A Rent-Seeking Theory of French Mercantilism

Robert B. Ekelund, Jr., and Robert D. Tollison

There are two traditions in studies of mercantilism. One tradition involves debunking mercantilist ideas and is best illustrated in the works of Adam Smith (1776) and Jacob Viner (1937). From this tradition we have received the standard interpretation that mercantilism was a confused collection of ideas about the relationship between power and wealth. We have no arguments with this standard interpretation of mercantilist doctrines. A second tradition consists of the study of historical practices in the mercantile economies, the best examples of which are various works by members of the German Historical School, especially Schmoller (1897). This tradition emphasizes the general thesis that mercantile policies were quite rational responses to the problems of nation-state building. While there are a few recent exceptions (e.g., Wilson 1967), most modern scholars have concentrated on the doctrinal fallacies of mercantilist writers.[1]

We view the primary emphasis on doctrinal fallacy as an unfortunate development because the positive analysis of mercantilist political economy hinted at by the German Historical School has never been undertaken. The central treatment in the literature on this subject remains the classic study by Heckscher (1934), the one writer on mercantilism who spans *both* of the above traditions. Heckscher's treatment, however, while historically copious, is in clear need of a modern reassessment. In the years since this study appeared, economic theory has been expanded to encompass such matters as political choice (Buchanan and Tullock 1962) and economic regulation (Stigler 1971), and it is important to reexamine the historians' analysis in light of these modern developments to see if their explanations of mercantilist political economy can be improved upon or altered in any important respects. Moreover, the historical experiences in these economies represent a valuable laboratory for the application of modern economic concepts.

Our purpose here is not to present a wholesale reinterpretation of all aspects of mercantilist political economy. Further, the idea that French mercantilism had a strong *fiscal* component is hardly new or original. The theme of mercantilism as "fiscalism" has, for example, been admirably treated by Wilson (1967, 495–573).[2] We have the more limited goal of developing a positive economic theory of the internal regulation of industry in mercantile France which supplements and expands the "state-building" interpretations found in Heckscher and in more recent literature. Our research is in the "polinomic" tradition recently called for by Davis (1980) and earlier by Lane (1958), in that it attempts to bridge the gap between economic policy and the economic motives of public and private actors in the political process of policy formation.[3]

We focus in this essay on French mercantilism for several important reasons. One is that we have analyzed the rise and fall of internal regulation in England elsewhere (Ekelund and Tollison 1980*a*, 1981).[4] Secondly, since we will draw heavily on Heckscher as a historical source and a repository of alternative hypotheses, it is useful to follow his lead in treating internal regulation in England and France separately (Heckscher 1934, 1: 135–325). We will, however, contrast the English and French experiences with internal regulation in a concluding section.

The most important reason for a separate treatment of the French mercantile experience is that it permits us to confront the explanations of economic historians for the two most important features of the French economy of the time: (1) the repressive and controlled internal economic structure, and (2) the very clear emphasis (bias?) upon luxury at the expense of basic productions, a characteristic of the French economy which is often said to have impeded the Industrial Revolution in France. To be sure there is some divergence of explanations among historians. The most celebrated historical interpretation of French mercantilism, however, that of Charles Woolsey Cole (1939, 1943), falls far short of providing a satisfying explanation of these two features of the French mercantile economy. Cole features Jean Baptiste Colbert, Louis XIV's indomitable finance minister, as the "Great Man" and prime mover of the French State for the seventeenth and eighteenth centuries. Further, Cole clearly and repeatedly expresses the view that Colbert's economic "reforms" were in the public interest, i.e., made in the interests of the French people. State building was the maximand for both the public interest and the glory of the monarch according to Cole.

While we do not dispute the details of these historical accounts of the French experience, we reject the "hero" and other major axioms of the historians and argue that positive economic theory offers a more plausible account of these developments. We shall argue that the French political and economic environment was conducive to the self-interested demand and supply of a massive system of economic regulation and that the success of this extensive intervention in the French economy impacted greatly upon French economic development up to the time of the Revolution. We shall argue further that the theory of economic regulation goes far in providing a plausible explanation for aspects of French mercantilism that have puzzled the historians, namely, the French mercantilists' response to innovations and their selective cartelization of industries. Thus, we do not offer our interpretation as a substitute for those of the historians, or even as an original interpretation of mercantilism as "fiscalism." Rather, we simply attempt to provide the basic organizing principles for a more satisfying analysis of several major features of the period.[5]

The discussion proceeds as follows. The rise of French mercantilism is explained in section 1 in terms of the relative efficiency of monopoly grants over taxation as a source of revenue for the French state. The highly effective system of enforcing the monopoly and cartel arrangements is discussed in section 2. The usefulness of analyzing French mercantilism as an example of efficient rent seeking is illustrated in section 3, with a discussion of the efforts of the French administrators to restrict the introduction of printed calicos in the textile industry. In section 4, an explanation of why the French mercantilists stressed luxury-oriented cartels is given. The costs of extending economic regulation to the rural sector are discussed briefly in section 5. Finally, some comparative observations are offered on English versus French mercantilist experiences with internal regulation in section 6.

