

OXFORD



Antoin E. Murphy

John Law

Economic Theorist and Policy-Maker

John Law

*Frontispiece* Full-Length Portrait Of John Law, Controller Of Finances In 1720. Print Published In *Her Grootte Tafereel der Dwaasheid* (Amsterdam, 1720) (Courtesy the Library, Trinity College Dublin.)



# John Law

Economic Theorist and Policy-Maker

Antoin E. Murphy

CLARENDON PRESS · OXFORD  
1997

**OXFORD**  
UNIVERSITY PRESS

Great Clarendon Street, Oxford OX2 6DP

Oxford University Press is a department of the University of Oxford  
It furthers the University's objective of excellence in research, scholarship,  
and education by publishing worldwide in  
Oxford New York

Auckland Bangkok Buenos Aires Cape Town Chennai  
Dar es Salaam Delhi Hong Kong Istanbul Karachi Kolkata  
Kuala Lumpur Madrid Melbourne Mexico City Mumbai Nairobi  
São Paulo Shanghai Taipei Tokyo Toronto

Oxford is a registered trade mark of Oxford University Press  
in the UK and in certain other countries

Published in the United States by  
Oxford University Press Inc., New York

© Antoin E. Murphy 1997

The moral rights of the authors have been asserted

Database right Oxford University Press (maker)

All rights reserved. No part of this publication may be reproduced,  
stored in a retrieval system, or transmitted, in any form or by any means,  
without the prior permission in writing of Oxford University Press,  
or as expressly permitted by law, or under terms agreed with the appropriate  
reprographics rights organization. Enquiries concerning reproduction  
outside the scope of the above should be sent to the Rights Department,  
Oxford University Press, at the address above

You must not circulate this book in any other binding or cover  
and you must impose this same condition on any acquirer

British Library Cataloguing in Publication Data

Data available

Library of Congress Cataloging in Publication Data

Data available

ISBN 0-19-828649-X

*To May Murphy  
and the late William P. Murphy*

*This page intentionally left blank*

# Preface and Acknowledgements

History, viewed through the kaleidoscope of time, presents many different stories. This is particularly the case of John Law, the Scottish-born economic theorist and policy-maker. Traditionally the kaleidoscope has been twisted and turned to present a very colourful personality—the rake, the duellist, the gambler—a perspective which has encouraged many to disregard him as worthy of serious analysis. In twisting the kaleidoscope, distorted images have been produced, partially because certain elements should have been excluded and others included. Some works have been wrongly attributed to Law and others have only been discovered of late to have been written by him. There is also a need to change the filters through which he is viewed. Gold and silver colours need to be excluded from the reflecting surfaces: Law felt that these shiny metals were unnecessary in his visualisation of the economic world.

This book aims to present a new approach to John Law, one that shows him as a significant economic theorist with a vision. He attempted to implement this vision as economic policy in early eighteenth-century Europe. His economic theory is worthy of consideration in its own right, and if Law had never been a policy-maker he would, or at least should, be remembered for his remarkable legacy of economic concepts at a time when such economic conceptualization was very much at an embryonic stage. His style, marked by clarity and a use of modern terminology, stands out starkly against the turgid prose of many of his contemporaries. His vision of the monetary and financial system was certainly one of a later age, for Law believed in an economy functioning with banknotes and credit where specie had no role to play. Law failed as a policy-maker, a failure due in part to his inability to dislodge permanently the main beneficiaries of the *ancien régime's* financial structure, the financiers and their aristocratic backers. Law's power struggle to overcome the financiers and their backers took place against the background of Europe's first major stock boom and collapse. It is a testimony to Law's dynamism that he was able to push his financial revolution so far, indeed to that point where the British authorities decided that his Mississippi System would have to be imitated—an imitation which engendered the South Sea Bubble of 1720. At one point in 1720 many contemporaries believed that he had succeeded in producing a specie-less economy in France. Ultimately, Law failed, a failure due in part to theoretical flaws in his own economic theorizing, flaws that developed into significant fault-lines when pressure was exerted on the System in 1720.

Law made mistakes, but his sheer speed in conceptualizing an alternative economic system and attempting to implement it is undoubtedly worthy of further consideration.

This book developed as a natural complement to my earlier study *Richard Cantillon: Entrepreneur and Economist* (Oxford, 1986). Having finished *Cantillon* in 1986 I rashly surmised that a book on Law would just take a few years. Ten years



have elapsed and there are still strands of Law's story to be collected. In truth it will never be possible to bring all these strands together because of the destruction and loss of documents and memoirs relating to Law's System. Nevertheless, I believe that there is enough material here to produce a new assessment of Law, with the primary emphasis on Law the theorist and policy-maker.

In researching and writing this book I have many debts to acknowledge. The Provost's Benefaction Fund in Trinity College provided much-needed finance to assist research trips to the UK and the Continent. The Ministère des Affaires Étrangères in Paris was also particularly helpful in providing funds to research in French archives. Archivists and librarians were of immense assistance in suggesting useful lines of research to follow. Chief among these was Mme Madeleine Jurgens at the Minutier Central of the Archives Nationales who opened up many new lines of inquiry for my research. I would also like to express my indebtedness to Mme Firouz Abadie in the Bibliothèque Universitaire in Poitiers for allowing me to consult the Argenson archives. Charles Benson in the Department of Older Printed Books in the Library of Trinity College Dublin was always ready to offer his expertise on eighteenth century printed books. I am also indebted to the librarians and archivists at the British Library, the Public Records Office in London, the National Registry of Archives in London, the Bibliothèque Nationale, the Bibliothèque Mazarine, the Bibliothèque de l'Arsenal, the Bibliothèque Méjanes in Aix-en-Provence, the Archivio di Stato in Turin, the Rijksarchief in Limburg at Maastricht, and in many other European libraries. They provided me with many of the basic documents so necessary in a book of this type. I would like to thank Mrs Sita Halperin, the daughter of the late Professor Earl Hamilton, for permission to consult her father's archives on John Law.

Academic colleagues provided considerable support. The late Sir John Hicks kept encouraging me to write on John Law. José Luis Cardoso, Louis Cullen, David Dickson, Walter Eltis, Gilbert Faccarello, Jacqueline Hecht, Patrick Hyde Kelly, William Kingston, Heinz Kurz, Georges Tapinos, Trevor West, and Eugene White along with my colleagues in the Department of Economics, provided support and encouragement during the writing of this book.

Antiquarian bookdealers with their vast accumulated wisdom on the world of seventeenth- and eighteenth-century books, were invaluable in suggesting new leads to research. Michel Bernstein, the doyen of French antiquarian bookdealers in economics, encouraged me to research thoroughly the *arrêts* and *édits* of Law's System and Jean Jacques Magis located some extremely rare works relating to Law. Ian Smith and Dorothea Edwards of Quaritch, and Suzanne Schultz Falster of Pickering and Chatto, continually prompted me on the appearance of new material on the market relating to Law.

Four people must be singled out in these despatches. John Chown, a fellow worker on the history of money, was crucial in helping me to locate the *Essay on a Land Bank*, Larry Neal was kind enough to read through an earlier draft of the present work, Bob Black and Cormac O Gráda were always prepared to listen and

discuss issues as they arose. I also wish to thank Oxford University Press's two anonymous referees for the extremely helpful suggestions which they offered. The usual disclaimer with respect to this finished product applies to all who were kind enough to assist me.

Finally I wish to thank my family and friends for their understanding and encouragement. My mother, brother, and sisters have been extremely supportive. My daughter, Nathalie-Anne, was eleven when this book started, my son, Alexis, a younger eight. To them and my wife, Elizabeth, who have lived through this book, for better and for worse, my special thanks.

AEM

*Department of Economics*

*Trinity College, Dublin*

*April 1996*

*This page intentionally left blank*

# Contents

<i>List of Plates</i>	xii
<i>Abbreviations for Principal Sources</i>	xiii
1 Introduction	1
2 Law's Writings and his Critics	8
3 Law's Background	14
4 Duelling Beaux	20
5 The 'Gambling' Banker	35
6 Metamorphosis: John Law the Economist	45
7 The Edinburgh Environment in 1705	67
8 Money and Trade	76
9 The Conceptualization of the System	105
10 France 1714–1715	123
11 The Establishment of the General Bank	149
12 The Establishment of the Company of the West	164
13 The Slow Development of the System	173
14 The Rise and Rise of the Mississippi Company, 1719	188
15 A Specie-less France, 1720	213
16 The Lull before the Storm	230
17 The Measures of 21 May 1720	244
18 Law the Improviser	265
19 Requiem for the Banknote	293
20 The Possibility of a Recall to France	312
21 Death in Venice	323
<i>Notes</i>	335
<i>Bibliography</i>	367
<i>Chronological Index of Arrêts, Édits, etc.</i>	379
<i>General Index</i>	381

# List of Plates

*Frontispiece*: Portrait of John Law, Controller-General of Finances, in 1720. Print published in *Het Grootte Tafereel der Dwaasheid* (Amsterdam, 1720)

- I. Half-length portrait of John Law. Print published in *Het Grootte Tafereel der Dwaasheid* (Amsterdam, 1720) 18
- II. 'Rue Quincampoix in the year 1720. A true picture of the wind-trade on the Rue Quincampoix, Paris.'  
Print published in *Het Grootte Tafereel der Dwaasheid* (Amsterdam, 1720) 203
- III. 'Flora's fool's-cap or picture of the strange year 1637.' Print published in *Het Grootte Tafereel der Dwaasheid* (Amsterdam, 1720) 204
- IV. 'The Bubbler's Mirrou: or, England's Folley' 255
- V. Frontispiece of *Arlequin Actionist* (Harlequin Stockholder), a short play by Pieter Lagendyk (Amsterdam, 1720) 256

# Abbreviations for Principal Sources

## France

AAE	Archives des Affaires Étrangères
AAE CP	Archives des Affaires Étrangères, Correspondance Politique
AAE M&D	Archives des Affaires Étrangères, Mémoires et Documents
AN	Archives Nationales
AN MC	Archives Nationales, Minutier Central
BN	Bibliothèque Nationale
BN MF	Bibliothèque Nationale, Manuscrits Français
BN NAF	Bibliothèque Nationale, Nouvelles Acquisitions Françaises
Du Tot, Poitiers MS.	See Bibliography, section I (3) (a)
<i>Œuvres</i>	<i>John Law, Œuvres complètes</i> , ed. Paul Harsin, 3 vols. (Paris, 1934; repr. Vaduz, 1980)
Poitiers	Bibliothèque Universitaire de Poitiers—Argenson Archives

## United Kingdom

BL	British Library
HMC	Historical Manuscripts Commission's Reports
PRO	Public Records Office
PRO SP	Public Records Office, State Papers

*This page intentionally left blank*

# 1 Introduction

. . . posterity will do you justice, and make a vast difference between your wretched imitators, and the great original they endeavoured to copy after. When some future historian, with a genius equal to the work he undertakes, shall in some distant age arise in France, and shall give an account of all the prodigies that happened in this wonderful Aera, which from henceforth will be the most remarkable of any in the annals of his country.

*(A Letter to Mr Law, on his Arrival in Great Britain, 1721)*

A man of sense therefore values himself more upon being of an opinion which shall gain the ascendant in time with respect to a new thing founded on truth and reason, for by this means he will be of the public opinion at last, because all the world comes into his sentiments.

*(The Present State of the French Revenues and Trade, 1720)*

This book could be started by stating that the subject in question, John Law, was born in 1671. To commence a book on John Law in this way would be to do him a disservice. While born in Edinburgh in 1671, his spiritual age of birth was really three hundred years later in the year 1971, a year in which the final link between the Western world's monetary system and metallic money was finally broken when the United States cut the last vestiges of the gold standard system by refusing to guarantee any longer the fixed price of \$35 for an ounce of gold. Post-1971 the international financial system has been unshackled from gold. Ironically, it was only on the tercentenary of Law's birth that the world moved to the system which he envisaged at the start of the eighteenth century and which he actually succeeded in implementing for a short period in France between 1719 and 1720. In producing a paper/credit monetary system which replaced, albeit temporarily, the metallic money system of eighteenth-century France, John Law behaved very much like a man of the twentieth century who knew that the banking system did not need to be anchored by gold or silver. There was more to him than just banking prescience. His theoretical economic writings, as will be shown, captured many key conceptual points which are very much part of modern monetary theorizing.

Despite his modernity, Law has been a much maligned figure in history in the intervening three centuries. Law, as well as writing brilliantly on economic theory and presciently on the future of banking, produced a system which collapsed with resounding echoes for the rest of the eighteenth century. The collapse in question



was of the Mississippi System, which Law had conceived and pushed to dazzling heights, forcing the British, in turn, to attempt to imitate his creation through the South Sea Company. The collapse in 1720 of both the Mississippi System and the South Sea Bubble led to the perception of Law as a failure. History deals harshly with failures or seeming failures.

After the collapse of the Mississippi System, he was lampooned in contemporary engravings and verse. In these engravings analogies with wind and allusions to balloons abounded, creating an imagery of hot air about Law's System. To contemporaries it was the great bubble of eighteenth-century France. A collection of the finest satirical engravings, exposing the folly of Law's System and others modelled on it, was published in Holland in 1720 under the title *Het Grootte Tafereel der Dwaasheid (The Great Mirror of Folly)*. Some of the engravings scatalogically show air coming from every orifice of Law's body, as if the Scotsman was the great windbag of his era.<sup>1</sup> This collection had a continuing fascination for the public during the eighteenth century, as reflected in the number of variant issues of it that were published.

In verse Law was described as a monetary quack and charlatan, a type of financial Mephistopheles who led an unwary France to bankruptcy and ruin. Consistent with this Faustian tradition Law was also linked to Belzebub, the devil incarnate. According to one contemporary rhyme:

Belzebuth engendra Law;  
 Law engendra Mississipi;  
 Le Système engendra le papier;  
 Le papier engendra la banque;  
 La banque engendra le billet;  
 Le billet engendra l'action;  
 L'action engendra l'agio;  
 L'agio engendra le registre;  
 Le registre engendra le compte;  
 Le compte engendra le bilan général;  
 Le bilan engendra zéro, à qui toute puissance d'engendrer fut ôtée.<sup>2</sup>

In another verse the writer reckoned that France, as a result of Law, was dying and under the control of Lucifer.<sup>3</sup>

Montesquieu, in keeping with the spirit of the time, produced the following cameo of Law, with, once again, a heavy emphasis on air metaphors:

In an island near the Orcades a child was born, whose father was Aeolus, god of the winds, and whose mother was a Caledonian nymph. He is said to have learnt all by himself to count on his fingers, and, at four years of age, to have been able to distinguish between the different metals so exactly that when his mother tried to give him a ring made of brass, instead of gold, he realized that it was a trick and threw the ring on the ground.

As soon as he was fully grown his father taught him the secret of catching the wind in balloons, which he then sold to travellers. However, since his wares were not greatly appreciated

in his own country, he left, and began to lead a wandering life in the company of the blind god of chance. In his travels he learnt that in Betica everything shone with gold, which made him hurry to get there. He was made very unwelcome by Saturn, who was then on the throne, but once the god had departed from the earth he had an idea, and went out to every street-corner where he continually shouted in a hoarse voice: 'Citizens of Betica, you think yourselves rich, because you have silver and gold. Your delusion is pitiable. Take my advice: leave the land of worthless metal and enter the realms of imagination, and I promise you such riches that you will be astonished.' He immediately opened a large number of the balloons he had brought and distributed his wares to anyone who wanted them.<sup>4</sup>

The first two paragraphs of this colourful allegory, which appeared in letter 142 of Montesquieu's *Persian Letters*, have frequently been cited. Described by Montesquieu as a 'fragment from an ancient mythologist', it tells the story of a precocious young Scotsman learning the art of banking ('the secret of catching the wind in balloons') from his father, a goldsmith/banker (Aeolus, 'god of the winds'). However, on the rejection of his banking proposals by his fellow countrymen he embarked on a career of gambling.

The third paragraph of the above extract, less well known than the first two, is more revealing in that Montesquieu denigrates the Scotsman's efforts to replace the gold and silver monetary system of France ('Betica') with one based on 'the realms of imagination', that is, a world in which the main financial instruments were paper money and shares. To Montesquieu such financial innovation was a worthy subject for his scathing ridicule. Gold and silver were the pillars of the monetary system and any attempt to replace them with such seeming 'windy' intangibles as bank credit and shares was doomed to failure. Such had been the case with the destruction of the Mississippi System. Law, the man of air, and the creator of 'bubbles', has been an easy target for satirists.

These caricatures show that John Law is a personality worthy of the attention of Hollywood—the term millionaire, so beloved by the habitués of Hollywood, was first coined to describe fortunate Mississippians who had made millions out of Law's System in 1720. Recently a French film, *Que la fête commence*, was based on life in Paris during the Mississippi System. It was this System which produced the background for Prévost's great novel *Manon Lescaut*.<sup>5</sup> Many novels about Law have been written with titles such as Emerson Hough's *The Mississippi Bubble: How the Star of Good Fortune Rose and Set and Rose Again, by a Woman's Grace, for One John Law of Lauriston* (1902), to the more recent work by Cendrine de Portal, *Les Fortunes de la Gloire: Le Roman de John Law*, published in 1982.<sup>6</sup> Law was a great subject for melodrama. Indeed, if asked to produce melodramatic headlines to encapsulate Law's career, the following might be apposite: 'Convicted Scottish murderer becomes Prime Minister of France and causes massive eighteenth-century stock market crash', or, more prosaically, 'Man who once controlled half the United States dies in Venice'. These may seem to exaggerate but, as will be shown,

they are not inaccurate. More books have been written about Law as a type of colourful eighteenth-century showman than about Law the financier or economist.

At the same time they are only one part of the Law story, camouflaging the personality of Law the economic theorist and policy-maker. Behind this camouflage there lay the spirit of a man of our times, one who was sufficiently perspicacious to realize that the international monetary system could survive, indeed thrive, without the use of metallic money, and who was sufficiently ingenious to present the role of money and monetary policy in the format of a modern rather than an eighteenth-century economist.

Aside from the failure of his System, another reason for Law's peremptory dismissal by economists may have been the identification of Law with gambling. Gambling is very much part of Law's story. In the eyes of many Law was a gambler, a professional gambler, who ultimately gambled with the French economy. Economists dislike gamblers. They do not fit into their image of a world populated by mechanistic, profit-maximizing, rational people. Gambling and rationality are deemed to be incompatible. Add the gambler tag to the failure verdict and it is easy to understand why so many economists have dismissed Law.

This image of Law the gambler is one that none of his biographers have attempted to challenge. It is either accepted as a foible, perhaps even a major defect of his character, or alternatively used as a colourful adjunct of his personality. No one seems to have seen the paradox of how Law the gambler could metamorphose into Law the serious economist and policy-maker. No one seems to have asked why Philippe, duc d'Orléans, the Regent of France between 1715 and 1723, a serious and concerned politician, would have wanted to hand over the domain of economic policy-making to such an apparently imbalanced individual whose actions seemed to be dominated by the goddess of chance.

The line of economic writers who have been critical of Law is a long one. It starts with Richard Cantillon. Cantillon's *Essai sur la nature du commerce en général*, written probably sometime between 1728 and 1730, may be interpreted as an intellectual refutation of Law's System even though neither Law nor the Mississippi System are ever mentioned.<sup>7</sup> In 1740 Joseph Pâris-Duverney, responding to Du Tot's sympathetic treatment of Law in the latter's two-volume *Réflexions politiques sur les finances et le commerce* (1738), pilloried Law for his attempt to turn the French national debt into shares of the Mississippi Company. Pâris-Duverney wrote that by December 1720 Law had left France 'more drained than it had been by twenty-five years of war and the almost continuous losses at the end of the reign of Louis XIV'.<sup>8</sup> Pâris-Duverney was not, however, an objective commentator on either Law or his System. He was a leading financier of the period, as were his brothers, who had no interest in seeing Law succeed. Though Law had tried hard to establish a *modus vivendi* with them at the start of his System, the relationship soon broke down, and Law took over the profitable tax-farming system that they had been managing. One of the objectives of Law's System was directed at ridding the French economy of the need for financiers such as the Pâris brothers.

As the eighteenth century progressed some economic writers had difficulty in taking unequivocal positions with respect to Law. The abbé Galiani classified the System as ‘one of the strangest productions of the human intellect’ (‘una delle più strane produzioni dell’intelletto umano’) and Law as ‘a man of the most wonderful and rare genius (‘uomo d’ingegno mirabile e rarissimo’).<sup>9</sup> David Hume and Adam Smith, fellow-countrymen of Law’s, had a distinctly ambivalent approach to him. Hume, though not mentioning Law by name, clearly refers to him in his essay ‘Of Public Credit’ as ‘the daring projector’ and ‘the doctor’ who destroyed France during the Regency, when he writes:

it is not altogether improbable, that, when the nation becomes heartily sick of their debts, and is cruelly oppressed by them, some daring projector may arise with visionary schemes for their discharge. And as public credit will begin, by the that time, to be a little frail, the least touch will destroy it, as happened in France during the regency; and in this manner it will die of the doctor.<sup>10</sup>

Smith qualifies Law’s ideas as presented in *Money and Trade* (1705) as ‘splendid but visionary’, adding that they had ‘in part, contributed to that excess of banking which has been complained of both in Scotland and in other places’.<sup>11</sup> It is noteworthy that both Hume and Smith use the adjective ‘visionary’ when referring to Law.

Law obtained a fairer assessment from another Scotsman, Sir James Steuart, who, while critical of the excesses of his System, had read Du Tot’s assessment of Law and the System. He exonerated both Law and the Regent from the charge of knavery:

It may seem surprising that I should take so much pains to vindicate the two principal conductors of that scheme. My intention is not so much to do justice to their reputation, which has been grossly calumniated by many, who have written the history of those times, as to prove, that an ill concerted system of credit may bring ruin on a nation, although fraud be out of the question: and if a nation be plunged into all the calamities which a public bankruptcy can occasion, it is but a small consolation to be assured of the good intentions of those who were the cause of it.<sup>12</sup>

The French revolutionaries, when issuing the *assignats* for the first time in 1790, a system almost replicating the land bank model advocated by Law both in the *Essay on a Land Bank* (1704) and in *Money and Trade*, had a splendid opportunity to reassess Law’s actions. Instead, the opponents of the *assignats* raised the spectre of Law as a warning against them. At the same time the proponents of the *assignats* dismissed any association between Law’s paper money and the *assignats*. As a result Law, probably the most frequently quoted economic writer during the debates of 1790, was denigrated by both sides.<sup>13</sup>

Throughout the nineteenth century, the Scotsman had few serious supporters. The best work published on Law’s System was by Émile Levasseur, but this is quite critical of Law.<sup>14</sup> Writers such as Courcelle-Seneuil liken Law’s System to a fantasy from *A Thousand and One Nights*. Karl Marx, who should have known better,

remarks that Law possessed ‘the pleasant character mixture of swindler and prophet’.<sup>15</sup> Perhaps Marx had been influenced by the inclusion of the failure of the Mississippi System in the first chapter of Charles Mackay's bestselling *Memoirs of Extraordinary Popular Delusions and the Madness of Crowds* (1841).

A more balanced note was struck by J. Shield Nicholson at the end of the nineteenth century when he writes:

Having regard to the circumstances of the time, to the rudimentary condition of monetary science, and to the want of national experience in credit transactions, he displayed both wonderful originality and wonderful soundness . . . But in spite of this catastrophe [the collapse of the Mississippi System] John Law may have been an excellent financier, just as Napoleon was a great soldier in spite of Waterloo.<sup>16</sup>

Two of Cambridge's great economists had little time for Law. Alfred Marshall, having similar difficulties to David Hume and Adam Smith in assessing Law, ultimately summarizes him as ‘that reckless, and unbalanced, but most fascinating genius’,<sup>17</sup> while John Maynard Keynes, though briefly referring to Law in *A Treatise on Money*,<sup>18</sup> studiously avoids any mention of him when looking for antecedents of his approach in *The General Theory of Employment, Interest and Money*.<sup>19</sup> This omission is surprising given that Law's System had many parallels with that which Keynes was advocating. It may be surmised that Keynes avoids listing Law as one of his precursors because Law's System had failed.

Edgar Faure, Law's most recent biographer, despite his desire to present a more balanced account of the System in *La Banqueroute de Law*, shows a basic lack of understanding of Law's theories and policies.<sup>20</sup> According to Faure, Law's System had two phases: the first phase produced the wise plan (‘le plan sage’), while the second phase, representing all that happened from September 1719 onwards, Faure deems the mad plan (‘le plan fou’). This categorization suggests that Faure had an insufficient appreciation of Law's writings. It is quite clear that Law believed that debt management, which Faure links with the mad plan, was as necessary as monetary policy in France in 1719.

Amongst twentieth-century writers on John Law, it is fascinating to read the view of Joseph Schumpeter, author of *A History of Economic Analysis*, the *magnum opus* of books on the history of economic thought. Schumpeter, unlike Hume, Smith, and Marshall, was unstinting in his praise of Law:

John Law (1671–1729) I have always felt is in a class by himself. He worked out the economics of his projects with a brilliance and, yes, profundity, which places him in the front ranks of monetary theorists of all time.<sup>21</sup>

This is a remarkable assessment from Schumpeter, who was not noted for extolling many of the pre-Walrasian economists. Unfortunately, Schumpeter died before completing this section of *A History of Economic Analysis*. He left no explanation as to why he considered Law in ‘the front ranks of monetary theorists of all time’.

The present book, while highlighting certain facets of Law's career, concentrates on two main aspects of his work: (1) the nature of his economic theory; and

(2) the way he attempted to convert this theory into economic policy. Analysing Law's contribution to economic theory involves determining what he actually wrote and did not write. Examining the second aspect involves showing the relationship of his economic ideas to the development of the Mississippi System. The Mississippi System represented a revolution involving not only the attempt to solve the monetary crisis caused by a shortage of money through the replacement of a metallic monetary system by a paper money system, but also the bid to solve France's financial crisis through a debt-management policy involving the substitution of shares for public debt.

Previous writers have not been successful in explaining either of these aspects. Many, attracted by the colourful aspects of Law's character, have produced merely anecdotal accounts of Law and the Mississippi System. The more serious writers have failed to provide an accurate assessment of Law's theories and policies because of the absence of an accurate collection of his writings. Despite Paul Harsin's painstaking efforts to produce the collected works, in the *Ceuvres complètes* he incorrectly attributes, as will be shown in Chapter 2, two very long *mémoires* to Law which were not written by the Scotsman. The exclusion of these texts and the discovery of the manuscript *Essay on a Land Bank*, written prior to *Money and Trade*, along with some other important *mémoires* written by Law in French, provide the framework for a new appraisal of Law's contributions to economic theory which has hitherto been impossible because of the mistakes made in assembling the corpus of Law's economic writings.

The second area for analysis concerns the development and working of the Mississippi System. The System needs to be interpreted against the background of Law's economic theory. Law's economic theory was for the most part both logical and consistent. The System, as it overheated and eventually blew up, may be criticized for being illogical and inconsistent. If this is the verdict, and it is the assessment of many writers on the Mississippi System, then there was a basic incompatibility between Law the theorist and Law the policy-maker. Such a verdict leaves the biographer with a choice. Does he accept the incompatibility by counterattacking that, just as Napoleon cannot be judged by his defeat at Waterloo, so also the theory and policy of Law should not be judged by the financial crash of 1720? Alternatively, is it possible to judge Law's policies as consistent with his theories, but to show that the opposition of vested interests forced him to push the System too far and too fast, developments that caused the unravelling of this consistency? If one accepts the former interpretation, Law emerges, alongside many other historical personalities, as a type of flawed genius. If one accepts the latter interpretation, Law appears in a clearer light, a man who failed due to the circumstances of his time, but one worthy of a more sympathetic hearing by a modern audience.

