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ARISTOCRATIC PRIVILEGE. EXPLOITING “GOOD” INSTITUTIONS

Abstract

According to North and Weingast (1989), institutions that protect bondholders’ rights lower borrowing costs for the state and are therefore beneficial to both the state and the bondholders. In this paper we argue that such institutions may be so strong that bondholders can exploit them for their own benefit, not the state’s. To prove this point, we focus on the (non-)conversion of French bonds during the second quarter of the 19th century. At the time, France was able to convert its bonds. In other words, the state could ask bondholders to choose between redemption at par or a new bond with a lower coupon. Even though improvements in French credit meant the state could benefit from converting its debt as early as May 1825, no conversion took place before March 1852. Had it occurred at the first date, the French state would have saved the equivalent of 2.7 years of debt service. Our analysis shows that the institutions prevailing at the time gave large bondholders the power to veto any conversion.

JEL Classification: N23, N43, G12, G14

Keywords: institutions, Sovereign debts, France, Conversions

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Aristocratic Privilege

Exploiting "Good" Institutions

I. Introduction

In a seminal paper, North and Weingast (1989) argue that the constitutional changes following the Glorious Revolution in England in 1688 dramatically altered the balance of power between the Parliament and the Crown. By imposing limits on the Crown's power, the new institutions protected property rights and reduced the likelihood that the state would renege on its obligations. The authors attribute the decline in the long-term borrowing rate (from 14% in 1693 to 3% in 1739) to these institutional changes. In their historical example, they show that the state benefited from the bondholder protections it had guaranteed. Sussman and Yafeh (2006) have also analyzed the case of the Glorious Revolution. According to them, new institutions did not immediately lead to a lower cost of government borrowing. They conclude that the rewards from institutional reforms took a long time to materialize. For the same historical episode, Cox (2011) has stressed the importance of ministerial responsibility. As for Dincecco (2009) and Gelderblom and Jonker (2011), they consider that sound institutions and a credible commitment are necessary but not sufficient conditions for interest rates to decline and public debt to grow.

More recently, Stasavage (2016) has suggested distinguishing two views. The first, labelled the **impartial view**, explains the positive role played by good institutions, which guarantee executive constraints, shared governance, increased monitoring, and increased transparency. The second view, by contrast, focuses on **distributive politics**. Institutions, which allow creditors to decide at the expense of other interest groups, lead to lower borrowing costs. The author had expressed this second view at an earlier stage. Indeed, according to Stasavage (2007), following the Glorious Revolution, institutional changes were not sufficient to prevent defaults. If political parties in power had favored default, then the credibility of the commitment to reimburse would have been minimal. The role of distributive politics is thus, according to him, key to understanding the impact of institutions on borrowing costs.

This paper follows the view of Stasavage (2007 and 2016). The role of distributive policies lies at the heart of our analysis. The literature has shown that allowing creditors to have a say in politics reduces the likelihood of default and thus reduces the sovereign's borrowing costs. We go a step further and ask whether institutions may give too much power to creditors and offer them an opportunity to extract a rent from the state.

During the 19th century, French sovereign bonds (such as the *rentes*[1]) could be converted: The state had the right to ask bondholders to choose between being reimbursed at par (100 francs) or accepting a new bond with a lower coupon. Conversions allowed the state to benefit from its improved credit rating by diminishing the debt burden. Indeed, they were interesting for the state only when rates had gone down on secondary markets, suggesting that conversion could lead to lower borrowing costs. By converting the 5% *rente* into a 4.5% bond in May 1825 instead of in March 1852, the French state could have saved the equivalent of 2.7 years of debt service or 177 times the deficit of a reference year such as 1825. No conversion occurred, however, despite several attempts to do so. We argue that conversions failed to pass because the institutions prevailing at the time guaranteed that bondholders could block any conversion attempt. The case analyzed here, the (non)-conversion of French state bonds during the second quarter of the 19th century, thus shows that institutions may indeed protect bondholders' rights to such an extent that it becomes detrimental to public finances.

To guide the reader through the complex case of bond conversions by French institutions during the 19th century and their impact on public finances, this article is organized as follows. Section I describes the institutions existing in France when conversions were attempted. Section II presents the conversion mechanisms as well as the attempts to convert French debts between 1815 and 1850; it also

[1] *Rente* was the French term for perpetuities, a financial instrument similar to British consols.

analyzes the votes cast against conversion. Section III provides a market perspective on conversions. Conclusions are drawn in Section IV.

II. French Institutions

Institutions play a central role in our analysis and we will therefore spend some time detailing them. They underwent dramatic changes after the French Revolution in 1789 and especially during the Napoleonic era. Napoleon proved extremely active in reshaping these institutions, establishing a central bank, Banque de France, amongst others, and dramatically reforming the legal system through the Napoleonic Code. Following a disastrous campaign in Russia, Napoleon was forced into exile following his defeat in the War of the Sixth Coalition. The winning coalition composed, amongst other, by Austria, Prussia, Russia, and the United Kingdom, restored the throne to Louis XVIII[2]. The coalition nonetheless imposed political changes on France. A comeback of absolutist monarchy was out of the question. The kingdom therefore became a constitutional monarchy. As a result, the king's power decreased. Two chambers held legislative power: the *Chambre des Pairs* and the *Chambre des Députés* (Aglan, 2006).

The *Chambre des Pairs* was not elected. Creating *Pairs*, or peers, was one of the king's prerogatives. The monarch used this privilege to increase the number of *Pairs* and, where necessary, obtain a chamber more to his taste by naming new ones with

[2] Interestingly, despite the hatred of King Louis XVIII for Napoleon, most of the institutions he had created remained into place.

views aligned on his own. The first *Chambre des Pairs*, created in June 1814, included French elites and was quite diverse in its composition: It was made up of noblemen from the Ancien Régime but also of many individuals who had become senators or marshals during the Napoleonic Empire. In fact, the latter category represented the majority (de Waresquiel, 2006), a sure sign that the new regime wanted to be inclusive. The return of Napoleon in March 1815 prompted some of the newly appointed *Pairs* to side with him. Following Napoleon's defeat at the Battle of Waterloo and his subsequent demise in July 1815, the king excluded 29 *Pairs* who had collaborated with Napoleon. A month later, he designated 94 new *Pairs*, who joined the remaining 118 (de Waresquiel, 2006).

Rules regarding the *Chambre des Pairs* evolved over time. The regime wanted to ensure that its members would be wealthy enough to represent a real landed aristocracy and would carry out their work with sufficient dignity. To achieve this goal, a law was passed on 25 August 1817[3] recreating the *Majorat*, an institution that had existed during the Empire, and imposing it on the *Pairs*. The *Majorat*'s objective was to concentrate the wealth of noble families on the eldest heir[4]. It made the nobility title hereditary and avoided a division of wealth following successions. To establish a *Majorat*, nobles had to show they had substantial revenues and sequester a specific endowment composed of revenue-generating assets. The law distinguished three levels of *Majorat,* with higher nobility titles requiring higher revenues. Dukes had to set aside assets generating yearly revenues of at least 30,000

[3] Ordonnance Royale du 25 août 1817, sur la formation des Majorats à instituer par les Pairs.
[4] In view of this aim, members of the church did not have to create a *Majorat*.

francs, compared with at least 20,000 for counts and marquises, and at least 10,000 for viscounts and baronets[5]. The only eligible assets were real estate, land, and — crucially for our analysis — *rentes*.

Establishing a *Majorat* meant also paying notarial fees. The component assets could not be sold without the agreement of the justice minister, *Garde des Sceaux*, and could not be mortgaged. According to de Waresquiel (2006), this was the main constraint for *Pairs*. However, the law had no retroactive effect, so existing *Pairs* were not subject to the obligation.

Between 1817 and 1824, the king created 244 *Pairs*. Out of these, 25 belonged to the church and 30 had no heir, leaving 189 who should have established a *Majorat*. Only two thirds (125) did so, suggesting that there were ways to avoid, or at least postpone, the establishment. A law passed in 1819 relaxed the rules: New *Pairs* could pay only the amount requested for baronets and viscounts, regardless of their title. A law enacted in 1823 authorized the use of state pensions to cover part of the dues related to the title.

Failing to provide for a *Majorat* could have severe consequences. The inability to pay dues could lead to exclusion from the *Chambre des Pairs*, as was the case for the Duke de La Vaugayon in 1828. A lack of resources could also prevent nobles from establishing a *Majorat*, thus preventing them from passing on their *Pair* status to

[5] The law only left a limited room of maneuver to favor a sibling. Indeed, wills left only one fraction to be distributed according to the will. In other words, if two siblings were involved, one third of the wealth could be given to a favored son or daughter, if three siblings were involved the proportion fell to one fourth (see de Waresquiel, 2006).

their heirs. This was for example the case for the Duke d'Esclignac, whose son never entered the *Chambre des Pairs* (de Waresquiel, 2006, p. 246).

The second chamber, the *Chambre des Deputés*, was elected by selective suffrage. The amounts required to vote or be eligible changed over time, but from 1815 to 1848, the principle of selective suffrage remained. In 1814, voters had to be at least 30 years old and pay at least 300 francs a year in taxes (Caron, 1993). The requirements for eligibility were even stricter: The person had to be age 40 and pay at least 1,000 francs in taxes. As a result, in 1814, there were fewer than 100,000 voters for an estimated 15,000 potential candidates. Unsurprisingly, in view of this legislation, a substantial portion of the *Chambre des Députés* was composed of aristocrats[6]. The rules changed after the 1830 Revolution. The amount paid in taxes to be eligible fell to 200 francs[7]. In 1848, universal manhood suffrage was enacted (Quéro & Voilliot, 2001). This change opened the way for workers or *paysans* (farmers) to run, even though their numbers were initially limited.

