

The French Economy, 1650-1788: Economic Growth, The Money Supply, and Monetarist Theory — A Summary*

John J. McCusker and James C. Riley
University of Maryland and Indiana University

The money supply of Europe grew substantially over the eighteenth century, as we think most everyone will concede. The explanation for this seems obvious: the supply of metals that could be used as coin or as bullion and the supply of other means of payment expanded considerably. They did so for two reasons. More gold and silver were produced. At the same time, governments, merchants, and others produced a variety of paper supplements for coin. While it did not happen in the same way everywhere, all of Europe shared in a common phenomenon: the stock of money became much larger.

Other changes accompanied the growth in the supply of money, changes which it probably influenced. Prices rose over the century, more slowly in its early years and at a greater rate near its end. There were gains in production, too. By 1800 European output was more, measured in both current and constant value, than it had been in 1700. Just as changes in the money supply influenced the rise of prices and the gains in production, so too did they, and other factors, have an impact on the demand for money. While we are interested in these relationships all over Europe, we here restrict our discussion to the interplay between money and prices in France from 1650 to 1788.

At first glance any attempt to explain what happened in France during this long period might seem to be open to help from the quantity theory of money, if not the classical quantitative explanation then the more recent version. Modern quantity or monetarist theory, which in the United States is currently a highly influential approach to monetary and economic management, is based in large part on examinations by Milton Friedman and Anna Schwartz of the American economy during the period 1867-1960. They and others would argue that their theory

has general applicability and, thus, authority to describe a wide range of historical experience.

In this paper we undertake a simultaneous test of both the monetarist version of the quantity theory as it would apply to France in the eighteenth century and of the best-informed estimates of money supply, prices, and output in France during the same period. The results of our calculations, presented in Table 1, raise some intriguing issues. If the quantity theory applies to the French experience over the period, and if the data are good, then the rates of increase in the money stock and in prices and output should have been similar for each of the six periods. They were rarely even close. Since the data and the theory are not in agreement, either monetarist theory has been prematurely accepted as universal or the best-informed estimates of the performance of the French economy between 1650 and 1788 are seriously in error. While we think that it would be gratuitous at this early stage to opt for one explanation or the other, something is clearly wrong. We are by no means willing to concede that the fault rests with the data.

NOTE

*We present here an abbreviated form of our paper as delivered on 16 April 1982. We expect eventually to publish a fuller, revised version to which we ask our readers to turn for a complete discussion of our data and a more thorough exposition of our arguments.

Table

Comparison of the Per Capita Rates of Increase
in French Money Supply, Price Levels, and Output,
1650-1788

Period	Annual Average Rate of Increase
1650 Money stock	1.041
to Output	.3
1788 Prices	.175
Residual	.566
1683 Money stock	.522
to Output	.3
1788 Prices	.513
Residual	-.291
1700 Money stock	.825
to Output	.3
1788 Prices	.429
Residual	.096
1754 Money stock	.655
to Output	.3
1788 Prices (min.)	.642
(max.)	1.153
Residual (min.)	-.287
(max.)	-.798
1763 Money supply	.925
to Output	.3
1788 Prices (min.)*	.813
(max.)	1.488
Residual (min.)	-.188
(max.)	-.863
1774 Money supply	.647
to Output	.3
1788 Prices (min.)	-.899
(max.)	.380
Residual (min.)	1.246
(max.)	-.033