## 2 Law's Writings and His Critics

John Law has attracted the interest of many writers. In the twentieth century two of the most active scholars researching on John Law were Paul Harsin and Earl Hamilton. Harsin set out to produce a complete edition of John Law's writings while Hamilton had the objective of producing a multi-volumed biography of Law. Harsin, though he succeeded in producing a three-volume collection of Law's writings, erred in attributing two very long manuscripts to Law. Hamilton, who devoted some fifty years of his life to Law, never produced his promised biography and left only a couple of short articles on the man he so passionately studied.

### Law's Writings

The first prerequisite to a study of John Law's economic theories and policies is to provide a comprehensive guide to his actual writings. The initial attempt do this by Sénovert in 1790 produced only a small number of his writings.<sup>1</sup> It was not until the twentieth century that any significant effort was made to classify them. Paul Harsin, in producing the three-volume *Œuvres complètes* in 1934, opened up a wide range of new perspectives on Law by discovering many of his unpublished *mémoires*. The *Œuvres* seemed to be the definitive edition of Law's writings. Unfortunately it also led researchers into academic blind alleys. Harsin deserves considerable praise for his efforts in producing Law's works. Without such modern aids as word processors and photocopying machines, the task of assessing and comparing the numerous *mémoires* ascribed to Law, copies of which are housed in libraries not only in France but also in Belgium, Holland, Italy, and the United Kingdom, was considerable. The problem with the Harsin edition of the *Œuvres* is that it contains two very long manuscripts, constituting nearly half of the totality of the three volumes, which were not written by Law.

Harsin included in the *Œuvres* a very long *mémoire*, of some two hundred pages, the 'Restablisement du commerce', occupying nearly two-thirds of the second volume. This work had been located in the Bibliothèque municipale de Chartres.<sup>2</sup> The history of the work highlights the type of pitfalls that even the

most diligent researchers of the undoubted calibre of Paul Harsin may fall into. The manuscript of the 'Restablisement du commerce', unfortunately destroyed by bombing during the Second World War, bore a handwritten inscription, 'Donation par Monsieur Law. Montesquieu' on its title-page. As Montesquieu had visited Law in Venice, shortly before the latter's death, it seemed natural to surmise that Law had presented Montesquieu with a manuscript of some of his earlier work. The linkage between Law and the Chartres manuscript seemed to be substantiated further by Law's signature on one of its pages. Harsin was convinced that the signature was that of Law, writing 'the authenticity of the two signatures which any expert may easily verify, raises not the slightest suspicion'.<sup>3</sup>

Law's authorship of the manuscript seemed to be further confirmed by the nature of the proposals it contained. Its author suggested the flotation of a publicly quoted company whose shares would be held by the general public. The objective of the company was to centralize under its control all the French trading companies, through a Royal prerogative, so that it could develop France's foreign trade more effectively. Alongside this proposal the author recommended a wide variety of policy measures including the establishment of a bank with the objective of abolishing the national debt over a twenty-five year period, as well as a range of measures to develop agriculture and industry. The parallel between these proposals and some of the economic policies pursued by Law seemed to suggest that Law had conceived the basis of his System as early as 1715.

Harsin was mistaken in attributing the manuscript to Law; indeed, a closer look at its actual content should have shown this. Acting on the advice of Jacob Price, Lionel Rothkrug examined the works of Jean Pottier de la Hestroye and showed that at least 40 per cent of the Chartres manuscript emanated verbatim from the pen of Pottier.<sup>4</sup>

More recently, Edgar Faure in *La Banqueroute de Law* revealed how the supposed Law signature and dedication came to be on the Chartres manuscript.<sup>5</sup> Faure traced the provenance of the Chartres manuscript back to the family of the academician Chasles, who, it seems, had been duped into buying a collection of manuscripts and autographs by the forger Vrain-Lucas. Included in the collection was a letter from an eleven-year-old Newton to Pascal and, even more dramatically, a letter from Mary Magdalene to Lazarus—in old French! Side by side with such supposed historical connections the Law/Montesquieu connection seems positively prosaic though none the less false. Signature and manuscript forgeries, unfortunately, have not been limited to the world of art.

My own research leads me to believe that Law did not write a second long *mémoire*, the 'Histoire des finances', which occupies a substantial part of the third volume of the *Œuvres*.<sup>6</sup> In the archives of the marquis d'Argenson at the Bibliothèque universitaire in Poitiers there is a manuscript copy of the 'Histoire des finances'. The text of this manuscript is not unique, for Harsin located five copies of it in various collections, and I have come across a further three copies, one belonging to the Canadian bibliophile, Lawrence Lande,<sup>7</sup> one held in the



Bibliothèque Historique de la Ville de Paris, and the Poitiers text. Who was the author of the 'Histoire des finances'? H. Germain Martin believed that it was written by René Pallu. The copy in the Bibliothèque Nationale contains a note, 'On la dit faite par le Sr Angrand de Fontpertuis'.<sup>8</sup> Nicolas Louis Le Dran, who worked as a librarian at the Ministry of Foreign Affairs in Paris and who used the 'Histoire des Finances', believed that it was written by Louis Engilbert, comte de La Marck (1674–1750), the French ambassador to Sweden between 1717 and 1719, and a great friend of both Law's and the duc de Bourbon's.

Notwithstanding Le Dran's attribution, and the fact that most of the copies of the 'Histoire des finances' that he examined contained an account of Law's death in Venice in 1729, Harsin decided that, while Le Marck may have helped in the compilation of the 'Histoire des finances', it was written by Law. So it was included in the *Œuvres* as representing Law's retrospective assessment of the Mississippi System.

However, the copy of the 'Histoire des finances' manuscript in the Argenson archives at Poitiers proves quite conclusively that John Law was not the author.<sup>9</sup> The key evidence is to be found in a marginal annotation in the manuscript referring readers to the French translation of Law's *Money and Trade* and the detailed criticisms of the text by Du Tot in comments that he made at the end of the Poitiers manuscript. The detail of this evidence is as follows. First, there is a most revealing note where the author refers to the French translation of Law's *Money and Trade*, *Considérations sur le commerce et sur l'argent*.<sup>10</sup> The note reads: 'Voyez M. Law p. 29 de ses Considérations sur le commerce et sur l'argt.'<sup>11</sup> If the author of the 'Histoire des finances' was Law surely there would have been a more personal allusion to the work that he had written.

The Poitiers copy also contains comments at the end by the enigmatic Du Tot, who worked as the deputy treasurer of the Royal Bank in 1720, which cast further serious doubts as to Law's authorship of this text. In these comments Du Tot on a number of occasions refers the author of the 'Histoire des finances' to his book the *Réflexions politiques sur les finances et le commerce*, which was published in 1738. As Law died in Venice in 1729 it is obvious that Du Tot was not addressing his comments to the long-interred Law but to some other writer who was still living some time after 1738. Unfortunately we do not know the name of this writer.

As a result considerable care needs to be exercised when using the Harsin edition of Law's works. Additionally, I have discovered a number of other works, not in Harsin, which were written by Law, including a most important work, the *Essay on a Land Bank*,<sup>12</sup> which was written a year or two prior to *Money and Trade*. The fact that over half of the actual printed material attributed to Law in the *Œuvres* is demonstrably not by him, along with the discovery of new material of which he was certainly the author, suggests that another book on Law is of considerable relevance, particularly in tracing the filiation and development of his economic thought.

## The Hamilton Enigma

Alongside Paul Harsin, the other most notable twentieth-century researcher on John Law was the late Professor Earl J. Hamilton (1899–1989), who devoted over fifty years to researching Law and the Mississippi System. Harsin's mistake was to attribute too many works to Law; Hamilton erred the other way, in not publishing the vast volume of research material that he uncovered on Law.

In the 1930s Earl Hamilton—who produced a trilogy of books on the link between the price level and the quantity of precious metals emanating from the Spanish Americas between 1351 and 1800—decided to write a series of books on John Law.<sup>13</sup> From the 1930s until his death in 1989 Hamilton was unstinting in the amount of time he spent looking for material on Law and his System in archives and libraries all over Europe and North America. During this time he was most ably assisted by his wife, Gladys, who worked assiduously beside her husband as he mined a wide range of archival sources.

Additionally, Hamilton, funded by a number of Rockefeller grants, as well as support from the universities in which he worked (most notably Chicago and Duke), was able to finance research assistants in various European countries to undertake exploratory work in their archives on Law and his System. He was most fortunate to employ Mme Madeleine Jurgens, a noted archivist attached to the Minutier Central of the Archives Nationales, to assist him in locating material in Paris, the centre of Law's French-based activities. Thus during a period of over fifty years Hamilton, assisted by his wife, Mme Jurgens, and some other researchers, collected material on John Law. As such the collection embodies the work of at least three people working over this period—one hundred and fifty man years on this subject. It is difficult to envisage such an exhaustive undertaking on the primary sources of Law and his System ever being undertaken again. The Hamilton papers will be unique in providing scholars with a very wide base of documentation on John Law and his System.

A problem arises, however, when it comes to assessing this work. Hamilton, unfortunately, ran out of time and never wrote any of his five projected books on Law and his System. In the Summer of 1990 I was very kindly invited by Professor Larry Neal of the University of Illinois to inspect the Hamilton papers, which he was temporarily housing on the university's campus at Champaign/ Urbana. Having spent nine days looking over the Hamilton papers, both Professor Neal and myself were baffled as to why, apart from a number of journal articles,<sup>14</sup> Earl Hamilton never succeeded in publishing even one volume on the man he had spent fifty years researching. His correspondence shows that in 1939, after some research trips to Europe, he contemplated producing the first volume within a year. Perhaps the war intervened to stop this effort. In 1945 he wrote to potential publishers promising that he had five books, not all of which were on Law, lined up for publication. In 1960 he corresponded with Mme Jurgens, promising that the first volume of his multi-volumed work on Law, relating to Law as a gambler and

risk-taker, would soon be published. No book ever appeared. Indeed it seems that no draft or drafts for such books were written, or if they were, they were hidden or misplaced by the elderly Hamilton.

One can only speculate as to why this material was never put into even draft form. Hamilton was obsessive about locating every item of information possible on Law. Mme Jurgens, unwittingly, fed this obsession, as she unearthed each year more and more new aspects of Law's career and System through her detailed research in the Archives Nationales. The continuous location of new material seemed to prevent Hamilton from writing, as in his zeal to have a more detailed picture of Law and his System he pressed on looking for further information on the people and events linked to Law that Mme Jurgens discovered. Further visits had to be made to the Bibliothèque Nationale, the Bibliothèque de l'Arsenal, the Bibliothèque Mazarine, in Paris, the Dutch archives in Amsterdam, the Public Records Office in London. As the material was located it was microfilmed and then either photocopied, or written out in longhand by Gladys Hamilton. Finally it was re-read by Hamilton himself, and file cards were typed or written outlining the main features of the material studied.

In broad terms the Hamilton papers may be categorized in three formats: (1) microfilm of material on John Law and his System located in a wide range of libraries and archives; (2) photocopies of the microfilm plus typed and handwritten notes of material on microfilm; (3) file cards summarizing some of the main material produced by the second format. These papers have been donated by Mrs Sita Halperin, the daughter of Earl and Gladys Hamilton, to the special collection of economists' papers at Duke University. Mrs Halperin also generously donated her father's collection of books and pamphlets on John Law and his System to the University of Chicago library. This latter collection contains such extremely scarce works as the first edition of Law's *Money and Trade* (1705), and Du Hautchamp's *Histoire générale et particulière du Visa* (1743).

Unfortunately, there is little order in the Hamilton papers. It will take the librarians of Duke University, assisted by experts on Law and his System, many years to classify them. Once this work is done the collection will provide scholars with a vast range of material to help assist research not only on John Law and his System but also on the financial system in France over the first two decades of the eighteenth century. As such, Earl and Gladys Hamilton will have left a very rich legacy for future generations of scholars. I only had the time to make a very cursory examination of Earl Hamilton's papers, and as my own research was at an advanced stage I decided to concentrate on material I had already collected rather than attempting to utilize them fully. I have indicated in my text any use of sources found by Hamilton. My main reason for taking this line was to avoid being swallowed up in the vortex of minutiae concerning the System, a vortex which, unfortunately, Hamilton seems to have fallen into. Hamilton wanted to write the complete history of the System. Such an objective was unattainable, to my mind, because of the destruction of the papers of the Mississippi Company, most

notably the notarial archives of John Law which had been drawn up by the notary Ballin.<sup>15</sup> This destruction has left huge gaps, which may only be partially filled by recourse to the wide range of alternative archival material on the System.

## 3 Law's Background

### Non Obscura Nec Ima

It is tempting, given that his father, William, was a goldsmith, to observe that John Law was born with a golden spoon in his mouth when his mother Jean (née Campbell) delivered him into this world in April 1671 (we surmise April as he was baptised on 21 April 1671). The witnesses at the christening, entered on the City Parish Register of Baptisms of Edinburgh were ‘Mr. John Law, John Law, goldsmith, Archibald Hislope, bookbinder, Hugh Campbell, John Melvill, and John Murray, merchants’, an appropriate setting in the world of merchants, books, and goldsmiths in view of Law's later career.<sup>1</sup> According to Fairley, Law's mother Jean was a Campbell of Schankstoun, an old Ayrshire family, and her father James Campbell was a merchant. As such she was not ‘descended from the noble house of Argyle’ as Wood suggested.<sup>2</sup> Two of Jean Campbell's sisters married close friends of William Law's: Agnes Campbell married Andrew Anderson, the king's printer, on 26 June 1656, and Beatrix Campbell married Archibald Hislope, bookbinder and bookseller on 7 August 1668.<sup>3</sup>

The goldsmith's trade was very much a way of life for the Law family. William Law, along with his brother John, had both been apprenticed by their clergyman father, John Law of Waterfut, to become goldsmiths. William Law's first wife, Violet Cleghorne, was the elder daughter of a goldsmith, George Cleghorne. Three of the economist John Law's brothers, Andrew, William, and Hugh, were later to be admitted to the Goldsmiths' Incorporation. There were Law goldsmiths in Edinburgh from the start of the sixteenth to the middle of the eighteenth century. William Law was sufficiently well established in Edinburgh in 1674 to be one of the three goldsmiths called in to assist a Royal Commission, appointed by Parliament, to inquire about a mint.<sup>4</sup>

It is even more tempting to hypothesize that Law's later career, during which he replaced specie money with paper money, and attempted to demonetize gold and silver, was driven by some Freudian rebellion against his family background. Such a hypothesis is alluded to by Edgar Faure in the opening chapter of *La Banqueroute de Law*, the title of which is ‘The Enemy of Gold was Born in a Goldsmith's House’.<sup>5</sup> Was Law rebelling against his father's house of gold? This assessment is inappropriate, for by the time Law was born the goldsmith's trade

was undergoing a profound metamorphosis involving a change, in many instances, from that of metallic craftsman to one of banker.

Clarendon, writing towards the end of the seventeenth century, described the evolution of goldsmiths into bankers: 'bankers were a tribe that had risen and grown up in Cromwell's time, and never were heard of before the late troubles, till when the whole trade of money had passed through the hands of scriveners; they were for the most part goldsmiths'.<sup>6</sup> Nicholas Barbon, writing in the 1690s, described the growth of goldsmiths' notes in trade prior to the establishment of the Bank of England:

Publick banks are of so great a concern in trade, that the merchants of London, for want of such a bank, have been forced to carry their cash to goldsmiths, and have thereby raised such a credit upon goldsmiths notes, that they pass in payments from one to another like notes upon the bank; and although by this way of credit, there hath been very vast sums of mony lost, not less than two millions within five and twenty years, yet the dispatch and ease in trade is so great by such notes, that the credit is still in some measure kept up.<sup>7</sup>

Sir John Clapham confirmed the evolution of the goldsmiths into bankers, noting that:

In the early years of the Restoration, the goldsmith bankers of London were doing every kind of banking business. They accepted deposits at interest—6 per cent was a normal rate—giving receipts, on presentation of which repayment was made; they kept 'running cashes', also interest bearing, but without the formal receipt, and so easily drawn upon; they honoured their customers' 'drawn notes' on these; and their own promises to pay the depositor or his order, and then the depositor or the bearer, their 'bills' or 'notes', were getting into circulation. As goldsmiths they bought and sold bullion and did ordinary business. With the funds at their disposal they discounted commercial bills and different sorts of official obligations—tallies, Exchequer orders of various kinds.<sup>8</sup>

The number of goldsmiths who kept 'running cashes' increased from thirty to forty in London between 1670 and 1677,<sup>9</sup> and it is reasonable to suppose that William Law and the Edinburgh goldsmiths were following the example of their colleagues in London in developing banking opportunities—his will showed that he had debts of £25,000 owing to him from Scottish nobles such as Argyll, Balcarres, Burghly, Douglas, Dundonald, Hamilton, Mar, Roxburghe, and Seaforth.<sup>10</sup> He was probably also involved in financing the Scottish cattle trade. A. B. Haldane has shown that while 'money was short credit was long, and the written promise to pay or bill of exchange was in active circulation'.<sup>11</sup> In order to pay for cattle, acquired in the north and west of Scotland, drovers paid a small amount of the purchase price in ready cash and the rest in promissory notes or bills, payable in three months, drawn on merchants and goldsmiths in Edinburgh. These notes then circulated as a type of medium of exchange. The drovers then moved the cattle southwards, selling them at the border to English buyers, and then used the proceeds to repay the merchants and goldsmiths. In providing small amounts of cash and letters of credit to the drovers the goldsmiths had started to act as rudimentary

bankers. Rather than rebelling against the tradition of his father's trade, Law was part of an underlying current which was producing a radical restructuring of the activities of the goldsmiths. The relative novelty of the goldsmith/banker in England may be seen from the title of a critical pamphlet attacking the goldsmiths published in 1676, *The Mystery of the New Fashioned Goldsmiths or Bankers*. This new activity of trading as a goldsmith/banker was no guarantee of financial success, however. Despite their growth to 44 in London by 1677 the numbers fell to only twelve or fourteen by the time of the foundation of the Bank of England. This fall in numbers may have been due to runs on the goldsmiths in 1674, 1678, 1682, and 1688.<sup>12</sup> Surviving as a goldsmith was a hazardous business.

At a social level the goldsmiths were reasonably placed in the hierarchy of tradesmen, as Fairley remarked: 'Goldsmiths . . . were deemed a superior class of tradesmen and were wont to appear in public with cocked hats, and gold mounted canes, as men of undoubted consideration.'<sup>13</sup> Gray remarked that Law's father educated John 'as a gentleman; his younger son William, he brought up in his own trade', though he went on to describe both John and his brother William as 'men of low birth'.<sup>14</sup> The father probably had a considerable affection for his son, John, as two other sons, George, born in 1662, and James, born in 1667, had only lived till they were three or four years old. John was therefore the eldest surviving son, and when the father purchased the estate of Lauriston on 4 June 1683 he vested its ownership in himself and his wife for their lives with the remainder fee simple being settled on John. The estate of Lauriston was situated in the ancient Midlothian parish of Cramond, which later became part of Edinburgh when the city's boundaries were extended. So Law could claim the title of Lauriston, a title that is still held by a French descendant of the family today, the comte de Lauriston. The motto of the family was 'non obscura nec ima' (neither obscure nor base)—one that John Law would certainly live up to.

William Law did not live to see the further development of banking in England and Scotland. He died in Paris in 1683 after a lithotomy operation to have a stone removed from his bladder. His son, John, was only twelve when he died. It seems that shortly before his death Law's father had decided to remove his son from the temptations of Edinburgh by sending him to the grammar school at Eaglesham, 'a very retired corner', studying under the Revd. James Woodrow, a relative of Law's family. Mr Woodrow had moved to 'a safe recess at Eaglesham, from the terrible barbarity of the times', according to his son, Robert, who was alluding to the religious persecutions of the time. There Mr Woodrow established a grammar school for his children and a number of others who lodged with him in his house. The children were taught by Mr Michael Rob, 'who was the first Presbyterian minister ordained after the liberty, at least in the west'. Robert Woodrow, writing in 1720, remembered Law's presence in his father's school:

I mind among the scholars at that school, there was one about 1683 or 4, who of late has made a surprising figure and blaze through all Europe, John Law, son to a goldsmith at Edinburgh, whom his father sent to Eaglesham, both to be removed from the temptations

of Edinburgh and to be under the care of Mr. Hamilton [the indulged minister of the Parish] who was near allied to him, and to be under my father's inspection, who was pretty near related to him, by his mother, and the Dunlops of Pulnoon Mill, one of whose sisters, if I right remember, was married to Mr. Wm. Law Minister at Neilston (or was his mother) grandfather to the famous Mr. Law.<sup>15</sup>

As Law's sister, Agnes, married John Hamilton, the son of the Revd. James Hamilton of Eaglesham, on 4 April 1684, the economist found himself still very much under the care of his family.

Little is known about Law's schooling. Though prepared to accept Wood's opinion that Law was brilliant in mathematics, an inherent ability that he would later use to great advantage on the gaming tables of Europe, one would be more reluctant to accept his statement that 'he [Law] likewise bestowed much time and labour to acquire a deep insight into the principles of public and private credit; the state of trade and manufactures; the theory and practice of taxation; and, in short, of all circumstances respecting political economy in general'.<sup>16</sup> This type of curriculum was not available in late seventeenth-century schools—remember the term economics had not yet been coined—and while Law would later devote considerable time and attention to money, banking, trade, and taxation the evidence seems to suggest that he had some wild oats to sow prior to coming to grips with these issues. Law, the beau and the dandy, preceded Law the economist.

Surprisingly, he also seems to have been a sportsman, acquiring considerable tennis skills if the following is to be believed:

The game of tennis, which is now entirely given up in Scotland, was an exercise much in vogue all over Europe in the last century. . . . I have heard it said, that the famous John Law of Lauriston, afterwards Comptroller-General of the Finances in France and James Hepburn, Esq. of Keith, were the most remarkable players at tennis.<sup>17</sup>

Little else is known about Law's adolescent years. On finishing school at Eaglesham he probably returned to Edinburgh. Edinburgh in the late seventeenth century was not the beautiful city it is today. Joseph Taylor, a barrister of the Inner Temple, who visited it in 1705, was scathing in his comments on its hygienic state, finding that:

Every street shows the nastiness of the inhabitants, the excrements lie in heaps, and there is not above one hour of office in the town, which may not improperly be called a house of office itself. In a morning the scent was so offensive, that we were forced to hold our noses as we passed the streets, and take care where we trod for fear of disoblighing our shoes, and to walk in the middle at night for fear of an accident on our heads. The lodgings are as nasty as the streets, and washed so seldom, that the dirt is thick enough to be pared off with a shovel, every room is well scented with a close stool, and the master, mistress and servants lie all on a floor, like so many swine in a hogsty; this with the rest of their sluttishness, is no doubt the occasion of the itch, which is so common amongst them.<sup>18</sup>

Making allowances for a certain amount of English superciliousness towards the



Pl. I. Half-length portrait of John Law. Print published in *Het Groote Tafereel der Dwaasheid* (Amsterdam, 1720) 18



Scots, Edinburgh nevertheless seems to have borne little resemblance to the borough of Eden that its name might suggest.

The itch Law seems to have acquired was the itch to travel, with London acting as the immediate magnet. He later wrote that 'London being a place of more diversion than Edinburgh, the gentry will continue to go to London for places or pleasure'.<sup>19</sup> As the fee simple owner of the estates of Lauriston and Randleston, Law could now count himself as an aspiring member of the Scottish gentry, but he was soon to dispossess himself effectively of these estates as he overspent his way through London.

Law had not yet acquired the mastery of gambling he was later to possess, but he was regarded as a dashing handsome man. Du Hautchamp later described him as follows: 'Law was tall and well built . . . an oval face, . . . a tender look, an aquiline nose, a fine mouth. Without flattery one could classify him as one of the best built men.'<sup>20</sup> The author of the 'Histoire des finances' confirmed this: 'He was a Scottish gentleman whose manners and face were noble, soft and penetrating; these physical attributes were even more striking in his soul.'<sup>21</sup> Beauty has its costs, as Law the beau was seemingly to discover, when he became embroiled in a battle of the beaux in Bloomsbury Square, London in 1694.

## 4 Duelling Beaux

In 1694, at a time when his fellow-countryman, William Paterson, was busy establishing the Bank of England, John Law, with an address in St Giles in the Fields, seems to have been more interested in leading the life of a rake in London. His nicknames, Jessamy (a corruption of Jasmine, implying a fop or a dandy) John and Beau Law, suggest that he was known around town more for his amorous adventures and gambling than for any incipient banking knowledge. In *An Essay in Defence of the Female Sex* (1696), attributed to Mary Astell, the author presented her impressions of a variety of groups of men ranging from pedants to squires, to virtuosos, and so on. Pride of place was given to the 'beau' who was described thus:

Of the first rank of these is the Beau, who is one that has more learning in his heels than his head, which is better covered than filled. His tailor and his barber are his cabinet council, to whom he is more beholding for what he is, than to his maker.

In a sequel, *A Farther Essay Relating to the Female-Sex* (1696), Mary Astell developed her satirical attack on the beaux of the period, ridiculing them as follows:

A beau is a bundle of vanity, composed of ignorance, pride, folly and debauchery; a silly, huffing thing, three parts fob, and the rest Hector; a kind of walking mercer's shop, that shews one stuff today, and another tomorrow, and is valuable just according to the price of his suits and the merits of his taylor; a spawn of gentility, that inherits the vice of his ancestors, and is like to entail nothing but infamy, and diseases on posterity.

Law, a leading beau of the day, seems to have been living up to this caricature, for the evidence shows that he had run out of money in London by 1693 and was obliged to convey back to his mother the estates of Lauriston and Randleston in return for a cash payment, a development that suggests that his expenditure was out of line with his income, or that he had not yet attained a mastery of gambling.

Events on 9 April 1694 heralded the end of Law's career as a beau, at least in London, when he killed one of the most talked about men in London, Edward Beau Wilson, in a duel in Bloomsbury Square. At the time of the battle of the beaux, Law was, according to one rumour, living with a Mrs Lawrence. Evidence later presented in court purported to show how a row developed between Law and Wilson concerning this lady.

Who was the mysterious Edward Wilson? Despite coming from a relatively modest background—his father's income not amounting to more than £200 a

year—he had a sumptuous style of living which was the talk of the town. On the day after the fight a newspaper, the *Greenwich Hospital News Letter*, immediately focused attention on Wilson's stylish mode of living, the financing of which was a mystery to all:

Yesterday morning one Mr. Wilson, the ‘mirrou’ of the town, having lived for five years past at the rate of 4,000 or 5,000 L per annum, without either estate or visible way of getting a penny or running in any man's debt was killed in Southampton Square by one Mr Laws, a Scotchman, upon a slight quarrel.<sup>1</sup>

In the account of the court proceedings, the *London Journal* outlined Wilson's lifestyle:

This Mr. Wilson was the wonder of the time he lived in; from low circumstances, he was on a sudden exalted to a very high pitch for in gay dress, a splendid equipage and vast expence, he exceeded all the Court. How he was supported, few (very few indeed) truly know; and those who have undertaken to account for it, have only done it from the darkness and uncertainty of conjecture. But in the midst of gaiety, he fell by the hand of the then private Mr Law, and not very fairly neither.<sup>2</sup>

Clearly Law had not engaged in a duel with an unknown personality. Wilson was the talk of the town, ‘the wonder of the time he lived in’. Yet, despite this, no one—the *London Journal* mysteriously hinted at a ‘few’ people—seemed to know how he financed all his expenditure. Another contemporary account described Wilson's lavish expenditure:

a person which by common report of fame, [he] kept a coach and six horses, maintained his family in great splendour and grandeur, no one complaining of his being their debtor; yet from whence, or by what hand he had the effects which caused him to appear in so great an equipage, is hard to be determined.<sup>3</sup>

John Evelyn recounted that:

He lived in the garb and equipage of the richest nobleman for house, furniture, coaches, saddle horses and kept a table and all things accordingly, redeemed his father's estate and gave portions to his sisters . . . The mystery is how this so young a gentleman, very sober and of good fame, could live in such an expensive manner; it could not be discovered by all possible industry and entreaty of his friends to make him reveal it.<sup>4</sup>

Gray, substantiating these accounts, insinuated that he had earlier been a reluctant ensign who showed a marked dislike for military life:

this gentleman had been an ensign in Flanders, but whether the trenches were too cold for his constitution, or that he did not like fighting, he quitted his commission and returned to London, where to the surprise of all the town, he commenced beau; he took a great house, furnished it richly, kept his coach and six, had abundance of horses in body cloaths, kept abundance of servants, no man entertained nobler, nor paid better; he had credit with the most considerable bankers of the city, had no visible estate, never gamed but for trifles, and even these he generally lost.<sup>5</sup>

The same author later recounted how Wilson, who spent about £6,000 a year (a

massive sum of money at that time), had 'no ready money by him when he died', which suggests that he was in receipt of financial support from some very rich backer. Wilson was a man with plenty of money to spend but also a man of mystery, for all of London knew that he was not generating this income from his own commercial activities. Who was the real source of his income?