III. Conversion, Conversion Attempts and Outcomes

3.1 The Conversion Mechanism

If sovereign bonds may legally be converted, the state has the right but not the obligation to call back its bonds[8]. According to Labeyrie (1878), conversions

[6] Rietsch (2007), p. 230 mentions a proportion of close to 50% in 1825.
[7] This led to many debates see Bacot (2013).
[8] The literature on sovereign debt has, surprisingly, paid little attention to conversions and this despite their presence in many markets. One exception is Klovland (1994) who shows that

targeted only part of the creditors. Either the state called back the bonds and redeemed them at par, or the state exchanged the previous bond for a new bond with different conditions (usually a lower coupon). In modern terms, conversions are the same as the exercise of a call option by the sovereign. In this case, a sovereign bond shares the same features as a callable bond, the only difference being the sovereign nature of the issuer.

For the sovereign, engaging in conversion makes sense only if the yields on its bonds have declined sufficiently. Indeed, for the state to gain from the conversion, a vast majority of bondholders would have to accept the new lower-coupon bond in exchange for the old high-coupon one. If, instead, bondholders require reimbursement at par, then the sovereign might face a liquidity crisis. To insure against that risk, conversions only happen after a sharp decline in yields. In this case, investors have little incentive to ask for reimbursement because of reinvestment risk. Indeed, since yields on sovereign bonds are low anyway, bondholders have to invest in riskier securities to get higher yields.

Financial theory suggests an optimal time for calling corporate callable bonds. Brennan and Schwartz (1977) and Ingersoll (1977) show that a call should be exercised as soon as the bond market value reaches the call price. In other words, if

markets priced conversion risk at the end of the 19th century and that yields should be computed on the bonds least likely to be called when assessing long-term yields. Conversions did not concern only major powers with sound public finances. Neymarck (1887, p. 299) mentions for example conversion as being common even for lesser countries. Russia itself had converted part of its debts at the end of the 19th century (Girault, 1972, Waller, 1979). According to Siegel (2014), the consolidation of Russian loans had reduced interest payments by 12.5 million gold rubles per year.

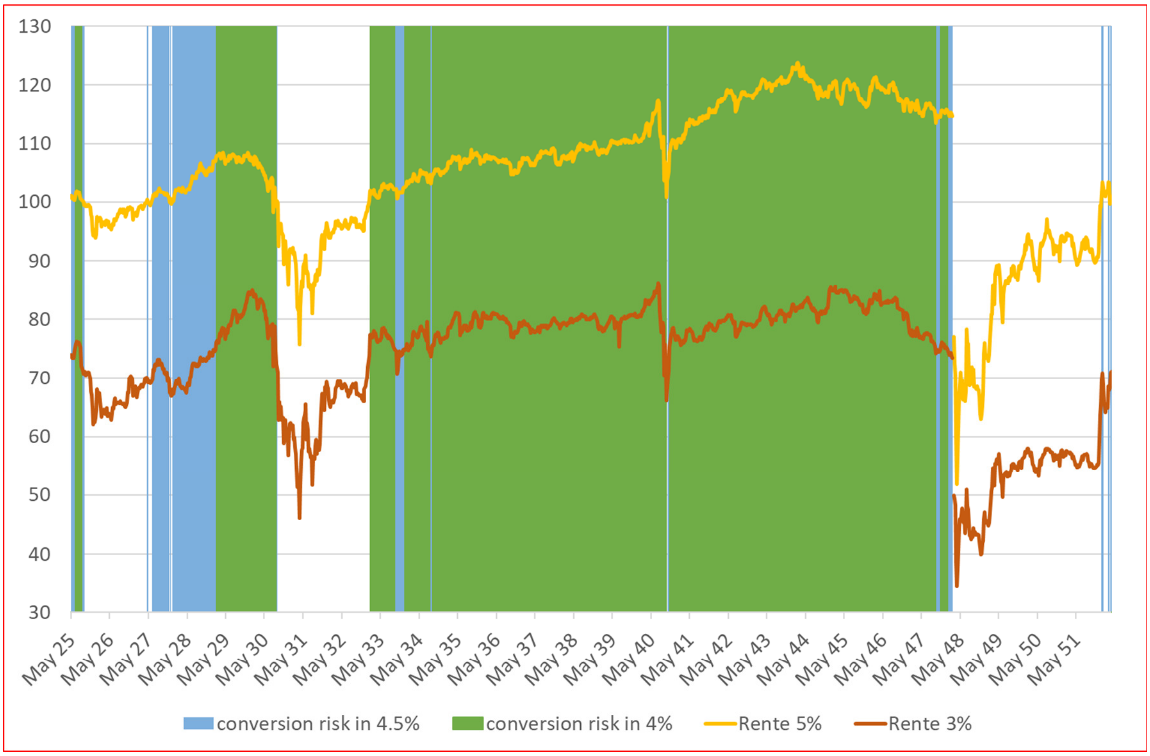
bonds are callable at par, the issuer should call them as soon as the market price reaches par value. In practice, however, most calls do not occur when theory would suggest. King and Mauer (2000) report that in 86% of cases, bonds are called later and, on average, 27 months after the optimal theoretical date. Mauer (1993) and Longstaff and Tuckman (1994) attribute this delay to refunding transaction costs or to expected changes in capital structure following the exercise of the call. Of course, none of these reasons is valid for sovereigns, for which conversion closer to the optimal date would be expected.

After a long period of nearly continuous warfare and following Napoleon's defeat at Waterloo, French public finances were in a terrible state. In addition, partially occupied France had to pay reparations to the victors. Despite this, in just ten years, the country managed not only to issue large amounts of debt but to do so with a spread that narrowed from more than 400 to 100 basis points over the British consol. Oosterlinck et al. (2014) attribute this success to the actions of the Duke of Wellington. By creating an environment which provided the incentive for Baring to lend and guaranteed that it was in everyone's best interest to see France repay its dues, Wellington restored confidence in France's public finances. The French government pursued sound macroeconomic policies in the following years and, as a result, by 1825, the yields on French bonds were close to those on consols.

The sharp improvement in French credit meant that the yields observed on the market were substantially lower than the interest paid on part of the existing debts.

In 1826, the 5% *rente* accounted for 80% of total French public debt. For the same year, yields on French bonds were 4.6% on average. In other words, the French government was paying 0.4% (40 basis points) more than required by the market at that time. And 1826 was no exception. Figure 1 depicts the movement in market prices for the 5% and 3% French *rentes* between May 1825 and December 1851. Prices were so high (and as a result, yields were so low) that it would have made sense for the French government to convert its debt in many instances. The colored areas on Figure 1 represent the time periods during which it would have been financially meaningful to convert the 5% *rente* into a 4.5% (in blue) or a 4% (in green) *rente*. To put this into perspective, it should be recalled that conversions are attractive in theory as soon as the bond exceeds par, in other words for yields in Figure 1 to be slightly lower than 5%! During 59.1% of the period considered, it would have been advantageous to convert the bond and lower the coupon of the 5% *rente* to 4%. If one considers a less extreme conversion by moving, say, to 4.5%, then it would have been profitable for 69.5% of the time. The periods when debt conversion would have been impossible occurred mostly following the revolutions of 1830 and 1848, the latter of which triggered the largest crash of the 19th century on the Paris stock exchange (Vaslin, 2007).

Figure 1: Market prices for the 5% and 3% *rentes*, and optimal period of conversion



The financial benefits from conversion would have been huge. If the French state had converted its 5% *rente* into a 4.5% one when first possible (in May 1825), it would have saved 19.7 million a year for 27 years, the equivalent of 2.7 years of debt service, or 177 times the deficit of a reference year such as 1825. Had it taken the bolder decision to convert to a 4% bond, the savings would have doubled, representing more than a year of fiscal revenue. The potential gains from conversion were thus anything but marginal and converting the debt could have significantly improved the state of public finances.

3.2. Conversion Attempts and Outcomes

Members of parliament understood the benefits the state could gain from conversions. There were many attempts to convert the 5% *rente*, leading to votes in 1824, 1825, 1836, 1838, 1840, 1844, 1845, and 1846[9]. The sheer number of votes is a testimony to the eventual failure. Table 1 describes the conversion attempts and the results of the votes for each conversion in both the *Chambre des Députés* and the *Chambre des Pairs*.

Table 1: Conversion attempts and results of the votes

Year	*Chambre des Députés*	*Chambre des Pairs*	Result
1824	238 for vs. 145 against	128 against, 94 for and 1 null	Rejected
1825	237 for vs. 119 against	134 for vs. 95 against	"Adopted"
1836	194 vs. 192 to continue discussion	Change in government, discussion adjourned	
1838	251 for vs. 145 against	134 against vs. 34 for	Rejected
1840	208 for vs. 163 against	101 against vs. 46 for	Rejected
1844	163 against vs. 154 for		Rejected
1845	202 for vs. 86 against	118 against vs. 28 for	Rejected
1846	201 for vs. 145 against		Rejected

Table 1 is insightful as it shows that conversions were blocked most of the time by the *Chambre des Pairs*. There is a single instance—the vote of 1844—when the *Chambre des Députés* blocked conversion, and one case —the vote of 1825–-, leading to a positive vote in both chambers. This conversion scheme was exceptional,

[9] For a detailed review of these conversion attempts see Vaslin (2007).

however, as will be shown hereafter. It was in fact linked to the failed conversion of 1824.

