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The Journal of Economic History, Vol. 52, No. 2 (Jun., 1992), 293-306.

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Private Credit Markets in Paris, 1690–1840

PHILIP T. HOFFMAN, GILLES POSTEL-VINAY, AND
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Relying on a large sample of private and public loan contracts taken from Parisian notarial records, this article examines the private borrowers and lenders who participated in the credit market between 1690 and 1840. It explains the important role notaries played in the market, describes the types of loans available to borrowers and lenders, stresses the importance of the life cycle in explaining the recourse to indebtedness, and ends with a discussion of the difficulties lenders had in assessing creditworthiness.

Barthelemy François Thoynard de Jouy and his wife were borrowing feverishly. In the space of eight years—from 1751 to 1758—the Parisian tax farmer (*fermier général*) and his spouse signed over 70 loan contracts totaling more than 810,000 *livres*, a tidy sum in an era when a local day laborer might earn little more than 200 *livres* a year. Precisely why they took on so much debt we cannot say, though the desperate scent of unpaid bills does waft over some of the records. More important than their personal saga, though, is the picture that their dealings paint of the Old Regime credit market. Thoynard de Jouy and his spouse indebted themselves, often repeatedly, to neighbors in their parish of Saint Eustache and to residents in other parts of the city—to nearly sixty creditors in all. They sought money both high and low. Among their creditors we find not only the nobles, officeholders, merchants, and fellow tax gatherers we would expect, but also numerous artisans and even a farmer's (*laboureur's*) widow. In an era before the existence of banks, the couple mobilized a surprisingly extensive network of lenders.¹

It would be tempting to write Thoynard de Jouy and his wife off as aberrations. After all, he possessed an important office (*maître de requêtes* in the king's council), and one might assume that borrowing was peculiar to the couple's elevated social milieu or to the realm of tax gatherers and government financiers, in which personal debts were common. Certainly, few couples could pile up such a mountain of debt.

The Journal of Economic History, Vol. 52, No. 2 (June 1992). © The Economic History Association. All rights reserved. ISSN 0022-0507.

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The authors wish to thank David Weir for his comments.

¹ Archives Nationales, Minutier Central [henceforth AN MC], *Étude* 70 (1751–1758).

But credit, it turns out, was hardly confined to the rich and the influential or even to the world of government finance. In Paris, artisans both lent and borrowed. Outside the city, farmers went into debt to purchase livestock, and day laborers did so in times of dearth. Parents made loans to establish children and invested in life annuities to prepare for their old age. The state constantly sought loans in the credit market, and not simply from wealthy financiers. Credit assumed such importance that, as one historian suggests, an eighteenth-century person's very reputation was bound up with his ability to obtain loans—something implied by the very word *crédit*. In such a world, public insults had to be avenged, if only because they could destroy one's credit rating.²

Obviously significant, the credit market of the Old Regime and the early nineteenth century deserves our attention, particularly if we are economic historians. After all, if it functioned well, it could have mobilized considerable savings for producers and goaded on economic growth while it smoothed over economic tragedies for consumers and resolved the difficulties of the life cycle. Because of the risks of default and the associated problem of asymmetric information, its workings ought to interest scholars of a theoretical bent, while those with a taste for politics could thrive by studying how the state entered it to borrow. It might also intrigue anthropologically minded historians, who could investigate how social and cultural institutions—a person's family, for example, or his neighborhood reputation—served to pass information from borrowers to lenders.

Curiously, though, the credit market of the Old Regime and the early nineteenth century has never received its historical due. Indeed, despite a number of excellent studies devoted to particular aspects of the credit market, no one has examined the whole credit system, private and public, up and down the social scale, across the Revolution, and over a long period, as financial and political institutions changed. We propose to do so, starting with a large set of data from Paris. Our focus here will be the private parties active in the credit market and not the state.

A DESCRIPTION OF THE FRENCH CREDIT SYSTEM

Until the late nineteenth century credit markets in France were decentralized. The usual intermediaries were not banks but rather notaries, semipublic officials who drew up and certified private legal documents. Not only did notaries play a central role in the organization

² Brennan, *Public Drinking and Popular Culture in Eighteenth-Century Paris*, pp. 70–71. For works on credit in early modern Europe, see our working paper, "Private Credit Markets in Paris, 1690–1840." It provides a more elaborate version of this article, with full references, a complete description of our sample, and discussions and statistical tests too lengthy to include here.

of credit markets, but their surviving archives provide the richest source of data for credit transactions before 1840.