One story which circulated later associated Wilson as the lover of Miss Elizabeth Villiers, afterwards Countess of Orkney. At the time, the 37-year-old 'Betty' Villiers was the favourite mistress of William III, so that it is possible that the king may, unwittingly, have been subsidizing Beau Wilson's extravagant lifestyle. According to this account, and it does seem quite fanciful, Elizabeth Villiers, while walking in Kensington Park, spotted Wilson and, much struck by his beauty, she arranged a rendezvous with him, using her maid as an intermediary. But it was a rendezvous with a difference, in that she appeared masked at the tryst. An affair allegedly developed between the two, with Elizabeth Villiers always concealing her face when consorting with Wilson. Wilson pleaded with his masked mistress to reveal her identity but she refused. Following his pleas she decided to break off the affair and sent a maid to acquaint Wilson with her decision. He revealed to the maid that he had already learnt of Elizabeth Villiers's identity, having recognized a ring that he had offered her on her hand when she leaned out of the window of her carriage as it passed through Hyde Park. Law was allegedly hired to duel with Wilson in order to rid Elizabeth Villiers of her excessively inquisitive lover.<sup>6</sup>

If one accepts this story, and there seems little chance of being able to authenticate it, then one can understand why King William later became so interested in the battle of the beaux that took place at Bloomsbury Square. At the trial, however, there was no mention of Elizabeth Villiers. Instead, the woman named as central to the dispute was Mrs Lawrence:

The manner of fact was thus. There was some difference happened to arise between Mr. Lawe and the deceased concerning a woman, one Mrs. Lawrence, who was acquainted with Mr. Lawe; upon which on 9th of April instant, they met at Bloomsbury Square, and there fought a duel, in which Mr. Wilson was killed. It was made appear also, that they had met several times before, but had not opportunity to fight. Besides, that there were several letters sent by Mr. Lawe, or given to Mr. Wilson; which letters were very full of invectives and cautions to Mr. Wilson to beware for there was a design of evil against him; and there were two letters sent by Mr. Wilson, one to Mr. Lawe, and the other to Mrs. Lawrence. Mr. Wilson's man one Mr. Smith, swore that Mr. Lawe came to his master's house a little before the fact was done, and drank a pint of sack in the parlor; after which, he heard his master say, that he was much surprized with somewhat that Mr. Lawe had told him. One Captain Wightman, a person of good reputation, gave account of the whole matter, and said that he was a familiar friend of Mr. Wilson's, and was with him and Mr. Lawe at the Fountain Tavern in the Strand, and after they had stayed a little while there, Mr. Lawe went away after which Mr. Wilson and Captain Wightman took coach, and were drove towards Bloomsbury Square; whereupon Mr. Wilson stepped out of the coach into the Square, where Mr. Lawe met him; and before they came near together, Mr. Wilson drew his sword, and stood upon his guard.

Upon which, Mr. Lawe immediately drew his sword, they both passed together, making but one pass, by which Mr. Wilson received a mortal wound upon the lower part of the stomach, of the depth of two inches of which he immediately died.<sup>7</sup>

This was the evidence presented by the prosecution. But was Mrs Lawrence the origin of the dispute or was she introduced just as a decoy to conceal a deeper argument? Later descriptions of Law suggested that he had a calm disposition, possessing considerable sang-froid, particularly when it came to gambling. While it is possible that Law, then aged 23, had a more fiery temperament at this stage of his career, it seems somewhat unlikely that he would have involved himself in a duel because of Mrs Lawrence's hurt pride at Wilson's alleged behaviour. Alternatively, was the duel caused by Law attempting to extract money from Wilson under the threat of a duel, knowing that Wilson had no great love of fighting? In such a predicament was Wilson forced to accept the challenge, fearing that if he did not 'every beau in town would follow Law's example, and pick quarrels with him every day and so there would never be an end of it'?<sup>8</sup> Against this it should be noted that Wilson was discretion personified when it came to discussing the source of his fortune. Why in such circumstances seek unwanted publicity by duelling with the relatively impecunious Law? Could there have been a deeper issue that led to the duel at Bloomsbury Square?

The key to understanding the basis of the quarrel which led to the duel surely lies in determining the source of finance for Wilson's lavish expenditure. For Wilson, the ensign, to be metamorphosed into Wilson, the rich beau, he had to have a very wealthy backer—there is no evidence to suggest that he made money through any involvement in activities such as trade or banking. So far biographers have only mentioned the possibility of financial assistance emanating from Elizabeth Villiers. But even here there is an element of unreality, in that it is unlikely that Betty Villiers would both have been in a position and have been willing to provide an income of £6,000 a year to a transient lover, to a man to whom she was unwilling even to reveal her identity! Her income on her marriage, in November 1695, to George Hamilton, later to be created Earl of Orkney in January 1696, was £5,000 per year: 'Betty herself brought him only £8,000, and the Irish estates William had given her and which gave her an income of £5,000 a year—hardly a fortune for a King's ex-mistress.'<sup>9</sup> Betty Villiers had a reputation for shrewdness and discretion. It is extremely doubtful that, even if she had taken a fancy to Wilson, she would have given him all her disposable income.

There is an alternative hypothesis that needs consideration. What happens if Wilson's benefactor was a man rather than a woman, and, that he and Wilson were having a homosexual relationship? Here it is intended to introduce some new evidence, so far overlooked by Law's biographers, which makes this very suggestion. If this evidence is correct then it casts a completely new light on Wilson's source of income, as well as raising intriguing questions concerning the duel with Law.

## The Love-Letters

The evidence is to be found in a pamphlet, *Love-Letters Between a Certain Late Nobleman and the Famous Mr. Wilson: Discovering the True History of the Rise and Surprising Grandeur of that Celebrated Beau*.<sup>10</sup> Though undated on the title-page it is catalogued with a date of 1723 by the British Library. William Roosen has recently provided further evidence to support the 1723 date of publication.<sup>11</sup> The *Love-Letters* run to fifty-three pages and consist of twenty letters implicating Wilson in a homosexual relationship with an unnamed nobleman, and twenty pages of ‘observations on the foregoing letters’ in which the editor connects ‘the broken parts of the story by some additional remarks, which have come to his knowledge from several hands, with whom the parties were very familiar’.<sup>12</sup> So far this rare work has circulated in the antiquarian book trade, classified among the *curiosa* rather than under a heading relating to John Law, and as such it has been overlooked. Yet it brings a new dimension to the Wilson episode, which if true, provides a fascinating insight into the mores of late seventeenth-century English society. Before examining this work it should be remembered that homosexuality was a grave criminal offence at this time and none of the nobility had any wish to have what would have been regarded as the taint of suspicion of homosexuality laid against them. Though the editor of the *Love-Letters* remarked that homosexuality was ‘a sin which is not familiar to our northern climate’, there is some evidence to suggest that there were suspicions that even William III had such tendencies. Burnet remarked of him, ‘He had no vice but one sort, in which he was cautious and very secret’, which prompted a caustic footnote from Dean Swift, ‘It was of two sorts—male and female—in the former he was neither cautious nor secret.’<sup>13</sup>

Are the *Love-Letters* genuine or are they to be treated at worst as a scurrilous attempt to make money out of Wilson's name, or at best as a semi-fictionalized account of events that took place nearly thirty years earlier? Roosen contends that the *Love-Letters* were a fabrication, as they ‘fit together too well and there are too many hints tying the episodes together for them to be letters which happened to be saved’, although he added that ‘the relationship between the two men which the letters reflected may also have truly existed’.<sup>14</sup> In Roosen's view the *Love-Letters* were published because the publisher felt he could make money out of the pamphlet because it involved John Law. This latter viewpoint does not seem convincing, given the rarity of the *Love-Letters*. If the publisher was out to make money from this pamphlet then one would have expected the *Love-Letters* to have been circulated more widely. Their more limited circulation suggests that they may have been intended to discredit John Law at a critical point in his career when, as will be shown later, it looked probable that Law might be recalled to France by the Regent. Law had gone to great trouble to have the French translation of *Money and Trade*, published as *Considerations sur le commerce et sur l'argent* (1720), suppressed, and my surmise is that he was motivated to do so because the Preface contained

details of the Wilson duel and his condemnation to death. The publication of the *Love-Letters* in 1723 suggests that the motive for their publication may have been to denigrate Law at a strategic time when the Regent was once again considering the use of Law's services. By associating Law with the homosexual nobleman, and, furthermore, by raising the possibility that Law was used as a type of 'hit-man' to remove the embarrassing Wilson, the *Love-Letters* may have succeeded in destroying any possibility of Law returning to France. If this hypothesis is correct then one can suspect a political dimension to the publication of the *Love-Letters*. Did some people in the British, or even the French, government decide that Law's return to power in France needed to be blocked? It is interesting to note, in this respect, that the *Love-Letters* were allegedly published by the same publisher, A. Moore, near St Paul's, who published the pamphlet *The Case of Mr. Law Truly Stated. In Answer to a Pamphlet Entitul'd, A Letter to Mr: Law* (1721), a work which was distinctly hostile to John Law. While A. Moore is listed in Plomer's *Dictionary of the Printers and Booksellers who were at Work in England, Scotland and Ireland, 1668-1725*, there is still a suspicion that he may not have existed.<sup>15</sup> It is striking, however, that two works, one published on Law's return to Britain in 1721, and the other at a time when he was actively tipped to return to power in France in 1723, should both emanate from the same named printer. Are the *Love-Letters* mere fiction or do they provide the real reason for the duel between Law and Wilson?

The editor seemed to have been aware that doubts would have been expressed about the authenticity of the *Love-Letters*, for he immediately raised the issue of their authenticity on the first page of the Preface: 'The only contest among the politer part of mankind will be, whether the facts are true, and the letters genuine; or only a fictitious scene of the worst sort of gallantry and the product of a mercenary pen.'<sup>16</sup> In favour of the *Love-Letters*, allegedly found in the secret drawer of a cabinet, formerly owned by the late nobleman, the editor observed that they did provide an alternative explanation of Wilson's extravagant lifestyle and that no previous account of his activities had been able to do so: 'we have not as yet had one tollerable discovery, how the party who is the subject of these Memoirs, kept up that profuse grandeur, in which he liv'd within the memory of multitudes still surviving.'<sup>17</sup> He further attempted to assure his readers that

they are too polite and written with an air too peculiar not to be distinguished from the productions of a feigned intrigue. The thing speaks of itself; and anyone without preface or commentary, might easily see by the naked letters, that they could not come from any person, but one of birth and figure, and many other court-like accomplishments.

To support the case for the authenticity of the letters the editor further asked readers to judge them dispassionately, as they would letters between writers of different sexes, rather than those of the same sex. If the readers could put aside their supposed moral outrage 'all the weeds will then vanish, or be turned into flowers, and in that view let them be seen'.



Intriguingly he finished the Preface by saying that it was not possible to publish one letter:

which relates to a person now living, of too great an interest and figure in this whole concern, to be meddled with at present. All that can be said is, that no reader of common sense can mistake the party, and we have no reason to help his conjectures, when the case is so evident.<sup>19</sup>

Who was this mysterious figure ‘of too great an interest and figure in this whole concern, to be meddled with at present’, by which was meant presumably the year 1723? Readers are assured that no one of common sense can mistake the person in question. It was of course, as will be shown, John Law.

The opening letters established a homosexual relationship between Wilson and the nobleman. Wilson, initially believing, as letter II shows, that it was a woman who was addressing him, was apparently wooed by offers of money from the nobleman:

I know gold has the greatest ascendant over you; for all covet it for what it purchases: This bill may convince you, I have that in my power: I can be fortune to you, and with many blessings, I'll crown the chiefest wishes of your heart; only hasten to gratify the eager impatience of mine, that longs to hold you in these arms, where you may secure me.<sup>20</sup>

In letter III the nobleman, once more sending money to Wilson, requested him to appear in transvestite dress for their rendezvous: ‘I had not above an hundred pieces by me when I received yours, which made me send, swift as the minutes, to the Bank to fetch this.’<sup>21</sup> In later letters he was promising ‘six pretty horses’ to Wilson (letter XIII), and commenting on the extent to which he had improved Wilson's living standard: ‘Did not I take thee from a wretched necessitous life, perplexed with petty duns, and have raised thee to be the nation's wonder.’<sup>22</sup>

Such was his financial generosity and such was Wilson's resultant expenditure that society in London, as has been shown, was awash with rumours concerning the origins of Wilson's fortunes. Unwittingly, according to the *Love-Letters*, some of the nobleman's friends, when discussing Wilson's wealth, asked if it was ‘French money; the jew's jewels, mistresses; or else a contract with the devil?’ They even suggested that it was a matter worthy of Parliamentary consideration, though it was pointed out to them that Mrs V—l—s, undoubtedly Mrs Villiers, would not favour this. This suggests that there may have been some truth in the story linking Wilson and Mrs Villiers.

The narrative in the *Love-Letters* explains that the nobleman's cronies, eager to ascertain the source of Wilson's wealth, plotted to make him drunk so that he would reveal the source of his fortune. The nobleman, presumably concerned that his homosexuality would be revealed to them, formed a plot within the plot asking Wilson to undergo this questioning but not to reveal anything.

While this action temporarily diverted attention away from their liaison, Mrs Villiers allegedly became involved in the story. It may be surmised that because of

the gossip linking of her name with Wilson, she probably feared that any further rumours would disturb her relationship with William III:

for it having been conjectured that Mrs V—l—s (who was the great Lady mentioned in Letter VI.) was the person who had thus raised him, and coming to her knowledge, she was very uneasy, believing if such a report spread, it might occasion a difference between her and the power who supported her; but certainly nothing but a secret esteem for him; with that curiosity, natural to her sex, could induce her to so formidable an attempt to discover his mysterious affairs.<sup>23</sup>

Accordingly she set spies on the trail of Wilson. They reported that about ten in the night Wilson dismissed his servants and took a chair which brought him to a private house near Hyde Park Corner. There he remained till about five in the morning. Mrs Villiers, having determined that the house was just used as a type of accommodation address, then intensified her efforts by setting her spies on both the front and the rear of the house in Hyde Park. Her observer at the rear of the house noticed that about an hour after Wilson's entrance a lady left by chair from the back entrance. Following this chair they saw it arrive at the nobleman's house. There the lady stayed for about four hours before returning to the house in Hyde Park Corner. Shortly afterwards Wilson re-appeared and went back to his own lodgings. Mrs Villiers was then in a position to suspect that it was Wilson who was visiting the nobleman's house. To be doubly sure that it was Wilson she employed a man, referred to as Johnasco in the *Love-Letters*, to stop the chair carrying Wilson between Hyde Park Corner and the nobleman's house.

It is at this point that John Law enters the story as Johnasco. Johnasco appears to be a hybrid of Law's French appellation *Lass*. John *Lass* was punned into *Ass* and then into *Asco*, with the latter two letters linking Law to his Company, the Mississippi Company. Readers were given a more definite clue later in this account when it is written: 'thus began the acquaintance between Johnasco and Wilson, which in the end proved fatal to the latter, though for the present he had secured him his creature.'<sup>24</sup> As it was Law who killed Wilson, by deduction it is obvious that the Johnasco whose acquaintanceship was to prove fatal to him was none other than John Law.

Johnasco, according to the *Love-Letters*, contrived to have Wilson arrested in his chair on the grounds of an outstanding debt owing to Mrs Villiers. Incarcerating Wilson in a sponging house—a house kept by a bailiff or sheriff's officer as a place of preliminary confinement for debtors—Johnasco initially expressed an infatuation for the 'lady', confessing that he had decided to have the 'lady' locked up so that he could express his love for her. By degrees he began to press for indecent liberties, which were repulsed with great modesty on Wilson's side. Eventually Johnasco 'discovered' that the lady was of his own sex. Feigning a furious rage, Johnasco then threatened Wilson with a pistol 'unless he would confess what all those dark doings meant'. Wilson refused to be moved by these menaces and instead bribed Johnasco with 'gold and promises' to stop working for Mrs Villiers and instead to work for him. Johnasco returned to Mrs Villiers, verifying

that it was indeed Wilson who was in the chair, but saying that he had revealed nothing to him and that it would be dangerous to continue his detention in the sponging house. He added, however, that he had some hopes of discovering the reasons for Wilson's behaviour.

Now with Johnasco working with Wilson and presumably the 'noble gentleman', a counter-plot, to fool Betty Villiers, was hatched. The eventual *dénouement* of this counter-plot resulted in the 'discovery' at the nobleman's house of Wilson in his female attire in a compromising position with the daughter of a French steward employed by the nobleman. Johnasco, accompanied by the nobleman and one of Mrs Villiers's servants, under the pretext of attempting to discover a political plot against English interests involving the French steward and Wilson, broke down the door of the steward's room to witness the scene. On surveying the scene the nobleman was able to dismiss the whole issue as 'only a plot on a French petticoat'. The three were then able to return to Mrs Villiers's house and trivialize the whole issue as 'a trifling intrigue'. By participating in this charade, which seemingly implicated Wilson with the French steward's daughter, Johnasco was able to assist in the exoneration of the nobleman from any liaison with Wilson.

The *Love-Letters* finish with an account of the way in which the nobleman, goaded on by a bet, seduced a young lady, then dismissed her, and eventually ended up assaulting her thereby causing her death. The account has many parallels with Choderlos de Laclos's *Les Liaisons dangereuses*, published in 1782. As such it is not of primary interest, though in recounting it the editor gives a further clue to the background of the nobleman stating that he was a 'great statesman'.<sup>25</sup>

If the above account of Wilson's lifestyle and relationship with the nobleman or statesman is correct, and if the 'Johnasco' introduced into the story was John Law, then one may surmise that the duel arose over this affair. Did Wilson renege on his promise to pay Johnasco (Law) a sum in gold for his involvement? Did the nobleman or statesman, worried about the linking of his name with Wilson, encourage Law to duel with Wilson in order to rid him of his lover?

Unfortunately, there are no answers to these questions. It may be said, however, that the issue is a great deal more complex than that presented by Law's biographers. The disappearance of all of Wilson's papers and correspondence immediately after his death suggests that some important person wanted to ensure that the dead man did not talk from his grave. Furthermore, as events below show, William III, encouraged by the Duke of Shrewsbury, permitted Law's escape from prison. Was their involvement due just to pressure from Law's friends, or, was it a further part of a complicated web the solution of which required the escape of the spider? An analysis of the trial and Law's incarceration in jail awaiting the death sentence provides some further interesting evidence which suggests that there was considerable political intrigue over Law's fate.

## The Trial

The *ratio decidendi* at the trial seemed to revolve around the issue as to whether Law and Wilson agreed to travel to Bloomsbury Square to settle their dispute by a duel. Duelling was forbidden, and if parties agreed to duel then, in the case of a death, the victor would face the charge of murder. On the other hand, if it could be proved that in the heat of the moment, resulting from a dispute, the parties had drawn swords, and one of them had been killed, then the victor only faced a charge of manslaughter. Law's defence was that there had been no premeditation to duel. He declared that:

Mr. Wilson and he had been together several times before the duel was fought and never no quarrel was betwixt them, till they met at the Fountain Tavern, which was occasioned about the letters; and that his meeting with Mr. Wilson in Bloomsbury was merely an accidental thing, Mr. Wilson drawing his sword upon him first, upon which he was forced to stand in his own defence. That the misfortune did arise only from a sudden heat of passion and not from any proper malice.

'Persons of good quality' appeared to give character references for Law, asserting that 'he was not given to quarrelling, nor a person of ill behaviour'.

The jury, 'having considered of a verdict very seriously', found John Law guilty of murder. James Johnston, Earl of Warristoun, and at the time Secretary of State for Scotland, believed that 'the jury against him was bought for I neither heard before nor after that killing a man in a fair duel was found murder'.<sup>26</sup> Warristoun believed that it was Wilson's relatives, the Ash, Townshend, and Windham families, who were instrumental in buying the jury.

John Law was sentenced to death along with four others at the end of this three-day hearing at the Old Bailey. The others condemned to the gallows were Richard Smith, found guilty of raping a fifteen-year-old girl, James and Jane Pattison, found guilty of coining false money, and Susannah Crittenden, prosecuted for clipping 'five half crowns, ten shillings, twenty six pences'. Even when facing death Law found himself in the company of monetary innovators, albeit counterfeiters and clippers. It may be noted, *en passant*, that the two ladies in question 'pleaded their bellies' in order to try and escape the gallows. A jury of matrons was empanelled to test their pregnant states, finding that 'Pattison was with child, and the other not'. Thus Susannah Crittenden was presumably hung for clipping thirty-two shillings and six pence, a harsh sentence in an age when, as Mandeville wrote in *The Fable of the Bees*, the sword of justice 'checked but the desperate and the poor'.<sup>27</sup>

Law was desperate but seemingly not poor, particularly in terms of the pool of friends and acquaintances he drew upon to plead for a pardon for him.

Shortly afterwards, Law, some two days prior to the founding of the Bank of England, was sentenced to death. The Secretary of State noted in the domestic entry book for 22 April:

Caveat that nothing pass relating to a pardon for John Laws sentenced to death for the murder of Mr. Edward Wilson till notice first be given to Mr. Robert Wilson brother of the deceased at his house in Stratton St. Berkely Square.<sup>28</sup>

This shows that steps had been immediately taken requesting a pardon or Law. According to Law it was 'by the intercession of several noblemen of Scotland' that a pardon was requested from King William.<sup>29</sup> William quickly granted him such a reprieve. However, Wilson's brother, Robert, rapidly countered this pardon by lodging 'an appeal of murder' in the Court of the King's Bench. Consequently, Law was removed from Newgate prison to the King's Bench prison in Southwark to face this appeal. On 23 June 1694 he was brought before the court of the King's Bench:

After which Mr Law was brought into court and the exceptions made in the demurrer were argued for him by Sir Creswell Levins and Mr. Carthew, and for Mr. Wilson, the appellant, by Sir Bartholomew Shower. The judges said there was little in it, but deferred giving their judgement till Tuesday next, and, the term ending on Wednesday, he cannot be tried upon the appeal till October next.<sup>30</sup>

So Law was to spend the following months in the King's Bench prison, where he would have been surrounded by impecunious debtors imprisoned there for non-payment of their debts, awaiting the verdict. Would the original capital sentence be confirmed or not?

## The Escape from Prison

Gray, in *The Life and Character of the Great Mr. Law and his Brother at Paris* (1721), presented an adventurous account of John Law's escape from the prison in Southwark, according to which Law, just two days before the date for his execution, drugged his guards with an 'opiat', filed through his iron fetters, climbed a wall over two storeys high, jumped from it and sprained his ankle in the process. Some friends outside the prison carried him off to Sussex and shortly afterwards he took a boat to France. Montgomery Hyde, using Gray's narrative, likened this escape to that of Benvenuto Cellini breaking free from the Castle of St Angelo in Rome a century and a half earlier. Was this the way Law actually escaped?

Archival evidence suggests a very different story. Rather than Law acting independently to secure his escape, his freedom was arranged by some high-ranking members of the government of the day with the implicit connivance of King William. The embellished story that Gray related seems to have been used as a smokescreen to conceal the real account of what happened. As the principals behind Law's escape were sworn to secrecy and wanted in no way to be involved with it in the public mind, it suited their purpose that a colourful and adventurous account of his escape was circulated in public.

The seemingly more accurate account of Law's escape was later recounted by James Johnston of Warristoun, the Secretary of State for Scotland when Law was under sentence of death in 1694. He appears to have been asked by the British Government at the end of 1719 to recall the events surrounding Law's escape. At this point in time Law was at the height of his power in France and had been given virtually unlimited policy-making powers by an admiring Regent. The British obviously wished to update the file on Law's capital conviction in 1694. The former Secretary of State wrote two letters, on 24 November 1719 and 4 January 1720, detailing his account of Law's escape.

According to this account it is apparent that William III, who was well acquainted with the whole episode, appeared initially to favour the implementation of the court's death sentence. The mood of the time may be caught in a letter of 15 May 1694 from Warristoun to the Lord Advocate, or Attorney-General in Scotland, some five weeks after Wilson's death, which Warristoun later found in his correspondence:

Mr. Law's case is very doubtful, all indifferent men are against him, and I never had so many reproaches for any business since I knew England, as for concerning myself for him. My Lord Chief Justice is earnest to have his life. The Archbishop owns to me that he himself pressed the King not to pardon him, as being a thing of an odious nature, and which would give great offence. The King said none had died for duels these many years and the law should be first revived. He is in the King's Bench, and a blockhead if he make not his escape, which he may easily do, considering the nature of that prison.<sup>31</sup>

Warristoun related how Wilson's first cousins, most notably the Townshend, Ash, and Windham families, urged the King to be steadfast in his resolve to have Law executed. Opposing this group was a lobby of Scotsmen urging clemency for Law. The writer was urged by these men to discuss the issue with the King, which he did only to be rudely rebuffed. The King appeared intent on having Law sent to the gallows. It was pointed out to him that Law could not have been convicted on the evidence of bystanders at the duel. When they had been asked to identify the prisoner Law as the duellist they could only swear 'it was one like him'. It was Law's own admission to having killed Wilson in the duel that enabled the Crown to have sufficient evidence to seek a capital conviction. Warristoun, along with Lord Selkirk, contended that 'it was hard to make Mr. Laws suffer for his ingenuity . . . that without Mr. Law's confession the fact could not have been proved'. The King riposted, 'What, Scotchmen suffer for their ingenuity. Was ever such a thing known?' Selkirk and the writer created the impression that the King's riposte was an unacceptable slur on the Scottish race, informing the King the next day that 'the Scotch would not forget such an expression'. The King backtracked, arguing that he had been provoked into making this rash statement. This opened the door a little for Law's supporters, as the King was in a more malleable mood. He still argued that 'Mr. Laws wanted money, and that he had quarrelled with Wilson, who, he said, was a known coward, in order to make him give him money'. The King was well briefed on the affair, but Warristoun recognized that if he could

show that Law had not duelled with Wilson to obtain money then the King might take a more benign view of the whole affair.

Warristoun enlisted the assistance of the Duke of Shrewsbury in saving Law's life. The duke's father, the Earl of Shrewsbury, had been involved in a famous duel with the Duke of Buckingham in January 1668. His mother was Buckingham's mistress, and it was said that she held his horses, dressed up as a page, when she witnessed the duel between her lover and her husband at Barn Elms. Incidentally, as was quite common at the time, the seconds attending the duke and the earl also duelled, and Buckingham's second, John Jenkins, was killed by a thrust through his heart, while Shrewsbury's second, Sir John Talbot, was badly wounded in both arms. The Earl of Shrewsbury succumbed to a wound inflicted in this duel a few weeks after the event, but before dying both he and the Duke of Buckingham were pardoned by the King.<sup>32</sup>

Why did the Duke of Shrewsbury, who had more influence with the King than anyone else at the court, become involved in pleading for Law's life? Was it because he owed Warristoun a favour, as the latter claimed? Was it because his friend Betty Villiers encouraged him to be involved? Or was it because of some deeper reason? Shrewsbury initially expressed scepticism as to his ability to change the King's mind, for it seemed as if the latter was obdurate in refusing to consider a pardon for Law. Shrewsbury advised Warristoun that the first thing to do was to buy time, and promised to delay the affair at the Cabinet by a week. More importantly he stressed that it would be necessary to show that the duel had not arisen because of money.