1. A Theory of Monarchical Rent Seeking

The French monarchy sought revenue to finance its expenditures, and the term that we apply to this behavior is *rent seeking*. There were basically two sources of revenue available to the French administrators—taxation and grants of monopoly. Taxation was extensive in France at this time, as we shall see, and this aspect of revenue seeking has been covered extensively by the historians. The extensive use of monopoly grants to raise revenue came about during the time of Colbert who, under pressure to raise additional revenues for the king, found monopoly grants to be a more efficient form of rent seeking than taxation *at the margin*. Monopoly grants at the height of Colbert's administration became a *major* source of the French state's revenues.[6] The turn by Colbert to monopoly grants forms the basis of our interpretation of French internal economic regulation. For the present, however, let us review the difficulties that Colbert faced with taxation and then go on to analyze the relative efficiency of monopoly grants in the revenue-seeking context of Colbert's administration.

In the medieval and early mercantile period, the difficulty of taxing was related to such factors as the absence of data on transactions and the general ease of tax evasion. Moreover, taxation places the burden on state authorities to ascertain taxable values and to collect tax revenues. Though difficulties of tax collection and assessment and the ease of tax evasion explain the emergence of rent-seeking behavior in the early French economy, the even greater reliance on monopoly creation as a means to raise revenue in the age of Colbert (the hightime of French mercantilism) admits of further explanation. In addition to the still general technical difficulties of collection and assessment, Colbert, in 1661, faced the deeply entrenched interests of a fiscal bureaucracy and a fiendishly complex tax structure.[7] Colbert's hold on the king (Louis XIV) was a function of his ability to produce revenues, so that his first order of business (when he replaced Cardinal Mazarin as Louis's finance minister) was to attempt to circumvent an encrusted tax system, born of feudal and medieval traditions. At this, and in spite of his very considerable powers and machinations, he was an abject failure, as Cole clearly documents.

After several dictatorial revenue-getting measures, alienating a massive segment of the French financial community, Colbert attempted his great reform of the tax system.[8] First, Colbert attempted ''reform'' of the *taille reele*, a land tax that was the single largest revenue source of the state. But there were many, many exemptions based upon privilege, bribery, and tradition, so that Colbert's use of spies, seizures, and investigations of those claiming exemptions were to no avail. Next, owing to this failure, Colbert attempted to shift the incidence of taxation, reducing the *taille* from which so many claimed exemption, and drastically raising the *aides*. (The aides were an internal indirect tax on commodities at the wholesale and retail levels and tolls on river and road transportation, the collection of which was farmed.) But so corrupt and intimidating were the farmers of the *taille* that Colbert was again thwarted and nullified (Cole 1939, 1: 305–6).

Colbert's dilemma was the personal urgency of retaining the king's support in the face of an inability to increase revenues sufficiently through the tax system. Vested interests, coupled with the exigencies of an opulent court and the 1672 war with the Dutch, drove Colbert to ''new'' and ''extraordinary'' methods of acquiring funds (Cole 1939, 1: 307–12).

Colbert directed his rent-seeking efforts to the granting and enforcement of monopoly rights, and the French mercantile economy took on the form of a massive web of economic regulations administered by the central state. The creation of monopoly was a more efficient route to revenue because, unlike taxation where the state has to bear the costs of discovering taxable values, aspiring monopolists will reveal the value of monopolies to the authorities in their efforts to secure such grants from the state. State officials would not have to seek out estimates of the value of their enforcement services in the case of monopoly grants. Rather, monopoly seekers would come to them, and so long as the bidding for monopoly privileges was competitive, they would reveal to state authorities the underlying value of the monopoly rights. For this basic reason, then, the French mercantile state found it efficient to raise revenue by creating a highly monopolized economy.

Our concern in the remainder of this essay will be with showing how this rent-seeking-through-monopolization interpretation of French mercantilism can be applied to offer an appealing analysis of the main features of French economic behavior and development over this period. This is not to argue that historians have ignored the revenue-seeking aspect of French mercantilism. There is ample evidence in Heckscher (1934, 1: 179, 183) and other sources (Wilson 1967) about this aspect of French mercantilism. Historians, however, have tended to treat rent seeking as a manifestation of some greater mercantile objective, such as the balance of trade, rather than portraying it as a central element in an interpretation of the period. As we shall see, French administrators were very ingenious and intelligent rent seekers, and interpreting their behavior as a manifestation of efficient rent seeking offers a plausible route to a fuller understanding of the important episodes of economic regulation over the period.

Monarchical rent seeking in France, therefore, is reasonable explanation for the stress on the power of the state in French mercantilism. There were rent-seeking opportunities for the central state, and economic regulation in the form of cartel expansion and enforcement was the result. The form of this rent-seeking competition consisted of a monopolist (the state) providing cartel enforcement services, with the numerous "industries" throughout France bidding for these services. By presenting itself as the only agent in the process with an effective monopoly (i.e., on force), one can surmise that the French state was able to capture the monopoly rents inherent in the economic regulation of the economy. As we shall see in the next section, these rents were not entirely "pure profits," as considerable sums had to be spent on the administration and enforcement of the economic regulations.

2. Enforcement of Monarchical Rent Seeking

The administrative machinery set up by the French to provide cartel enforcement services is often admired as one of the greatest administrative accomplishments in the historical development of nation-states. We view this administrative machinery as a natural expression of efficient rent seeking—the enforcement system was an expression of a desire to maximize revenues from rent seeking.

The primary means through which the French monarchy provided cartel enforcement services was through paid civil servants (the *intendants*).[9] The authority of the *intendants* under Colbert was extensive. These officers were in charge of all other authorities in their administrative district and formed the link with the central authority in the administration of cartel enforcement activities. They judged many cases evoked by the Crown, organized and superintended tax collections, inspected and regulated industry, directed public education, and controlled the police and administration of troops and municipalities (Boulanger 1967, 344).