As in a number of other European countries, notaries in France had recorded wills, prenuptial agreements, estate papers, and financial contracts since the Middle Ages. Usually they made two versions of each act: an original, which went to one of the interested parties, and a copy, which the notary kept so that he or his successors could verify documents in cases of litigation. The number of notarial offices (*études*) in which notaries carried out their business was regulated, but the *études* themselves were the private property of the notaries, who could sell them or bequeath them to their children. The value of an *étude* derived from the records the notary preserved and from the notary's clientele, who typically remained with the *étude* when it was transferred.

Often a notarial *étude* recorded a family's financial transactions for generations; as a result, notaries enjoyed unequaled access to information about the wealth and income of individuals. Because smoothly functioning credit markets required reliable estimates of wealth and income, notaries were ideally suited to mediate between borrowers and lenders. On behalf of lenders, they could locate borrowers with enough assets to seem creditworthy; for borrowers, they could use their lender clientele to mobilize funds on short notice. The notary of *étude* 115, for example, managed to find 312 lenders for the duke of Orléans in 1752 and thereby helped him raise nearly one million *livres* in less than a year's time. It is worth noting here that the notaries were supposedly doing no more than matching borrowers and lenders: legally they were prohibited from providing full intermediation by borrowing from would-be lenders and relending to would-be borrowers. At least some notaries, though, did take money on deposit from lenders and lend it again out to borrowers.³ In any case, whether a notary was simply matching borrowers and lenders or serving as a true intermediary, he was unlikely to take advantage of his lenders because his future business and the value of his *étude* depended on his reputation for honesty.

In Paris, notaries also helped mobilize capital for the state. On some occasions, in fact, the state raised funds by selling notaries the right to place a selected loan. Each notary then found lenders for his share of the loan, either directly or indirectly through a second tier of intermediaries. These second-tier intermediaries bought up to 250,000 *livres* of a loan in as many as 20 or 30 contracts, which they would later resell in Paris, in the provinces, or abroad.⁴

Despite a great deal of innovation in public finance, Old Regime governments made little effort to liberalize private credit markets.

³ Moriceau and Postel-Vinay, *Ferme, entreprise, famille*. Other examples suggest that true intermediation was in fact quite common.

⁴ For an example, see AN MC, *Étude* 70 (Jan. 1760).

Indeed, prior to 1789 private loan contracts were severely limited. Merchants did utilize various letters of credit (*billets, lettres de change*), but most private borrowers could choose among only three different types of loans: life annuities (*rentes viagères*), perpetual annuities (*rentes perpétuelles*), and promissory notes (*obligations*). The limited number of contracts available resulted from both legal and informational constraints. To begin with, for religious and for political reasons, the state restricted both what sort of loan contracts could be drawn up and how high interest rates could be. Only the life and the perpetual annuities could contain explicit payments of interest, and the interest rate on the perpetual annuities could not exceed a certain maximum: usually 5 percent after the late seventeenth century. Furthermore, all perpetual annuity contracts had to permit the borrower to repay the loan at any time simply by reimbursing the capital. Repayment was solely his decision, however: the lender could not require it.⁵

Many lenders were of course unwilling to surrender control of their capital for a lifetime or conceivably in perpetuity as the annuities required, and obviously many borrowers needed loans for briefer periods. In such instances, the lenders and borrowers resorted to other sorts of contracts, some—the notes known as *obligations*—drawn up before notaries and others merely signed by the parties and not recorded by a notary (*billets*). The *obligations* might cover loans lasting less than one year or they might be renewed for five or ten years. Repayment could be demanded by the lender on short notice, and they were ostensibly interest free. Yet while the contracts could not legally mention any interest due, it is nonetheless clear that interest was charged on the *obligations*—indeed, often at a rate above the limit on *rentes*.⁶