Warristoun contacted a friend of Law's in the City informing him that it was necessary to show that money was not the issue of the duel between Law and Wilson. This man said that it would be easy to show that this was not the case as shortly before the duel Law had received a bill of exchange for £400 sterling from Scotland. He arranged an introduction between Law's banker, believed to be a Mr Howles, and the Duke of Shrewsbury, with the former swearing to the duke that his banker's book, showing the lodgement of the £400 to Law's account, indicated that Law did not need money at the time of the duel. The banker did not bring the books, causing Warristoun to comment wryly, 'I own his not bringing them made me suspect the matter, but the duke was satisfied and two days after told me he had satisfied the King that there was nothing of money in the case.'

This caused the King to relent, initially saying that he would not pardon Law without 'the friend's consent'—presumably a reference to a member of Wilson's family. Then Shrewsbury reported, 'I think the King is willing he should be saved, provided it can be done in such a manner as that his Majesty did not appear in it', adding that he, Shrewsbury, did not want to appear in it either. At last the royal nod and wink had been given which would allow Law to escape. The message was clear. His majesty was prepared to acquiesce in Law's escape but he was not in any way to be implicated in it.

Warristoun informed Shrewsbury that 'nothing was more easy, than to give a

verbal order to the keeper to let him [Law] make his escape, as had been done in many other cases'. So much for late seventeenth-century justice; escape routes from the gallows were available for the influential. Shrewsbury, while giving his permission for Law to escape, wanted to conceal his role in the event, requesting that 'the keeper must not let Mr. Laws know his share in the matter; no, said I, he'll get some under-keeper to offer his service to Mr. Laws.'

A couple of days later Shrewsbury whispered to Warristoun that 'my friend was at liberty'. Seemingly, it had taken Law some time to grasp what was happening. Shrewsbury reported that Law 'had been very slow to understand matters'. Warristoun had earlier expressed surprise both in May and October that Law had not managed to escape from the King's Bench. In May he was suggesting that Law was 'a blockhead' if he did not manage to escape from the poorly guarded prison. On 30 October he wrote to the Hon. Douglass, again expressing astonishment that Law had not escaped:

I am afraid Mr. Law shall be hanged at last for I am in a manner resolved to meddle no more in the matter. Had he had his senses about him, he had been out of danger long before now.<sup>33</sup>

This lack of enterprise by Law in arranging his escape suggests that he believed that his Royal pardon would be handed to him and that there was little point in trying to escape from prison. Eventually he literally had to be hand-led from the prison in order to make good his escape. Shrewsbury and Warristoun's accounts certainly cast considerable doubt on the more adventurous accounts of Law's escape. Warristoun added:

Mr. Laws knows best how he made his escape. Many odd stories were then told particularly that he took the sleeping of the sentinel for some hours at his door to be a trick, and that he bought an under-keeper.

These lines suggest that the stories circulating about Law's escape were fanciful and that Law himself acquiesced in the silence concerning the real events. The authorities in England, having arranged his escape, had no wish to be known for their illegal action in cheating the hangman. Law, a naturalized Frenchman, would not have had any wish to let the French authorities know that he had been released with the co-operation and connivance of members of the British government right up to and including France's great enemy, William III.

If the colourful stories surrounding Law's escape are discounted and the above account accepted—let it be noted that this latter account, written by Warristoun, a person intimately involved in the events, was never made public—then a further issue arises, namely, why so much effort was expended at governmental level to arrange Law's escape? Was it because Law's family with its goldsmith and banking connections was able to offer financial inducements to Scottish supporters of William III to arrange his escape? Was it because Wilson was suspected of an amorous liaison with Betty Villiers? Or was it because Wilson's other supposed lover, the nobleman or statesman, wished to ensure that a veil of secrecy was cast



over the events? The official connivance in the escape is given further credence by the advertisement published in the *London Gazette* of Monday, 7 January 1695, offering a reward of £50 for the apprehension of: ‘Captain John Lawe, a Scotchman, lately a prisoner in the Kings Bench for murder, aged 26, a very tall black lean man, well shaped, above six foot high, large pockholes in his face, big high nosed, speaks broad and loud . . .’. This in no way fitted the real description of John Law; for example, he had not been a military officer, nor was his face covered with pock marks. A very different John Law was soon to appear on the European continent. This was to be John Law the banker, but it was banking with a difference, involving as it did acting as the banker at the gaming table.

## 5 The ‘Gambling’ Banker

Little is known of Law's life between his escape from prison in 1695 and his involvement in the land bank debate in England and Scotland in 1704–5. Archival material that has been trawled yields a meagre catch of occasional sightings and passing references to him. As he was a fugitive from the English courts it may be assumed that his time was spent outside that country and, in the early years after his escape, he kept a low profile, not wishing to attract the attention of the authorities in the countries he was visiting. Over this ten-year period he visited Holland, France, Italy, and Scotland, learning in the process a great deal about banking and financial markets, so that when it came to writing on these issues he was able to cite the experience of these countries.

Archival sources show Law located in:

France, 6–13 April 1701. Law was imprisoned at Ceans but was released a week later.<sup>1</sup>

France, 19 June 1702. Law was granted a passport to leave the country.<sup>2</sup>

Holland, 6–17 October 1702. Law was applying for permission to stay in Holland.<sup>3</sup>

Further material relating to Law's life over this period may be gleaned from two sources, W. Gray's *The Memoirs, Life and Character of the Great Mr. Law* and Barthélemy Marmont Du Hautchamp's *Histoire du système des finances*.<sup>4</sup> The accuracy of both of these sources is open to debate. Gray contended that he was ‘intimate with Mr. Law from his first setting out from Scotland’, that he worked as ‘a writer in his *comptoir* at Paris, when he was Controller General there’, and that he had been sent ‘super-cargo to the first embarkation to the Mississippi’.<sup>5</sup> As such one would expect Gray to present many of the secret aspects of Law's life. He had seemingly been sufficiently close to Law for the latter to inform him that the romantic story about the duel with Wilson was incorrect and that ‘never had any lady employed him in this affair’.<sup>6</sup> Yet, as has been shown in the last chapter, Gray fictionalized—or perhaps it was Law—the account of the economist's escape from prison. Gray's account must therefore be treated with caution but, by and large, he had sufficient insights on Law, confirmed by archival sources, to be used as source material on Law's early career.

Du Hautchamp, a professional speculator in the Mississippi System, was sufficiently

fascinated by Law's System to write two books on it, embracing ten duodecimo volumes.<sup>7</sup> At times he too took poetic licence when describing the System, but his comments on Law's earlier career are in many cases confirmed by archival sources.

Unfortunately, neither writer gives precise dates for Law's locations and travels. Gray wrote that Law arrived with little money in Paris, basing his activities close to the exiled Jacobite court at St-Germain-en-Laye:

At his arrival at Paris, he applied himself to the Court of St. Germans, having always had a warm inclination to that party, but they were as poor as he; he had never seen an army, nor was his pocket strong enough for play.<sup>8</sup>

Gray added that, in his view, Law was fortunate enough to meet Catherine Seigneur (née Knollys), who by implication had money:

but he luckily fell in with a sister of my Lord Banbury's, married to one Seigneur, who liked him so well as to pack up her awls, leave her husband, and run away with him to Italy.<sup>9</sup>

All the biographers of Law have followed Gray in referring to Law's companion as Catherine Knollys.<sup>10</sup> The lady in question never signed herself in this way. Archival documents in France show that her name was Katherine Knowles.<sup>11</sup> Katherine (d. 1747) was to become Law's constant companion and his common-law wife. They had two children, William, born, probably in The Hague, in 1705, who would die at the age of twenty-nine in Maastricht on 4 February 1734, and Mary Catherine, born on 21 April 1710 in Genoa, who died in London aged eighty on 14 October 1790. The Dutch archives relating to the family provide no evidence that they were officially married.<sup>12</sup> Furthermore, and this is the clinching piece of evidence, it will be shown later that Law did not make a will prior to his death in 1729 but instead left all his property to Katherine Knowles by means of a *donatio inter vivos*. Nothing is known about the mysterious Mr Seigneur, the husband of Catherine Knollys. There was an immediate point in common between Law and the Knollys family in that Catherine's brother Charles Knollys, who claimed the Earldom of Banbury, had also killed a man in a duel—his brother-in-law—in 1692, and had also been imprisoned.

In Italy, Gray described how Law started to build up his gambling fortune by finding 'cullies enough to pick up a great deal of money from'.<sup>13</sup> Du Hautchamp's account differs from that of Gray, in that he believed that Law initially arrived with money in Paris and immediately amassed a gambling fortune there which he later increased by gambling in Italy. Indeed Du Hautchamp reported that Law was expelled from France by Marc René de Voyer de Paulmy, marquis d'Argenson, the lieutenant-général de police in Paris, because 'he knew too much about the game that he had introduced into the capital'.<sup>14</sup> Yet Argenson in a letter to Torcy in 1714 reminded the latter of his request of him on 16 November 1708

to search in Paris for a Scotsman, named Mr. Law, a gambler by profession and suspected of having *des mauvais intentions* against the King's administration. But it was not possible to find him then. I now learn that he is living here with a sizeable retinue of servants in a large

house in the place Louis-Le-Grand. He is known by the fortune he makes at gaming which is his only occupation.<sup>15</sup>

At the top margin of this letter there is the comment, 'He is not suspect. He may be left in peace.' This suggests that Law was never expelled from Paris by Argenson.

During these years Law built up a fortune by gambling. Du Hautchamp described him arriving at the gaming tables at Poisson on the rue Dauphine, or at the Hôtel de Gèvres, rue des Poulies, with two bags of gold worth 100,000 livres (about £6,000 sterling). To facilitate the placing of high stakes he even arranged for the minting of his own special gold counters worth 18 louis apiece.<sup>16</sup> It is ironic to note, in the context of his later career, that Law's first creation as a 'banker' was his own form of gold money. Gray recounted that Law won £20,000 in Italy,<sup>17</sup> and Law wrote that on his return to France in 1714 he brought with him 1.6 million livres (about £90,000 sterling).<sup>18</sup> By the time of the establishment of the Company of the West (Compagnie d'Occident) in 1717, again according to his own account, he was in a position to subscribe for 6 million livres of shares which he later increased to 10 million livres or 20,000 shares.<sup>19</sup> As the shares in the Company were subscribed for in depreciated *billets d'état*, then standing at a 70 per cent discount, Law was probably able to obtain the shares for a total outlay of between 2 and 3 million livres (£125,000 to £187,500). Thus even prior to setting up the Mississippi System, Law had become an independently wealthy man. Law was able to pyramid his fortune through the initial gains that he made at the gambling tables of Europe.

Though Law made a fortune out of gambling it is inaccurate to describe him as a gambler in the traditional sense of the term. His gambling activities involved his use of his mathematical skills to calculate rapidly the most advantageous gambling odds allied to his adoption of the key position at the gaming tables, that of banker. Already in London the exiled Huguenot Abraham de Moivre (1667–1754), one of the geniuses of probability theory, eked out a living by calculating the odds for gamblers in Slaughter's Coffee House in Long Acre.<sup>20</sup> For those with mathematical skills there was an emerging literature to consult on how to use probability theory when gambling. One classic of this literature was Pierre-Remond Montmort's *Essai d'analyse sur les jeux de hazard*, first published in 1708, and published in a second edition in 1715. Montmort's work encouraged De Moivre to write a paper that was published in the *Philosophical Transactions* and which was later expanded into his classic book *Doctrine of Chances: or Method of Calculating the Probability of Events at Play* in 1718. In the second edition of Montmort's *Essai d'analyse* there are a number of letters from Montmort to Nicholas Bernoulli which includes part of a letter written by James Waldegrave to Montmort. Harold Kuhn remarked of this letter:

His [Montmort's] letter permits us to credit Waldegrave with the introduction of the concept of a randomized or mixed strategy (which, as he says, 'does not seem to be in the usual rules of play'); with the discovery of the logic of the minimax concept in which one player

can assure himself of a certain value while the other player can prevent him from achieving more; and, finally, with the first explicit solution (in the modern sense) of a game. Certainly this is one of the most extraordinary pieces in the history of mathematical economics, no less so for being one of the earliest in its literature.<sup>21</sup>

Law devoted a great deal of time and attention to calculating the odds on the various games of chance that he became involved in, and it would be surprising if he had not consulted Montmort's book. Gray remarked of him:

No man understood calculation and numbers better than he; he was the first man in England that was at pains to find out why seven to four or ten, was two to one at hazard, seven to eight six to five, and so on in all the other chances of the dice which he bringing to demonstration, was received amongst the most eminent gamesters, and grew a noted man that way.<sup>22</sup>

This impression of Law using his rapid mathematical skills to calculate gambling odds was independently confirmed by the Earl of Stair, who remarked, 'He is a man of very good sense, and who has a head fit for calculations of all kinds to an extent beyond anybody.'<sup>23</sup> It was also the view of the author of *A Letter to Mr. Law upon his Arrival in Great Britain*, published in 1721, who in noting Law's skill in numbers also added that Law played with people who had not such knowledge:

His talents and genius, which lay particularly in figures, gave him a superior and very uncommon skill in those games, which, though they depend chiefly on calculation, are used by people of quality wholly ignorant of it.<sup>24</sup>

Later on, towards the end of his life, Law spent his time gambling, as is evident from the abbé Conti's letter to Madame Caylus:

You asked me for news of Mr Law. He only sees other players with whom he plays from morning to night. He is always happy when gambling and each day proposes different games. He offered 10,000 sequins to any who could throw six six times in a row, but each time that they fail to do so they give him a sequin.<sup>25</sup>

As the odds of throwing a six consecutively six times are 46,656 to 1, Law was not unduly generous in offering only 10,000 to 1. Knowledge of the gambling odds must have convinced Law that the only systematic method of winning at the tables was by acting as the banker. Du Hautchamp observed that Law applied himself to learning the advantages of occupying this key position at the table initially at basset in London, and later at faro in Paris. By acting as the banker at both basset and faro the holder acted as the bookmaker rather than the gambler.

Today the role of bookmaker is not classified in the same gambling category as that of gambler or punter. Bookmakers, changing the odds in their favour so as to balance their books, are generally, as their style of life shows, winners, and the punters, the real gamblers, are the losers. At basset and faro, the games Law specialized in, the odds were stacked in favour of the banker.

This may be confirmed by consulting Theophilus Lucas's best-selling *Memoirs of the Lives, Intrigues, and Comical Adventures of the Most Famous Gamesters and*

*Celebrated Sharpers*, first published in 1714. In the 1721 edition of this work Lucas included an appendix on the French game, basset, pointing out the great advantages of being the banker in this game:

It is in its nature not much unlike our late Royal Oak Lottery. And as that, by the lottery-man's having five figures in two and thirty for himself, must certainly be a considerable profit to him in length of time; so here the dealer that keeps the bank, having the first and last card at his own disposal, and other considerable privileges in the dealing the cards, has (without doubt) a greater prospect of gaining, than those that play. This was a truth so acknowledged in France, that the King made a public edict, that the privilege of a *Talliere*, allowed to principal *cadets*, or sons of great families supposing that whoever was so befriended, as to be admitted to keep the bank, must naturally in a very short time, become possessor of a considerable estate.<sup>26</sup>

Thus the banker or *tallière* was in a very strong position to win at basset, being, as Lucas put it, 'a great deal more likely to break the gamesters than they him'. Lucas added, 'The sense of this great advantage which the dealer has (several families having been ruin'd by playing at it) has caus'd this game to be modell'd to a Twelvepenny Bank in France.'<sup>27</sup>

Because the odds were in his favour the role of the banker in faro seems also to have been extremely profitable. Classifying the banker, whether at basset or faro, as a gambler would be as injudicious as referring to the modern bookmaker as a gambler. As long as the banker had sufficient funds, and played the odds, stacked in his favour, there was a very profitable living to be made from the gambling of the other players. Acting as a banker or bookmaker Law was able to fashion the odds in his favour and to exploit the gamblers of whatever country he visited.

It is quite clear from Du Hautchamp's account that Law acted as the banker at the gaming tables that he frequented:

He came to Paris where he cut an impressive figure, one which he maintained by taking the bank in faro. Usually he acted as the banker at the home of the celebrated actress La Duclos where he organized a very big game, notwithstanding which he was sought after by princes and the highest ranking nobility as well as many famous academies where his noble manners and his calm temperament distinguished him from other players.<sup>28</sup>

Du Hautchamp outlined Law's successful gambling forays through different European cities such as Genoa, Turin, Vienna, and even London. Law brought his gambling skills to many European tables.

Another element in Law's gambling *persona* that is worth investigating is the contrast of the dual personality that he presented, on the one hand the gambler or rake and on the other the serious economic thinker. How can one reconcile these seemingly different personalities? They may be reconciled by carefully examining the role of Law the gambler. Professional gamblers know that it pays to show another face, to feed one's opponents with a different image than the real self. Astrophysicists and computer geniuses 'gambling' at the card games or roulette wheels of Monte Carlo or Las Vegas do not present themselves with their academic doctorates at the doors of casinos. Casino managers are now trained to exclude

such people from the casinos if they hit a winning streak. Instead such players put on disguises, conceal their identities and appear and act as the rawest of ignorant neophytes in the casinos.<sup>29</sup>

In professional casino gambling the real *persona* is camouflaged. The same applies to players of card games such as poker where the joking, bantering, extrovert personality may be a clever cover concealing the mind of a sophisticated user of probability analysis who is weighing up the different possibilities and varying strategies that arise as the cards are drawn and played. Concealment and calculation go hand in hand in serious gambling. It would have suited Law perfectly in his early career as a gambler to present himself as the rake, the dandy, the philanderer who had lost his inheritance, the irrational lover who had killed a rival in a duel, and so on. Surely such a man was weak and ripe for plucking at the continental gaming tables. This image more than suited Law the gambler and banker. When people think you are a fool then it takes less effort to dupe them into losing to you.

In a letter from John Drummond to Robert Harley, the Earl of Oxford, written in 1713, further insights into Law's career as a 'gambler' are to be found:

There is a famous man also in this country, one Mr. John Law, who had the misfortune a great many years ago to kill one Willson. This Mr. Law has picked up in Italy a great estate, some say by army undertakings at Genoa, and some say partly by gaming, when the States General lottery was at a stand, as when they were obliged to divide it. This gentleman, by the power of his ready money and by a calculation of setting a price and buying in of chances in the said lottery, made it take so favourable a turn in a few days that it did not only run full but was at three per cent above par.<sup>30</sup>

Once again, assuming the story about the lottery is correct, Law was using probability theory to make money out of the lottery. Law was not gambling but ensuring that the odds were in his favour when he put his money down. Later he would prepare a lottery scheme for Victor Amadeus in Turin, but, at the same time recommend him not to introduce it because of its inequitable distributional effects on the poor and the way it would divert the attention of the middle classes away from their businesses and paying their debts. In a letter to Victor Amadeus, in December 1715, in which he suggested a government loan at 5 per cent or 5.6 per cent in lieu of a lottery, he wrote the following about lotteries:

Public lotteries do less harm than private ones but are contrary to the interest of the state; they wrong the public, taking the little money that they earn from their work, rendering them unhappy with their condition, and giving them the desire to enrich themselves by resorting to chance and fortune, the servants having no more money are tempted to steal from the master so as to have funds for the lotteries, and the bourgeois spend money on these lotteries that they should use for their business and to pay their creditors. It is certain that these projects should not be permitted in well run states.<sup>31</sup>

It is also worth observing from this letter the way Law dismissed the chance element in lotteries; surely a gambler would not have been as dismissive of the goddess of chance as Law was in this letter.

From the evidence presented above it would be inaccurate to classify Law as a

gambler or punter, as has been the case in almost every biography written about him, with the authors generally concluding that his ultimate gamble was with the French economy. These morally indignant assessors of the Mississippi episode have never asked how the French authorities and in particular the Regent, the duc d'Orléans, could have permitted a 'gambler' to run the economy. Law was not a gambler in the sense of an irrational punter. He was the 'banker', in modern terms the equivalent of the bookmaker, able to exploit the gambling weaknesses of those who played against him. He must have presented a formidable spectacle at the gaming tables using his skill, and the knowledge that the odds were heavily biased in his favour, to relieve successive waves of the French and Italian nobility of their money. Du Hautchamp described him as having a calm disposition ('une humeur toujours égal') which distinguished him from all the other players.<sup>32</sup> Instead of the stereotyped gambler throwing money to the goddess of chance, Law had the character of the disciplined professional gambler, who, in a calm and unflappable manner, could use probability theory to exploit the gambling proclivities of others. As such he was a man to be respected and admired by those analysing his behaviour.

In presenting this assessment of Law as the professional bookmaker, rather than as the irrational gambler, it is recognized that at times Law's innate gambling instincts could land him in difficulties. Law had a tendency to bet, or to threaten to bet, that is, to use gambling techniques in order to promote his economic policy initiatives. When proposing the establishment of a bank in France in 1715 he offered to establish it with his own capital and he proposed to donate money to the poor if the project failed.<sup>33</sup> In May 1719 when he wanted to create the first rights issue in the shares of the Mississippi Company he offered to take up all the rights with his own capital and that of his friends when it appeared as if the Regent did not favour the proposal.<sup>34</sup> He entered into many futures-type contracts on the value of his Company's shares in order to show his great confidence in the Mississippi Company. He also, in September 1719, entered into a massive wager with Lord Londonderry on the future price of East India Company shares, believing that the success of the Mississippi Company would cause English investors to sell their English shares in order to purchase Mississippi Company shares. This may have been a marketing ploy, but it was also a gambling wager which went horribly wrong for Law.

On his gambling trips Law visited two countries, Holland and Italy, that were in the forefront of banking and financial innovation. A contemporary, Sir Theodore Janssen, one of the founding directors of the Bank of England, in his *Discourse Concerning Banks* (1697), noted that he knew of twenty-five public or semi-public banking institutions in Europe. Most of these banks would have been in Holland and Italy.

In Holland Law would have been able to examine closely the operation of the Bank of Amsterdam, founded in 1609, a bank which he referred to frequently in his later *mémoires*. The Bank of Amsterdam was primarily a bank of deposit and transfer enabling merchants to settle their accounts by debit and credit entries on



the ledgers of the bank. There was an established stock market in Amsterdam dealing in the shares of companies such as the Dutch East India and West India companies. The stock exchange building, located at Dam Square, had been constructed in 1631. It was an extremely well organized exchange with sections marked off for specific types of business trading. In the 1720s it was estimated that over 4,500 people entered the exchange between midday and two in the afternoon. Under the exchange's roof a wide range of monetary, financial, and trade-related activities took place, ranging from maritime insurance to commodity broking, to currency dealings and share transactions. It dealt not only in ordinary share transactions but also had future and option contracts. Joseph de la Vega's description of the stock market in the *Confusion de Confusiones*, published in 1688, may still have a contemporary relevance:

this enigmatic business which is at once the fairest and most deceitful in Europe . . . It is a quintessence of academic learning and a paragon of fraudulence.<sup>35</sup>

The market terminology for speculative buyers and sellers, bulls and bears, had already gained their modern financial usages. Vega, in a Keynesian-style passage, described how uncertainty could be magnified out of all proportion by rumour and gossip:

The bears are completely ruled by fear, trepidation, and nervousness. Rabbits become elephants, brawls in a tavern become rebellions, faint shadows appear to them as signs of chaos.<sup>36</sup>

Market expectations then as now were the key to determining price movements:

The expectation of an event creates a much deeper impression upon the exchange than the event itself. When large dividends or rich imports are expected, shares will rise in price; but if the expectation becomes a reality, the shares often fall; for the joy over the favourable development and the jubilation over a lucky chance have abated in the meantime.<sup>37</sup>

Amsterdam had not been the first city to trade in the bonds or shares of the public sector, such transactions starting in early fourteenth-century Italian cities such as Venice and Florence, and in France with the annuities on the Hôtel de Ville issued for the first time in 1522. But Amsterdam's exchange had greater scope, in that the volume of its turnover guaranteed a high degree of liquidity in the market.

In Italy Law would have had the time to study the Banca della Piazza del Rialto, established in Venice between 1584 and 1587 to act as a bank of deposit and to assist in the settlement of merchants' indebtedness amongst themselves. In 1619 the Banco del Giro opened in Venice and quickly came to the assistance of the Venetian government by lending it 500,000 ducats. In 1637 the Banco del Rialto absorbed the Banca della Piazza del Rialto. The success of the Italian banks led Sir Thomas Mun to write, in the 1620s, that: 'The Italians and some other nations . . . have banks both publick and private, wherein they do assign their credits from one to another daily for very great sums with ease and satisfaction by writings only.'<sup>38</sup> In Genoa he would have been able to study the *Compania* or *Casa di San Giorgio*

which had its roots in a loan made to the government in 1148. According to Andreades it was 'an association of state creditors who managed the revenues of the republic, owned colonies and possessions, maintained armies and fleets, made war and concluded treaties, and combined with all these various functions the duties of a bank of deposit'.<sup>39</sup> Further to managing the state's debt and acting as a deposit bank, the Bank of Saint George became a very powerful trading company. Andreades maintained that the East India Company in England never held a position one-quarter as powerful as the bank.<sup>40</sup> The inspiration for many parts of the Mississippi Company was probably kindled in Law by his study of the Bank of Saint George.

These models undoubtedly influenced him, and it is hypothesized that around the turn of the century John Law started to envisage another career from that at the gaming tables. There was a larger fortune to be made by applying his skills to economic issues. Already he had seen the establishment of the Bank of England in London in 1694. His travels through Holland had shown the might and power of the Amsterdam stock exchange and the Dutch banking community. His increasingly frequent visits to Italy taught him much about the evolution of banking. There was a financial revolution taking place in England, with the new merchant-cum-financial class making considerable profits and in the process usurping much of the power of the landed nobility. Even France, extremely backward in financial matters relative to its enemies, England and Holland, had started to innovate, during the War of the Spanish Succession (1701–13), with a type of paper money or government security, the *billets de monnaie*. There were rich pickings to be made by a projector who was able to convince parliament or a monarch of the relevance of his proposal. Patterson and his fellow directors had shown the way with the Bank of England. Nicholas Asgill, John Briscoe, Hugh Chamberlen, Nicholas Barbon, and Charles Davenant had been busy making land bank proposals. The opportunities were there for a bright young man to formulate new ideas and to present them to governments. Law decided to avail himself of such opportunities.

It may be surmised that Law started writing on money and banking issues sometime between 1701 and 1704. In *Money and Trade* Law countered the viewpoint that he was plagiarizing the ideas of Hugh Chamberlen, arguing:

Dr. C[hamberlen] seems to be offended at my meddling in this affair, having, as he says, borrow'd what I know of this subject from him. Two persons may project the same thing, but far as I can judge, what I am to propose is different from his, and what I had formed a scheme of several years before I had seen any of his papers: which I can prove, if that were necessary, by persons of worth I then showed it to.<sup>41</sup>

This comment suggests that Law had started writing memoirs a number of years prior to the publication of *Money and Trade*. The question which needs to be resolved is whether the first known memoir written by Law on monetary matters is a proposal submitted to the French authorities in 1702, or one written in English and presented to the English authorities most probably in 1704.

