

What the French Revolution can teach us about inflation

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More than 200 years later, historians are still gleaning some unexpected insights from the French Revolution—not about tyranny or liberty—but rather, inflation.

"Revolutionary France experienced the first modern hyperinflation,"

said Louis Rouanet, Ph.D., assistant professor at The University of Texas at El Paso. "Although it happened more than two centuries ago, it offers relevant lessons for today."

Rouanet is the lead author of the new study, "[Assignats or death: The politics and dynamics of hyperinflation in revolutionary France](#)," published recently in the *European Economic Review*.

A faculty member of the UTEP Department of Economics and Finance, Rouanet is an expert in economic history, specializing in revolutionary France, and a Frenchman himself. The study advances a new framework for understanding the monetary phenomenon hyperinflation, a period of rapid and extreme price increases.

Rouanet's analysis found that [political instability](#) and shifting public expectations were key in explaining the scenario that unfolded between May 1794 and May 1796, when the French revolutionary governments' decision to issue a paper currency called the assignat led to extreme inflation. Price levels increased more than 50% per month, complicating an already volatile economic situation. The currency was primarily supported by a [political group](#) known as the Jacobins, a party whose power waned throughout the revolution.

The French Revolution began at the end of the 18th century when extreme popular discontent with feudal institutions erupted into revolution, Rouanet said. The conflict reshaped the French government and led to the end of the feudal system, a hierarchical system of government that placed the king at the top, nobility and clergy below him, and peasants below all.

During the revolution, the government was bankrupt and expropriated substantial amounts of land and assets held by the Catholic Church in order to sell them. However, they were unable to sell the land fast

enough to pay back creditors. To stimulate purchases, the government began issuing a paper currency called assignat. In order to prevent inflation, revolutionary officials promised to retire the assignat from circulation and burn the notes once they were used to buy property, but this commitment was not always honored, prompting public mistrust.

At the same time, the strength of the Jacobin party was weakening. From failing insurrections in Paris and the establishment of a new regime known as the Directory, the key drivers of the assignat were on their way out.

The political instability, coupled with public mistrust, prompted a rush to spend the assignat, which led to hyper-inflation, according to Rouanet. The research concludes that changing expectations and the public's anticipation of inflation can work together to create actual inflation.

"My research points to the importance of sound fiscal housekeeping and a strong political commitment to stable prices," Rouanet said. "As it occurred during the French Revolution, politicizing the money supply increases the instability of the demand for money and prices, thus making economic life less predictable."

Rouanet co-authored the paper with Brian P. Custinger, Ph.D. of Angelo State University and Texas Tech University and Joshua S. Ingber, Ph.D., of Northern Michigan University. Rouanet is a member of the newly-established Center for Free Enterprise, which aims to provide economic education to the community through reading groups, speaker series and curricula developed for high schools.

"This excellent research gives important insight into how public opinion can shape monetary policy and outcomes," said John Hadjimarcou, Ph.D., professor of marketing and interim dean of the Woody L. Hunt College of Business. "We are delighted to welcome Louis Rouanet and

several new faculty members to the Hunt College of Business this year. Each new faculty member brings a trove of interesting research and practical experience that will greatly enrich the learning experience for our students and contribute to our local community."

More information: Bryan P. Cutsinger et al, Assignats or death: The politics and dynamics of hyperinflation in revolutionary France, *European Economic Review* (2023). [DOI: 10.1016/j.eurocorev.2023.104510](https://doi.org/10.1016/j.eurocorev.2023.104510)

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