted as the notes flooded the country. The notes were originally thought of as something like a bond or debenture with a certain yield, but with the shortage of cash to pay their government expenses they were issued in lower and lower amounts. The one below is for 15 sols—15 shillings. As it became evident that the government could not meet the interest payments they became a medium of exchange much like our money today, and much discounted against real money; that is, gold or silver.

These bank notes or bank drafts, issued by the National Assembly in France during the French Revolution, **were called Assignats.** They were issued after the confiscation of church properties in 1790 because the government was bankrupt. The government thought that the financial problems could be solved by printing certificates representing the value of church properties. These church lands became known as *biens nationaux* (“national goods”). Assignats were used to **successfully retire** a significant portion of the national debt as they were accepted as legitimate payment by

domestic and international creditors. Very quickly the government found it could not pay the interest, and the bonds simply became money backed by land.

The value of the French franc in 2007 Euros
Old franc, 1967-1969



Bills such as the *Maximum Price Act* of 1793 aimed to regulate inflation. When the Directoire came into power in 1795 the *Maximum Price Act* was lifted. Hyperinflation reemerged and in the next four years Paris was the stage of yet more riots. The inflation was finally solved by Napoleon in 1803 by introducing the franc as the new currency as a decimal currency. By this time, the assignats were basically worthless.

The story of inflation in France did not in the nineteenth century; it continued in the twentieth century as this chart shows. At the opening of the century the franc was worth a mighty 35 Euros, being comparable to the pound sterling. It dropped during WWI, but not precipitously, but during the Depression and after WWII it kept dropping till in 1969 it was only worth a few cents. Then DeGaulle issued new francs worth ten times as much. Later to avoid further hyperinflation France joined the Eurozone. This experience with inflation causes France to fear what the US is doing today; quantitative easing by the US (and Britain) is exporting inflation all over the world.

Originally bonds, they had evolved into a currency used as legal tender. As there was no control over the amount to be printed, the value of the assignats exceeded that of the confiscated properties. This caused massive hyperinflation. In the beginning of 1792, they had lost most of their nominal value. In 1796, the Directoire issued **Mandats**, a currency in the form of land warrants to replace the assignats, but these too quickly failed.

This hyperinflation was stirred up by repeated food shortages. Instead of solving the financial problems, the assignats became a catalyst for food riots. after the abolition of the monarchy, instability continued, exacerbated by the wars France faced. This situation impeded the implementation of good financial policies that would reduce debts.