The fact that they were paid is important. As Becker and Stigler (1974) have demonstrated, higher pay is a means to control malfeasance in labor contracts where an element of "trust" is involved. This follows, for example, in the sense that there is a greater opportunity cost (actually, the loss of rents) to the official of losing his position by accepting bribes. Paid enforcement agents, then, may be interpreted as a primary means to control corruption and to insure uniform cartel enforcement across the country. Without a guarantee of honest and even enforcement the services of the state in this respect would have been less valuable, and we can view the *intendants* as an efficient means to enforce the economic regulations of French mercantilism.

The nature of the regulations to be enforced by the *intendants* was also an expression of efficient rent-seeking policies. The monarchy not only set up uniform price and wage controls and restricted entry into the local cartels with an apprenticeship system, but it also sought to provide protection against competition from within the cartels. This latter condition is especially important in the enforcement of eonomic regulation because licensed sellers within the cartel will otherwise compete away excess profits through output expansion.

The general characteristics of this aspect of cartel enforcement were impressive. The regulations were incredibly detailed, on the order of a substantial planned economy, and the details were tailored to restrict the various means by which firms could expand output from within the industry. Heckscher (1934, 1: 160–61) provides the following small example of the regulations.

> Regulation followed the course of production. In the first place, it contained specifications regarding the handling of raw material, especially wool and the methods of dealing with it and went on to deal with all the subsequent states of production, the most important of which were weaving and, especially dyeing. Amongst numberless others, we will single out as an example of the weaving regulations a special *reglement* of 1718 for Burgundy and four neighbouring districts. As the *reglement* itself puts it, these districts produced woolen goods for the use of the soldiers and the general public, so that it was by no means a luxury industry. The dimensions of the cloths were specified in 18 articles for each place separately. We will confine ourselves to quoting the first five rules.
>
> The fabrics of Dijon and Selongey were to be put in reeds $1\frac{3}{4}$ ells wide, a warp was to contain 44 × 32 or 1408 threads including the selvedges, and when it came to the fulling-mill, the cloth was to be exactly one ell wide. Semur in Auxois, and Axerre, Montbard, Avalon and Beaune were to have a warp of 43 × 32 or 1376 threads, the same width in the reed, and the same width of cloth when it left the fulling-hammer. Saulieu was to have the same width with 42 × 32 or 1340 (really 1344) threads, but it seems that the white and the more finely spun cloths were to have 74 × 32 or 2368 threads. Chatillon on the Seine and five other places were to have 1216 threads in a width of $1\frac{5}{8}$ ells with the same variation for white cloths. The *sardis* fabric, which was produced in Bourg en Bresse and various other towns was to have only 576 threads with reeds of one ell and a width of half an ell after fulling, etc., etc.

The control of this system of economic regulation rested with paid agents of the monarchy, and their means of control were extensive. There was widespread inspection of production, well-regulated measurement of outputs, various marking procedures whereby outputs bore the name of the producer, town marks, and so forth. Penalties for violating the regulations consisted in the confiscation and destruction of "inferior" output, heavy fines, public mockery of the offender, and ultimate loss of one's license to practice for continued offenses. What we see in the nature of the regulations is an extensive system of output restriction. Indeed, Colbert instituted a system of spies in each town who were to report cartel chiselers to the local *intendant*. Another purpose of the spies may have been to keep an eye on the *intendants*.

The French monarchy devised efficient means to enforce economic regulation on a large scale. Paying the local enforcement agents controlled malfeasance in the application of the regulations, which would have reduced the returns from monarchical rent seeking, and, moreover, the nature of the regulations governing cartel behavior appear to have been an efficient system of output control on a large scale.

3. Rent Seeking as a Useful Interpretation of French Mercantilism

Evidence for the usefulness of the rent-seeking theory as the principle explanation of internal economic policy is plentiful, although Heckscher and especially Cole ascribe such activity to other motives. Cole, particularly, views mercantile developments, and especially those instituted by Colbert, as initiated to provide a strong French state and economy that would be of public benefit for the people and of glory to the sovereign monarch (e.g., Cole 1939, 1: 301, 311–20, 329–30; 2: 141). Nevertheless, both Heckscher and Cole in their historical descriptions provide a great deal of evidence for the rent-seeking interpretation.

The General Dimensions of Rent Seeking under Colbert

As evidence of Colbert's "public service," we might look briefly at some of the cartels formed during his administration. After several unsuccessful attempts Colbert was able, in 1681, to form a tobacco monopoly that applied to the entire kingdom. The monopoly regulated all aspects of tobacco production, importation, manufacture, and sale. In spite of the heated opposition of consumers and retailers, revenues to the state multiplied rapidly—500,000 *livres* in 1681, 600,000 in 1683, to an annual 30,000,000 *livres* in 1789. Colbert oversaw the conduct of the postal monopoly which, after 1673, brought in 1,000,000 *livres* per year. United to the postal system in 1673, Colbert encouraged transport monopolies (covering coaches and certain water transportation), bringing more than 5,500,000 *livres* per year into the fisc by 1683. In 1674, Colbert forced all trades to form themselves into gilds, which then traded sums of money for statutes and regulations (Cole 1939, 1: 307–9).

Cole (1939, 1: 309) reports that some of Colbert's intrusions met with "unhappy results." In 1674, he levied a tax in the form of a fee for the "inspection and making" of tin and pewterware. A great opposition developed, however, because such utensils were used almost exclusively by common people.