The Revolution ushered in an era of important change in the French capital market. First, the revolutionary regimes removed public finance from the notaries' domain; thereafter, government loans were negotiated through banks. Second, they created a national land registry, through which collateral claims could be verified. And third, they withdrew the prohibition against lending at interest, although an interest

⁵ The legal maximum interest rates on perpetual annuities did not apply to all social groups, and they varied from province to province and over time. Throughout much of France the maximum rate was 10 percent in the early sixteenth century, 8.33 percent under Charles IX, 6.25 percent under Henry IV, 5.55 percent under Louis XIII, and 5 percent for most of the period from 1665 to 1789. See Guyot, *Répertoire universel et raisonné de jurisprudence*, s.v. "rentes" and "intérêts"; and Isambert et al., *Recueil général des anciennes lois françaises*. Unlike government perpetual annuities, the private perpetuals were not discounted. As for the interest rates on private *rentes viagères*, they were identical to the rates on government *viagères*—a subject we take up in our working paper, "Private and Public Credit Markets in Paris."

⁶ For evidence that interest was in fact paid on obligations, see Archives Départementales du Rhône, 3 B 502 (Mar. 9, 1621); and Courderie, *La dette des collectivités publiques*, pp. 67–74. Each of the different loan types posed different risks in cases of interest rate changes, and each offered certain advantages to either the borrower or the lender.

rate maximum was reintroduced in 1807. As a result of these reforms, the embryonic banking system of the eighteenth century grew rapidly—though separately from notarial credit. The banks concentrated their efforts on loans to the government and on short-term commercial loans, whereas private individuals, industry, and agriculture continued to rely principally on notaries, especially for mid- or long-term credit.⁷ Notarial credit persisted, we would argue, because notaries could always draw on their unrivaled knowledge of wealth and income.

THE PARIS SAMPLE

To study how credit markets functioned in France between 1690 and 1840, we began with Paris, where we collected data on over 8,000 loans. The data we gleaned from seven of the city's notarial *études*: numbers 9, 21, 43, 62, 70, 78, and 115. Of the seven *études*, numbers 70 and 115 were selected because they abounded in credit transactions. *Étude* 43 drew our attention because its clientele came from Parisian neighborhoods that would otherwise be unrepresented in our sample and because its clients seemed refreshingly isolated from the circles of wealth, power, and high finance, affording us a glimpse of a somewhat different sort of borrower and lender. The four others were chosen at random. In many respects they were typical *études*, mixing rich and middling clients.

For each *étude*, we collected a sample of private and public loan contracts for the period from 1690 through 1840—contracts representing new loans rather than stocks of outstanding debt. The data we gathered included—wherever possible—the date; the *étude*; the type of act; the capital and the interest; the planned duration and actual duration of the loan (repayment dates were often noted on the back of the original loan records); the profession, residence, sex, marital status, and age of both borrower and lender; family connections between the parties; and whether the borrower or the lender had been involved in other credit transactions. We also perused most documents concerning repayments, forced and voluntary contract revisions, and loan transfers (*cessions*), and we examined numerous probate inventories for records of credit transactions. The sample unfortunately overlooks letters of credit, which left hardly a trace in the notarial records, but it does catch the *rentes*, the *viagères*, and the *obligations*—in other words, most mid- and long-term credit. To simplify matters here, we have omitted records from the troubled years of the Law affair in the early eighteenth century and from the tumultuous opening years of the Revolution. We thus

⁷ Postel-Vinay, “La terre et l’argent”; and Gille, *La banque et le crédit en France*.

restrict our attention to three periods of relative—though not perfect—financial calm: 1690 to 1710, 1730 to 1788, and 1807 to 1840.⁸

If we consider the private individuals who participated in these loans and their dealings with one another—if, in other words, we temporarily ignore the greatest borrower of all, the state—then our sample reveals much about their credit transactions. Both borrowers and lenders came overwhelmingly from Paris itself. Some 90 percent of the borrowers and 84 percent of lenders were Parisian, and another 8 percent of the former and 7 percent of the latter hailed from the city's suburbs or the surrounding countryside (the *départements* of the Seine-et-Marne and the Seine-et-Oise, to be precise). Of the funds lent, 84 percent came from within the city's walls and 92 percent went to borrowers within Paris. At least as far as transactions between private parties were concerned, the Paris credit market did not therefore mobilize capital over vast distances.