In 1824, Prime Minister Joseph de Villèle suggested exploiting the country's improved credit profile to convert the debt. His plan was to earmark the gains of the conversion to compensate the French aristocrats for the losses suffered because of the Revolution. The suggested compensation scheme became famous under the name of "milliard des émigrés"[10]. Even though this conversion meant a direct wealth transfer from rentiers to the aristocracy, the law passed in the *Chambre des Deputés*. Despite this, it was blocked by the *Pairs*.

This conversion could have affected the *Pairs* in several ways: some would have gained from the compensation, whereas the *Pairs* holding large amounts of *rentes* would have suffered a loss in revenues on their state bonds. According to de Waresquiel, (2006, p. 173), the *Pairs'* refusal to pass the law cannot be fully attributed to the fact that they were large holders of *rentes*. The vote was also the result of internal political feuds within that chamber. Another possible reason for the failure of this attempt was the fear that earmarking revenues for the aristocracy might alienate the bourgeoisie.

The rebuttal from the *Chambre des Pairs* forced de Villèle to find another way to fund compensation. A year later the law to compensate the *émigrés* passed. Part of the funding came from traditional means; the remainder was the result of the

[10] "The Migrants' Billion". The term *émigré* referred to the French aristocrats who had decide to flee France following the revolution in 1789. The billion represented the estimated amount in in francs required for the compensation. For a detailed analysis of this episode, see Rietsch (2007).

"conversion of 1825". But despite being listed as such, it was a conversion in name only, because it was optional. As a result, if holders of the 5% *rente* decided to hold the bond, they would not face the risk of being reimbursed at par. They could thus choose to keep a 5% bond or agree to exchange it for a new one with a lower coupon but without any negative consequence if they did not exchange it. From a financial point of view, it made no sense to accept the deal. Quite logically, the amounts converted were extremely low (16.10% of conversions). The bondholders who converted despite the financial losses were in fact coerced to do so. According to Labeyrie (1878), the main targets were civil servants as well as public institutions and charities.

The subsequent conversions were all blocked by the *Chambre des Pairs*. To justify their votes, its members resorted to a series of arguments. Appendix 1 presents several of those set forth by the *Pairs* during the debates on the conversions. The arguments advanced by opponents were numerous, but, upon scrutiny, none of them holds up. The opposing *Pairs* presented conversion as immoral, illegal, and detrimental to the economy and the financial system, or as having negative social consequences. The moral argument usually depicted conversions as the despoliation of small debtholders. The *Pairs* further argued that conversions were not only illegal but also tantamount to default and would thus ruin the credit of the French state. In fact, the French law clearly authorized the reimbursement of perpetuities since the Ancien Régime (Pothier, 1773). Some French state bonds had actually been converted in the past (Lacave-Laplagne, 1836). During the

Revolution, all public debts were transformed into a perpetual debt, which, by law, was convertible. The following regimes never questioned the option to convert and, when the monarchy was restored, no law was passed on the subject. French perpetuities were thus legally convertible (Vaslin, 2007).

The votes by the *Chambre des Députés* are in sharp contrast to those from the *Chambre des Pairs*. The *Députés* favored conversion in all cases but one, even though many belonged of them to a wealthy elite.[11] How can one explain such a difference? Wealth is unlikely to be a good reason, as members of both chambers had to be wealthy to be eligible. The structure of their wealth is the discriminant factor.

As argued by Antonetti (2007)[12], those who supported the conversion in the *Chambre des Deputés* in 1824 were mainly provincial landlords. They believed conversion was fair because direct taxes mainly applied to land, while the *rente* was tax exempted. During the debates, one *député*, Syriès de Marinhac, compared the *rente* to land ownership: "The rent enjoyed all the advantages: it produced substantial interest, its principal was always available, and yet it did not pay any tax [...] It was elusive [...] As for the property, what a difference! Thirty million people

[11] This rejection may be seen as a reaction to the fact that the proposal did not come from the Government but by Garnier-Pagès (member of the chamber) and was not discussed before by the Budget Commission. Lacave-Laplagne, the Minister of finance, stresses the legality of such an operation (as do all the other speakers during the debates) while only criticizing the bad timing of such a measure: « *Je crois qu'une proposition présentée par la commission du budget aurait eu plus de force. Il paraît que cet assentiment a manqué à l'honorable préopinant, car sa proposition est isolée…Quant à moi personnellement, Messieurs, j'ai fait un rapport favorable au remboursement. Je n'ai pas changé depuis d'opinion ; je crois toujours que le principe du remboursement est hors de toute contestation et que ses résultats seraient fort utiles, mais je pense aussi qu'il doit être fait dans un moment favorable. Le ministère n'a pas pensé que la conversion dût être encore proposée aux chambres.* » (Procès-verbaux des séances de la Chambre des Députés, session 1844, Tome IV, du 30 mars au 20 avril 1844, pp. 74-103).

[12] *Les ministres des Finances de la Révolution française au Second Empire.*

who owned the property paid 25% annual taxes, 6% sales tax, 6% collateral inheritance tax, 2% inheritance tax for direct heirs[13]".

Mr. de Marinhac also underlined that half of the 145,000 *rente*-holders recorded in the "Grand Livre" lived in Paris and benefitted, like other Parisians, from many advantages such as lower indirect taxes. On the other hand, opponents to the conversion project were more heterogeneous. Wealthy aristocrats viewed a 20% reduction in their revenues as an intolerable attack on their lifestyle. Villèle suggested such a decrease in revenues would mostly affect wealthy women. According to him, they were at risk of losing one of their carriages, their cook, the tutor for their children, their current spending on clothes, etc.[14] But there were also many small *rente*-holders, such as craftsmen, merchants, and servants, who had long saved money to buy *rentes* in order to provide a pension. All these people, either for superficial reasons or through need, compared conversion to a "revolting spoliation".

In the *Chambre des Pairs*, the opponents to the conversion project had different reasons for rejecting such an attempt. In 1824 this chamber was mainly composed of former military stalwarts from the Revolution and the Empire and of

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[13] "*La rente jouissait de tous les avantages: elle produisait un gros intérêt, son capital était toujours disponible, et cependant elle ne payait aucun impôt […] Elle était insaisissable […] Quant à la propriété, quelle différence ! Les trente millions d'individus qui possédaient la propriété supportaient 25% d'impôts annuels, 6% de droit de vente, 6% pour succession collatérale, 2% en ligne directe. De plus, les prestations en nature, les poursuites des garnisaires, les ventes de meubles, les saisies des récoltes, les pertes sur les fermiers et les colons, les incendies, les inondations, les grêles, les gelées, la mortalité des bestiaux et tous les cas fortuits qu'on ne peut prévoir, venaient fondre sur les malheureux propriétaires !* ».

[14] *« … Celles du haut parage voyaient comme une conséquence de la conversion des rentes la suppression d'une de leurs voitures, d'autres la réduction de leur pension de toilette, celle-ci la privation d'un maître utile à l'éducation de leurs enfants, celle-là la nécessité de congédier sa cuisinière. »*

former Senators of the Empire (Antonetti, 2007). Conversion would thus have affected their large portfolios, mainly composed of *rentes*. It would also mean a transfer of wealth to those against whom they had fought! Newly nominated *Pairs* were mainly opposed to the conversion, in line with public opinion. Finally, clergymen, represented among the *Pairs* by several prelates such as the archbishop of Paris, Monseigneur de Quelen, were clearly opposed to conversion because the church was a large *rente*-holder and used this revenue to finance charities.

We thus argue that conversions did not occur because of the institutional setting in France between 1815 and 1850, which brought to power a group of people who held *rentes* and could block any attempt to convert them. Conversions only became successful following a dramatic change in political regime with the creation of the Second Empire in 1852.

3.3. The *Majorat* as an Institution Preventing Conversions

An in-depth analysis of the assets blocked to create *Majorats* still needs to be undertaken. However, by construction, they were closely linked to the wealth of the nobility. Forests accounted for much of the wealth held by the *Pairs* from the Ancien Régime (De Waresquiel, 2006). *Pairs* who had come to preeminence during the Empire had more varied revenue streams. Much of the wealth used to create the *Majorats* came from real estate. Secondary sources and archival evidence show, however, the frequent use of *rentes*. According to Larousse (1869),[15] almost all *Pairs* were large *rente*-holders and were therefore naturally inclined to reject conversion because it would reduce the interest they received.

Table 2 provides a list of 60 *Pairs* for whom we managed to identify the amount of revenue in their *Majorat* coming from the 5% *rente*. We collected this information from several royal orders[16].