A still more familiar rent-seeking expedient was employed by Colbert when he farmed coinage rights to a syndicate of capitalists for 630,000 *livres* in 1674. Colbert's nephew, Desmarets, and his agent, Bellinzani (in charge of managing the cartel), were bribed into silence by gifts, while the monopolists struck off 26,000,000 four-*sous* pieces, far in excess of that permitted by contract, and reduced the fineness of coins by a twelfth. Colbert ignored the enormous profits, however, since, as Cole reports (1939, 1: 310), "the syndicate assisted him in certain financial operations."

Examples of such cartelizing and monopoly-creating activity by Colbert and other French administrators could be multiplied exponentially over the mercantile period. Cole and other historians have maintained that through all of Colbert's measures ran a "keynote of economy," that Colbert "knew how hard it was to raise adequate funds, how necessary was money for the glory of the king and the strength of the state" (1939, 1: 311). The modern economist has another explanation. Aside from Colbert's own incentives, which were certainly not selfless, a better and more plausible explanation for the economic structure of mercantile France is that its institutions permitted rent-seeking behavior of a predictable type.

The Matter of Calicos

The alternative rent-seeking explanation, however, rests upon firm support, for it enables the interpretation of historical episodes that otherwise appear to be highly irrational. The outstanding example in this regard concerns the attempt by the state to prevent the production, import, or consumption of printed calicos and other cotton goods in France.

The implications drawn by the two leading mercantile historians of this episode are very noteworthy. Heckscher (1934, 1: 170–75), terming the prohibitions an "attack on innovations," outlined the lengths to which cartel managers went to achieve these goals.

> It is estimated that the economic measures taken in this connection cost the lives of some 16,000 people, partly through executions and partly through armed affrays, without reckoning the unknown but certainly much larger number of people who were sent to the galleys, or punished in other ways. On one occasion in Valence, 77 were sentended to be hanged, 58 were to be broken upon the wheel, 631 were sent to the galleys, one was set free and none were pardoned. But even this vigorous action did not help to attain the desired end. (P. 173)

Heckscher sees this episode as an irrational attempt by the administrators to stifle innovation.

Cole, likewise, regards calico legislation as an "aberration of French policy" and as merely "one of a number of instances in which the French government tried to restrict or arrest the forces of technological, industrial or commercial change" (1943, 177). Both Cole and Heckscher miss the point of this episode by failing to consider the implications of calicos for the costs of enforcing economic regulations in the textile industry.

The French textile industry (silk, linen, and wool productions) was the object of intense cartelization long before the time of Colbert, although Colbert cartelized these areas with renewed vigor (Cole 1943, 132–237). Private traders and the East India Company, which was created by Colbert in 1663–64 (See 1927, 157–74), were responsible for the import of printed calicos into France. No attempt was made by Colbert (who died in 1683) or by his successor Seignelay (not Colbert's son but 39 percent owner and president of the East India Company) to bring calicos under the umbrella of regulation. Before 1681, moreover, the Huguenots, already relegated to the role of second-class citizens, manufactured, within guilds, imitation calicos that were consumed largely by the poor.

In 1681, a "boom" occurred in calico demand causing guild leaders of the wool, cloth, silk, and linen industries to complain to local *intendants* of unfair competition and unemployment within their ranks. The response was a ban in 1686 on the domestic production and import of calicos. After the absolute ban in 1686, a number of "deals" took place whereby the king earned rents and the East India Company was permitted exclusive but very limited importation rights. Regulation of varying degrees of exclusiveness and severity took place between 1686 and 1700, with an absolute ban between 1700 and 1753, although a good deal of smuggling undoubtedly took place over the entire period since the demand for calicos was strong and growing (Cole 1943, 164–77).

The question that economic historians have been at pains to answer concerning this episode relates to the extent of the enforcement and policing of the ban against printed calicos. Punishment was extreme, though perhaps less extreme than that described by Heckscher (Scoville 1960). Enforcement was extended to a prohibition after 1700 against the wearing of calicos in France. But was this policy actuated by "irrational" motives or as a "mindless attack on innovations," as Cole and Heckscher have argued? These arguments simply fall short by failing to consider the implications of the calicos for the managers of French economic regulation. Two basic points are relevant in this regard.

As noted above, the cartel managers had to contend with the reaction of the producers of calico substitutes (the wool, cloth, silk, and linen producers). Calico production would have encroached upon these markets, and it is no mystery why these producers sought to ban the production of calicos.

The reaction of the producers of substitutes, however, does not explain why calicos were *banned.* Given the inherent rents in regulating the production of calicos, it seems reasonable to expect that the French administrators would have found a way to capture these rents and at the same time nullify the producers of substitutes (side payments?). The answer to this part of the puzzle lies in the fact that management of economic regulation is less costly when the industry produces a homogeneous product. The price, entry, and output controls of French mercantilism could be more effectively implemented where cloth of uniform colors and sizes was produced. Indeed, uniformity was extreme in the incredibly detailed regulation of the French textile industry (Cole 1939, 2: 156–58; 1943, 48).

The printed calicos presented a threat of no small importance to the French textile cartel—product differentiation. These colored cloths raised costs to the regulatory managers because product differentiation opened the door to nonprice competition. Even where the cartel price is controlled and where there are extensive controls on entry from without and within the industry, the introduction of printed calicos would have meant that licensed calico firms could have competed for expanded market shares through quality (pattern and choice) competition. Such nonprice competition would have dissipated excess profits within the cartel, an outcome which was in the interest of neither the regulatory managers nor the regulated firms (Stigler 1968).