Both borrowers and lenders came disproportionately from the social elite. True, there were more modest borrowers such as Pierre Quiet, a wigmaker from the parish of Saint Paul, who received 2,000 *livres* from master wigmaker Benoit Caldero of the parish of Saint Gervais in 1751. But wigmakers were hardly paupers, and Quiet could in any case back up his loan with detailed collateral.⁹ Most parties to the loans, though, occupied more elevated rungs on the social ladder. If we restrict ourselves to the years from 1730 to 1788, when information on professions is most illuminating, then 64 percent of the private borrowers were nobles and officers, whereas in Paris as a whole—to judge from Daumard and Furet's reading of marriage contracts in 1749—under 9 percent of the city's lay adult population consisted of such members of the elite (Table 1).¹⁰ The ranks of the borrowers reached to the very pinnacle of noble society to include figures such as the colossally wealthy Louis d'Orléans, who took on 5,100,000 *livres* of debt in the 1750s, chiefly by selling life annuities. Also numerous among the borrowers were wealthy merchants, *bourgeois de Paris*, notaries, and financiers. The groups marked by their relative absence were those lower down the social ladder, such as artisans and day laborers.¹¹ In 1730 to 1788 only 10 percent of our borrowers were artisans (including

⁸ Like any historical source, our sample is not perfect. Some of our notaries specialized in particular loans and particular clients, and even our years of calm include government financial crises—1770, for example. One might wonder, too, whether some of the quantities mentioned in the notarial documents were correct—for example, was the capital mentioned in the loans in fact the sum transferred to the borrower? Here, at least, diaries suggest that the notarial records were truthful: even in most *obligations* the capital in the notarial record was the actual cash handed over. We will deal with the other problems of our sample in future articles.

⁹ AN MC, *Étude* 115 (Oct. 1751).

¹⁰ The records from 1690 to 1710 oversample acts of state borrowing; hence they are excluded from much of what follows. The nineteenth-century records are omitted because the professional labels no longer tell much about a person's wealth.

¹¹ Daumard and Furet, *Structures et relations sociales*, pp. 10–19.

TABLE 1
THE SOCIAL CLASS OF LENDERS AND BORROWERS (1730–1788)

		LENDERS (%)						All		Paris Marriages (%) ^b
		Nobles & Officers	Church	Trade	Crafts	Women ^a	Borrowers	%	Value ^c	
BORROWERS										
Nobles & officers	N ^d	46.0	6.9	29.8	7.2	10.0	63.6	1,055	8.6	
	V ^e	68.7	6.0	18.4	2.0	4.5	85.0	18,170	—	
Church	N	35.5	6.4	33.8	11.3	12.9	3.7	62	0	
	V	62.0	4.8	22.9	2.6	7.4	2.2	497	—	
Trade	N	25.1	3.9	50.1	10.4	9.9	20.1	334	13.8	
	V	35.1	3.4	49.9	5.5	5.4	8.4	1,777	—	
Crafts	N	21.0	0.0	21.0	44.4	13.5	9.8	162	77.6	
	V	38.4	0.0	17.1	17.5	6.8	2.6	567	—	
Women	N	37.2	0.0	34.8	16.2	11.5	2.6	43	0	
	V	68.5	0.0	14.9	11.0	5.5	1.1	181	0	
Total private	N	38.7	5.4	33.4	11.8	10.4	45.7	1,656		
	V	65.1	5.6	21.1	3.3	4.8	67.7	21,172		
State	N	26.6	5.7	48.5	6.3	12.8	54.3	1,971		
	V	54.2	9.0	26.9	3.2	4.6	32.3	10,107		
All	N	32.1	5.6	41.7	8.9	11.7				
	V	61.6	6.7	23.1	3.3	5.3				
All	N	1,166	204	1,511	321	425		3,627		
	Value ^c	19,269	2,103	7,202	1,036	1,669		31,279		

^a Women here are all women who could not be classified in a social group. Thus this group contains mostly spinsters and widows.

^b From Daumard and Furet, *Structures et relations sociales*, pp. 10–19.

^c Values are given in thousands of *livres*.

^d N is for the number of contracts.

^e V is for the value of contracts.