Table 2: List of *Pairs* with the revenue produced by the 5% *rente* in their *Majorat*

Title	Surname, First name	Revenue from the 5% *rente* in the *Majorat* (FF)	% of the required amount	*Pair*
baronet	Argout, Antoine-Maurice-Apollinaire	6,300	63%	*Pair* (1819-1822), baronet-*Pair* (1822-1830)
marquis	Barthélemy, François	1,000	5%	*Pair* (1814-1817), marquis-*Pair* (1817-1829)
baronet	Bartholdi, Jean-Frédéric	5,000	25%	count-*Pair* (1818-1820)
viscount	Borelli, Charles-Luce-Paulin-Clément	1,000	10%	*Pair* (1839-1848)
baronet	Cailluz, Louis-Clément	5,000	50%	*Pair* (1821), count-*Pair* (1821-1830)
baronet	Cassin, Alphonse	5,000	50%	*Pair* (1827-1828), baronet-*Pair* (1828-1830)
baronet	Chaptal, Jean-Antoine	15,000	150%	*Pair* (1823-1824), baronet-*Pair* (1824-1830)
baronet	Collin de Sussy, Jean-Baptiste	8,000	80%	*Pair* (1819-1820), baronet-*Pair* (1820-1826)
count	Cornudet, Joseph	10,000	100%	*Pair* (1814-1815 et 1819-1821), baronet-*Pair* (1821-1830)
count	D'Alton, Jacques-Wulfrand (dead in 1815)/D'Alton-Shée de Lignières, Edmond (his successor)	6,500	65%	*Pair* before 1815/ baronet-*Pair* 1815
baronet	De Bastard d'Estang, Dominique-François Marie	7,000	70%	*Pair* (1819), baronet-*Pair* (1819-1830)
marquis	De Béthisy, Charles	10,000	100%	*Pair* (1823-1824), baronet-

[15] *Presque toutes les familles tenant à la pairie étaient engagées dans la rente, et parmi elles se trouvaient les grosses inscriptions. La réduction de l'intérêt eût dérangé là bien des combinaisons domestiques. Telle fut la vraie raison pour laquelle la conversion qui obtenait les deux-tiers des voix à la Chambre élective, fut toujours repoussée aux cinq-sixièmes des voix par la pairie* »

[16] Lettres patentes sur les Majorats, *Bulletin des Lois du Royaume de France*, several volumes, 1819-1838. We did not manage to find the whole collection of laws and royal orders; the list is thus non-exhaustive.

				Pair (1824-1827)
viscount	De Caux De Blacquetot, Louis-Victor	1,500	15%	*Pair* (1832-1845)
baronet	De Champagny, duc de Cadore, Jean-Baptiste Nompère	10,000	100%	*Pair* (1814-1815 et 1819-1820), baronet-*Pair* (1820-1830)
baronet	De Chanaleilles, Charles-Fraçois-Guillaume	10,000	100%	*Pair* (1830-1848)
baronet	De Chemilly et de Vauchannes, Bernard-Louis-Théodore Berthier	5,000	50%	*Pair* (1814-1815 et 1819-1821), baronet-*Pair* (1821-1830)
baronet	De Glandeves, George François Pierre	12,000	120%	*Pair* (1823-1824), baronet-*Pair* (1824-1830)
baronet	De Honincthun, Pierre-Elisabeth-Cazin	7,000	70%	*Pair* (1821), baronet-*Pair* (1821-1830)
baronet	De Hunolstein, Félix-Philippe-Charles	10,000	100%	*Pair* (1819-1820), baronet-*Pair* (1820-1830)
baronet	De la Forest, Antoine-René-Charles-Mathurin	20,000	200%	*Pair* (1819-1820), baronet-*Pair* (1820-1830)
baronet	De la Rochette, Jean-Baptiste-François Moreau d'Olibon	5,600	56%	*Pair* (1823), baronet-*Pair* (1823-1830)
baronet	De la Tour-Maubourg, Marie-Charles-César de Fay	10,000	50%	*Pair* (1814-1815 et 1815-1817), marquis-*Pair* (1817-1830)
baronet	De Montalembert, René-Marc-Marie-Anne	10,000	100%	*Pair* (1821-1828), baronet-*Pair* (1828-1830)
count	De Montforton, Auguste-Jean-Germain	10,000	100%	*Pair* (1821-1828), baronet-*Pair* (1828-1830)
viscount	De Morel-Vindé, Charles-Glibert	10,000	100%	*Pair* (1815-1817), viscount-*Pair* (1817-1830)
duke	De Richelieu	30,000	100%	*Pair* (1814-1815 et 1815-1817), duke-*Pair* (1817-1822)
baronet	De Ruty, Charles-Etienne-François	10,000	100%	*Pair* (1819-1820), baronet-*Pair* (1820-1828)
baronet	De Saint-Aulaire, Joseph Beaupoil	10,000	100%	*Pair* (1819-1820), baronet-*Pair* (1820-1829)
marquis	De Sémonville, Charles-Louis Huguet	9,000	45%	*Pair* (1814-1815 et 1815-1817), marquis-*Pair* (1817-1830)
baronet	De Trévise, Edouard- Adolphe-Casimir-Joseph Mortier Ane	12,990	130%	*Pair* (1814-1815 et 1819-1824), baronet-*Pair* (1824-1830)
count	De Valon d'Ambrugeac, Louis-Alexandre-Marie	16,500	165%	*Pair* (1823-1824), baronet-*Pair* (1824-1830)
viscount	De Villiers Du Terrage, Paul-Etienne	5,000	50%	*Pair* (1830-1848)
duke	Decazes, Elie	20,000	100%	*Pair* (1818), count-*Pair* (1818-1822), duke-*Pair* (1822-1830)
baronet	Dejean, Jean-François-Aimé	6,000	60%	*Pair* (1814-1815 et 1819), baronet-*Pair* (1819-1824)
baronet	D'Houdetout, Frédéric-Christophe	3,000	30%	*Pair* (1819-1830)
marquis	D'Orvilliers, Jean-Louis Tourteau-Tortorel	10,000	50%	*Pair* (1815-1817), marquis-*Pair* (1817-1830)
viscount	Fabre de l'Aude, Jean-Baptiste	1,000	10%	baronet-*Pair* 1820
duke	Fabre, Jean-Pierre	30,000	100%	*Pair* (1814-1815 et 1815-1817), duke-*Pair* (1817-1830)
count	Fabre, Jean-Pierre	1,000	10%	*Pair* (1819-1820), baronet-*Pair* (1820-1830)
count	Greffulhe, Jean-Henri-Louis	25,000	125%	count-*Pair* (1818-1820)
count	Hocquart, Gilles-Toussaint	20,000	200%	*Pair* (1827-1828), baronet-*Pair* (1828-1830)

count	Houdetot, Frédéric-Christophe	3,000	30%	*Pair* (1819-1827); baronet-*Pair* (1827-1848)
count	Jaubert, Hippolyte François	10,000	100%	*Pair* (1830-1848)
count	Lagarde, Auguste-Marie-Balthasar-Charles Pelletier	10,000	100%	*Pair* (1823), baronet-*Pair* (1823-1830)
count	Le Tonnellier De Breteuil, Achille Charles Stanislas-Emile	3,310	33%	*Pair* (1823-1824), baronet-*Pair* (1824-1830)
duke	Mathieu de Montmorency, Jean-Mathieu-Félicité de Montmorency-Laval	30,000	300%	*Pair* (1815-1817), viscount-*Pair* (1817-1824), duke-*Pair* (1824-1826)
baronet	Pasquier, Etienne-Denis	10,000	100%	*Pair* (1821), baronet-*Pair* (1821-1830)
count	Pelet, Jean	5,000	50%	baronet-*Pair* 1820
baronet	Perregaux, Alphonse-Claude-Charles-Bernardin	10,000	10%	*Pair* (1815), *Pair*(1831-1841)
baronet	Portal, Pierre-Barthélemi	10,000	100%	*Pair* (1821), baronet-*Pair* (1821-1830)
duke	Prince D'Eckmühl, Duc D'Auerstaed, Louis-Nicolas-Davout	19,003	190%	*Pair* (1819-1823), duke-*Pair* (1823)
count	Ramond-Dutaillis, Adrien-Jean-Baptiste Amable	10,000	100%	*Pair* (1823-1824), baronet-*Pair* (1824-1830)
baronet	Rampon, Antoine-Guillaume	2,000	20%	*Pair* (1814-1815 et 1819-1820), baronet-*Pair* (1820-1830)
baronet	Rapp, Jean	12,402	124%	*Pair* (1819-1820), baronet-*Pair* (1820-1821)
baronet	Reille, Honoré-Charles-Michel-Joseph	10,271	103%	*Pair* (1819-1820), baronet-*Pair* (1820-1830)
count	Roy, Antoine	20,000	200%	*Pair* (1821), count-*Pair* (1821-1830)
count	Siméon, Joseph-Jérôme	10,000	100%	*Pair* (1821), baronet-*Pair* (1821-1830)
baronet	Tamisier, Pierre-Alfred	5,000	25%	*Pair* (1814-1815 et 1815-1817), count-*Pair* (1817-1819)
baronet	Thenard, Louis-Jacques	6,500	65%	*Pair* (1830-1848)
baronet	Villot de Fréville, Jean-Baptiste-Maximilien	5,500	55%	*Pair* (1832)
Average		**10,040**	**85%**	

Table 2 provides evidence that, on average, revenue from the 5% *rente* represented a substantial portion of the *Pairs' Majorat*. Indeed, *rentes* accounted for more than 85% on average of the legally required amounts.[17] As stated previously, viscounts and baronets had to set aside at least 10,000 francs of yearly revenues to establish a *Majorat*. In our table, the majority of the *Pairs* we managed to identify are

[17] The percentage of the requested amount is calculated based on the law requirements prevailing at the time the *Majorat* was created.

baronets, and the income from the *rente* represents at least half of this requested amount in most cases. A decrease in this revenue would thus have had major consequences on the composition of their *Majorat* and, ultimately, on their status as *Pairs*!

Unsurprisingly some of the *Pairs* firmly opposed the conversion projects, whose arguments during the debates in the Chamber are available in Appendix 1, were large holders of rente and can be found in Table 2. Viscount Villiers du Terrage, a fierce opponent of both the 1838 and the 1840 projects, derived half of the requested revenue for his *Majorat* (5,000 francs) from the *rente*. Family links may also explain the behavior of some *Pairs*. Count Auguste-Louis de Talleyrand, also a firm opponent of the 1824 conversion project, was Charles-Maurice de Talleyrand, Duke de Dino's first cousin. Interestingly, in the duke's *Majorat*, the total revenue from the 5% *rente* amounted to 30,000 francs per year![18]

One case worth discussing, in our opinion, is that of Count Roy, who played a key role in the debates and the rejection of the conversion projects. In his memoirs, Villèle (1890) writes that the count earned 500,000 francs as revenues from his *rentes* and would have lost 100,000 francs had the conversion occurred[19]. Table 2 shows that the entirety of his *Majorat* for the title of count was based on *rentes*.[20]

[18] 1822/07(SER7/T14/N499)-1822/12(SER7,T15,N539).
[19] "*possesseur de 500.000 francs de rente comptait que ce serait 100.000 francs de rente que la loi* [sur la conversion] *lui enlèverait"*.
[20] The part of the *rente* was even the double of the requested amount as by a change in the law, the minimum amount was reduced at 10,000 francs independently of the nobility rank after 1819.