For these two basic reasons, then, the reaction of producers of substitutes and the difficulty of regulating nonprice competition, the response to calicos may be viewed as a highly rational expression of efficient rent seeking and not as a mindless attack on innovation. Numerous other examples could be drawn from Cole, Heckscher, and various other sources to illustrate the usefulness of the rent-seeking theory in interpreting French internal regulation. The example of printed calicos is sufficiently dramatic, however, to illustrate the power of the rent-seeking interpretation.

4. Luxury-Oriented Cartels and French Economic Development

One of the most perplexing problems associated with French mercantile history is related to the very apparent encouragement of luxury industries with protective cartels and the clear neglect of certain basic industries such as iron and wood products. (By "neglect" we simply mean a failure to cartelize, protect, and encourage.) This feature of French mercantile policy has figured prominently in the stock-in-trade explanation of the historians for the tardiness of industrialization in France.

An example is the French economic policy toward iron production. The managers of economic regulation offered no cartel services for this industry. Heckscher (1934, 1: 198–99) describes the situation.

> There is no lack of contemporary statements to the effect that the usual type of French economic policy tended to obstruct the development of iron production. For instance, the head of an iron works wrote, "Glass manufacturers, manufacturers of genuine procelain and faience, cloth manufacturers, embroidery concerns, silk and gold-lace production, all enjoy every possible privilege and exemption; iron manufacturers alone have no advantages, and yet they cater for real needs while the others serve only luxury and comfort."

The important question is *why* did the French administrators seek rents primarily by cartelizing luxury industries? The traditional answers are distinctly unsatisfying, and we believe that positive economic analysis offers an alternative, noncompeting, and better explanation.

Traditional Explanations

Let us first consider two traditional explanations. First, there is the luxury-consumption argument. In this case the French monarch and aristocracy are seen as the major demanders of luxury goods. They therefore had a direct interest in regulating the quality of their purchases. As examples, one could look at the tobacco monopoly and tapestry manufacture, the latter a good example of a totally state-directed cartel (Cole 1939, 2: 287). Unfortunately, in these two cases and many others this argument ignores the fact that basic materials were also demanded by aristocrats (certainly indirectly as luxury items) and that, *ceteris paribus,* cartel managers could have earned rents by cartelizing *any* industry, basic or otherwise.

A second line of reasoning, congruent with the luxury-consumption argument, is that import substitution should be prevented for luxury productions. Indeed, most of the goods imported to France were luxury goods. In this argument luxury cartels were formed to "expropriate" rents from foreigners. The lace industry provides a clear example of protectionist cant ("protect domestic employment") to support baser motives.[10] Certainly, this could have been one of the reasons—especially when combined with the luxury-demand argument—for the establishment of luxury-directed cartels. It would give substance, moreover, to the so-called mercantile policy of importing raw materials and exporting finished goods; the "Balance of Labor" axiom of mercantilism. However, it is not clear on the basis of the import-substitution argument why the directors of French mercantilism would have not wanted to be independent in all productions or why rents could not have been earned by cartelizing raw materials production or other inputs such as steel.

Rent-Seeking Explanations

We feel that the rent-seeking model provides the basis of a good explanation of this important aspect of French mercantilism, and three points are fundamental in this respect.

First, certain basic production was not cartelized because the government itself was a major demander of industry output. For example, we find some interesting instruction regarding the supply of wood to the navy in Colbert's *Lettres* to an official.

> The purchase of forests to be managed at the expense and under the care of his Majesty could never be advantageous, and there are grounds for astonishment that you should make such a proposition, which is subject to so many inconveniences which are so easy to see that it should not even be thought of.
>
> If there are forests for sales in Provence and Dauphine you must stimulate the merchants to purchase them, and make bargains with them to supply all sorts of wood to the navy at the best price possible. (Cole 1939, 1: 350)

The government did not offer cartel services to certain basic industries—especially those involved in the production of goods demanded by government—but rather acted as a monopsonist in these cases, buying lumber and other basic inputs at the best terms available. Iron and other basic inputs were consequently left unregulated. Moreover, to the extent that this monopsonistic behavior extracted rents from producers of basic commodities which would otherwise have been used for expansion or innovation, a linkage can be established between the rent-seeking theory and the retardation of French industrial growth.

A second reason for luxury-oriented cartels is that raw materials and basic industrial suppliers, located mainly in the countryside, were competitive suppliers of inputs to the cartelized luxury industries located in cities and towns. The Crown was receiving regulatory rents from the latter industries, and in principle the Crown's receipts would have been the *same,* regardless of whether the cartel tax was levied on the raw-material or finished-goods stage of production. In other words, to cartelize basic input suppliers and then force cartelized luxury goods producers to pay cartel prices for inputs would have been redundant. Regulatory profits would have been the same had monopoly existed at any point in the production chain (Stigler 1951).