Note: These figures exclude loans to Louis d'Orléans (the King's cousin, who was the client of notary 115 and borrowed about 5 million *livres*).

masters) or wage earners—a group that formed perhaps 78 percent of the city's lay adult population. Of course, such a result is perhaps not surprising, for many artisans and wage earners lacked the collateral needed to get a loan in an anonymous market such as Paris.

As could be expected, lenders also came from the ranks of the wealthy. In 1730 to 1788, for example, 39 percent were nobles and officers and 33 percent merchants, *bourgeois*, notaries, and financiers—moneyed groups far more prominent among lenders than among borrowers (Table 1). Again, artisans and wage earners were hardly involved. In a sense the credit market shifted funds within the wealthy elite, with a net flow from merchants, *bourgeois*, and financiers to the state and to officers and nobility—presumably not the characteristics of a market mobilizing capital directly for productive investment.¹²

¹² Borrowers from the ranks of the crafts and trade grew somewhat more prominent in the late

TABLE 2
THE AGES OF BORROWERS AND LENDERS (1690–1788)

	Number of Contracts (%)	Funds Lent (%)	French Adult Population (%) ^a
LENDERS			
less than 40	21	19	54.5
40 to 59	59	47	28.5
60 or older	19	34	17.0
BORROWERS^b			
less than 40	68	57	54.5
40 to 59	25	25	28.5
60 or older	7	18	17.0

^a From Henri and Blayo, "La population de la France de 1740 à 1860," pp. 101–2.

^b Louis d'Orléans, who in his twenties borrowed several million *livres*, was excluded from the borrowers' age calculation.

Notes: The ages reported here reflect only a fraction of the 8,300 contracts we collected (20 percent for the lenders and 3 percent for the borrowers). The data on age came from two sources: life annuity contracts that mentioned the borrower's age and bibliographical dictionaries.

Although both the typical borrower and the typical lender came from the elite, there was usually an enormous gap between their ages. Borrowers were relatively young, while lenders, not surprisingly, were old. Throughout our periods of calm (1690 to 1710, 1730 to 1788, and 1807 to 1840), 68 percent of the borrowers were under 40, compared with an estimated 55 percent for the French adult population as a whole during the period from 1740 to 1789. Lenders by contrast were ancient: 78 percent were 40 or older, versus only 45 percent of French adults (Table 2). What the Paris credit market apparently did was to channel money from wealthy older lenders to the state and to younger private borrowers. For the private borrowers, the market served the useful function of transferring money across generations: of the funds lent to private individuals, 81 percent came from lenders 40 or older and 57 percent went to borrowers under 40. The credit market also shifted money from single women to married couples and men: widows and thrifty unmarried women lent to the state, to couples, and to single males. Overall, 23 percent of the lenders were female, and they provided 20 percent of the credit volume (Table 3). In private transactions, 91 percent of the money they lent went to men or married couples—in stark contrast to male lenders, who rarely dealt with single women.

Practically none of the loans reflected transactions between members of the same family or relatives; in only 3.1 percent of the loans between individuals were borrower and lender related, even by marriage.¹³

eighteenth and nineteenth centuries. Their growing prominence may have signaled a shift toward productive investment, but as yet that is not certain.

¹³ The loan contracts often mentioned whether borrower and lender were related by blood or by

TABLE 3
THE SEX OF BORROWERS AND LENDERS FOR THE WHOLE SAMPLE

BORROWERS		LENDERS		
		Women (%) ^a	Men (%)	Total ^b
Women	N ^c	24.9	75.1	389
	V ^d	25.7	74.3	3,768
Men	N	23.3	76.7	4,325
	V	19.0	81.0	49,332
Total	N	1,105	3,608	4,714
	V	10,339	42,761	53,100

^a Contracts were allocated to women and men on the basis of the principal signatories. The Men category includes all couples, because the husband was the principal signator in those cases. Percentages are by row.

^b Totals are in thousands of *livres*.

^c N is for the number of contracts.

^d V is for the value of contracts.

Relatives undoubtedly made loans inside the family, without having recourse to a notary, but the thriving Parisian credit market suggests that families alone could not match all the thrifty women and old men with all the creditworthy youths.