Paul Harsin located the 1702 document, 'Mémoire au sujet de l'établissement

d'une banque en France', in the Bibliothèque Mazarine in Paris. He was not sufficiently certain, however, to attribute it to Law, and did not include it in his three-volume *Œuvres*. More recently Edgar Faure has added an appendix to *La Banqueroute de Law* describing his efforts to show the parallels between the 1702 'Mémoire' and Law's published works.<sup>42</sup> Earl Hamilton, who, as has been shown, devoted a considerable amount of his life to researching Law, was convinced that Law made this proposal for the establishment of a bank in France in 1702. The dates listed above show that Law was in France in 1702, the year in which this memoir was submitted to the French authorities. As early as April 1701 Law had been imprisoned, but he was released on 13 April 1701.<sup>43</sup> He seems to have stayed in France until 19 June 1702 when he and two Scottish servants, Henlay and Murray, were granted passports to leave France. Travelling along with them were 'la dame Catherine Sennior' and her valet William Atkinson.<sup>44</sup> Thus Law was in France at the time the proposal was submitted. This, allied with certain similarities between the proposal and Law's writings, convinced Earl Hamilton that it emanated from Law.

The original proposal was outlined in two drafts for a privately owned Bank of France, which he sent in 1702 to Madame de Maintenon, themorganatic wife of Louis XIV . . . Law's project was not accepted: the French finance minister, Michel Chamillart, was also war minister and was preoccupied with military problems and Madame de Maintenon's prejudice against Protestants and foreigners did not predispose her to support Law.<sup>45</sup>

I have very considerable doubts about the attribution of this work to John Law. Initially I was impressed by some parallels between the Mazarine documents and Law's works. However, on more detailed consideration of the issue I feel, like Paul Harsin, that they should not be attributed to Law.

While there remain doubts about this 1702 document, the next chapter shows that Law had started to write on economic issues by 1703–4.

## 6 Metamorphosis: John Law the Economist

At some stage in the early years of the eighteenth century John Law started to read, think, and write on economics. This metamorphosis towards economic theorizing resulted in the production of three land bank proposals for three different governments between 1704 and 1707. The first of these was for the English government in 1704, the second for the Scottish Parliament in 1705, and the third for the French authorities between 1706 and 1707.

In making such proposals Law was following a long line of British writings on this issue. This line was started by William Potter in 1650 and grew in intensity during the 1690s through the work of John Asgill, Nicholas Barbon, John Briscoe, and Hugh Chamberlen.<sup>1</sup> Land bank proposals became most prolific after the establishment of the Bank of England in 1694. While in one sense this increased lobbying could be interpreted as an attempt to jump on a profitable 'bank' wagon, following on the successful launch of the Bank of England, there were other factors at work increasing the pressure for a land bank. These included (1) the acute and increasing need to finance the expenditure of the government which had been greatly increased by the war; (2) a belief that the scarce specie money supply—reduced through the difficulties experienced with the coinage and the remittances to finance overseas military expenditure—needed to be supplemented by some further financial innovations other than the bank; (3) a perception on the part of the landed interests that, due to financial innovation, they were losing out at the expense of the merchant and moneyed men and that they needed a bank of their own.

Notwithstanding the establishment of the Bank of England and its loan to the government, William III and his army badly needed money in 1695–6, the period in which there was the most intensive interest in land banks. The correspondence of William with his Secretary of State, Charles Talbot, Duke of Shrewsbury, during this period shows that money was extremely scarce, and that William had high hopes both of relieving the shortage of money and meeting the financial needs of his war expenditure through the establishment of a land bank. In August 1696 Shrewsbury regretfully lamented:

I am very sorry to acquaint you, that after the large repeated promises of those gentlemen of

the land bank, the most they are able to promise to be subscribed is forty thousand pounds but upon such terms as makes it of no use to your majesty's present occasions.<sup>2</sup>

The landed men were also interested in having an expedient for enabling them to borrow money against the collateral of their land. The strong antagonism of the landed men against the moneyed men was echoed in Briscoe's *A Discourse on the Late Funds*, in which he remarked:

Gentlemen of yearly estates have borne the burden of taxes, while the monied men have paid little or nothing for the carrying on the war, or support of the government, but on the contrary many of them have enrich'd themselves by it.<sup>3</sup>

He then introduced a xenophobic note by stating that most of the moneyed men were foreigners who would export the profits that they accumulated. In his view, 'if an advantage be to be made, it ought to be to our own subjects rather than to foreigners'. These factors produced a more receptive audience for the land bank proposals made in 1695–6, so that Law was by no means the first advocate of a land bank. By 1700 a wide range of land bank projects had already been proposed by writers such as Potter, Asgill, Briscoe, Barbon, and especially Chamberlen, who was the most prolific writer in this area. Indeed Chamberlen seemed to think that he had monopoly rights on the land bank concept, for the writer of a pamphlet, *Some Observations upon the Bank of England*, published in 1695, attacked Dr Chamberlen for creating the impression that he was the unique inventor of the land bank concept:

since he or his authors have somewhere affirmed, that the invention of banks or lombards are, and were, and of right do belong to Dr. Chamberlain; so that not only Mr. Sam Lamb, who proposed a bank to the Long Parliament in the year sixteen hundred and fifty, and Mr. William Potter, who proposed the same to Oliver Cromwel in the year sixteen hundred and fifty seven, but even those, whoever they were, who set up the bank or banks mentioned in Luke 19. 23 though more than sixteen hundred years ago, are in danger of being accounted usurpers upon the Doctor's right, unless they had his licence, or were his journeymen.<sup>4</sup>

## William Potter

The first serious proponent of a land bank in England was William Potter, who in 1656 served as 'registrar of debenteures on the Act for the sale of the late King's lands'.<sup>5</sup> His two works, *The Key of Wealth*, and an abbreviated version of this work, *The Trades-man's Jewel*, both published in 1650, struck many pre-Lawian chords. He assumed that there was some proportionate relationship between the money supply and output: 'The advancement of trade, consisteth chiefly in the great and quick revolution of commodity . . . This revolution of commodity is proportionable to the revolution of money.'<sup>6</sup> He observed that it had been calculated that money constituted only one-hundredth of the wealth of the nation and

that the expansion of the money supply, collateralized by merchants' wealth, would lead to an expansion of output:

The multiplication of money amongst any people does through the revolution thereof, draw in so much commodity amongst them, (and put men upon building houses, ships, and improving land in such sort) as their estates in other things do soon exceed such multiplied stocks of moneys, according to the aforesaid proportion.<sup>7</sup>

Assuming that there was a latent but highly elastic source of output in the economy, he intimated that the tradesman was reluctant to demand further commodities because an impecunious public was unable to express its notional demand as effective demand. In modern terminology there was a cash-in-advance requirement dilemma:

though the store-house of the world be never so full of commodity, yet seeing the tradesman cannot afford to take it in, faster than he can find sale for what he has already, it follows, that if the people through their extreme poverty, are not able to take it off from the hands of the tradesman, the door in that respect is shut against trade, and by consequence against wealth.<sup>8</sup>

In this respect he developed quite a sophisticated theory on merchants' management of stocks and pricing policy, contending that if trade were depressed the merchant would be reluctant to purchase commodities to hold in stock. Those commodities he did sell would have to have a substantial profit margin in order to encourage him to hold them in stock:

when trade in any place is very dead, the merchant is careful not to bring in any commodity, which (as far as he can probably foresee) will not go off at such a rate, as may something answer the charge of housekeeping, the skill of a trade, and hazard of a stock, which (in case returns be very slow, seeing an ordinary profit will not countervail) if he doth not apprehend some hopes of a greater profit, he doth forbear to bring in any considerable quantity of such commodity, till it be grown so scarce as (the price thereof risen) his profit may become at least a means of necessary encouragement.<sup>9</sup>

Conversely, if economic activity was buoyant, merchants could reduce their profit margins and hence their prices, trading on a larger (and more profitable) turnover:

if trading be (suppose) ten times as quick as formerly, and that hereupon commodities of all sorts, should be sold at half the rate as formerly; tradesmen in this case, would not only gain twice as much per annum, but out of that doubled profit maintain their families, at half that rate as formerly, and consequently, might still afford to sell their commodities at a far lesse profit, which lesse profit of all the several sorts of tradesmen put together, (as before is observed) would make commodities, yet considerably cheaper, so as men might maintain their families still at lesse charge, consequently live by the less profit; and so until that which cannot be afforded under twenty shillings, might be sold at twelve pence.<sup>10</sup>

This theme, that prices could fall when economic activity was expanded, was reiterated later on in the same chapter when he wrote: 'it follows, that where trade is extraordinarily quick, commodities may be afforded at much lesse rate, and yet

tradesmen gain much more per annum than otherwise.<sup>11</sup> Hence Potter believed that it was possible for an increase in the money supply, the catalyst for expanding trade, to actually lower prices.

He stressed the role of money in increasing economic activity:

let it be supposed that money (or that which goes for such) does increase amongst them; it follows, that (they not hoarding it up, but laying it out in commodity, as fast as they receive it) the more their hands are filled with such money, by the increase thereof, so much the more does the sale of commodity, that is trading, increase; and this increase of trading does increase riches, and that so much the faster; because such riches increase mens expenses; therefore their trading, therefore their riches, and so perpetually; by which means then, you see the door is opened to the increase of wealth.<sup>12</sup>

Potter held that there was a direct link running from money to trade. Thus once there was an underutilization of resources and output was responsive to such demand, the money supply could be increased without having inflationary consequences. He argued that if money were increased tenfold, and output correspondingly, prices would remain the same.<sup>13</sup> The stagnant state of trade was evidence enough for him of the shortage of money. Society was reliant on metallic money, but this made it difficult for a country that had no gold or silver mines to expand its money supply.

At the same time he acknowledged that there had been a considerable growth of private credit amongst merchants, 'it still continues so common a thing amongst them, to make use of their own words and credit, instead of money, for transferring goods to and from one another.'<sup>14</sup> He went further than this recognizing that, at times, where there was trust, based on appropriate credit information, a trader would be reluctant to allow a sale to fall through because of a shortage or absence of money: 'men rather than lose the sale of their commodities are (generally) willing to trust one another.'<sup>15</sup> Though this type of credit was 'the main hinge' for the exchange of commodities, it was hazardous because of factors such as 'the deadness of trading' or 'the fear of war' which could cause hoarding, thereby causing these fragile lines of credit to end up in default.

Instead of relying on these private arrangements, Potter wanted to create a formalized banking type of structure which minimized risk for transactors and at the same time greatly increased the potential for expanding the money supply. His proposal was for a company of tradesmen to issue bills (i.e., paper notes) which would be redeemable, if so desired, six months after they had been issued. This paper money would be issued against the security of men's estates, that is, houses, lands, ships, goods, or whatever. The paper money so issued was to have three sources of collateral. In the first place there was the good security of the tradesman; secondly, the overall note issue was to be insured, by a company of insurers, to one per cent against default risk; and thirdly, the company of merchants creating the money would be personally liable for any defaults over and above the one per cent covered by the insurers.

Once one manages to cut through Potter's turgid prose, one discovers an author

worthy of greater consideration. Potter's linking of money and trade, his belief that output was elastic and that therefore the money supply could cause trade to expand without having inflationary repercussions, his advocacy of a type of land bank, and his attention to guaranteeing three layers of collateral for the notes issued by the land bank, were matters that Law later addressed. Law never cited him in his writings, so it is difficult to ascertain whether he actually read Potter's works.

## Land Bank Proposals in the 1690s

Though Potter's books were published in 1650, it was not until the 1690s that further significant public interest was generated in the possibility of establishing land banks. The main proposals for land bank schemes came from (1) Dr Hugh Chamberlen; (2) John Briscoe; (3) John Asgill and Nicholas Barbon; and (4) a short-lived consortium involving Briscoe, Asgill, and Barbon.

John Briscoe was involved with Hugh Chamberlen, who shall be discussed in greater detail below, in attempting to set up a land bank. In *A Discourse on the Late Funds of the Million-Act, Lottery-Act, and Bank of England* (1694) he showed, using detailed costings, the very high cost to the Treasury of borrowing through the Million Act, the Lottery Act and, most significantly, from the newly established Bank of England. As interest on these loans was tax free Briscoe felt that the combined effects of the high interest rate and tax concessions was drawing money out of trade into the government's coffers, thereby generating what in modern terminology would be called a crowding-out effect. Furthermore this effect, he believed, would be injurious to foreign trade. Briscoe, unlike his contemporaries North and Barbon, was still imbued with the mercantilist approach to the link between wealth and foreign trade: 'the wealth of a nation is greater or lesser in proportion, according as it imports and exports doe more or less exceed each other.'<sup>16</sup>

John Asgill, in *Several Assertions Proved in Order to Create another Species of Money than Gold and Silver* (1696), a work which Briscoe later attacked for plagiarizing his ideas in *Mr. John Asgill, his Plagiarism Detected* (1696), also believed that there was a relationship between trade and money, and that the growth in world trade had been sustained by the exploitation of mines by the Spanish in the Americas. Notwithstanding this inflow of precious metal from the New World there was, in his view, a shortage of money, a shortage which risked being greatly exacerbated if the Spanish mines were exhausted or if capital controls were imposed in Spain prohibiting the export of specie:

Laws necessitated trade, trade necessitated money, and the multiplied occasions for money do now put us upon a necessity of inventing another species of it, and therefore we must



find it out. What if the Spaniards mines were exhausted or the laws of their country (prohibiting the exportation of them) observed, must the whole world stand still?<sup>17</sup>

In a strikingly pre-Physiocratic mood Asgill maintained that all wealth is derived from land and that it would be appropriate to create money backed by such land:

What we call commodities is nothing but *land severed from the soil*. The owners of the soil in every country have the sale of all commodities of the growth of that country, and consequently have the power of giving credit in that country, and therefore whatever they will accept for their commodities is money. Man deals in nothing but earth.<sup>18</sup>

## Dr Hugh Chamberlen

The foremost proponent of the land bank, and, ultimately, Law's chief rival before the Scottish Parliament, was Dr Hugh Chamberlen. Chamberlen, as was the case with John Locke, Nicholas Barbon, Bernard de Mandeville, and Sir William Petty, had a medical background, with the Chamberlen family celebrated for its invention and use of the gynaecological forceps.<sup>19</sup> His father, Peter Chamberlen, whom Hugh succeeded as physician in ordinary to Charles II in 1673, initiated the family interest in banking, recommending the establishment of a bank in a pamphlet, *The Poor Man's Advocate*, published in 1649. Hugh's brother, Paul, also petitioned Parliament with banking proposals.

Born circa 1630, Hugh Chamberlen's interest in banks started as early as 1665 when he wanted to establish a lombard bank, that is a bank lending money against the pledge of a wide range of goods, analogous to the modern pawn shop. His interest came to be more narrowly focused on land banks from November 1689.<sup>20</sup> Over the next fifteen years Chamberlen attempted to interest the parliaments of England, Ireland, and Scotland in his land bank proposals. The establishment of the Bank of England in 1694 partially diverted attention away from the land bank proposal and, in the Irish case, his pamphlet *A Proposal and Considerations*, published in 1697, did not seem to engender any great enthusiasm. Chamberlen persevered and was able to take subscriptions for a land bank from the Autumn of 1695, but by early 1699 he was forced to move precipitately out of England, according to Luttrell: 'Dr. Chamberlain, the man midwife, and sole contriver and manager of the land bank is retired to Holland, on suspicion of debt.'<sup>21</sup>

His flight from England led him to Scotland where he concentrated his attentions on pushing the land bank project over the following five years. Three pamphlets on land banks in 1700, followed by further publications in 1704 and 1705, made Chamberlen well known to the Scottish parliamentarians and administrators. His attempt to promote a land bank in Scotland had an even longer history than this, for he had already sent a proposal for a land bank to the Scottish

Parliament in 1693 in a pamphlet, *Papers Relating to a Bank of Credit upon Land-security Proposed to the Parliament of Scotland*.

Chamberlen's economic theory was weak and many of his specific proposals were challenged in the pamphlet literature of the time.<sup>22</sup> Law, as will be shown, was extremely critical of Chamberlen's proposals.

## John Law's First Land Bank Proposal

But all of these pamphlets on land banks are modest hors-d'œuvres when compared with Law's main courses as delivered between 1704 and 1707. Law in fact was quite disdainful of the writings of his predecessors: 'I have never known anybody in France or elsewhere who works on sound principles with respect to money and credit'.<sup>23</sup> Grudgingly he accepted that Locke was the author who had written the best on the subject, particularly when, assisted by Newton, he opposed Lowdnes's scheme on currency reform. But he added that he was still not happy with the 'lumières de Lock', and so he went his own way independently working on monetary issues: 'It was by a long application that I discovered the true principles.'<sup>24</sup>

The manuscript *Essay on a Land Bank* is, in my opinion, the first work written by John Law on monetary economics.<sup>25</sup> As such it is a most exciting discovery, showing the way Law had started to think on monetary issues prior to writing *Money and Trade*, first published in Edinburgh in 1705. The *Essay* is remarkably modern in tone, showing a clarity of thought on monetary issues considerably superior to contemporary writings and clearly distinguishable from the mercantilist pamphlets on money. In some ways the sequence from the *Essay on a Land Bank* to *Money and Trade* may be considered parallel to the Keynesian sequence of *A Treatise on Money* (1930) being written prior to the *The General Theory of Employment, Interest and Money* (1936). As with the former book one finds a more conservative writer at work attempting to escape from the conventional wisdom of his age but not fully grasping the revolutionary potential which his ideas were starting to produce.

The *Essay on a Land Bank* is in many respects a treatise on money and not a general theory of employment and money. In it there is no mention of unemployment or underutilization of resources in the English economy. It is only when Law came to write *Money and Trade* that he started addressing these specific issues, producing a more general assessment of the overall macroeconomic problems that most early eighteenth-century economies seemed to face. *Money and Trade* did not represent Law's final thoughts on macroeconomic policy. As shown above, when the time came to confront the problems of a stagnant and heavily indebted French economy, between 1716 and 1720, his thought had evolved to produce a grand

design, the Mississippi System, aimed at simultaneously solving both the monetary crisis and the financial crisis facing France.

The *Essay*, though containing some intriguing allusions of what was to come, was quite far removed in its policy recommendations from those implemented during the Mississippi System. In the *Essay* Law recommended that a money created by a land bank could be issued as a substitute for metallic money. He was not advocating the expansion of the money supply, merely the substitution of one type of money, a land money, which he perceived to have a greater stability of value, in place of metallic money. It is a more modest proposal than those he made from 1705 onwards. At the same time it does, nevertheless, represent a major step forward in economic theory, containing, *inter alia*:

- (1) A sophisticated account of value theory, most notably the first explicit use by an economic writer of supply (quantity) and demand analysis.
- (2) The first comprehensive assessment of the functions of money.
- (3) The conceptualization of two categories of money. Category 1 money fulfilled the three functions of money listed by Law. Category 2 money, possessing value at a point in time, but, not stable in value across time, fulfilled just the payment-cum-exchange role of money.
- (4) The first use of the term ‘the demand for money’.
- (5) The first presentation of the modern quantity theory in a demand for money/supply of money framework.

These were all outstanding theoretical developments which would serve as the foundation blocks for further theorizing in *Money and Trade*. Furthermore the specific institutional details for the English land bank may be directly linked to the outline proposals for a land bank for Scotland in the manuscript ‘1705 Act for a Land Mint’, located in the Scottish Public Record Office.<sup>26</sup> By cross-checking between the *Essay*, *Money and Trade*, and the ‘1705 Act for a Land Mint’, it has been possible to identify this monetary proposal as another significant contribution by John Law to the 1705 Scottish land bank debate. It represents an important addendum to *Money and Trade*, providing much of the specific institutional detail for the proposed land bank in Scotland which is missing in the former work. It also shows that, unlike *Money and Trade*, where Law was recommending a Commission of forty people to administer a bank the profits of which would have been used to subsidize Scottish exports, he proposed a joint stock bank with the profits accruing to the shareholders.

The *Essay* is similar to *Money and Trade* in its advocacy of a land bank; it is different from *Money and Trade* in that a land money is recommended as a substitute for silver money rather than as a method of increasing the money supply. In the *Essay* there was no attempt to show that the English money supply was inadequate, nor that there was a special interrelationship between money and trade. Instead it concentrates on defining and analysing the functions and qualities of money, concluding that a land money would have a greater secular stability of value than silver money, and as such should be preferred to silver.

There are four dominant themes in *Money and Trade*. These are (1) the nature of money; (2) the superiority of land money to silver money and the way it might be substituted for silver money; (3) the interrelationship between money and trade, with trade used as a synonym for real economic activity; and (4) the potential for the expansion of the money supply, and hence economic activity, through the establishment and expansion of a land money. In the *Essay*, which deals with the first two issues, Law, while stressing the stability of value argument for the proposed land money, did not discuss the third and fourth themes, only peripherally alluding at the end of the *Essay* to the way in which the land money could have a far greater potential elasticity of supply than silver money.

The emphasis on the greater stability of value of land money over silver money and the absence of any discussion of the themes of money and trade in the *Essay* may have been due to his assessment of the English economy relative to the Scottish economy. He may have felt that the English economy was not suffering any acute shortage of money, and that it was better to present the case for the substitution of the existing silver money supply with land money rather than arguing in favour of supplementing the money supply. When he came to address the specific problems of Scotland in 1704–5 he faced a different economy to that of England. There was near unanimity amongst the Scottish pamphlet writers, in 1704–5, about the shortage of money and the need to find a new source for expanding the money supply so as to overcome the difficulties caused by this shortage and the inadequate banking services provided by the Bank of Scotland.

## The Theoretical Issues

The *Essay* was addressed specifically to the English authorities, urging them to consider land money not as a supplement to but as a substitute for silver money. This is stated in the opening sentence of the *Essay*: ‘A land money may be established upon a voluntary acceptance so as to serve the uses of money better than silver money and to us to have a currency preferable to it’ (fo. 1).<sup>27</sup> The underlying theme of the *Essay* is that money should be stable in value, and that applying this criterion of stability of value a land money was more appropriate to use as money than silver. In attempting to establish the merits of a land bank Law needed to present a corpus of monetary theory, that is, to define money, to present his statement of value theory, and to integrate the role of money with his value theory. In doing so he produced a sophisticated analysis of the functions, qualities, and types of money. Furthermore his conceptualization of the possibility of separating the differing functions of money enabled him to go beyond the land bank theme and to visualize two categories of money that were of potential use to transactors. This may be seen in Table 6.1, which summarizes Law's presentation of the main elements of his argument.

Table 6.1. Law's Analysis of Money

Functions of money	Qualities necessary for money	Categories of money	Examples of money
Measure of value	(1) Stability of value	<i>Category 1 money</i>	<i>Category 1 money</i>
Means of payment or medium of exchange	2) Homogeneity	Money that possesses qualities (1)–(6) and fulfils the three functions of money	Land money Banknotes Goldsmiths' notes Silver money (to a lesser extent)
Standard of deferred payments	(3) Durability	<i>Category 2 money</i>	<i>Category 2 money</i>
	(4) Divisibility	Money that possesses qualities (2)–(6) and fulfils only the payment and exchange functions of money	Bank of England shares East India Company shares Irish debentures
	(5) Transferability		
	(6) Have a stamp that denotes the value of money		

He starts by defining money:

Money is used as the measure by which goods are valued, as the value by which goods are exchanged, in which contracts are made payable, and payments are made. (fo. 2)

This definition was later tightened up as follows in *Money and Trade*:

[Money is] the measure by which goods are valued, the value by which goods are exchanged and in which contracts are made payable.<sup>28</sup>

In this second definition Law treated payments and exchange as synonyms, incorporating them together as the 'the value by which goods are exchanged'. In both definitions he was suggesting that money has three functions: those of acting as (1) a measure of value, (2) a means of payment-cum-medium of exchange, and (3) a standard of deferred payments. Was Law omitting the apparent fourth function attributed to money by textbook writers, that of acting as a store of value? Such an exclusion would have been incompatible with the major theme of the *Essay* concerning the stability of the value of money over time. There are two elements

to examine in the store-of-value function of money: (1) the inter-temporal maintenance of the stability of value of money; and (2) the inter-temporal holding of money. The first element of the store-of-value function is implicit in Law's recognition that, if money were to be used inter-temporally, in the context of acting as a standard of deferred payments, then it would be necessary for it to maintain its value through time: 'the sum contracted for shall be of the same value at the time of payments that it was when the contract was made' (fos. 17–18). Clearly Law recognized this first element of the store-of-value function. He did not deal explicitly with the second element, the inter-temporal holding of money.

Although Aristotle has been credited with outlining the functions of money as a measure of value and medium of exchange, Arthur Monroe, using the definition in *Money and Trade*, credited Law's statement that money is the 'value in which contracts are made payable' as representing 'the first specific reference to money's use as a standard of deferred payments'.<sup>29</sup> While Schumpeter has written that he knew of 'no case' where the four functions of money 'appear neatly side by side',<sup>30</sup> Law's elaboration of the three functions of money, together with his emphasis on the stability of the value of money as a necessary condition for money to fulfil its role as a standard of deferred payments, suggest that he produced in the *Essay on a Land Bank* the most comprehensive listing of the functions of money up to that time.

Law then proceeded to list the qualities necessary for money. This prepared the ground for (1) the elaboration of his theory of value and (2) the conceptualization of two different categories of money. The listing of the qualities of money arises in a number of different places. Initially he listed money as requiring the following five qualities '1. to have a value 2. to be durable 3. to be divisible 4. to be capable of deliveries and 5. of a stamp to denote the value' (fos. 4–5; these qualities were later reproduced in folios 21–2).

There was nothing original about this listing of the five qualities of money. One finds the same type of listing in Hugh Chamberlen's *Papers Relating to a Bank of Credit upon Land Security Proposed to the Parliament of Scotland* (1693), and later in John Asgill's *Several Assertions Proved* (1696). What made Law's account more interesting was his attempt to integrate value theory with monetary theory. The first requisite quality needed of money was that it had to have a value. But what determines value? Here he distinguished between value in use and value in exchange, in the process presenting what has come to be known as the paradox of value, a paradox which Adam Smith in the *Wealth of Nations* borrowed, without acknowledgement, from Law's work *Money and Trade*.<sup>31</sup>

Marian Bowley, whilst citing this passage on the paradox of value, concluded that 'Law clearly is not contributing anything new either in ideas or method of formulation'.<sup>32</sup> Law's brevity should not be confused with a lack of profundity on the issue, for he wrote with a density of thought which few of his contemporaries possessed. In many cases Law could sum up a complex situation in a couple of sentences or a short paragraph. Hence instead of looking for chapters by Law we

should concentrate on identifying certain key sentences and paragraphs on the subject and show how they interlink to present the corpus of his knowledge on the role of the price mechanism. The brevity and crispness of Law's style may have been due to the fact that Law felt that the issues he was discussing were self-evident and did not need to be spelt out in detail. Law had a very fast mind capable of making very quick calculations. Such a mind was capable of cutting through terminological thicket and getting to the very heart of the matter which he wished to discuss.

In order, therefore, to grasp his intuitive understanding of value theory it is necessary to knit together some of his statements and observations, which show the sophistication of his thought on this subject. His approach to value theory and the workings of the price mechanism will be discussed under the following headings: (1) The paradox of value; and (2) Supply and demand analysis.