Figure 1 illustrates the demand and cost functions for some luxury good, let us say fine furniture. Assume that both wood and furniture producers are constant-cost industries and that MC_F represents all the costs of producing furniture, save lumber costs. Clearly, if both industries were competitively organized, the price and quantity of furniture would be OC and Q_C, respectively. If lumber producers are cartelized, they can restrict output and charge a price OG, equal to the cost of production of furniture (MC_F), plus the monopoly price of lumber (BG). In this way cartel managers can extract $CGHI$ in rents from lumber producers. However, if furniture manufacturers are orga-

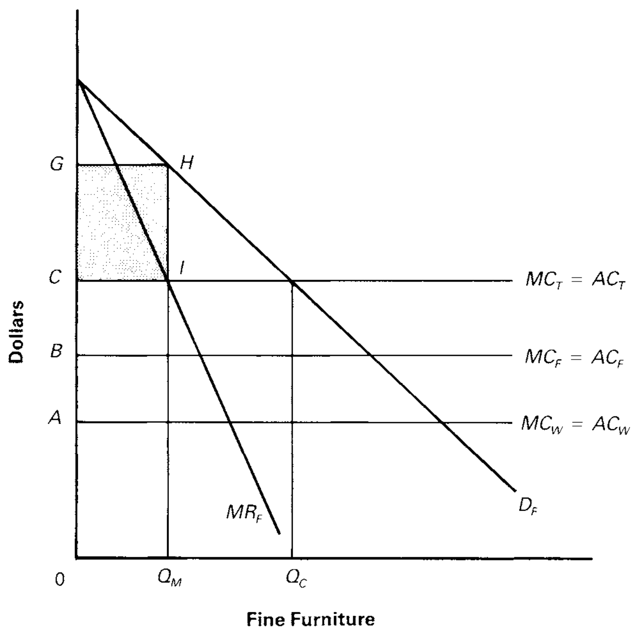

Fig. 1

nized by government into a cartel and lumber producers are left unregulated, the *same* rents, *CGHI*, could be extracted from the regulatory system. That is, furniture producers would restrict output and charge a price *OG*, equal to the cost of production of wood (MC_W), plus the monopoly price of furniture (*AG*). To the French cartel manager, then, it would have made no difference in terms of regulatory profits where the cartel was located, assuming only that organization, policing, and enforcement costs were identical. This brings us to a third point.

In general, a profitable cartel requires successful enforcement and policing so that competition does not erode profits. But in mercantile France, nonluxury industries tended to be located away from towns, presenting the problem of rural regulatory enforcement. Rural economic regulation was virtually impossible because the opportunities to cheat on cartel arrangements in a vast rural sector were numerous. By contrast, regulation of a luxury industry agglomerated in cities was far less costly to the regulatory authorities. Organizational and enforcement costs impacted on the industries that would be cartelized in the sense that basic industry and raw materials production were simply too costly to organize in this fashion.

Thus, monopsony, efficient rent seeking, and enforcement costs provide a plausible explanation for the so-called bias toward luxury cartels. Such a regulatory scheme was rational and readily understandable, given the economic incentives facing the French regulatory managers. It seems undeniable that such a pattern of rent seeking would impact dramatically on the pattern and pace of French economic development.[11]

5. The Absence of Regulation in the Rural Sector

Rural industry was a thorn in the side of the French regulatory managers. This resulted primarily from the fact that it was not efficient for the administrators to attempt to effect a detailed control of rural production. Several aspects of this process are of interest, however.

The original intent of the regulatory managers was to cartelize the whole country on the model of the guilds, but it should come as no surprise that they found it uneconomic to extend the guild model to the countryside. As Heckscher (1934, 1: 210–11) observes,

> It may safely be said that not only did the attempt to create gilds in rural areas fail almost completely, but the inefficiency of the innumerable regulations diminished in proportion to the distance from towns which had gild organization. There is a sufficiency of official data to confirm this, especially in the 18th century. The rural population obstinately opposed all state encroachment, even to the extent of offering personal violence to agents of the administration.

Other forces besides enforcement costs also pushed for lax enforcement of the regulations in the countryside. Perhaps the most important additional pressure came from certain municipal entrepreneurs who wanted to be able to procure the benefits of lower-cost, rural labor. Consider Heckscher on this point: "This was partly due to the already mentioned antagonism between the municipal entrepreneurs and their workers inside the cities, because the state sided with the entrepreneurs in their endeavours to exploit the less 'class-conscious' rural population with its lower wage standards" (1934, 1: 211).

A de facto free trade zone existed in the French countryside due to rising marginal costs of extending and enforcing the system of regulation and as a result of pressures from municipal entrepreneurs. This unregulated sector checked the power of the monarchical cartel and created generalized pressures toward competition. We would agree with Heckscher who concludes along these lines, "the French government did seek to apply the general rules to rural areas but they always had to yield to the impossibility of enforcing them" (1934, 1: 212).[12]

6. Conclusion

The parallels and contrasts between English and French internal economic regulation are remarkable. English regulation was motivated by the same rent-seeking forces as in France. Yet the English monarchy set up an inefficient means of enforcing monopoly rights. They chose to rely on *unpaid* justices of the peace and suffered the consequences of a corrupt and unstable pattern of local regulatory enforcement. The countryside was also an unregulated sector in England which, when coupled with the inefficient enforcement system, resulted in the long-run demise of local regulation. Moreover, there developed in mercantile England a heated competition between the Crown and Parliament over which institution had the right to supply monopoly rights (and legislation in general) and to collect the consequent rents. This competition manifested itself in various forms, such as competing judiciaries, and ultimately led to the victory of Parliament after a protracted civil war. However, once it had the right to supply monopoly rights, Parliament, for a variety of reasons, was unable to consolidate this power in such a way as to enact and sustain monopoly privileges. Free enterprise came to England, then, as an unintended consequence of the rise of representative democracy.

The French experience is a remarkable contrast to the case of England. As we have suggested, Louis XIII and especially Louis XIV were masters at cartel creation and enforcement. The administrative genius of a Colbert, coupled with the vast power of the Crown to impose absolute authority, are the proximate explanations for the incredibly vast and detailed centralized system of French mercantilism of the seventeenth and early eighteenth centuries. The forms of rent seeking in mercantile England and France were quite the same, but the difference lay in the power to implement and to police the underlying regulations.