Why then were young men so determined to borrow that they sought money outside the family? And why were women and elderly men so eager to lend? One obvious explanation involves the life cycle. A typical young man in our sample might wish to purchase a government office, construct a glorious new residence, or pay what was due to his siblings when he inherited the bulk of his parents' estate. Large expenses of that sort had to be confronted early in a person's career, before he had amassed much in the way of liquid savings. The only answer was to borrow, and lenders with the necessary liquid assets within the family might be lacking. Hence the recourse to borrowing via the family notary.

As for women and older men, they had inherited and earned funds that they sought to invest. Their concern was to increase the estate that they would pass on to their children and—particularly if they had no offspring—to ensure themselves a comfortable old age. We can see the same motives at work if we look at the lender's choice of the type of loan. The perpetual annuity was the ideal long-term financial instrument to pass on to children, whereas the life annuity suited lenders more worried about old age. Other things being equal, unmarried women would presumably prefer the life annuities, because with no children they had no direct heirs. A test of this hunch awaits the formulation of

marriage. Furthermore, notarial practice often revealed relationships by marriage even if they were not mentioned explicitly. Men, when they borrowed, frequently involved their wives in the loans; women, whether they borrowed or lent, were identified by their maiden name and their husband's name.

TABLE 4
INTEREST RATES ON PERPETUAL ANNUITIES

Years	All Loans		Average Interest Rate (%) ^d	Proportion of Loans at					
	N ^b	V ^c		Less Than 5% ^a		Exactly 5%		More than 5%	
				N (%)	V (%)	N (%)	V (%)	N (%)	V (%)
1690–1699	64	3,879 ^e	5.01	0	0	97	95	3	5
1700–1709	98	4,686	4.96	10	24	87	75	1	1
1710–1719	13	3,147	5.52	0	0	53	34	47	66
1720–1729	—	—	—	—	—	—	—	—	—
1730–1739	48	7,228	4.98	2	3.2	98	96.8	0	0
1740–1749	267	8,561	4.84	20	45	80	55	0	0
1750–1759	310	14,660	4.92	10	27	89	72.9	1	0.1
1760–1769	80	9,872	4.98	2.5	4.4	96	94.5	2.5	1.1
1770–1779	40	11,137	4.74	25	38.3	75	61.7	0	0
1780–1789	134	13,687	4.98	2.2	3.4	97	96.6	0	0

^a Exactly 5 percent was defined as more than 4.9 percent and less than 5.1 percent. Before 1789 payments on *rentes* were stipulated as a *denier* (ratio of capital to interest) rather than as an interest rate. Thus 5 percent corresponds to the *denier* 20; our slightly wider bounds cover about half the distance to the *deniers* 19 and 21.

^b N is for the number of contracts.

^c V is for the value of contracts.

^d The averages are unweighted.

^e Total loan figures are in thousands of *livres*.

a precise and rather complicated econometric model of the choice of the type of loan, but preliminary results suggest that unmarried women were indeed more likely to invest in life annuities (and thus insure their old age) than in perpetual annuities.

The interest charged to private parties on the perpetual annuities—the one credit instrument that consistently mentioned the rate—averaged close to 5 percent, except in the decade of 1710 to 1719 (Table 4). As 5 percent was normally the usury limit, one might suppose that it was merely a legal subterfuge, the true interest rates charged on the private *rentes* being higher. Yet why then were the average rates usually just below 5 percent? And why do we nearly always encounter a range of interest rates? The rates certainly tended to cluster near 5 percent, but a number of the private *rentes* paid interest below 5 percent. It seems unlikely that lenders would trouble themselves to specify a rate below 5 percent if the true rate were actually higher. And if the 5 percent limit were merely a charade, it would be hard to explain why an attempt to lower it to 4 percent in 1766 swiftly caused the supply of perpetual annuities to dry up, forcing a return to the old limit of 5 percent by 1770.¹⁴

The consequences of that ill-fated attempt to lower the usury limit suggests that market rates on most private *rentes* were at the 5 percent limit, and below the limit on certain favored loans. The spread we

¹⁴ Guyot, s.v. “intérêts.”