## The Paradox of Value

The paradox of value has a long lineage going back to at least Plato: 'Only what is rare is valuable, and water, which is the best of all things . . . is also the cheapest.'<sup>33</sup> The Scholastics were interested in the paradox in their attempts to determine what constituted a just price. In 1588 Bernard Davanzati in the *Lezione delle Moneta*, following in the scholastic tradition, had raised the issue as to 'how comes it that things so valuable in themselves are worth so little gold'. Law may have had the chance to read John Toland's English translation of a portion of Davanzati's work, *A Discourse upon Coins* (1696), in which Davanzati wrote:

A natural calf is far more noble than a golden one, yet how much inferior in price? An egg that was bought for half a grain of gold, kept Count Ugolino alive in the castle for ten days, which all the treasure in the universe could not do. What does more nearly concern our lives than corn? Nevertheless ten thousand grains thereof are sold for one of gold.<sup>34</sup>

Davanzati went on to cite Pindar on the issue:

Water is excellent, said Pindar, and we could not well live without it : But because every one may have enough of it for nothing, Jeremy had reason to lament that it could not be procured without price . . . The vanity of mankind has set excessive rates upon vessels, precious stones, statues, pictures, and other trifling curiosities; because they find as much satisfaction in these.<sup>35</sup>

John Locke also re-stated the paradox of value:

What more useful or necessary things are there to the being or well-being of men, than air and water, and yet these have generally no price at all, nor yield any money: because their quantity is immensely greater than their vent in most places of the world. But, as soon as ever water (for air still offers itself everywhere, without restraint or inclosure, and therefore is no where of any price) comes anywhere to be reduced into any proportion to its consumption, it begins presently to have a price, and is sometimes sold dearer than wine. Hence

it is, that the best, and most useful things are commonly the cheapest; because though their consumption be great, yet the bounty of providence has made their production large, and suitable to it.<sup>36</sup>

Did Law read Davanzati and Locke prior to writing the *Essay*? It seems clear at any rate that he read Locke, for there are parallels to some Lockean ideas, though Law's focus tends to be a great deal sharper. What emerges is a far more comprehensive treatment of the subject, one which he reproduced in *Money and Trade* and which Schumpeter described as 'an excellent account of the matter'.<sup>37</sup> So Marian Bowley is correct in her assessment that Law's statement of the paradox of value was not original. However, the particular imagery in which he expressed it, water and diamonds, was different from the others and was ultimately the format which Adam Smith borrowed from him. More importantly, and here I would disagree with Bowley, Law's analysis of the paradox was a great deal more incisive than the previous writers, for Law used the paradox of value, both in the *Essay on a Land Bank* and later in *Money and Trade*, as the backdrop against which he presented the first analysis of price determination in a supply and demand framework.

## Supply and Demand Analysis

Law presented the paradox of value but reconciled it by using supply and demand analysis:

The value of goods is rated not as the uses they are applied to are more or less necessary but as they are in quantity in proportion to the demand for them. Water is of necessary use yet of little value because the quantity of water is great in proportion to the demands of it. Diamonds are of less necessary use yet of great value because the demand for diamonds is great in proportion to the demand [quantity?] of them. (fo. 5)

So the factors entering into the determination of value for Law were (1) demand factors and (2) supply factors—quality and quantity of the commodity. He wrote: 'As the value of goods is rated according to the quality of them and the demand for them so their value changes from any change in their quality, in the quantity of them, or in the demand of them' (fo. 6). He later reiterated this 'Everything receives a value from its uses and the value is rated according to the quality of it, the quantity of it and the demand of it' (fos. 70–1).

The above passages show that he believed that (1) goods must have a use in order to have a value; (2) once possessing this use their value is determined by supply and demand; (3) changes in the value of goods arise from changes in the quantity supplied or demanded. Law placed considerable emphasis on supply and demand theory in the *Essay*, in *Money and Trade*, and in his *mémoires* to the French authorities when analysing economic issues. It is supply and demand analysis that is used to present monetary theory in terms of the supply of money and the demand for money. It is supply and demand analysis which is used to show the way



in which he dismissed silver as an inappropriate monetary instrument because the supply of silver had been overexpanded relative to demand during the previous two hundred years, thereby greatly eroding the market value of silver. It is supply and demand analysis which is relied on to show how a land money, based on an inelastic supply of land, would be more stable in value than a silver money.

Whilst the use of supply and demand analysis seems apparent to modern readers, Law appears to have been the first economic writer to use the concept of demand, in English at least, in its economic sense, and also the first to analyse issues in a supply and demand framework. William Thweatt has written that ‘The first writer to use the noun “demand” in conjunction with “quantity” was John Law.’<sup>38</sup> But Patrick Kelly, even more recently, suggested that historians of economic thought seem to have overlooked the fact that John Locke used the term ‘demand’ in its economic sense on two occasions in his economic writings.<sup>39</sup> Locke's uses of the term did not, in my opinion, produce a proper understanding of it in his writings, particularly as he tended to rely on using other terms such as ‘consumption’ and ‘vent’ as synonyms for demand. Vent, as Law pointed out later in *Money and Trade*, was not the appropriate concept for Locke to equate with demand, an issue discussed in greater detail in Chapter 8.<sup>40</sup>

Law used this value theory to challenge the perceived wisdom concerning the stability in the value of silver. He gave examples of how the value of silver could change if its quality deteriorated, or if there was a greater supply of it relative to its demand. But silver was not unique, for he generalized that all commodities were liable to changes in value because of changes in demand and supply. The relevant issue in the selection of money was the relative stability of value of the commodity chosen: ‘All goods being liable to changes in their value these goods whose value is most certain, or, least liable to changes are as to the value most qualified to be made money’ (fo. 8). Relative stability of value was an essential ingredient for the instrument that was to be selected as money. In Law's view silver did not adequately meet this criterion of relative stability of value, for history showed that it had been subjected to a continuous fall in value. Silver money had fallen in value because of (1) the overexpansion in the global supply of silver relative to the demand for silver and (2) debasements in the silver coinage by European monarchs.

So for Law, concerned with the inflationary repercussions arising from an excessive increase in the money supply, silver had not the stability of value that made it an appropriate monetary instrument. Similarly, on the basis of his statistics, it appeared that land had a greater stability of value than silver. Even if it was accepted that land had this attribute, did it possess the other qualities necessary for it to be used as money? Was it homogeneous so that quantities of land could be used as measures of value? It was recognized that it could be counterargued by the advocates of a silver money that ‘land cannot be brought to a standard so is more uncertain in its quality than silver’. The value of an acre of land varied according to the quality of its soil, its location, and so forth, whereas an ounce

of silver, of a given fineness, was homogeneous with another ounce of similar fineness.

How could Law reconcile the advantages of the seemingly greater stability of value of land against the disadvantages of land not being a homogeneous good? He acknowledged that a land money would need to possess this quality of homogeneity if it was to serve as a unit of account and as a standard of deferred payments:

Money to be qualified to serve as the measure by which goods are valued and as the value in which contracts are made payable ought not only to be certain in its value, but likewise to be capable of being brought to a standard id: e: that the different pieces of money have a value equal to their denomination, that by it the value of goods in the same or different places may be measured and that both he who is to pay and he who is to receive may be certain that the sum contracted for shall be of the same value at the time of payment that it was of when the contract is made and that the payment shall be made in pieces of money whose value is of the same proportion to the denomination with the other pieces. (fos. 16–17)

To do this he argued that it was possible to combine land of different quality into homogeneous units that could be used as money. He wanted Parliament to establish a standard unit of land, against which all other land could be valued:

That the lands for which these notes are given out be of equal value to the notes according as lands to be appointed and valued by Parliament as a standard are at the making of the Act. (fo. 31)

Presumably if the standard acre unit of land was valued at £  $x$  by Parliament, then any other acre of land could be defined as equal to, or greater, or lesser than the standard unit by so many pounds. Banknotes could then be issued against land of different qualities but each banknote would represent a given value of land. Thus £100 of banknotes could be issued against land of that value. But if the land was worth £80 only this amount of banknotes would be issued against it. By unitizing in this way, while land ‘could not be brought to a standard yet land money will’. Thus Law believed a land money could be homogenized and used as a superior monetary instrument than silver money. Monroe has credited Law with being one of the first writers to introduce the homogeneity quality of money in *Money and Trade*.<sup>41</sup>

## Two Categories of Money

Though land money was recommended by Law as a new and superior type of money to silver it was not the only type of money that he envisaged. During this discussion on the merits of a land money Law suggested that there were two categories of money:

- (1) Category 1. This type money fulfils the three functions of money and possesses qualities 1 to 6 as listed in Table 6.1.

(2) Category 2. This type money only fulfils the payment/exchange role of money and possesses qualities 2 to 6.

As shown in Table 6.1 Law listed six qualities for Category 1 type money in order to fulfil its three functions. The types of money which he believed corresponded to this conceptualization of money were land money, banknotes, goldsmiths' notes, and, to a lesser extent, silver money. It has been shown how Law dismissed silver money as inferior to land money because of the sustained substantial fall in the value of silver relative to land. This left him with land money, banknotes, and goldsmiths' notes, which initially were grouped together because 'the practice of most trading nations confirms that paper which conveys a value pledged is more qualified for the uses of money than silver' (fo. 22). He noted that banknotes and goldsmiths' notes were used in England and even preferred to silver in payments. Similarly in Holland banknotes backed by silver were used in payments. The convenience of using paper money was such as 'to overbalance the hazard' of the bank or goldsmith failing. At the end of the text he argued that the Bank of England's silver reserve to banknotes issued was only 20 or 25 per cent so that if there was a run on the Bank 'the Bank fails and they who have credit to it are disappointed' (fo. 76). Law wanted to offer a paper land money conveying a value pledged which would be superior to bank money or goldsmiths' money. Land money met the criterion of stability of value: 'Land pledged is a more certain value than silver pledged and the lands being pledged to the full value of the notes given out, these land notes will be preferred to Bank notes or goldsmiths' notes' (fos. 22–3).

In the course of this discussion he produced a second category of money different from this first category. Labelled Category 2 money in Table 6.1 it represents money which may be used to fulfil the payment and exchange functions of money but which does not have sufficient stability of value, over the long term, to be used as a measure of value or as a standard of deferred value. This type of money had a stipulated value at a moment in time, that moment when exchange and payment were to take place. However, it would not hold this same value over time:

Money to be qualified for exchanging goods and for payments need not be certain in its value. If it have the other qualities it will be received in payments and goods will be exchanged by it. (fo. 18)

If a money was proposed, that, because of the uncertainty of its value, was not qualified to be the measure by which goods are valued, nor to be the value in which contracts are taken payable, yet, it might be qualified to exchange goods by and to make payments in which are the great uses of money. (fo. 19)

Under this second category of money he broadened the choice of financial instruments that could, potentially, be classified as money to include shares of the Bank of England and the East India Companies, Irish debentures, and gold. His inclusion of shares in his broadened definition of this second category of payment-cum-exchange money is important to note. It was an embryonic conceptualization

which would later induce Law to consider not only the shares of the Mississippi Company as money but also, as will be shown later, to monetize these very shares at 9,000 livres a share. His broadened vision as to what constituted a monetary instrument led him to believe that once there was a ready market for a financial asset that enabled traders to determine its value at that point in time when exchange was taking place ('their value . . . at the time . . . is known') then it could be used as a medium of exchange. Financial markets in generating liquid financial instruments, that is, instruments that possessed the attributes of being turned into cash without loss or delay, were, according to him, in the process of creating new types of monetary instruments. Law was one of the first economic writers to recognize this development, writing:

The stocks of the East India Companies, of the Bank, Irish debentures, etc. are received in some payments because their value though uncertain what it will be yet *at the time it is known* and they who think these stocks will rise rather than fall and are willing to run the hazard will prefer them to the same sum in silver money. So these stocks serve the uses of money in some payments and would serve in most payments if they were capable of division. (fo.19, my emphasis)

Though not discussing this in *Money and Trade*, he would later reiterate this viewpoint in 1707:

What approximates most to a new type of money is the East India Company. The stock of this Company is divided into shares like that of the bank. They are traded each day on the exchange and the current price is published for the public's information in the gazettes.<sup>42</sup>

He would continue to equate the shares of the East India Company with money when recommending the establishment of a bank in Turin in 1711. Thus Law had a dual approach to money, a narrow definition of money, which embraced its functions as a measure of value, a standard of deferred payments, and a medium of exchange, including silver specie, banknotes, goldsmiths' notes, and land money; and a broader definition of money, envisaging only a payment-cum-exchange role, which included shares and government debt.

Though at one level it is exciting to observe Law's zeal in conceptualizing money in broad rather than narrow terms, there was also a fatal flaw in this conceptualization. In volatile trading markets, shares tend to lose their aspect of moneyness. When share prices start to roller-coaster transactors may be reluctant to accept them in payment for goods and services because of the increasing uncertainty as to their value. Law (and it is difficult to determine whether he was forced to take this action, or did so voluntarily) monetized the shares of the Mississippi Company in early 1720 at 9,000 livres per share. This action massively over-expanded the money supply out of line with the real economy, creating the seeds for the destruction of the Mississippi System. This issue will be returned to in later chapters, but at this point, it is important to flag this flaw in Law's analysis.

Attempts by Schumpeter to categorize Law as a theoretical cartalist and, contrastingly, by Cesarano to classify him as a theoretical metallist, fail to do justice to

Law's modernism.<sup>43</sup> Law wanted to rid the economy of metallic money and replace it with a paper money that had appropriate backing. Initially this backing was just to be in the form of land, but he would later evolve away from the land bank proposal to a fractional specie reserve-based bank, to a bank issuing irredeemable paper currency, to a system creating both paper money and company shares which were traded like money. The dual approach outlined in the *Essay* converged in the Mississippi System of 1720. However, at no stage was Law suggesting that the new paper money would be just valueless paper issued at the whim of the monarch. It was always to be backed by real assets in the form of properly secured loans to the public and private sectors.

## The Specific Proposals for a Land Bank

The land bank was to be given an exclusive monopoly to coin notes upon land, a land money, receiving its seal to so act by authorization of Parliament. It was to be a joint-stock company issuing 1,000 shares, each of £1,000, thereby creating a total share capital of £1 million. Each shareholder would subscribe land security to the value of £1,000 for each share. No shareholder could possess more than ten shares. Law also raised an alternative approach for the ownership and management of the bank. He was prepared to allow for the land bank to be run by a parliamentary commission with the profits to be used by Parliament to reduce the land tax, or to reduce other taxes, or in whatever areas were deemed appropriate:

The landmint may be erected and managed by a Commission of Parliament. In that case the revenue over what pays the necessary charges may be given to her Majesty in place of a proportioned part of the land tax or other taxes or be applied to any other uses the Parliament thinks good and the deficiencies, if any happen, to be made good by Parliament. (fos. 53–4)

When it came to *Money and Trade* Law suggested this second ownership option, with the profits made by the land bank used to subsidize certain types of Scottish exports—a suggestion somewhat at odds with one of the main themes of *Money and Trade*, namely, that an expansion in the money supply would increase exports, and produce a balance of payments surplus. However, the ‘1705 Act for a Land Mint’ saw Law revert to recommending a land bank with share capital for Scotland, suggesting, at least at this stage, that Law was indifferent as to whether the bank was owned and controlled by private shareholders or the state.

In the *Essay* Law, whilst recognizing the second option, concentrated on the first option, a privately owned share-issuing bank. This land bank was to have the power to issue notes for lands sold and made over to it. ‘Notes are proposed to be given out by the company to the value of such lands as are sold and made over to them so that lands are the value pledged and the notes which convey the property of these lands serve as money’ (fo. 37). The notes issued were to be equal in value to the land so acquired. Law believed that because the banknotes were to be fully

backed by land they would produce a stability of value that was superior to that of silver, thereby encouraging transactors to substitute these banknotes for silver money. Such a substitution would reduce the demand for silver money and cause it to fall further in value. He believed that as the banknotes were fully backed by land they would maintain their land value.

## Law and the Quantity Theory of Money

This discussion led him to an analysis of the determination of prices in line with the modern quantity theory of money. Law was the first writer to use the term ‘the demand for money’ to analyse the determination of inflation.<sup>44</sup> Combining the demand for money with the supply of money he contended that prices move according as the money supply is out of line with the demand for money. If the money supply is greater than the demand for money then money becomes less valuable, that is, prices rise. Conversely, the value of money rises (the price level falls) if the demand for money is greater than the supply of money. This may be seen in the following passage where he stated that even if Parliament had a means for expanding the money supply its management of the money supply would be hazardous because it would be unable to assess the demand for money:

Though the Parliament could give money to the nation in as great a quantity as there was occasion for the Parliament could not justly know what sum would serve the nation for the demand changes. If the quantity is less than the demand for it the landed man who owes money and has his rent paid in the product of the ground is wronged, for money being more valuable it will cost him a greater quantity of his goods to pay the debt he owes. If the quantity of money is greater than the demand for it the money'd man is wronged for money being less valuable £100 will not buy him the same quantity of goods £100 bought before. (fos. 48–9)

This passage contains the first clear statement of the modern quantity theory of money, showing how the price level is influenced by the interaction of the demand for money with the supply of money. Law, *inter alia*, is clearly stating that if the supply of money is greater than the demand for money the price level will rise. If the supply of money is less than the demand for money then prices fall. There is a similar section in *Money and Trade*: ‘The value of goods or money differs, as the quantity of them or demand for them changes in *Europe*’, but it is written against the background of Law's concern with unemployment and underutilization of resources in Scotland.<sup>45</sup> In the Scottish environment Law envisaged an increase in the money supply as having output and employment effects rather than a price effect. In the *Essay*, as shown above, there is no mention of the relationship between money and trade and no mention of unemployment or underutilization of resources. In these conditions it is easier to understand Law's seeming espousal of a quantity theory approach concerning the consequences arising from an

expansion of the money supply. The above passage also shows that Law was quite aware of the redistributive effects on creditors and debtors arising from inflation. Land-backed banknotes would not create such difficulties, according to Law, because their value was linked to the underlying value of the land. He did allow that if Parliament changed the rate of interest, that would change the value of land.

Law's theory was a great deal more advanced than his contemporaries. Interestingly in this respect Law seems to have been very much a loner in conceptualizing and writing on these issues. He was not a member of any intellectual group, and seemed to rely on his basic intuition when writing on monetary affairs. He had a problem in that the land bank concept was not a new one and there already had been a number of attempts to establish them in England. There were plenty of projectors presenting land bank proposals. He needed to distinguish between his land bank proposal and those which had previously failed.

## Discussion of the Experience of the English Land Banks

The specific scheme that Law was criticizing in the *Essay* was that put forward by Hugh Chamberlen in 1695 in *A Bank of Credit on Land Rents*. Law observed that Chamberlen's land bank failed in England because it overvalued land: 'The land bank which failed in England gave out tallies or notes upon land security to be cancelled in 100 years by yearly payments of one per cent so that £10,000 might be raised upon an estate of £100 engaged for 100 year' (fo. 54). Law was misreporting Chamberlen in that the latter proposed to value land yielding £150 rent at £10,000 by a process whereby he arbitrarily reduced the rent of the land to £100, and then, even more arbitrarily, multiplied it by 100 to obtain this value of £10,000. Chamberlen's valuation of land came in for a scathing attack in *A Bank Dialogue between Dr. H. C. and a Country Gentleman* when the writer, using a *reductio ad absurdum*, showed that land worth £150 in rent could be leveraged *ad infinitum* to whatever value one wanted: 'a proportionable credit of £110 million, and this I will do *ad infinitum*'.<sup>46</sup> Law also believed that it was fallacious to suppose that money, valued by the Chamberlen formula, could be ranked equally with silver money. Law criticized Chamberlen for making no attempt to discount future income streams so as to estimate the net present value of the land. He remarked that 'anticipation is always at a discount. £100 to be paid now is of more value than £1,000 to be paid by £10 a year for 100 years' (fo. 55).

Later in the *Essay* Law referred to another land bank scheme, the details of which correspond to those recommended by John Briscoe in *A Discourse on the Late Funds* (1694):

Other proposals have been made to give out notes upon land paying a half p[er] cent to

defray the charge of the office, or, paying 2 and a half and 3 and a half or more p[er] cent for a term of years of which the half p[er] cent was to defray the office and the remainder in part of the principal sum. (fos. 63–4)

Law attacked Briscoe's proposals on a number of counts, and, in doing so, outlined his theory as to the determination of the rate of interest. He was an advocate of low interest rates but he did not believe that it was possible to create a new type of money lent out at 0.5 per cent rate of interest when the current market rate for borrowing silver money was 4 to 6 per cent. With silver money yielding 4 per cent and land money yielding only 0.5 per cent then '£100 of silver money is worth £800 in notes for it produces as much' (fo. 65). The effect of Briscoe's proposal would have been, according to Law, to create a two-tiered money system with the land money valued at just one-eighth the value of silver money. The rate of interest could not be forced down artificially by creating a new type of money which was perceived to be less valuable than silver money: 'But interest of money is not to be lowered by setting up a species of money that is less valuable than silver money and because less valuable is given for a lesser interest' (fos. 67–8). He equivocated somewhat by allowing that the new money would enable the landed men to pay off their debts to the moneyed men and even enable this class, traditionally in debt to the moneyed men, to become net lenders but 'it is not to be supposed they would get a greater interest for it than they paid or very little more' (fo. 66). Law went on to add that he favoured lower interest rates. He then listed the main determinants of the interest rate as (1) the quantity of money, (2) the quality of the government, and (3) the security of the state's debt. If the quantity of money increased relative to the demand for it, the government of the country was good, and the state debt secure, then, interest rates would fall. The interest rate would not be forced down, however, by the creation of a new type of money which was judged to be vastly inferior to silver money.

The second part of Briscoe's proposal was to allow borrowers to repay their borrowings by charging them an annual payment. Briscoe gave a list of repayment schedules in proposal 23 of *A Discourse on the Late Funds* showing that for an annuity of 50 years £2. 10 shillings would be the charge, for one of 25 years £4. 10 shillings, and for 10 years £10. 10 shillings. Briscoe's formula divided the principal borrowed by the number of repayment years, and added on 10 shillings, the latter sum used to defray expenses. Law challenged this approach:

if £200 of notes given out upon land to be cancelled by payments of £10 year for 20 years can be made appear to be equally valuable with silver money, then £400 of notes given out upon the same land to be cancelled by yearly payments of £10 a year for 40 years will likewise be equally valuable with silver money, and if that be then land of £10 a year may supply the nation with a million. (fo. 68)

Finally Law remarked that Briscoe's proposals would have created 'two different species of money' and that it would have been impossible to force by law, as was envisaged, the new notes into payment.

It is of interest to note here that Law limited his commentary on Briscoe's proposals



to that of the landed men borrowing from the newly created bank at 0.5 per cent rate of interest, or by way of terminable annuities. Briscoe also envisaged the landowners lending the bills of credit that they received for settling their lands with the Commissioners to the government at 3 per cent. Thus Briscoe's proposals involved money creation and debt management. Law was later to pursue both these policies in France between 1717 and 1720.

Law stressed that the convertibility of the banknotes of his proposed land bank was different from the convertibility of banknotes of the Bank of England. The land bank was not guaranteeing the convertibility of its notes into a specific amount of silver, for silver could fall in value. Furthermore, as land money was substituted for silver money the demand for the latter would fall and this would push its price down. The value of the land bank's notes were to be determined by the value of land. Such a value was dependent on market forces. While the Bank of England promised to pay silver money when demanded, the land bank promised 'a payment of land when demanded'. Law favoured a land bank over a silver reserve-based bank, arguing that the former was safer for if there was a run on the Bank and 'the demand is greater than the specie in Bank the Bank fails'. On the other hand the land bank would always have land equal in value to the notes issued as well as £1 million worth of land, the capital base of the bank, to meet any unforeseen contingencies. Law also argued that the land bank would be of a greater relative advantage to the nation in that the Bank of England's monetary expansion was limited by its silver reserves whereas 'the credit of the landmint may be extended equal to the value of the whole lands in the nation' (fo. 76). He was arguing that a land bank money had a greater potential elasticity of supply, as its reserve base was the totality of lands in England, whereas the Bank of England's ability to expand the money supply was limited to the amount of specie and bullion reserves. Thus at the end of this manuscript, one with a great emphasis on the stability of the value of money, Law raises the possibility of a very substantial expansion in the money supply. This was an intimation of things to come.

## 7 The Edinburgh Environment in 1705

The location is Leith. The date is 14 July 1705 and the time is six in the evening. On the beach overlooking the Firth of Forth seconds are discussing the choice of weapons suitable for a duel. Already there have been attempts to patch up the quarrel between the antagonists, but to no avail. Honour has to be satisfied through the spilling of blood. There is a problem in that one of the duellists, John, fifth Earl of Roxburghe, has an injured right leg which makes it difficult for him to stand. In such circumstances his second, Mr Baillie of Jerviswood, argues that he is not fit to cross swords with his adversary. This adversary, the peppery Laird of Saltoun, Andrew Fletcher (1653–1716), envisaging such an objection, has brought along a pair of pistols. He offers a choice of the pistols to the Earl of Roxburghe. Mr Baillie intervenes again to argue that the Earl's disability would make him incapable of firing on foot. But Fletcher, who had been waiting at Leith for the previous twenty-four hours, was impatient to duel.

Fletcher already had a fighting background. Born in 1653, he had accompanied the Duke of Monmouth's expedition from Holland against James II in June 1685. During this expedition Fletcher found that the horse he was riding was unsuitable and took one belonging to a Mr Dare. Dare objected to this, shaking a whip at Fletcher. The latter, furious at Dare's challenge, drew a pistol and shot Dare dead. There was outrage amongst Monmouth's supporters that a Scotsman had killed an Englishman and Fletcher had to escape to the Continent, ultimately returning to Scotland at the Revolution. Despite his support for William of Orange, Fletcher was a staunch opponent of the union with England.

This type of duelling scenario was common to the period, as has been shown when discussing Law's duel with Beau Wilson. Arguments flared, challenges were made, and duels arranged in quiet locations so as to avoid law officers.<sup>1</sup> Normally the basis for the arguments would be of a political or romantic nature. In this case the dispute revolved around an altogether different issue. It arose over a book, more specifically the contents of Law's newly published *Money and Trade Considered, with a Proposal for Supplying the Nation with Money*. John Law was once again to be one of the central characters of a duel.

Law had returned to Edinburgh, and, having failed to interest the English authorities in his land bank proposal, he had shifted his attention to trying to convince the Scottish Parliament of the merits of his plan. He had an immediate

problem in that he was not known as a monetary theorist. On the contrary, at the time of writing *Money and Trade* he had an unenviable reputation. He was known as a gambler, a rake, and a duellist with a murder conviction hanging over his head. George Lockhart of Carnwarth, an ardent Jacobite and member of the Cavaliers party, related that Law had lost the small estate which his father had left him and 'had ever since lived by gaming and sharpening; and being a cunning fellow and nicely expert in all manner of debaucheries, found a way quickly to get into my Lord D[uke] of A[rgyll]'s favour and in confidence of his, and the Squadrone, (with whom he was very intimate) their assistance he presented a very plausible scheme'.<sup>2</sup>

The sequence of events leading to the duel had started earlier in June. Writing on 9 June 1705 to Robert Harley, William Greg observed:

a homespun [project] is set afoot here by a gentleman who of all men living once was thought to have the worst turned head that way. Mr. Law who killed Beau Wilson in England is the man, and so fond is the Commissioner of his project for a Land Bank (since money fails) that the day before yesterday his Grace sent for the quondam rake in order to discourse him fully upon this important point, so very necessary at this time. He proposes the striking tallies for 50,000 l. sterling at first and then proceeding according as issues are made.<sup>3</sup>

The Duke of Argyll mentioned here was John Campbell (1678–1743), who on the death of his father in 1703 became second Duke of Argyll, a member of the Privy Council, and one of the extraordinary lords of session. In 1704 he was sent as Queen Anne's High Commissioner to the Scottish Parliament. He was to play a key role in promoting the projected Act of Union between the two countries, which earned him the enmity of many Scots, but was rewarded by his elevation to the peerage of England with the titles of Baron of Chatham and Earl of Greenwich.<sup>4</sup> He later distinguished himself as a soldier at Ramillies (1706), Oudenarde (1708), and Malplaquet (1709). George I promoted him to the rank of general and put him in command of the King's forces in Scotland. It was the Duke of Argyll who was responsible for the defeat of the Jacobite uprising in Scotland in 1715. He was a staunch anti-Jacobite as was his brother, Archibald Campbell, later third Duke of Argyll. Archibald Campbell was made Lord High Treasurer of Scotland in 1705 and one of the commissioners for treating of the union between Scotland and England. He was made Viscount and Earl of Ilay in October 1706 for his services to the Queen in Scotland. Lord Ilay was known as the 'King of Scotland'. Both of these brothers, the Duke of Argyll and Lord Ilay, were to become good friends of John Law's. They would later become involved in some of his financial transactions during the Mississippi System through their mutual friend, the banker George Middleton, whose bank would later become Coutts Bank. They appeared by Law's side when he sought a formal pardon for the murder of Edward Wilson in 1721. The friendship between Law and the brothers, the most powerful peers of Scotland, is important to note at this point, for John Law would later be accused of Jacobite tendencies. If Argyll or Ilay had even the slightest

suspicion that Law was a Jacobite sympathizer they would have abandoned him. Indeed in his early days in France when he visited the Jacobite court in exile at St-Germain-en-Laye he was suspected of spying for Argyll.