The ultimate question, of course, which cannot be answered here, revolves around the origins of the particular sets of institutions which we find in sixteenth-, seventeenth-, and eighteenth-century England and France. That institutions were rapidly changing in both countries over this period is manifest, but it is clear that important checks (respecting the power to tax, for example) were imposed upon English monarchs as early as the thirteenth century, whereas such checks were not binding in the French case until the eighteenth century. An obvious point, then, is that crucial constraints upon the power to enforce economic regulations differed greatly between France and England.

It has not been our intention here, however, to present a broad social theory of why English and French institutional patterns differed over the mercantilist era or to argue that the rent-seeking interpretation supplants all others. Rather, accepting institutions as given, we have analyzed French mercantile policies and events in positive economic terms. We have shown that modern contributions to the theory of economic regulation provide us with plausible explanations for episodes which historians unsatisfactorily attribute to other causes.

NOTES

1. Two excellent papers on the doctrinal fallacies and growing liberalism in the writings of English mercantile pamphleteers are Chalk (1951) and Grampp (1952). Doctrinal development in French mercantile economic thought is treated in Cole's 1931 essay (reprint, 1969).
2. Wilson, in particular, clearly elucidates a fiscalist interpretation of mercantilism and is especially clear in his interpretation of English developments (1967, 521, 571). He argues, in the matter of the decline of French mercantilism, that the attack on mercantile institutions was partly the result of activity by merchants "left out" of the benefits of regulation and partly the result of liberal philosophers. We would, in our own approach, emphasize the former explanation, expanding it with a consistent modern theory of cartel formation and public choice with endogenous politicians.
3. While Heckscher was a superb scholar, many critics of his great work pointed to a grave (they thought) omission in it—the total absence of "economic actors." Economic historians, especially, were distressed that he presented a very generalized treatment of economic policy with a cohesive economic doctrine unaffected by economic events (Marshall 1935; Heaton 1937; Coleman 1957). Coleman, for example, argued that Heckscher posited no political process through which "unifying" policies were supposedly made. We suggest a means for building the political process into the analysis of mercantilism in this essay.
4. From our studies of English mercantilism we have also developed a new hypothesis concerning the origins of the modern corporation. See Ekelund and Tollison 1980*b*. In addition to the "demand-for-capital" explanation for the emergence of the corporation, we argue that economic efficiency demanded tradable stock shares to avoid the difficulties associated with hereditary successions of ownership.
5. French economic historians are not, of course, a monolithic entity. We have relied upon well-known English sources, such as Cole and Heckscher, to develop our

analysis. Indeed, the major contributions to an analysis of French mercantilism have been made in English-language presentations (see, for example, Wilson's bibliography, 1967, 615–16). Another English source that should be mentioned is Nef (1940). The interested reader may wish to consult Cameron (1970) for an excellent collection of essays and sources on French economic history by French scholars.

6. Crude calculations from Cole (1939, 1: 304–9) suggest that the revenue from only three monopolies (tobacco, coinage, and postage) amounted to one-half of all state revenues at roughly the midpoint of Colbert's administration (1670). Such regulations were only part of an elaborate system of interrelated cartel enforcement and revenue collection.
7. See Cole's enumeration of the *nineteen major* internal duties and taxes levied within and without five French provinces between 1304 and Colbert's attempted reform of 1664 (Cole 1939, 1: 420–27).
8. Institution of the *Chambre de Justice* by edict in 1661 permitted Colbert to try hundreds of financiers for "abuses" dating back to 1635. In this act, amounting to a legal exaction of tribute, Colbert raised over 100 million *livres*, some of which was used to buy back offices that had been sold. In addition, Colbert "revised" the *rentes*—government bonds and other obligations issued before Louis XIV's majority—by cutting the government's payment on the obligation by one-third. By decree of the *Chambre* or by royal edit, more than 8 million *livres* per year were saved for the state in this manner (Cole 1939, 1: 301–10). In spite of these once-and-for-all ministrations to Louis's budget, the demands were well ahead of Colbert's ability to supply funds in this manner. The attempted abolition of the hereditary features of certain offices as well as the farming of certain taxes by open bidding were also of no avail.
9. Although there is nothing analogous to an independent judiciary in mercantile France, there were the independent and powerful high courts, the *parlements*. In contrast to the *intendants,* positions in these courts were typically purchased and passed on within a family. We view this process as a means of rent protection, that is, individual monopolists bought these positions as a form of insurance against adverse rulings by the cartel enforcement agents of the king.
10. In May 1665, a royal proclamation was issued establishing monopoly privileges for the manufacture of lace in order to prevent "the export of money and to give employment to the people" (Cole 1939, 2: 239). In return for rents from lace manufacturers, the state enforced the cartel, forbidding anyone other than the franchisees from making lace. In order to discourage smuggling and cheating, more edicts were required—the wearing of foreign lace was prohibited after 1667.
11. We do not wish to become involved here in the heated discussion over whether French economic growth "stagnated" over the period or whether France ever went through an Industrial Revolution: see Roehl's (1976) proposed resolution of the matter, for instance. However, certain features of our "cartel" interpretation may be relevant to this question. It seems clear, for instance, that the unwillingness to tamper with profitable cartels retarded the introduction of certain kinds of technology, but that, once introduced, the government tended to capture the rewards from innovation. Looms, for example, were invented early in the seventeenth century, but they were principally used for producing silk stockings. When the technology began to be applied to the manufacture of woolen and linen goods, the reaction of the hand-knitters (an industry which Colbert was fostering at the

time) was entirely predictable. By decree, in 1680, Cobert outlawed the use of looms on any article except silk. But the users of the new technology were powerful enough to pressure the government in 1684 to give them their own protective legislation contravening the order of 1680. All sorts of offensive and defensive restrictions followed with the government trying to take rents from both sides (Cole 1943, 177–79). Such rent-taking within cartels must have taken a toll on the profitability of new technology, reducing the rewards for invention and innovation with predictable effects upon economic growth. Still other kinds of cartels, which must have suppressed creativity, were Colbert's monopoly creations in the fine arts and academics, e.g., in the teaching of arts and sciences (Cole 1939, 1: 314–19).