Roy's wealth gave him a special status among his peers. Chateaubriand[21] said of him: "*one listened with respect to a man who had created 120,000 francs in rente*".

The proposed law for each conversion project was examined by a committee of seven members, chosen among the *Pairs*. Count Roy was not only a member of the four committees (1824, 1838, 1840 and 1845), he was three times chairman/rapporteur (1838, 1840 and 1845). The media at that time were saying clearly that the committee members were chosen from among the firmest opponents of conversion. [22] In May 1838 for example, *Le Censeur*, a daily newspaper from Lyon, reported that Roy and Villiers du Terrage would most probably be appointed chair and secretary of the committee, respectively, because they were seen as the most ardent opponents of the project.[23] Each debate in the *Chambre des Pairs* started with the presentation of the committee's opinion on the project and its recommendation to support or oppose conversion. One can easily imagine that a committee chaired by Roy could hardly advise a positive outcome for the conversion project submitted to vote. Given Roy's reputation among the *Pairs*, his arguments were central in the debates.

[21] « *On avait écouté avec respect un homme qui s'était créé douze cent mille livres de rentes* », Chateaubriand, « Œuvres politiques » (2015).

[22] In each committee, four members out of seven were openly against the conversion.

[23] *« Nous avons déjà dit que ce sont les membres qui se sont opposés avec le plus de chaleur à tout projet de réduction qui ont été nommés commissaires. La première réunion de la commission ne doit avoir lieu que lundi. Mais déjà l'on désigne MM. Roy et Villiers du Terrage comme devant être nommés présidents et secrétaires, parce qu'on les regarde comme les adversaires les plus ardents de la mesure »* (Le Censeur, Journal de Lyon, Politique, industriel et littéraire, 16/17 mai 1838).

To support our arguments, Table 3 presents a summary analysis of the speeches made in the *Chambre des Pairs* during the debates. It shows the number of speeches and their length (with the number of lines as proxy). The table also gives these variables for three different groups: the members of the Commission, the speeches for, and the speeches against.

Table 3: Brief textual analysis of the debates

	Total #speeches	Length #lines	# speeches by members of the Commission		#speeches FOR		#speeches AGAINST	
			#speeches	length #lines	#speeches	length #lines	#speeches	length #lines
1824	42	17,519	12 (7 by Roy)	4750 (3,431 by Roy)	18	7,536	24 (7 by Roy)	9,983 (3,431 by Roy)
1838	21	3,327	4	-	8	1,997 (d'Argout & Humann)	13	1,330 (Audiffret)
1840	9	804	3 (1 by Roy + report)	275 (37 by Roy)	3	312	6 (1 by Roy)	492 (37 by Roy)
1845	9	2,416	2 (1 by Roy + report)	464 (64 by Roy)	2	400	7 (1 by Roy)	2,016 (64 by Roy)

It is clear from Table 3 that Roy was one of the most vocal *Pairs* among both the members of the committee and the members of the chamber. Moreover, the number of speakers and the length of their interventions show a significant imbalance. Speeches by *Pairs* against conversion were more numerous than those in favor. Given the aura of the speakers, most particularly Roy, one can better understand the outcome of the votes.

Finally, the losses entailed by the conversions were not necessarily felt only personally. As mentioned previously, a small fraction of *Pairs* (6%) were ecclesiastics. They represented the interests of the church and other religious congregations, which were large holders of *rentes* (Rietsch, 2007). Of course, the line of argument used by the church did not directly mention its own wealth but the ability to do charitable deeds based on the revenue from the *rentes*. Given the place of the church in society at the time, one can understand the effect that such arguments, set forth by someone like the Archbishop of Paris for example, could have on the *Pairs* and thus on the final outcome of the votes.

If institutions were indeed preventing conversions, then investors should have known *ex ante* that conversion attempts would fail. One would therefore expect market participants to pay only limited attention to the news related to conversion attempts. As a result, the prices of the various French state bonds should be unaffected by parliamentary debates about conversions. The next section tests this hypothesis.

IV. Market Reactions

4.1. Data and Methodology

To assess market perceptions related to the conversions, we hand-collected the prices of two French *rentes*: the 5% and the 3%. The first was likely to be converted, while the second was not (in view of the yields on French bonds, converting the 3% *rente* would have made no sense). In terms of methodology, we rely on event studies to determine to what extent yields were affected: a) when announcements were made that conversions would be discussed, and b) when voting actually took place in both chambers. However, our setting is markedly different from that used in most event studies.

Event studies are usually designed for many similar events affecting multiple firms[24]; to assess their statistical significance, test statistics are compared with the critical values provided by the standard normal distribution. If abnormal returns are indeed normally distributed, then this methodology is justified, but considerable empirical evidence goes against this hypothesis.[25] Nevertheless, this standard approach still holds if there are many event dates/firms and the focus is on average effects across dates/firms. In our case, this approach is ineffective as we analyze a similar event (conversion attempts) occurring a small number of times and

[24] See for example McKinlay (1997).
[25] Pointed out already by Brown and Warner (1985).

affecting a single entity (the sovereign). In order to address our specific setting, we rely on the approach developed by Gelbach et al. (2013) and Fisch et al. (2018). We thus use the "sample quantile" (SQ) test, applied to estimated abnormal returns. The critical value of the test assessing the potential impact of an event on the returns is based on the empirical distribution of the data, and no hypothesis of a particular statistical distribution, e.g. Gaussian, is made. We use the data collected for the 3% *rente* as a benchmark as it does not suffer from any potential "noise" induced by the presence of a conversion option. We start by computing the observed daily returns as the difference of log prices[26] and then the abnormal returns based on the constant mean return model. More specifically, for each non-event date in the estimation window $[T_0; T_1]$ of 250 days[27], the estimated abnormal return at time *t* is given by:

$$\widehat{AR}_t = R_t - \frac{1}{N_i}\sum_{i=T_0}^{T_1} R_i$$

With

R_t = the observed return at time t,

N_i = the number of non-missing returns over the estimation window,

In the case of the SQ test, we count the number of estimated abnormal returns from the constant mean model estimation period that are more negative than the estimated abnormal return on the event date, and we divide this sum by the

[26] Clean prices, e.g. market price minus accrued interest.
[27] The estimation window ends up 20 days before the event date to avoid any overlapping problems.

number of dates included in the estimation window, in our case 250. The estimated abnormal return for a given date is statistically significant at a conventional risk level, e.g. 5% or 10%, if the p-value for that date is less than or equal to 0.05 or 0.10. This procedure is correct if only a single date is tested, and these p-values are called "usual p-values". However, this is not the case in our analysis. Indeed, we have multiple event dates: six dates for the presentation of the conversion projects, six dates for the votes in the *Chambre des Députés*, and three dates for voting in the *Chambre des Pairs*. If we test each of these event dates' estimated abnormal returns as if they were the only ones, the probability of finding at least one significant abnormal return will be considerably greater than the desired Type I error rate of 5% or 10% (see Fish et al., 2018 for more details). Thus, we must correct the obtained p-values to account for the presence of multiple event dates. As suggested by Fish et al. (2018), we use the Holm p-value correction procedure (Holm, 1979). We first compute the Šídák corrected p-values as follows. The lowest usual p-value remains unchanged while the second lowest usual p-value (p_2) is then used to compute the Šídák corrected p-value as $p_{S2} = 1 - (1 - p_2)^2$ which corresponds to the probability of taking two draws from the abnormal returns distribution and observing at least one with a more negative excess return than p_2. The computation of the Šídák p-value for the third lowest p-value (p_3) will be $p_{S3} = 1 - (1 - p_3)^3$ with the same logic as before. In general, if the usual p-value for the date with the m^th^-lowest usual p-value is p_m, then the Šídák p-value for this date will be $p_{Sm} = 1 - (1 - p_m)^m$. For small values of p_m and small values of the exponent m, Šídák p-values can be approximated quite well by $m \times p_m$, known as the Bonferroni p-value. We thus calculate this p-value too. In general, the Šídák p-value is more accurate than the Bonferroni p-value (for more details, refer to Gelbach et al., 2013 and Fish et al., 2018).

4.2. Results

Table 4 provides the results from our empirical exercise. By and large, markets did not react to the presentation of debt conversion projects, with the sole exception of February 1836. The positive abnormal return may reflect expectations that the conversion would work, thus reducing the debt service burden and increasing the likelihood of reimbursement in the future. The 1836 conversion was the first attempt to conduct a real conversion (the 1825 one was optional). Bondholders may thus have expected that the proposal would pass in this specific case. It failed, however, and proved to be the last instance when markets reacted to the announcement.

Likewise, votes in the *Chambre des Deputés* hardly affected returns. There is again only one instance when abnormal returns are statistically significant: a positive vote in April 1840 that led to a price increase. As for the *Chambre des Pairs,* the negative vote of 1845 seems to have been unexpected as it led to a negative return.