observe in interest rates points to a similar story. The interest rates below 5 percent were reserved for the best credit risks: individuals whose collateral and likelihood of repayment inspired great confidence. In the words of one eighteenth-century legal manual, *rentes* yielding 4 instead of 5 percent “are used and in fact a number of them have been created simply because the borrower was creditworthy and had furnished good collateral to secure the *rente*.”¹⁵ Such rates were nonetheless relatively rare—at least in Paris. Outside the city, by contrast, the spread of interest rates was typically much broader. The reason, we surmise, reflected the difficulty of assessing creditworthiness inside the city. In a village or town, the lender would know his borrower and his borrower’s assets. He would learn if property had already been pledged to another lender and he could charge the creditworthy borrower a low interest rate.¹⁶ How much more difficult it was to make a similar assessment in Paris. How did one judge the value of collateral when it was, for example, land lying far outside the city? How did one tell whether it already secured other loans?

Such problems were far from theoretical. Contemporaries knew well the risks of loans backed by overburdened collateral. The monarchy, which used the value of private offices to secure loans to the government, reassured creditors by developing a lien registry that kept tract of all the claims on offices by lenders. The registry made it difficult to stretch the office collateral thin, but the equivalent institution for private loans—an effective land registry—was not functioning before the nineteenth century. In such a situation, unscrupulous borrowers could pledge the same collateral over and over again to different lenders.¹⁷

It is no wonder then that most borrowers who had recourse to *rentes* under the Old Regime were simply charged the highest rate that the law would allow—5 percent. Riskless rates may have been a bit below 5 percent, but only a minority of borrowers merited such confidence. The vast majority either paid 5 percent or were given no *rente* at all. If a private borrower were refused a *rente*, his only recourse (assuming that he possessed enough collateral to borrow at all) would typically be an *obligation*.¹⁸ The hidden interest on the *obligation* could exceed 5 percent, which might induce lenders to grant a risky loan. The attempt to lower the interest rate ceiling on *rentes* in 1766 in fact provides evidence that the *obligations* served to make loans at interest rates

¹⁵ Guyot, s.v. “rente.”

¹⁶ Rosenthal, “A Credit Market in Old-Regime France.”

¹⁷ Bien, “Les offices, les corps et le crédit d’état.” First steps toward a land registry were taken in the late eighteenth century, but the registry was not really effective until the 1800s.

¹⁸ Some private borrowers, such as the *duc d’Orléans*, issued life annuities, but the uncertainties regarding the life span of a small group of lenders would make such borrowing too risky for most private borrowers. It is worth noting that the choice of loan type was further complicated by the fact that lenders and borrowers could agree to shift the burden of the taxes on certain loan revenues.

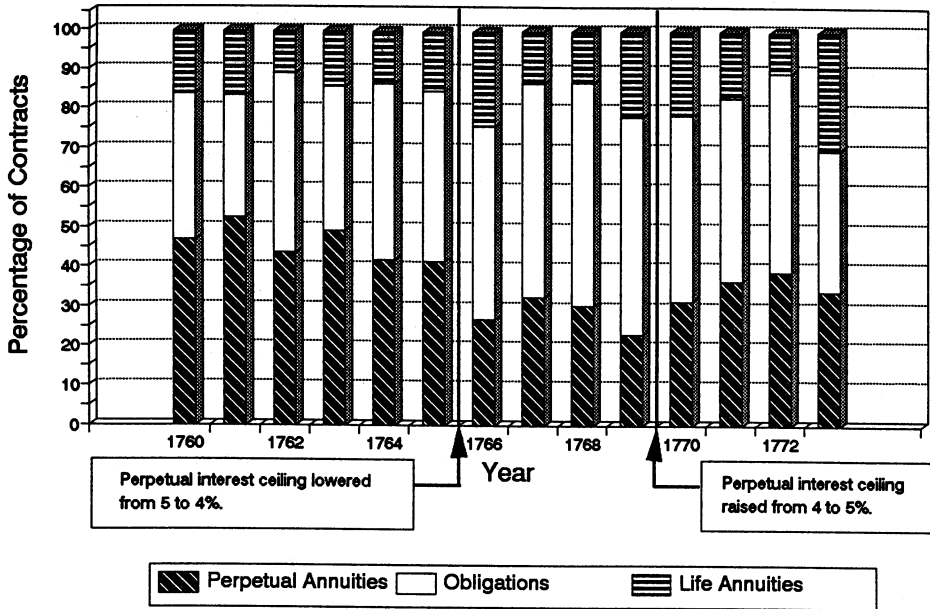


FIGURE 1

PRIVATE CREDIT INSTRUMENTS IN PARIS, 1760-1773

Note: *Étude* 115 was excluded because of the enormous sums raised by Louis d'Orléans in certain months. Including *étude* 115 does not change the qualitative results, but it obscures the graph.