12. We have argued that the form of internal French mercantilism was well structured—it was essentially the cartelization and rent-expropriation of industry based upon the guild model of restrictions. But we have oversimplified the process somewhat by failing to note that the power to seek rent at the provincial and local levels was, over the entire mercantile period, the object of competition between two opposing factions, the judiciary or *parlements* in cities and provinces and the Crown and its agents—ministers, *controleurs,* and *intendants.* (Though the judicial system of France was more complex over the period, we adopt the term *parlements* as a simplification.) The conflicts engendered between the Crown and *parlement* over the power to seek enforcement rents impacted upon the decline of the monarchy and upon the manner of the Ancient Regime's end. Monarchical mercantilism in France declined contemporaneously with this struggle, but the struggle was not over the legitimacy of cartel formation or rent seeking. It was simply a contest over the locus of rent-seeking power, and in this respect is very analogous to the decline of English mercantilism.

REFERENCES

Becker, Gary, and Stigler, George J. "Law Enforcement, Malfeasance, and Compensation of Enforcers." *Journal of Legal Studies* 3 (January 1974): 1–18.

Boulanger, Jacques. *The National History of France.* Vol. 4, *The Seventeenth Century.* Edited by Dr. Funck-Brentano. New York: AMS Press, 1967.

Buchanan, J. M., and Tullock, Gordon. *The Calculus of Consent.* Ann Arbor: University of Michigan Press, 1962.

Cameron, Rondo, ed. *Essays in French Economic History.* Homewood, Ill.: Irwin, 1970.

Chalk, A. F. "Natural Law and the Rise of Economic Individualism in England." *Journal of Political Economy* 59 (August 1951). 330–47.

Cole, Charles W. *Colbert and a Century of French Mercantilism.* 2 vols. New York: Columbia University Press, 1939.

———. *French Mercantilism, 1683–1700.* New York: Columbia University Press, 1943.

———. *French Mercantilist Doctrines Before Colbert.* New York: Octagon Books, 1931, reprint ed. 1969.

Coleman, D. C. "Eli Heckscher and the Idea of Mercantilism." *Scandinavian Economic History Review* 5 (1957): 3–25.

Davis, L. E. "It's a Long Road to Tipperary, or Reflections on Organized Violence, Protection Rents, and Related Topics: The New Political History." *Journal of Economic History* 40 (1980): 1–16.

Ekelund, R. B., Jr., and Tollison, Robert D. "Economic Regulation in Mercantile England: Heckscher Revisited." *Economic Inquiry* 18 (October 1980*a*): 567–99.

______. "Mercantilist Origins of the Corporation." *The Bell Journal of Economics* 11 (Autumn 1980*b*): 715–20.

______. *Mercantilism as a Rent-Seeking Society*. College Station: Texas A&M University Press, 1981.

Grampp, W. D. "The Liberal Element in English Mercantilism." *Quarterly Journal of Economics* 66 (November 1952): 465–501.

Heaton, H. H. "Heckscher on Mercantilism." *Journal of Political Economy* 45 (1937): 370–93.

Heckscher, Eli. *Mercantilism*. 2 vols. Translated by Mendel Shapiro. London: George Allen and Unwin, 1934.

Lane, F. C. "The Economic Consequences of Organized Violence." *Journal of Economic History* 18 (1958): 401–17.

Marshall, T. H. "Review of Heckscher's *Mercantilism*." *Economic Journal* 14 (1935): 716–19.

Nef, John U. *Industry and Government in France and England, 1540–1640*. New York: Russell and Russell, 1968; first published, 1940.

Roehl, Richard. "French Industrialization: A Reconsideration." *Explorations in Economic History* 13 (1976): 233–81.

Schmoller, G. *The Mercantile System*. New York: Macmillan, 1897.

Scoville, Warren C. *The Persecution of Huguenots and French Economic Development, 1680–1720*. Los Angeles: University of California Press, 1960.

See, Henri. *Economic and Social Conditions in France During the Eighteenth Century*. New York: Alfred A. Knopp, Inc., 1927.

Smith, Adam. *The Wealth of Nations*. Cannan edition. New York: Random House, 1937.

Stigler, G. J. "The Division of Labor is Limited by the Extent of the Market." *Journal of Political Economy* 59 (1951): 185–93.

______. "Price and Non-Price Competition." *Journal of Political Economy* 76 (1968): 149–64.

______. "The Theory of Economic Regulation." *Bell Journal of Economics and Management Science* 2 (Spring 1971): 3–21.

Viner, Jacob. *Studies in the Theory of International Trade*. New York: Augustus M. Kelley, 1967, first published, 1937.

Wilson, C. H. "Trade, Society and the State." In *The Cambridge Economic History of Europe*, vol. 4. Edited by C. H. Wilson and E. E. Rich. Cambridge: Cambridge University Press, 1967.