Table 4: Results of the event study

Event Date	Project presentation			
	AR	Usual p-values	Šídák corrected p-values	Bonferroni corrected p-values
02/01/1836	0.4081%	0.0640	0.0640*	0.3840
02/15/1838	0.1077%	0.2520	0.5815	1.0000
01/16/1840	0.1028%	0.3160	0.7811	1.0000
03/30/1844	0.2887%	0.0760	0.1462	0.3840
04/22/1845	-0.0782%	0.3520	0.8857	1.0000
02/13/1846	-0.0087%	0.5330	0.9896	1.0000

Event Date	Vote *Chambre des Deputés*			
	AR	Usual p-values	Šídák corrected p-values	Bonferroni corrected p-values
03/14/1836	-0.0286%	0.4080	0.9273	1.0000
05/05/1838	-0.0814%	0.3480	0.7228	1.0000
04/23/1840	0.4642%	0.0160	0.0160**	0.0960*
04/03/1844	0.0454%	0.4120	0.9587	1.0000
04/22/1845	-0.0782%	0.3520	0.8237	1.0000
03/09/1846	-0.0786%	0.2877	0.4927	1.0000

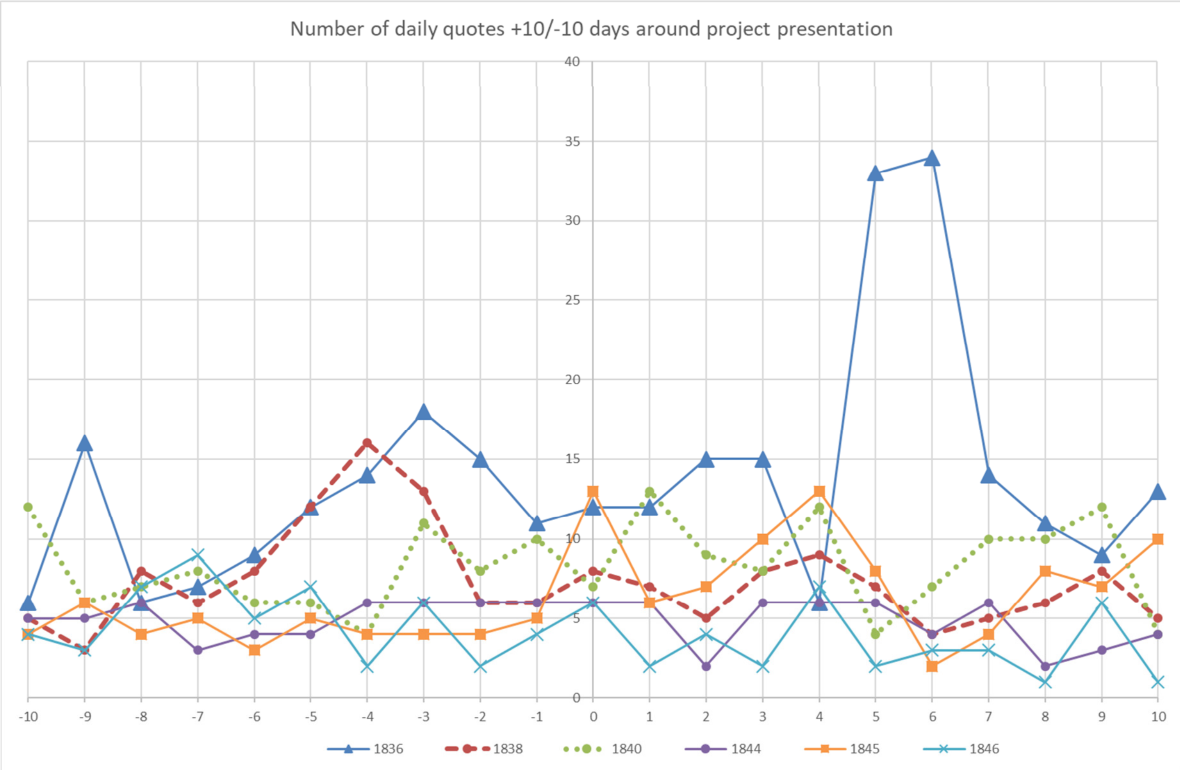
Event Date	Vote *Chambre des Pairs*			
	AR	Usual p-values	Šídák corrected p-values	Bonferroni corrected p-values
06/25/1838	-0.1433%	0.2000	0.3600	0.2280
05/30/1840	0.1388%	0.2040	0.4956	0.4000
05/31/1845	-0.3146%	0.0760	0.0760*	0.4000

Markets were thus not considering conversions as "defaults", which thus had no negative impact on state credit. The arguments put forward by the *Pairs* to block the conversions were subsequently taken to be valid, leading to the myth that conversions were illegal and prompting scholars to view them as defaults. Markets certainly did not share this view.

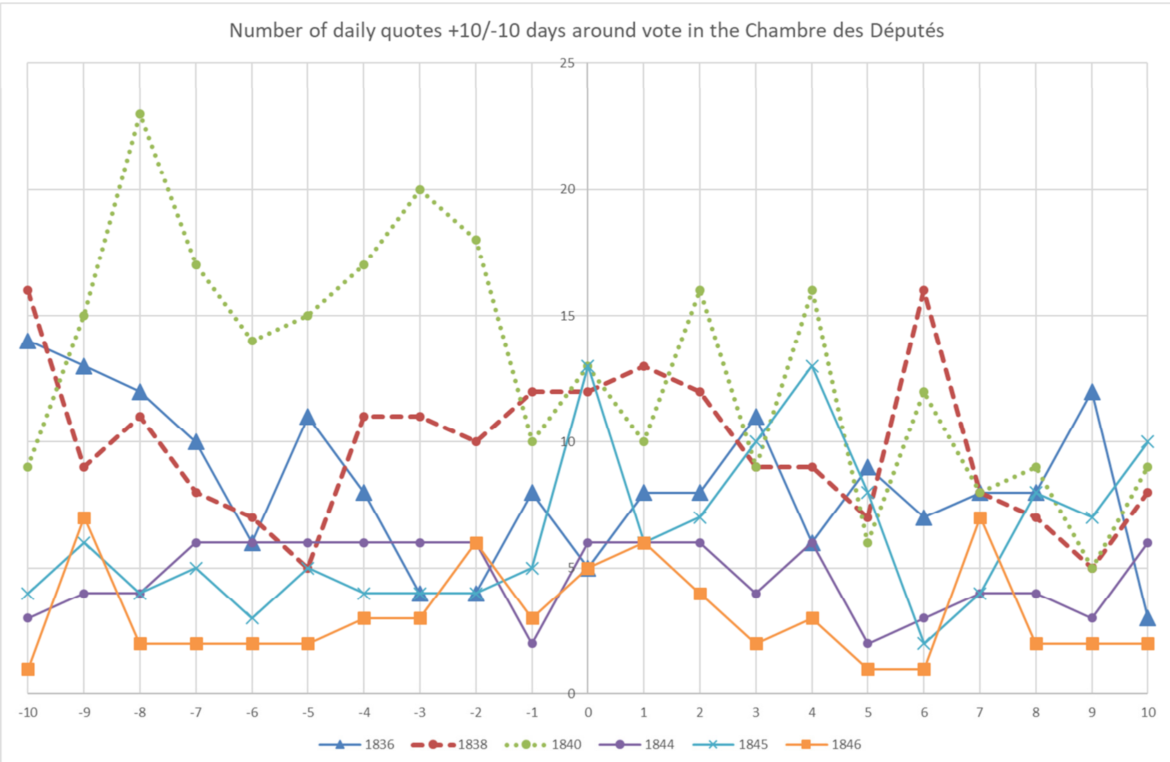
To support our argument, we also collected the number of daily quotations of the 5% *rente* ten days before and ten days after the three main events linked to the different conversion projects: the presentation of the project and the votes in the two chambers. Figure 2 depicts these data. In 1836, 1838 and 1840, there was major activity on the market on the days surrounding these events. In 1836, around the date of the project's presentation, there were more than 30 quotes per day. The market was thus paying attention to the ongoing debates, and some investors may even have considered that a conversion was possible. Thus, even though the impact on returns was minimal, debates on conversions affected liquidity. By contrast, a few years later, in 1844, 1845 and 1846, the probability of conversion was perceived as rather low, and the main events linked to the proposals generated no excitement on the market, which recorded half as many intraday quotes as the figures mentioned previously. In all instances, liquidity was hardly affected when the votes took place, suggesting investors had concluded prior to voting that conversion would not occur. The declining impact on volume following the conversion announcements might be due to a form of Bayesian revision of the probability that a conversion might occur. After several failed projects, investors may have revised downward the likelihood that a conversion would succeed.