There were three parties in this Parliament, the Court Party made up of Old or Revolution Whigs who had supported William of Orange, described by Lockhart as consisting of 'true blood Presbyterians and Revolutioners and such as enjoyed pensions, and civil or military posts'; the Cavaliers, a grouping which comprised mainly Jacobites and Episcopalians; and the Country Party which was called both the New Party and 'Squadron Volante'—the latter designation arising from the alleged speed with which members of it changed their opinions. The New Party, led by the Marquis of Tweeddale, had a radical wing led by Andrew Fletcher of Saltoun, one of the commissioners for East Lothian. It was this Fletcher, and a former member of this party, Baillie of Jerviswood, who went over to the Court Party, who were later to end up in the duel over Law's proposals on Leith strand.

The Scottish parliamentary session of 1705 was to be dominated by the discussion of the advantages and disadvantages of union with England. Part of the reason for this was the passing of the Alien Act by the English Parliament which had received Royal assent on 14 March 1705. The alleged objective of the Alien Act was to promote 'a nearer and more complete Union' of the two countries. It permitted the Queen to nominate commissioners to work for such a union. The reality of the Alien Act was that it forced the Scottish people to think of the state of affairs that would prevail if a decision in favour of such a union were not made before Christmas Day 1705. In such a case the Scots would be categorized as aliens, and Scottish exports to England in the form of cattle, coal, and linen would be prohibited. It was designed to force the Scottish Parliament to vote in favour of the Act of Union. If the Alien Act had been introduced it would have brought about a severe restriction of Scottish exports resulting in a further deepening of the recession in Scotland. Greg commented on the way in which the Alien Act had brought about the realization that the consequences of separation, that is, not voting for the union, could bring about substantial commercial losses: 'They begin to be sensible of the great loss they will be at after the 25th of December when they shall see their small incomes curtailed of £80,000, which their black cattle and linen cloth brought them in yearly from England.'<sup>5</sup>

With union in the air and the Damoclean threat of the Alien Act hanging over it, the first meeting of the Scottish Parliament for 1705 was held on 28 June. Intriguingly, however, a motion was put forward to discuss certain monetary proposals—those of Law and Chamberlen—prior to consideration of the union issue. Some parliamentarians, eager to move to the union debate, tended to regard the monetary proposals as a side-show. Nevertheless there was deep concern about the dearth of money in Scotland at the time. In Ferguson's view, Argyll was content to let the Scottish Parliament discuss money and trade while he attempted to bring Queensberry to support his line: 'Nothing really could be done by the ministry until Queensberry came up and brought his following to heel; so, to begin with,

the commissioner was glad enough to give the House its head. For a fortnight, in a few short sederunts, it discussed matters of trade.<sup>6</sup> Whilst it is plausible to interpret Argyll's approach as a stalling tactic so as to buy more time and support for the Act of Union negotiations, it must also be remembered that money was in very short supply in Scotland and that some Members of Parliament were keen to discuss proposals to remedy this shortage. Furthermore, as the directors of the Bank of Scotland felt betrayed by the conduct of William III in withdrawing support for the Darien Company when it was originally floated, they had become associated with the supporters of the Stuart cause. This was a very good reason for Argyll not to support the Bank of Scotland and to offer his patronage to Law's proposal which was contrary to the interests of the Bank of Scotland.

Greg's letter, cited above, suggests that Law's proposal was in the air for some time before the Parliament assembled, and that Argyll was very partial to having it discussed. Indeed Greg, less than two weeks later, and a week before Parliament sat, wrote to Harley once again to tell him about the extent of the concern about the monetary issue:

They are so much taken up here with a succession of trifling projects for increasing the coin of a moneyless nation, that go where one will he meets with nothing else . . . The great scarcity of money appears in nothing more than in their recent inability to furnish provisions for a small cruising frigate appointed to guard the coast, so that the captain rather than be out of business is willing to take that in a manner upon himself.<sup>7</sup>

The monetary crisis, reflected in part by the Bank of Scotland ceasing payments in December 1704, produced an environment in which Scottish writers, and John Law was just one of many, attempted to highlight the nature of the problem. James Donaldson's *A Letter to a Member of Parliament, from a Well Wisher of his Country, in Relation to Coin*, believed to have been published in 1704, stated that there was a scarcity of money and 'this malady appears to be still growing'. By 1705 the problem had apparently become acute. In the opening lines of *A Proposal anent Usury and Procuring of Money* (1705) the anonymous commentator complained that money was so scarce that all ranks of society were experiencing difficulty in finding money to make payments for everyday expenses: 'The great scarcity of money, this Kingdom at present labours under, occasions such a failure of payments, that people of all ranks are not only difficult at how to preserve their credit, but even in getting money sufficient for the necessary demands of their families.' Similarly in the opening lines of *An Essay for Promoting of Trade and Increasing the Coin of the Nation* (1705) the writer bemoaned the shortage of money: 'The extreme poverty and misery which this poor nation at present groans under, wanting both coin and trade'. Andrew Brown was more dramatic in highlighting the shortage of money. The first chapter of *A Second Essay concerning the Land Mint* (1705) was called 'A View of the Present State of the Nation through the Want of Money'. In the opening lines Brown conjured up a powerful image of the role of money: 'As the hand is called by the philosophers the universal instrument,

so may money be called by politicians: for without it people are as much incapable of commerce and other political actions, as men without hands are of manual operations.' He went on to add that money is 'the spring and *primum mobile*, the instrument, and *sine qua non* for commerce and trade, navigation and fishing'. Titles such as *The Circumstances of Scotland Consider'd with Respect to the Present Scarcity of Money* (1705), James Hodges's *Considerations and Proposals for Supplying the Present Scarcity of Money and Advancing Trade* (1705), and *A Present Remedy for the Want of Money* (1705), further confirm the concern of writers with the shortage of money.

To understand the concern of the pamphleteers and the attitude of many parliamentarians it is necessary to examine the financial situation of Scotland brought about through the failure of the Darien Scheme and the weak liquidity situation of the Bank of Scotland.

The Company of Scotland trading to Africa and the Indies—the official name of what later came to be popularly known as the Darien Company—had been vested with the exclusive trading rights to Africa and the Indies as against all other Scotsmen by the Scottish Parliament on 26 June 1695. The Scottish Parliament, in its zeal to increase Scotland's trade, may have felt that it was fully entitled to create such an entity, and it was apparent from the very start that if the Company succeeded it would be trespassing on the monopoly trading rights and activities of its much larger English counterpart, the East India Company. Indeed such was the initial enthusiasm of English investors to take up their rights to half of the authorized capital (£300,000 of which 25 per cent was to be taken up in the first call) at the end of October 1695 that it provoked a marked downturn in East India shares as investors moved out of these shares in anticipation of purchasing Darien Company shares. The price of East India shares which stood at £93 in early September fell to £50 by the end of October 1695 as investors attempted to move out of East India shares so as to subscribe for the Darien Company.

The East India Company, quickly recognizing the threat to its activities, 'induced' members of the House of Commons to pass legislation which resulted in the seizure of the papers relating to the Darien Company as well as the threat of criminal prosecution of its leading organizers. This action resulted in the withdrawal of the offer of shares to English investors and the retirement of William Paterson, the main inspiration for the scheme, to Scotland.

The success of the East India Company in forcing the directors of the Darien Company to seek funds outside England had two principal effects. First, it effectively meant that the directors' objective of eventually raising the very large sum of £600,000 for their company would not be met, thereby leaving it seriously under-funded; and second, it forced the company to rely on Scottish funds—there was also an abortive attempt to raise money in Holland—to an even greater extent than originally contemplated. Despite or perhaps because of the English action, Scottish investors rushed to subscribe in the company when its subscription list was opened on 26 February 1696. The success of this initial offer enabled the

directors to increase to £400,000 the amount to be raised in Scotland with the first call for 25 per cent raising £98,223 by 1 June 1696. On receipt of these funds the company started issuing banknotes in competition with the Bank of Scotland. Scott has pointed out that some of these banknotes 'found their way into circulation as loans, made by the company to stockholders on the security of their stock'.<sup>8</sup> Similar techniques were later used by the Mississippi Company in France and the South Sea Company in England to boost artificially their share prices during 1719–20. No doubt Law, who was an adept practitioner of these techniques, learnt a great deal about such practices by studying the development of the Darien company.

The first call that the Darien Company made for capital was a resounding success, but it acted as a type of vortex taking money out the Scottish economy. This is borne out by the fact that it succeeded in raising in cash paid up only a further £55,408 by February 1702, giving a total of £153,631. The money was to be used to enable the company to establish a base in Darien at the eastern end of the isthmus of Panama. An expedition was sent there in 1698 but illness and disease, inadequate provisions, the opposition of the Spanish, internal dissension in the ranks of the expedition, and even the opposition of William III, led to its failure. Few of the 1,200 sent to Darien returned to Scotland.

The failure of the Darien company drained specie out of Scotland and reduced the potential reserve base of the Bank of Scotland. The latter institution had been constituted by an Act of Parliament in 1695, shortly after the establishment of the Bank of England. Its authorized capital was only £100,000 sterling (£1.2 million Scots), one-twelfth that of the Bank of England. The Bank of Scotland's directors started business with just £10,000 of subscribed capital and by September 1696 it was forced to seek an extra £20,000 from its shareholders as a loan in order to stay in business. The problems of the Darien company allied with the depressed level of economic activity led to a run on the Bank in the closing months of 1704. The bank was forced to suspend payments on 18 December 1704.

Law later explained the circumstances surrounding this run on the bank as well as intimating that he did what he could to prevent the run gaining momentum:

The Bank of Scotland was also found wanting. Demands on the bank were greater than could be met due to a rumour that was circulating suggesting that the coinage was to be cried up; but as this establishment is more solid than its English counterpart even though Mr. Law had been warned that there was a shortage of cash reserves and that the bank was not in a position to pay, he did not send his notes to be cashed knowing the rumour of the crying up of the coinage to be false, having, indeed, contributed much to stop it, and being persuaded by the constitution and conduct of the bank that he would not lose even though it could not pay on sight as was promised on its banknotes.<sup>9</sup>

He added that the next day the bank was closed because it did not have enough cash on hand to meet the demand. The directors showed the books of the bank to the Council of State and proved that the bank was still solvent. The directors were granted a three-month delay for cashing their banknotes into specie and in the

interim they committed the bank to pay a 6 per cent interest on the banknotes. This policy was sufficiently successful, according to Law, to ensure that even on the day of its closure the banknotes were accepted at par with specie and used in trade even though the bank was temporarily illiquid. Over the following three months the directors liquidated part of their assets, paid the 6 per cent interest on the outstanding banknotes, and re-established the credit of the bank. Law's account, retrospectively written in July 1715 at a time when Law was encouraging Louis XIV to think of establishing a bank on the lines of the Bank of England or Scotland, probably presented a somewhat mellowed description of the banking events of late 1704 and early 1705. The facts that the Bank of Scotland was temporarily unable to pay specie, that it was obliged to offer a 6 per cent rate of interest on its banknotes, and that it liquidated part of its loan portfolio in order to expand its cash reserves, all suggest that money was very tight during this particular period.

The collapse of the Darien Company and the run on the Bank of Scotland created a propitious set of circumstances in which monetary recommendations might be heard. Even though the union debate was to be the main agenda item Law garnered considerable support for his proposals. Lockhart's remark that 'all the Court and Squadrone (except some of the monied men)' espoused Law's scheme suggests that Law had many supporters in the Parliament.<sup>10</sup> Additionally, the Queen's Commissioner was also giving it consideration as William Greg's letter to Robert Harley, quoted above, shows.

On 28 June the Scottish Parliament met for the first time in 1705 but was quickly adjourned until Tuesday 3 July because of the absence of many of the members. Prior to the adjournment there was a vocal skirmish between Baillie of Jarviswood and Andrew Fletcher of Saltoun which is of relevance to what subsequently happened later in the session. According to Greg, Fletcher objected to Mr Baillie's presence in the House on the grounds that he was no longer a Member of Parliament, 'having once accepted Her Majesty's Commission for being Treasurer Depute, which office he positively affirmed was altogether incompatible with his being a knight of the shire for Clydesdale'. Baillie defended himself by remarking that he had resigned from position of Treasurer Depute. Greg went on to give some colour to this disagreement:

It is remarkable that Fletcher was not seconded by any one member, yet he would not desist for all that, and not being able to answer what the Chancellor said for Mr. Baillie, the madman, as I remember your Honour once rightly called him, was so impertinent as to tell his Lordship, that he kept up a controversy after the whole House had let it fall. The true ground of the ill-nature and spleen which Fletcher has vented against Mr. Baillie arises from the latter's apostasy from the Country to the Court party.<sup>11</sup>

The dispute between Baillie and Fletcher would simmer along. On 10 July Baillie of Jarviswood moved that 'Mr. Law's project for establishing a land-bank and paper money might be taken into consideration'. Sir David Hume's 'A Diary of the Proceedings in Parliament and Privy Council of Scotland, 21 May 1700–7



March 1707' was more informative in its one-sentence comment, 'A proposal for remeid of the coin given in by Jarviswood, in four articles, taken out of Mr. Law's book.'<sup>12</sup> This suggests that Law's book had already been published and its policy recommendations for a land bank had been laid before the Parliament by Jarviswood. The Scottish Parliament was taking its time and Law's project was ordered to lie upon the table along with the Duke of Atholl's proposed act against the importation of Indian muslins and calicoes, Cochran of Kilmarnock's proposal against the importation of English and Irish victual, and the Earl of Eglinton's proposal against the importation of Irish butter and cheese. These proposals were ordered to be printed and after prayers were said the Parliament adjourned until Thursday, 12 July.

Law's hopes of having his proposal discussed on 12 July were dashed, however. It was brought to the Parliament's attention that Dr Hugh Chamberlen's proposal had precedence over that of John Law. Greg explained why in a further dispatch to Harley:

a proposal from Dr. Chamberlen, brother to the Professor well known to your Honour and physician to the Duchess of Hamilton, having been recommended to the House but omitted in the minutes of the last Sederunt, it had the preference due to its seniority, and being read, was marked a first reading and ordered to be printed, of which I hope to send you a copy by the next post, together with one of Mr. Law's proposal, which was also read and marked a first reading.<sup>13</sup>

Friday, 13 July was to be an ominous day for John Law. The Parliament met between one and two in the afternoon, debating whether to go first to the monetary issues before it: 'the state of the coin or trade of the nation'. Baillie of Jarviswood moved that 'Mr. Law's proposal might be considered as containing, in his opinion, a more rational and practicable scheme than that of Dr. Chamberlen'. At this stage events were moving in Law's favour but not for long. Any contribution from Baillie was likely to be opposed by Fletcher of Saltoun, still smarting at their earlier quarrel. Immediately after Baillie's contribution, Fletcher rose and described Law's proposal as 'a contrivance to enslave the nation' and recommended that both Law and Chamberlen be brought before the full Parliament so that their proposals could be thoroughly debated to determine which was the most practicable and advantageous. This in turn was reacted to by the Earl of Roxburghe who defended Law, remarking that 'a gentleman, who had employed his time and thoughts purely to serve his Country, if he should meet with no suitable encouragement from the public, ought at least to be treated with good manners'. Greg described how the Earl of Roxburghe

thought [it] very unfair, to oblige a gentleman to come to the Bar, without first knowing whether he himself was willing to appear in so public a manner, especially since he had not dedicated his book to the Estates of Parliament, nor put his name to it; and therefore, his Lordship said, that Mr Law or any gentleman that had employed his time and thought for the good of his country ought to be treated with good manners. The answer Fletcher made was, that if anybody taxed him of ill manners, they were unmannerly and not he. To which

the Earl replied, that what he had spoken was not pointed at any particular member, with a design to accuse him of want of manners, but was rather an appeal to the justice of the whole House, how hard it would be to stage a gentleman for his generous endeavours without his consent; but since that member fancied himself struck at, he might if he pleased, take it so. Upon which Fletcher rose up and said, I take it as I ought.<sup>14</sup>

The Commissioner, believing that a duelling challenge was in the air, gave orders to have both Roxburghe and Fletcher put under arrest. When an officer came to arrest Fletcher at a tavern the latter denied that he was such and escaped with his second, Lord Charles Ker, to Leith. A day later the Earl of Roxburghe persuaded the Commissioner to release him and he headed off with Baillie of Jerviswood to Leith.

Fortunately, as Baillie was arguing about Roxburghe's inability to handle a pistol properly due to his injury, the duelling party saw a party of Horse Guards sent out to find them. Baillie and Lord Charles Ker, thankful for the excuse to cancel the duel and at the same time save their principals' honour, fired their pistols in the air, after which the parties returned to Edinburgh.

This episode may seem petty and trite in the context of the events dominating the agenda of the Scottish Parliament in 1705, yet it did serve to detract from Law's proposal. According to Lockhart, there had been strong support for the proposal. Ultimately it was not carried in the Parliament:

All the Court and Squadrone (except some that were monied men) espoused the same; because it was so found, that, in the process of time, it brought all the estates of the Kingdom to depend on the Government. But the House rejected the motion and passed a resolve, that the establishing any kind of proper credit so as to oblige it to pass, was an improper expedient for this nation.<sup>15</sup>

## 8 Money and Trade

In 1705 *Money and Trade Considered, with a Proposal for Supplying the Nation with Money* was published in Edinburgh by the heirs and successors of Andrew Anderson.<sup>1</sup> In fact the publisher was Law's aunt, Agnes Campbell. Agnes, sister to Law's mother Jean Campbell, was the widow of Andrew Anderson 'printer to the Queen's most excellent majesty' in Edinburgh and, although 69 years old, was in control of her husband's press in 1705. She obviously decided that it was appropriate to assist her 34-year-old nephew and to ensure that it made an impression by having it published in a quarto edition rather than in a cheaper and less distinguished duodecimo format. Though *Money and Trade* was published anonymously it soon became known that its author was John Law. It had been something of a rushed job with Law admitting in the final paragraph that he had not 'time to put my thoughts in that order they ought to have been, and am forced to leave out answers I designed to have given to some objections I have heard made against this proposal.'<sup>2</sup>

His rush to publish was probably caused by a desire on his part to gain the attention of the Scottish parliamentarians prior to the publication of the parliamentary committee's report on Chamberlen's proposals which the latter made in 1704:

I did not intend to have said anything about the Drs. [Chamberlen's] proposal, that affair having been referred to a committee, who are to make their report. But as several people who are of opinion that the Drs. proposal is not practicable, being against what I am to propose, because they think it is the same with his in some other dress: I thought it needful to give a short account of the Drs. proposal, and in what I differ from him.<sup>3</sup>

If Law waited for the publication of this report he ran the risk of the committee reporting favourably on Chamberlen's proposals. By publishing his book prior to the Committee's findings he positioned himself to attack Chamberlen's specific proposals and at the same time encourage the Parliament to think positively of his proposals.

In order to generate further interest in his proposals and to reach a wider audience, Law, who would later show himself to be a sophisticated marketeer of his ideas, arranged for the publication of a broadside encapsulating his main proposals. This broadside would have been circulated amongst members of the Scottish Parliament and high ranking officials. It was also probably stuck on the

walls of coffee houses, inns, and prominent public places. The broadside contained the following:

**Proposal For Supplying the Nation With Money.**

That Commissioners be appointed with power to coin notes, and to give them out upon land securities.

That these notes be received in payments.

That a committee be appointed to inspect the management.

That any person who has such notes may have these securities assigned to them upon paying in the value to the Commission.

That the revenue of the Commission, over what pays the charges, and what part the Parliament think needful to make good any losses may happen to the Commission, be applied by way of draw-back, for encouraging the export and manufacture of the Nation.

That the gold and silver be reformed to the English standard.<sup>4</sup>

*Money and Trade* is a majestic work towering over the contemporary writings of the early eighteenth century. It encompasses many of the earlier issues raised in the *Essay on a Land Bank* but goes further, much further, in its pursuit of a general macroeconomic framework along with an appropriate set of macroeconomic policy recommendations. This pursuit necessitated the discussion not only of the issue of money and inflation, but also the issue of money and output. Law contended that money was not just linked to the price level, money was linked to output, or trade as it was then called. The title of the book, *Money and Trade*, said it all. In the process of linking money and output Law's book takes the reader away from the policy disputes of the early eighteenth century into the theoretical debate on the role of money today. It is contended in this chapter that Law, developing and extending the ideas initially set out in the *Essay on a Land Bank*, produced a highly innovative approach to macroeconomic theorizing embracing such new discoveries as:

- (1) The money-in-advance requirement.
- (2) The circular flow of income.
- (3) The further analysis of international inflation in a money supply and money demand framework.
- (4) The formulation of the law of one price for a small open economy.

These are all major theoretical contributions which, alongside his earlier analysis in the *Essay on a Land Bank*, where he introduced the functional roles of money, the evolving nature of different monetary instruments, the concept of the demand for money, and an initial analysis of the modern quantity theory in a demand for money and supply of money framework, entitle Law to consideration as an exceptional monetary theorist.

Is it possible to classify these discoveries in order of importance? This is a difficult task as they are all significant contributions. The money-in-advance requirement has been listed first because of the importance Law attached to the role of money in the economy. Whilst the complete understanding of this concept is dependent on his presentation of the circular flow of income, the latter discovery,

even though it most probably sparked off Cantillon's elaboration of the circular flow and Quesnay's encapsulation of it in the *Tableau économique* along with the subsequent developments of these works, was of lesser importance to Law, who used it to show the crucial role money played in generating output and employment. To Law money was of paramount importance.

There are three ways of looking at Law's approach to the issue of money, output, and employment:

- (1) He was concerned with cyclical unemployment brought on by cyclical banking crises.
- (2) He wanted to appropriate the social gains resulting from the substitution of paper money for specie.
- (3) He wanted to show how increases in the money supply would produce full employment.

In my view it was the third approach that he wanted to develop. There was little or no understanding of economic cycles at the start of the eighteenth century, and even though the Bank of Scotland had temporarily run into difficulties, its operational base, dictated by its reserves of silver, was, as Law showed, too small to qualify it as a bank capable of remedying Scotland's macroeconomic problems.

In the *Essay on a Land Bank* he demonstrated the gains to be made by substituting a paper money, based on land, for a silver money, particularly the gain of producing a more stable unit of value. It was not until he wrote *Money and Trade* that he embarked on his mission of showing how money and economic activity were interlinked. While agreeing with the consensus viewpoint expressed by the pamphleteers that Scotland's weak level of economic activity was caused by a scarcity of money, Law differed from the pamphleteers in the quality of his economic analysis. Most of the other pamphlets presented in 1705 were short and not very well argued duodecimo pamphlets, frequently printed on inferior paper as if their authors and publishers believed them to have only an ephemeral importance. *Money and Trade* was different. Law aimed to show both at the theoretical and at the policy levels the importance of money.

Law, in *Money and Trade*, produced a very pessimistic appraisal of the economic affairs of Scotland:

This country is more capable of an extended trade than any other country of Europe, yet it is reduced to a very low state. Trade is ruined; the national stock is wasted; the people forsake the country; the rents of land are unpaid; houses in towns and farms in the country are thrown upon the owners hands; the creditor cannot have the interest of his money to live upon; and the debtors person and estate are exposed to the law.<sup>5</sup>

He paid particular attention to the unemployment problem:

But numbers of people, the greatest riches of other nations are a burden to us; the land is not improved, the product is not manufactured; the fishing and other advantages for foreign trade are neglected, and the reason generally given is, that laziness and want of honesty are natural to us.<sup>6</sup>

He rejected the stereotype that the Scottish were lazy, contending that it was ‘the consequence of poverty, and poverty the consequence of a faulty administration’. Bad government, and in particular weak monetary management by the government, were to become primary targets for Law's criticism from this point onwards.

He wanted to show that the existing circulation of currency and banknotes in Scotland was insufficient. In attempting to demonstrate this he faced certain constraints, in that:

- (1) The Bank of Scotland, established in 1695, was already in existence. He had to show that it was too small to solve Scotland's macroeconomic problems.
- (2) Silver specie was the principal medium of exchange. He wished to show that there was too little of it in Scotland. Paradoxically, he also wanted to show that over a two-hundred-year period there had been too much silver in circulation in Europe causing its market value to fall.
- (3) There were other methods of expanding the money supply such as devaluing the unit of account through the ‘crying up’ of the gold and silver coinage. He needed to show that such methods would not achieve their objectives.

It was not just a matter of stating that the money supply was insufficient. He needed to prove that the Bank of Scotland was not the solution to the Scottish problem, that silver was an inappropriate medium of exchange, and that the traditional methods of altering the money supply by tampering with the nominal value of the currency would not work. Law decided to present his ideas on money in the context of a formal treatise on economics, in which the technical aspects of the land bank proposal and the refutation of Chamberlen's ideas occupied only two out of a total of eight chapters (chapters VI and VII), with the other chapters dealing with most of the main theoretical issues. This is borne out by the author, presumably Hugh Chamberlen, of *Some Animadversions upon a Few Small Circumstantial Differences, betwixt the Proposal for a Land-Credit, Reported to be Mr. Law's and Dr. Chamberlens, both of them plainly Agreeing in the Foundation, as they are Contained in the 6 and 7 Chap. of a Book Intituled, Money and Trade Considered, &c.* (1705), who only referred to these technical chapters—chapters VI and VII. Unfortunately, the author of *Some Animadversions* was not interested in debating the monetary issues of Law's book, but instead wanted to compare and contrast the specific recommendations of Law's land bank proposal with those of Chamberlen.

## The Contents of ‘Money and Trade’

The contents of the chapters of *Money and Trade* may be summarized as follows:

- |             |  |
|-------------|--|
| Chapter I.  | Value theory, the nature and qualities of money. |
| Chapter II. | Trade and money.                                 |

Chapter III.	Banks and monetary expansion.
Chapter IV.	Alternative proposals for solving Scotland's economic problems.
Chapter V.	The superiority of a land money to silver money.
Chapter VI.	Dr Hugh Chamberlen's proposal.
Chapter VII.	Law's proposal.
Chapter VIII.	A comparison between a wealthy Holland and an impoverished Scotland.