above those prevailing on *rentes*. Immediately after the legal rate was reduced to 4 percent, the number of *rentes* recorded in our *études* fell, while *obligations* jumped (Figure 1). At 4 percent, few borrowers had the impeccable collateral needed to borrow via *rentes*; most were shunted off to the more expensive realm of the *obligations* or denied credit altogether.

Was there no way for lenders to distinguish between borrowers before the creation of the land registry in the nineteenth century? How did they single out the creditworthy parties and offer them *rentes* (perhaps even at rates below 5 percent) rather than *obligations* at what were presumably higher rates of interest? Certain borrowers might of course have distinguished themselves by their lofty position in Old Regime society: that was particularly likely for the elite of nobles and officeholders, who were not only wealthy but possessed considerable real property to offer as collateral. Such creditworthy debtors would presumably have found it much easier than others to borrow via *rentes* rather than via *obligations*, with their potentially higher interest rates. Other borrowers might have invoked a local reputation for trust, which might have swayed lenders living in the same neighborhood. Alternatively, professional contacts could provide information about borrowers: recall wigmaker Pierre Quiet, who borrowed 2,000 *livres* from

another wigmaker, Benoit Caldero. If local reputation and professional contacts were a reliable source of information, then *rentes* ought to have been more common than *obligations* when both borrower and lender were from the same neighborhood or profession. Repeat dealings in the credit market might also demonstrate that a borrower was reliable: if so, repeat borrowers should utilize *rentes* too.

Testing these ideas also awaits the formulation of a precise econometric model, but preliminary results suggest that only membership in the elite conveyed much information about borrowers, and then only under the Old Regime, when the defining characteristics of the elite—nobility and possession of a government office—were reliable indicators of wealth and collateral. None of the other sources of information apparently revealed much about a borrower's credit rating. Professional contacts, it appears, told little about a borrower's solvency, and neighborhood reputations, if they mattered at all, must have operated on a scale much smaller than that of the parish. Similarly, repeat dealings seem of little import—hardly a surprise in a city as large as Paris, where lenders could scarcely know a borrower's past.

Perhaps the best information about the borrowers came from the notaries. The notaries, after all, knew the intimate details of the borrower's financial dealings, for borrowers and their families typically remained with the same notary for years. Notaries had every reason to evaluate the creditworthiness of the borrowers carefully: a mistake would offend a lender and make him take his family's business elsewhere. Although lenders occasionally switched *études*, they did so rarely, which suggests that notaries performed their task well. In the privacy of their *études* and without leaving any records, they undoubtedly steered the trustworthy borrowers toward *rentes perpétuelles* and larger loans. The efficacy of the notaries may in turn explain why neighborhood reputations, professional contacts, or repeat dealings shed so little light on a borrower's solvency. Such information paled to insignificance beside what the notary knew: the borrower's assets, his financial history, and so on. It thus revealed far less about a borrower's credit than the notary's opinion did.

The private credit market was of course affected by other forces that we have not yet considered. Inflation in the late eighteenth century, for example, pushed up nominal interest rates against the 5 percent legal ceiling and made *obligations* all the more attractive to lenders. After all, interest on them could exceed the 5 percent limit, and they offered the lender greater protection at a time of rising nominal rates. It is not surprising, therefore, that money shifted out of *rentes* and into *obligations* at the end of the eighteenth century—a precursor of a trend that would continue after 1800. The private credit market was also buffeted by government borrowing, which competed for private capital.¹⁹ But that is a subject for another article: one that examines not only the

¹⁹ See Hoffman, Postel-Vinay, and Rosenthal, "Private and Public Credit Markets in Paris."

evidence for crowding out in the eighteenth century but also the legacy of government actions 100 years later.

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