Figure 2: Number of daily quotations +/-10 days before an event date

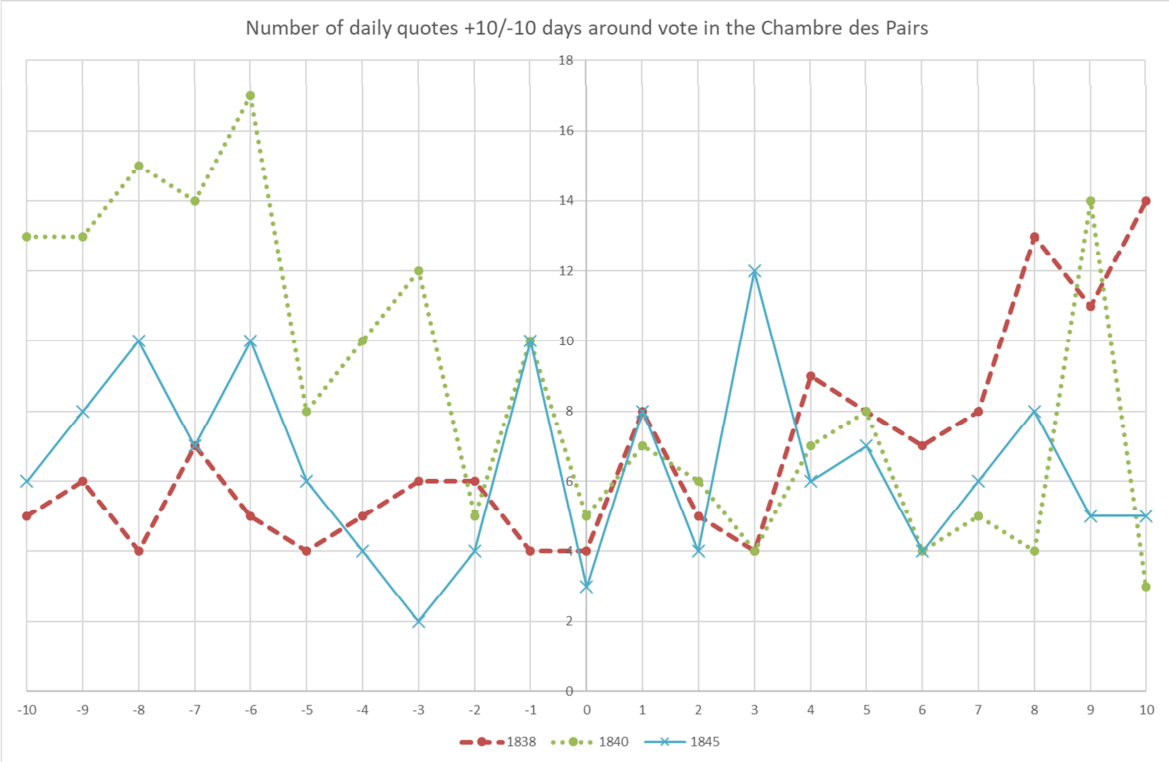
PANEL A: Market reaction around the presentation of the conversion project



PANEL B: Market reaction around the vote of the project in the *Chambre des Députés*



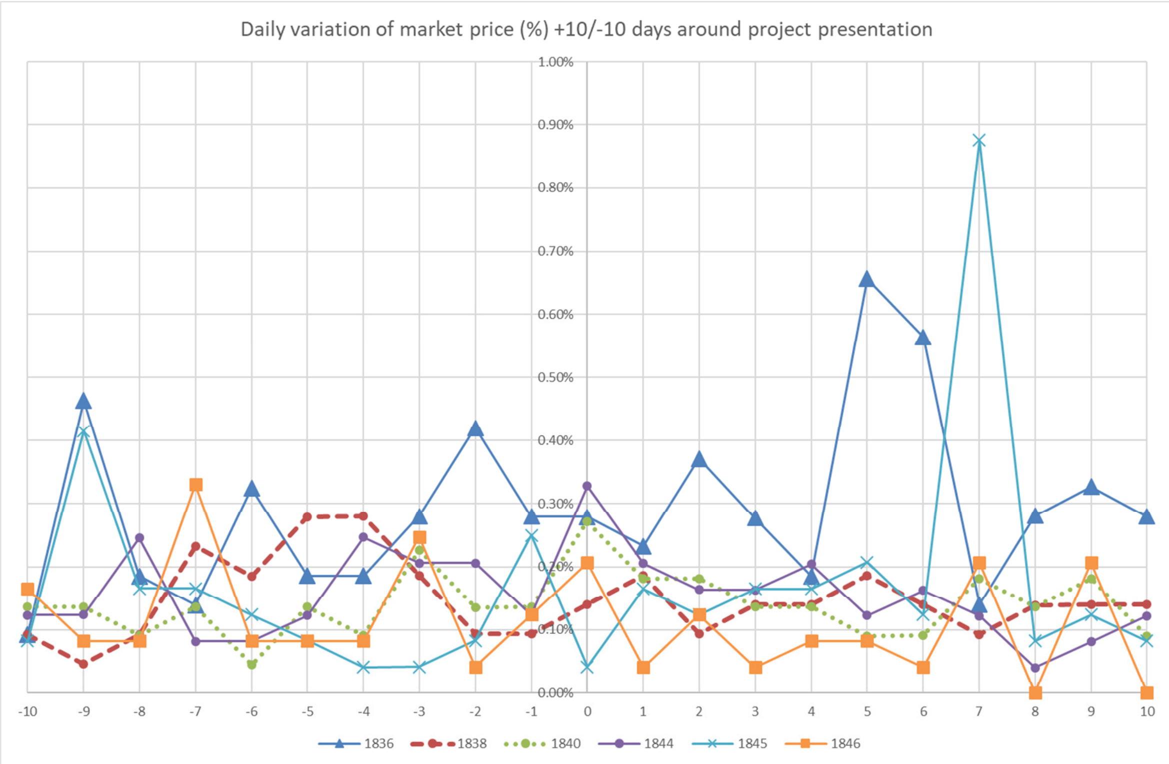
PANEL C: Market reaction around the vote of the project in the *Chambre des Pairs*



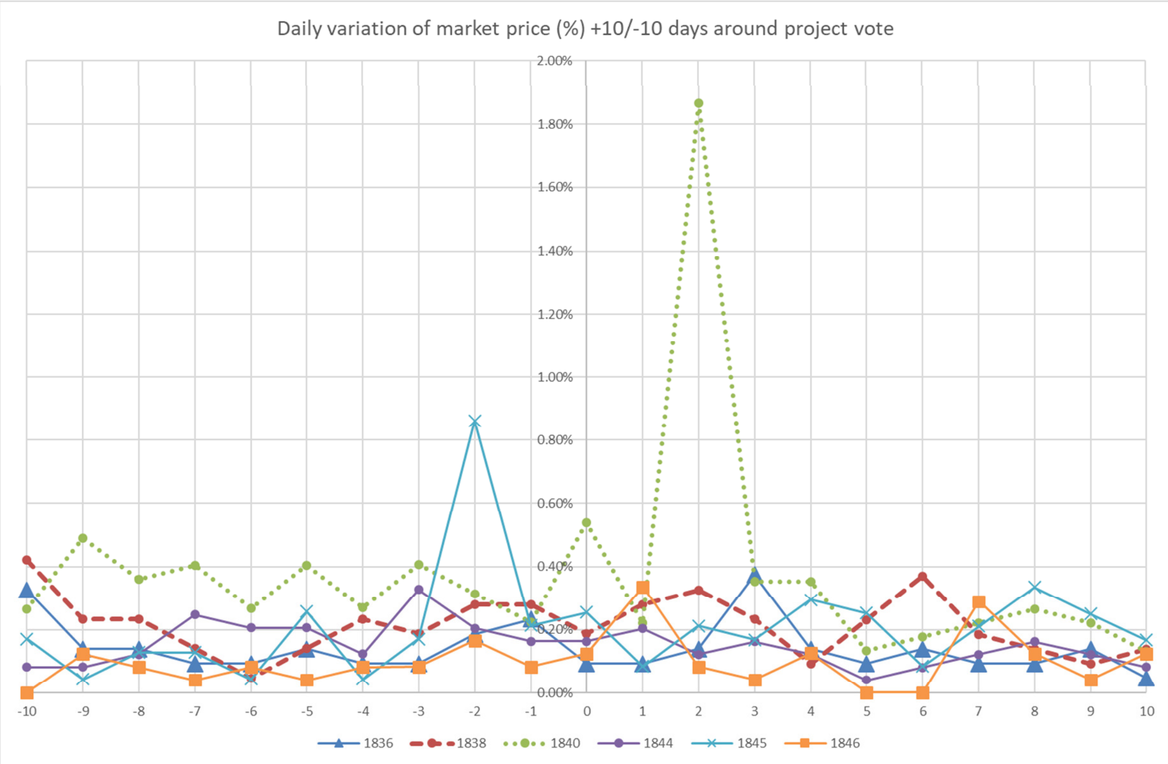
The number of price changes provides an indication of the volumes traded. Our event study provides insights regarding returns before and after the event. To assess whether conversion projects had an impact on intraday returns, we also collected the intraday market prices of the 5% *rente* on an interval of ten days surrounding the events associated with each conversion project. We then computed the range of daily prices as the difference between the highest and lowest price each day (divided by the lowest price to get a more intuitive result expressed as a percentage). Figure 3 summarizes our results. Intraday market prices were not sticky; they varied noticeably during the days surrounding the presentation of the conversion projects but also the votes in the two chambers. In terms of magnitude, the ranges average around 0.20% per day but sometimes go as high as 0.83% per day in 1845 for example. These changes especially highlight the perceived uncertainty on the day surrounding the various events.

Figure 3: Daily variation of market prices (high minus low) +/-10 days before an event date

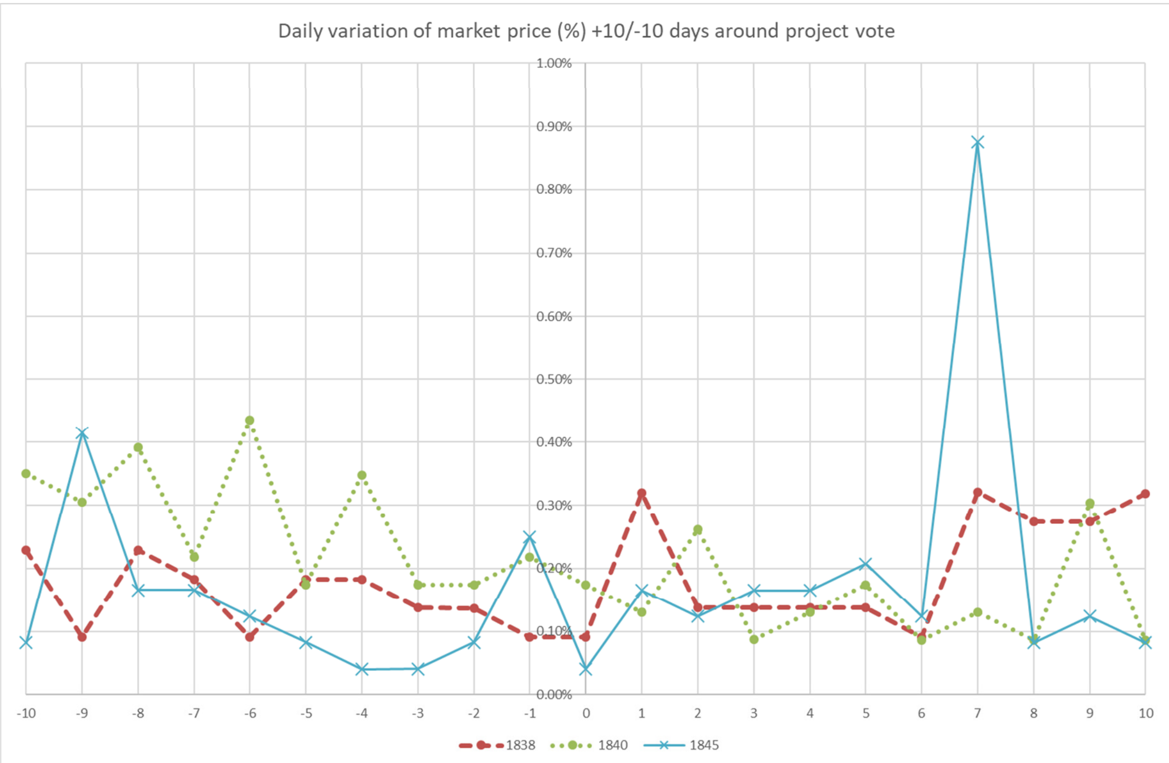
PANEL A: Around the presentation of the conversion project



PANEL B: Around the vote of the project in the *Chambre des Députés*



PANEL C: Around the vote of the project in the *Chambre des Pairs*



V. Epilogue and Conclusion

Despite the political changes which occurred in France between 1815 and 1850 (with two revolutions, in 1830 and 1848, and the creation of the Second Republic), no government managed to convert the state's debt. Institutions guaranteed that large bondholders would be able to block any conversion because of the way that *Pairs* were created. The obligation to set up a *Majorat* meant that most *Pairs* held *rentes*.

The first successful conversion was not until 1852[28], after the dramatic change in regime which saw Napoleon III restore the Empire. The regime change also led to a deep restructuring of both chambers. The Senate replaced the *Chambre des Pairs,* and its composition was markedly different from its predecessor. Napoleon III appointed members of the Senate. As a result, it included many bankers, industrialists or high-ranking military officers. Converting the state debt was thus much less likely to stir opposition as the conversions were in line with Napoleon III's willingness to industrialize the country.

This paper argues that institutions prevailing during the Restoration protected bondholders to such an extent that they could earn a rent at the expense of the state. Institutions gave a *de facto* veto power to the *Pairs* when it came to conversions. Based on archival evidence, we show that the *Pairs* were large *rente*-holders. Conversions not only entailed a fall in their revenues but could also lead to a loss of status. *Pairs* thus had strong incentives to block them, and did so. Our

[28] A medal was actually created to commemorate the event (see Appendix 2). The authors thank François Velde for sharing this document.

empirical analysis suggests it did not take long for market participants to realize that discussions were unlikely to lead to real conversions. As a result, prices were unaffected most of the time by news related to any attempts to convert. Volatility increased, however, an indication that markets did not fully rule out the fact that conversions could occur.

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APPENDIX I

Arguments of the orators opposed to conversions during the debates in the *Chambre des pairs*

When	Speaker	Arguments				
		Moral	Legal	Economic	Financial	Political/social
May/June 1824	**Count Roy**		Illegal.		Mixes bankruptcy and defaults of the *Ancien Régime* with conversions.	
	Duke De Crillon	*Pairs* seen as "judges ready to decide the fate of 150,000 families who await the judgement with great anxiety".	Legal.			
	Count Auguste-Louis de Talleyrand	Project detrimental to the king's interests and the population, and ruins small bondholders.			Increases the debt amount, destroys all the fortunes in Paris, alters public confidence, national credit reputation.	Affects the love of a part of the population for their king; politically unwise.
	Duke de Brissac	Despoilment of rentiers (1/5 of their revenue) with no compensation on the nominal, very unfavorable and scary measure for them.				
	Duke de la Rochefoucauld			Saving houses would see a decrease in their revenues.		
	Marquis de Nicolaï	An error, with hopefully short and stormy existence.				

June 1838	**Marquis d'Audiffret**		Legal.	Bad timing.[29]	Only partial reimbursement; ruins state's credit.	Threatens 23 years of peace, leads to uncertain future.
	Viscount Villiers du Terrage		State does not have unilateral right to decide the conversion.	May affect economic development.	Encourages speculation.	
	M. Merilhou	Attacks bondholders' property; loss of public and private credit reputation.	Legally impossible to change the contract between State and bondholders; common and civil right principles applicable to private persons do not apply to the State.		Lack of prudence. Calling the bonds induces a risk that holders of bond demand reimbursement (2 billion to reimburse) for a very small expected gain (economy of 11 million); huge potential expenses for the present and future of the country, bad timing.	Rentiers' distress
	Count De Mosbourg	Unfair; despoilment.		Interest reduction + increase of principal worsens State's expenses.	Speculation with gain only for some capitalists.	Terror, panics among rentiers; State will never be able to ask them to contribute.
	Count Baudrand		State has no right to reimburse at a rate decided by himself only.			Unpopular measure that may compromise the financial landscape of the country.
	Baronet De Brigode				Not a decrease in expenses but a shift from large numbers of taxpayers to a smaller number of rentiers.	Bad timing.
	Duke de Bassano	New despoilment of rentiers contrary to good faith and existent engagements.	Contrary to constitutional right.	Speculation higher than interest rate reduction.		

[29] « *La conversion ne pourra être considérée comme opportune que le jour où le gouvernement, en vertu d'une souscription publique, pourra concéder à des adjudicataires sérieux des titres aussi avantageux ou même plus avantageux que ne le permettrait l'état prospère du pays.* »

	Count Molé[30]					Bad timing.
	Viscount Villiers du Terrage	Unfair law, hurts interest and deceives small owners who helped the State when it needed; they should be able to count on their acquired rights.		Clumsy law, « puny savings ».	Violent law, affecting the credit of the state and its flourishing financial position, that will become a perpetual cause of danger and embarrassment.	
May 1840[31]	**M. Mérilhou**	Threatens the wellbeing of one of the most respectable social classes, which the Chamber must protect.		It will not redirect financial flows towards industry, it will not contribute to lower interest rates for private transactions, it will not decrease public expenses.		
	Marquis d'Audiffret	Compulsory for rentiers but affecting only the bondholders of the 5%.	However, accepts the principle of reimbursement!			Bad timing.
	M. Persil	Unfair; robs 100,000 rentiers.	No legal background because it is not a reimbursement as « they » would want us to believe.	Lack of opportunity, limited economies, 9 or 10 million.		Misses politics.
May 1845[32]	**Marquis d'Audiffret**		Admits legality.		No financial gain, barely 10 million, fictious quotations of the 4%, speculation on the 3%	Public disorder/political crisis.

[30] « *…avant que la discussion commençât dans la chambre élective, tous les membres du cabinet avaient pris des engagements ; ils avaient reconnu le droit de remboursement ; ils croyaient même que, si les circonstances le permettaient, le gouvernement serait tenu d'exercer ce droit. Mais tous, tous sans exception, avaient reconnu que la mesure était inopportune, el ils avaient pensé que celle raison, quelque dédaigneusement qu'elle ait été traitée par l'honorable préopinant, était suffisante pour que le cabinet fut autorisé à demander l'ajournement du projet de loi. Le cabinet s'est-il trompé'/ Non, Messieurs ; l'opportunité est la première condition du succès ; appliquer la mesure dans des circonstances difficiles, ce serait s'exposer à de grandes catastrophes.* »

[31] Annales du Parlement Français Session 1840 2, 1841 by Marc-Antoine Jullien (1775-1848).

[32] Procès-verbal des séances de la Chambre des *Pairs*, Session de 1845, Tome IVème comprenant partie de mai et de juin 1845 (N° 62-79), Paris, 1845.

	Viscount Dubouchage	Arbitrary, violence, injustice.	Illegal.		Annual economy of 7 to 8 million but loss of inflows from indirect contributions and public credit reputation in danger. The 4.5% *rente* would anyway remain above the par.	Capital flight.
	General Despans Cubières	Unfair (rentiers already hurt in the past).	Admits legality.		Very small savings.	Social troubles.
	Count De Keratry	Unfair. Despoilment of the rentier.	Illegal, one should distinguish rentier from other bondholders.		Losses, reputational bankruptcy.	
	Count Roy		Does not challenge the right to redeem but the fact that the rentier must accept to be paid back at par and not at the market price.			
	Count D'Argout		Insists on legality.		Very bad project, proposes facilities for rentiers.	
	M. Barthe	Despoilment of the rentier.	Admits legality.		Bad project.	

Appendix 2

Medal celebrating the successful conversion of 1852