The full title of Law's work, *Money and Trade Considered, with a Proposal for Supplying the Nation with Money* shows that the three main issues that Law wished to consider were (1) the nature of money; (2) the relationship between money and trade; and (3) the policy issue of how to produce a new monetary structure capable of expanding the money supply. Law stipulated his interest in these issues from the start of the book, with the opening lines specifying:

1. That the nature of money be inquired into, and why silver was used as money preferable to other goods.
2. That trade be considered, and how far money affects trade.
3. That the measures [which] have been used for preserving and increasing money, and these now proposed be examined.<sup>7</sup>

Unlike the *Essay on a Land Bank*, where Law discusses the relationship between money and price, and never mentions trade, by the time he started penning *Money and Trade* he had progressed to considering money in a wider macroeconomic setting, in its relationship to trade and employment. Trade should not be interpreted solely in an exchange context. Law used it as a synonym for economic activity. If trade was at a low level it suggested unemployment and under-utilization of resources, and vice versa if it was at a high level. There was, in Law's eyes, a symbiotic relationship between money and trade, a relationship highlighted in the title of the book and one frequently referred to in the text. Chapter II has the heading 'Of Trade and How Far it Depends on Money. That the Increase of the People Depends on Trade . . .'. He continually stressed the interdependence between money and trade:

Domestic trade depends on money. A greater quantity employs more people than a lesser quantity.<sup>8</sup>

Trade and money depend mutually on one another; when trade decays, money lessens; and when money lessens, trade decays.<sup>9</sup>

He identified an inadequate money supply as the cause of a low level of trade which in turn influenced the amount of employment in a country:

As trade depends on money, so the increase or decrease of the people depends on trade. If they have employment at home, they are kept at home: And if the trade is greater than serves to employ the people, it brings more from places where they are not employed.<sup>10</sup>

Employment was one of his macroeconomic objectives. It was inextricably linked

with money and trade: 'Power and wealth consists in numbers of people, and magazines of home and foreign goods; these depend on trade, and trade on money.'<sup>11</sup>

At the policy level Law wanted to demonstrate how the monetary structure could be transformed by substituting a new type of money for the traditionally used silver and gold coinage; this new type of money would stimulate trade and increase employment. The reluctance to consider alternatives to the coinage in circulation suggested to him a pervasive ignorance as to the nature of money allied with a perverse zeal to contribute to the monetary coffers of the enemy, as the following quotes indicate:

Considering the present state of Europe, France and Spain being masters of the mines. The other nations seem to be under a necessity of setting up another money. The only reason can be given why it has not yet been done, is, that the nature of money has not been rightly understood: or they would not have continued buying silver from Spain above its value as a metal, when they had a more valuable money of their own, and every way more fitted for that use.<sup>12</sup>

At another point he referred to gold and silver as 'a species which is not in our power, but in the power of our enemies; when we have a species of our own every way more qualified'.<sup>13</sup>

Law wanted to show that the existing circulation of specie and banknotes in Scotland was insufficient. The circumstances of the time had created problems for the Bank of Scotland causing it to suspend payments in December 1704 because of the shortage of specie. To Law, 'the stop of payments to the Bank of Scotland was foreseen, and might have been prevented'. How? He explained that there had been an outflow of specie from Scotland through a balance of payments deficit arising from excessive expenditure on imports and the Scottish nobility's expenditure in England:

The consumption of foreign goods, and expense in England, being more than the export of goods did pay; the balance being sent out in money lessened the credit of the bank. For as credit is voluntary, it depends on the quantity of money in the country and increases and decreases with it.<sup>14</sup>

Law maintained that the run on the bank could have been stopped through 'coining notes' of £1 denomination, that is, by providing paper banknotes for small payments. However, a rumour circulated that the money was to be raised 'which occasioned an extraordinary demand', and in a few days exhausted the money in the bank. In a revealing comment Law contended that the Scottish Privy Council could have taken offsetting action in the form of a phased reduction in the value of the coinage in order to prevent the outflow of money from the Bank:

If the Privy Council had lowered the money, the English crown to 5 sh. and the other money in proportion, to take place 2 pence p. crown in 3 days, and the other 3 pence in a month; the occasion of the demand being removed, in all appearance money would have been returned to the Bank . . . When the credit of the Bank had been re-established, the money might have been cried up, if that had been necessary, the crown to 5 sh. and 5 pence, and the other money in proportion as it was before.<sup>15</sup>



Later, in France during 1720, Law used this tactic of a phased reduction of the value of silver coins as a policy to improve the attractiveness of the Royal Bank's banknotes.

He praised the activities of the Bank of Scotland for creating money that was used throughout Scotland. Because of the more widespread circulation of its banknotes across Scotland he held that it was relatively more useful than either the Bank of Amsterdam or the Bank of England.<sup>16</sup> Acknowledging that the Bank of Scotland could expand the money supply by a multiple of four to five times the amount of silver reserves, he went on to argue that there was so little silver money in Scotland that the potential reserve base for the expansion of the money supply was severely limited.<sup>17</sup> Because there was an inadequate supply of silver money in Scotland the Bank would not, he contended, have enough reserves to expand credit, and thereby increase the money supply sufficiently to solve Scotland's macroeconomic problems.

Law offered another reason for not supporting the Bank of Scotland's expansion plans. The bank was looking for new privileges but, he maintained, in such a case equity dictated that everybody be entitled to subscribe anew for shares in the bank, and, furthermore, other projectors could claim that they were entitled to similar privileges which would lead to a proliferation of banks modelled on the Bank of Scotland.<sup>18</sup>

Having shown the inadequacy of the silver money supply and the limited usefulness of the Bank of Scotland, Law wanted to demonstrate that he could transcend the current debate which tended to concentrate on the specifics of the various proposals put forward by the pamphleteers. Instead he presented his proposal in the context of a general treatise embracing significant developments in both value and macroeconomic theory.

A cursory reading of *Money and Trade* might suggest to some readers that Law produced little in the area of value theory. In chapter VI his analysis of the paradox of value in the *Essay on a Land Bank* was shown. Law re-stated the paradox once again in *Money and Trade* and went on to develop his analysis of demand and supply to support the arguments he was advancing.

## Supply and Demand Analysis

Law believed that (1) goods must have a use in order to have a value; (2) once possessing this use their value is determined by supply and demand; (3) changes in the value of goods arise from changes in the quantity supplied or demanded. This analysis is used to present monetary theory in terms of the supply of money and the demand for money. He also used it to show the way in which he dismissed silver as an inappropriate monetary instrument because the supply of silver had been overexpanded relative to demand during the previous two hundred years, thereby

greatly eroding the market value of silver. It is demand/supply analysis which is relied on to show how a land money, based on a relatively inelastic supply of land, would be more stable in value than silver money. The analytical framework of supply and demand analysis is ever present in Law's thought in the *Essay on a Land Bank*, *Money and Trade*, and in his later *mémoires*. In one of the *mémoires* he summarized the theory in the following succinct manner:

When the quantity of a thing is increased or where the demand for it is reduced, the price falls; because the value of all things is determined by the proportion that exists between quantity and demand; one or the other being increased or reduced the price or value changes in the same proportion.<sup>19</sup>

Earlier in *Money and Trade* Law showed considerable sophistication in his analysis of the price mechanism when discussing the effects arising from a debasement of the currency which increased Scottish export prices. In this particular instance he allowed for the fact that certain goods could be price-sensitive, leading to three possible reactions on the part of foreign consumers:

- (1) They might source the same goods at cheaper prices in other markets.
- (2) They might purchase substitutes to the Scottish goods.
- (3) They might consume less of the goods.<sup>20</sup>

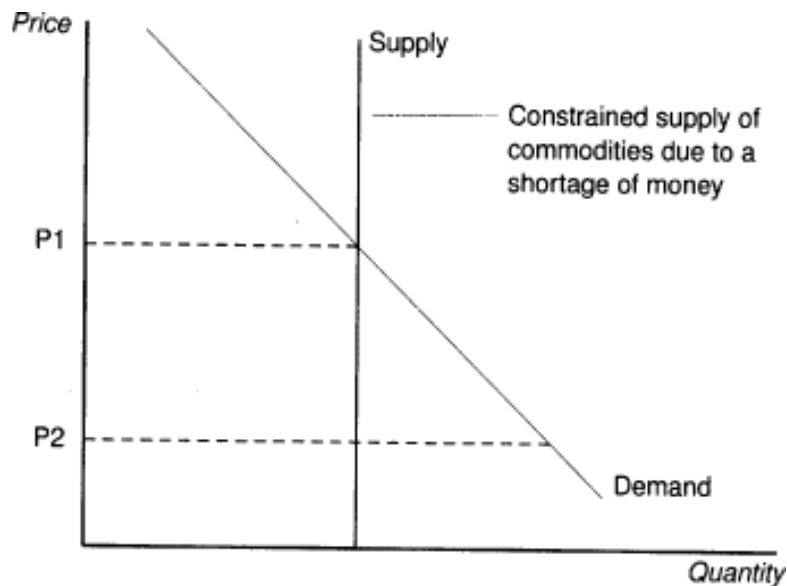
He was well aware of the way the price mechanism served to allocate resources away from uses for which there had been a fall in demand or an increase in supply, and, also, how stocks could be used to meet temporary shortages of supply:

the increase of most goods depends on the demand. (Ex.) If the quantity of oats be greater than the demand for consumption and magazines, what is over is a drug [a commodity which is no longer in demand and is therefore unsaleable], so that product will be lessened, and the land employed to some other use: If by a scarcity the quantity be lesser than the demand, that demand will be supplied from magazines of former years; or if the magazines are not sufficient to answer the demand, that scarcity cannot well be supposed to last above a year or two.<sup>21</sup>

Later on he discussed the way in which the international market responded to a divergence between domestic and foreign prices. He raised the issue as to what happened if domestic prices were initially unresponsive to the domestic money being raised in value, that is, a devaluation of the domestic exchange rate. In such instances exports would fall in price and imports would rise in price. The fall in the price of exports would increase the demand for them: 'more buyers than sellers would raise the price here . . . The Dutch knowing the goods were so cheap in the country, would buy none from our merchants, but commission them in return of goods they sent.'<sup>22</sup>

Diagram 8.1 represents what would happen if Scottish prices of exports did not change after a domestic devaluation. In terms of foreign currency the Scottish price falls from P1 to P2 thereby causing excess demand on the part of foreign importers for the Scottish exports. Law then discussed the possibility of the volume

Diagram 8.1



of Scotland's exports increasing as a result of their lower price on the international markets. He acknowledged that in theory selling cheaper should occasion a greater demand and that 'the greater demand would occasion an increase in the product and manufacture'. However, he believed that Scotland's economy was not capable of responding to such an increase in demand because it was not possible to expand Scotland's production capability any further without an increase in the money supply. In the first of a number of statements inferring a 'money-in-advance requirement', which will be discussed in greater detail below, he elaborated on why demand could only be translated into effective demand through the use of money: 'for though the demand increased, yet without more money more people could not be employed, so no further improvement could be made.'<sup>23</sup> For this reason a vertical supply curve is presented for the Scottish example in Diagram 8.1. This analysis was specific to Scotland where Law believed it was impossible to expand the output of the economy without increasing the money supply. He did not confine his comments to Scotland when it came to analysing the determination of the global price structure. In this part of his analysis Law, as will be shown later, demonstrated how the international forces of supply and demand would produce the law of one price for internationally traded goods.

Law also displayed his knowledge of the market mechanism when attacking Locke's analysis. This is of more than passing interest, in that it was Locke who has received most of the praise for his analysis of market forces even though Law was the first economist to analyse the issues in a specific supply and demand framework and was also highly critical of Locke's analysis.

## Law's Attacks on Locke's Analysis

Law disagreed with Locke on two issues. These were (1) the Lockean concept of vent and (2) Locke's assertion that money had an imaginary value.

He initially disagreed with Locke for equating vent with demand: 'Mr. Lock says *the value of goods is* in according to their quantity in proportion to their vent.'<sup>24</sup> Law was quoting from Locke's *Some Considerations of the Consequences of the Lowering of Interest and Raising the Value of Money* (1696) in which the latter wrote:

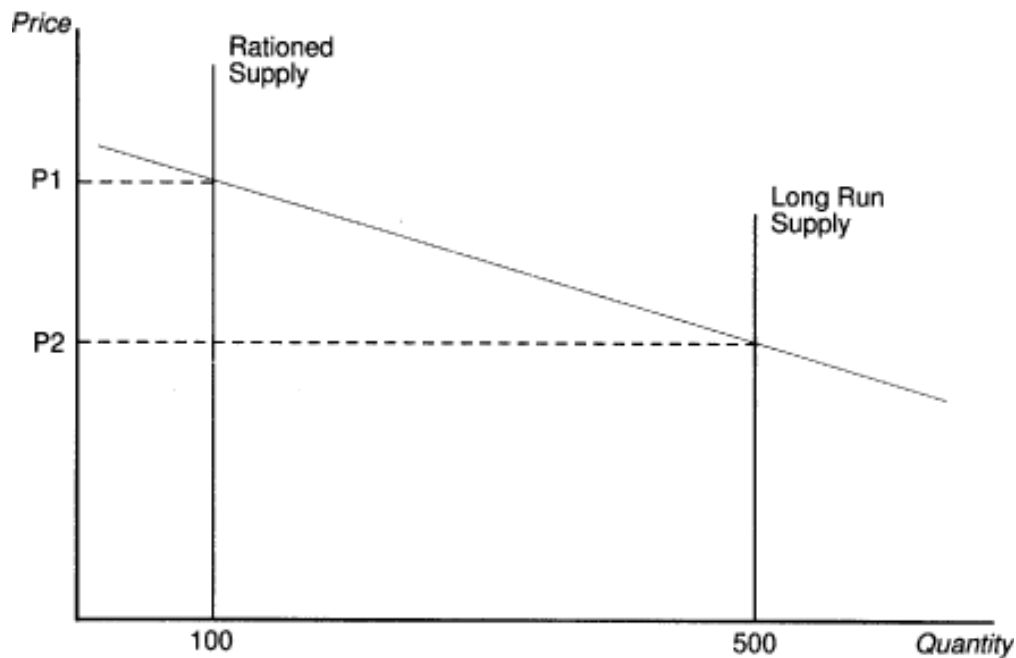
The proportion in all commodities, whereof money is one, is the proportion of their quantity to the vent. The vent is nothing else but the passing of commodities from one owner to another in exchange.<sup>25</sup>

While Patrick Kelly has suggested that Locke may have been the first writer to use the term demand in its economic sense—the Oxford English Dictionary traces the first use to 1711—on two occasions in his economic writings, he did not use it sufficiently, in my opinion, to show that he had a full understanding of the demand and supply framework.<sup>26</sup> Locke used other terms such as consumption<sup>27</sup> and, as in the above passage, vent, as synonyms for demand. However, vent, as Law pointed out, was not the appropriate concept for Locke to equate with demand. Vent (from the French *vendre*, to sell) should be equated with sales rather than demand. If we substitute sales for vent then Law's criticism of Locke may be more clearly understood: 'The vent [sale] of goods cannot be greater than the quantity, but the demand may be greater.'<sup>28</sup> Law implicitly understood that the equating of vent with demand was only appropriate in terms of long-run equilibrium. In the short term, sales (vent) might not fully reflect demand conditions because of constraints imposed on the supply of a good to the market. In such cases he asserted that the quantity of a good sold did not represent the demand for it that existed at the long-run equilibrium price. He identified a variety of factors which might cause sales to be constrained, such as prohibitions and regulations on exports and imports, and also the linkage between monetary factors and demand, a constraint developed at a later stage in his book.

Law outlined two potential types of interference in the normal determination of the prices of exports and imports: (1) import restrictions on wine into Scotland, and (2) prohibitions on the export of wool from Scotland. In the first case the normal supply of wine to the Scottish market was assumed to be 500 tuns. Presumably because of the War of the Spanish Succession, imports of French wine had been restricted so that only 100 tuns of wine appeared on the market. With a rationed supply of wine the vent (or sales) of such wine equalled the quantity. But the quantity demanded (500 tuns) at the normal long-run equilibrium price was far greater than the constrained demand arising from short-term disruptions to the supply of wine. This is shown in Diagram 8.2.

Law also discussed in much the same manner the problems arising in the market for wool when prohibitions were placed on its export. Once again the long-run equilibrium demand differed considerably from the vent of wool at higher prices

Diagram 8.2. Effect Of Supply Restrictions On Price Of Wine



in the restricted market. A similar analysis to that for the wine market ensured that the short-term price, because of the constrained supply of wool, was far higher than the long-term price that prevailed in an unconstrained market. It is quite clear in Law's analysis that the long-term price was one at which 'normal profits' were being made. Law frequently refers to price as comprising three elements: 'prices are given for goods according to their first cost, charges, and usual profit'.<sup>29</sup> 'Usual profit' may be equated with current use of the term 'normal profit' in economic analysis. It is evident that Law understood the way the market responded to situations in which excess profits were made as, for example, his description of the reaction of the Dutch merchants to profit opportunities arising from a differential between the prices of wool in Scotland and in Holland.

Though Law understood the way in which the price mechanism operated he was not an advocate of *laissez-faire* in all markets. He did favour, as will be shown, an interventionist stance with respect to monetary policy, and he also advocated the use of tariffs and subsidies to restrict imports and promote exports.

The opening sentence of Law on value theory cited above shows that he believed a good had to have a quality of usefulness associated with it. Once it had this its market value would be determined by the forces of supply and demand. Excess supply, relative to demand, could even make a highly useful commodity, such as water, valueless on the market. Though Law was prepared to accept that certain commodities, while useful, might not have a market value because of their excess supply, he was not prepared to accept that goods could have an imaginary value. In what represented his second attack on Locke's value theory he argued that the price of silver had two constituents, namely (1) the barter value of silver, that is, if silver was used like any other commodity for barter exchanges it would

be worth so much in terms of other goods, and (2) the additional value derived by transactors using silver as a money. This extra value was deemed by Locke to be imaginary: 'the general consent of men placed an imaginary value upon silver, because of its qualities fitting for money.' Law hotly disputed this Lockean conclusion arguing that 'If either of these values are imaginary then all value is so, for no goods have any value, but from the uses they are apply'd to, and according to the demand for them in proportion to their quantity.'<sup>30</sup>

Law was therefore suggesting that money possesses a market-determined value comprising its basic barter value plus the extra value derived from using it as money which obviates the disadvantages of barter. Consequently, according to Law, as the demand for money increased, silver 'received a greater value equal to the greater demand its use as money occasioned'. He went on to reiterate this point: 'The additional value silver received from being used as money, was because of its qualities which fitted it for that use; and that value was according to the additional demand its use as money occasioned.'<sup>31</sup> Law was suggesting that money yielded utility to its owner and the difference between the barter exchange value and the money value of a commodity money such as silver represented the utility derived from using such a commodity as money. Therefore this difference, the premium for silver money above its barter exchange value, represented the liquidity premium of using silver as money. It was not an imaginary value determined by the whim of the monarch but instead represented the usefulness to its owner of holding part of his wealth in the form of money rather than in other assets. Law understood the flow of services that money yielded. Money enabled an economy to remove 'the disadvantages and inconveniencies of barter.' The invention of silver money shifted out the production possibility frontier, but Law believed that silver did not push the production possibility frontier as far as was warranted by the basic potential of an economy such as that of Scotland. This part of Law's analysis will be examined in the section dealing with his macroeconomic analysis.

## Law's Macroeconomic Analysis

Law's modernity in analysing money from a perspective of value theory has already been shown in the discussion of the *Essay on a Land Bank*. His definition of money, his use of the concept of the demand for money, and his presentation of the way in which the value of money is altered according as demand and supply factors change, showed an analytical rigour unmatched by any of his contemporaries during the first decade of the eighteenth century. As suggested, the *Essay*, while serving to develop Law's analytical skills, may be likened to Keynes's *Treatise on Money* in that it concentrated on the issue of inflation. There was another issue to examine, that of unemployment and underutilization of resources in Scotland. What was the point of discussing inflation in the context of a very

depressed Scottish economy? Attention had to be devoted to asking how trade, that is, economic activity, could be increased. Law, believing that money and trade were inextricably linked, wanted to show that monetary expansion could generate increases in trade, that is, in employment and output. *Money and Trade* was to be Law's equivalent of *The General Theory of Employment, Interest and Money*. The inflation issue, however, would not be totally bypassed by Law in *Money and Trade*, for he still wanted to show that silver money had been overexpanded relative to its demand, on a global scale, and had fallen appreciably in value.

The money substitute for silver he was proposing needed to possess two significant attributes: (1) that of maintaining its value over time, and (2) that of being sufficiently elastic in supply to generate increases in output to provide employment not just for the Scottish pool of unemployed but also to encourage immigration into Scotland. Attempting to show that the new type of money he was recommending possessed both these attributes made Law dance on an analytical tightrope from which he would ultimately fall in 1720 as he found himself juggling with too many complicated variables.

Law encapsulated his approach to macroeconomic theorizing in a circular flow of income model, the first ever presented by an economist. He may have been influenced here by Sir William Petty, who produced a remarkable embryonic macroeconomic framework in *Verbum Sapienti*, written in 1664. There Petty presented the equality of (national) income and (national) expenditure and the distinction between the stock of wealth and the flow of income derived from such wealth. Ironically, Law's erstwhile business colleague, and later one of the speculators against the Mississippi System, Richard Cantillon, has generally been credited with discovering the circular flow of income. Further down the line Quesnay has received the accolades for presenting Cantillon's ideas in a schematic form in the *Tableau économique*. R. V. Eagly is the only writer that I have come across who refers to the possibility of Law as the pioneer of the circular flow of income, though he did not develop this viewpoint.<sup>32</sup> Law did not formally present his circular flow of income model until chapter VII of *Money and Trade*, but there were intimations of it well in advance of this chapter, intimations which start with the linking of money and trade:

Domestic trade depends on the money. A greater quantity employs more people than a lesser quantity. A limited sum can only set a number of people to work proportion'd to it and it is with little success laws are made for employing the poor or idle in countries where money is scarce; good laws may bring the money to the full circulation it is capable of, and force it to those employments that are most profitable to the country. But no laws can make it go further, nor can more people be set to work without more money to circulate so, as to pay the wages of a greater number. They may be brought to work on credit, and that is not practicable, unless the credit have a circulation, so as to supply the workman with necessaries; if that is supposed then that credit is money, and will have the same effects on home and foreign trade.<sup>33</sup>

This passage merits careful examination for it contains some of Law's fundamental

beliefs, namely that (1) trade depends on money; (2) there is some proportionate relationship between the amount of money in circulation and the number of people employed; (3) money is required because it is used to pay the wages of the workforce; (4) credit is not practicable unless the credit can be used to purchase goods and services demanded by the employed workers, and credit used in such a way becomes money; (5) a greater quantity of money employs more people than a lesser quantity.

Law developed this theme on the relationship between the quantity of money and employment by asking what happens if 50 per cent of the public is unemployed while at the same time output is equal to expenditure and there is balance of payments equilibrium. In such an instance he contended that if more money is injected into the economy it will either increase employment or reduce the amount of underemployment, adding a rider that the increased output generated will cause exports to expand thereby generating a balance of payments surplus. On the other hand, if the money supply is reduced employment and output fall, exports are reduced, and a balance of payments deficit will ensue:

If one half of the people are employed, and the whole product and manufacture consumed; more money, by employing more people, will make an overplus to export: If then the goods imported balance the goods exported, a greater addition to the money will employ yet more people, or the same people employed to more advantage; which by making a greater, or more valuable export, will make a balance due. So if the money lessens, a part of the people then employed are set idle, or employed to less advantage; the product and manufacture is less, or less valuable, the export of consequence less, and a balance due to foreigners.<sup>34</sup>

For the moment let us leave aside Law's belief that expansions of the money supply generated balance of payments surpluses, and reductions in the money supply produced balance of payments deficits, so that we may concentrate on the theme linking money with employment and output. The importance of this theme was reinforced a couple of pages later when Law detailed the relationship between the money supply and employment in Scotland's manufacturing sector during a discussion in which he argued against prohibitions on woollen exports: 'if the product of Scotland cannot be manufactur'd with less than 50,000 people, and the money that can be spared to manufacture, be only capable to employ 25,000, one half of the product will be lost if it is not allowed to be exported.'<sup>35</sup> In other words, there was a strong relationship between employment and the amount of money in circulation. He elaborated on this, as has been shown, when dismissing the view that Scotland's problem was due to the laziness of its people. To Law unemployment had nothing to do with this prejudiced stereotype of laziness frequently levied against societies with large unemployment—a similar accusation had been made against the Irish, though it was refuted by Petty in his *Political Anatomy of Ireland*. Instead he explained unemployment as arising due to the shortage of money: 'a part of the people then employed being now idle; not for want of inclination to work, or for want of employers, but for want of money to employ them with.'<sup>36</sup>



Law was reiterating his central theme that both employees may be willing to work and employers willing to employ such labour, but the equation between the sale of and demand for labour is blocked by the absence of money. Money is needed to bring the buyers and sellers of labour together. This theme will be returned to but, first of all, it is relevant to show the context in which it was best presented, a context which enabled Law to produce the first rudimentary circular flow of income model.

## The Circular Flow of Income

The importance that Law attached to the link between money and employment is exemplified by his attempt to model a rudimentary circular flow of income theory in the penultimate chapter of his book. In this chapter he abstracted from the Scottish economy to develop a hypothetical model of an island economy with a single landlord or proprietor, where barter prevails. Initially Law assumed a small and very rudimentary economy. The population is made up of 1,300 people, 100 tenant farmers and their families (10 to a family), amounting to 1,000 people in all, while the other 300 are 'poor or idle who live by charity'. The tenants pay their rents in kind and the surplus of the island is exported to import 'cloths and what other goods they want'. There is no indigenous manufacturing sector on the island: 'the people of this island know nothing of manufacture.' To all intents and purposes it is a barter economy with the island's surplus being traded for goods manufactured elsewhere. Furthermore the balance of payments is in equilibrium.

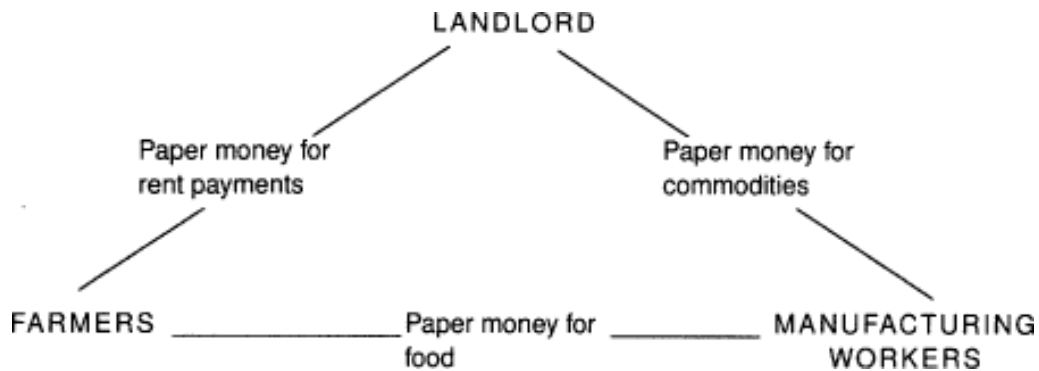
It is proposed to the landlord or proprietor that money be introduced on the island so as to encourage the employment of the unemployed and the more intensive use of the underemployed:

if a money is established to pay the wages of labour, the 300 poor might be employed in manufacturing such goods as before were exported in product; and as the 1,000 that labour the ground were idle one half of their time they might be employed so as their additional labour would be equal to that of 500 more, which would lessen their import by providing them with a part of such goods as before they brought home from the Continent, and raise their export to 3 or 4 times the value it had.<sup>37</sup>

Thus, key assumptions of the model are the existence of unemployment ('the 300 poor or idle'), underemployment (500 who are underemployed in the agricultural sector), and the absence of a manufacturing sector. The catalyst for increasing employment is the creation of money.

The circular process is initiated by the landlord or proprietor paying the labourers in the newly created manufacturing sector with paper money for their goods and services. The labourers use the paper money to purchase corn and other agricultural goods from the tenant farmers. This latter grouping uses the paper money to pay the landlord or proprietor his rent. Thus the money flows between

Diagram 8.3



the three groups, financing the payment of goods and services as well as the payment of the rent, with the money returning to the landlord at the end of this process, thereby enabling him to start a further round of economic activity.

The proprietor coins paper to the value of a year's rent, employs such as are willing to work, and gives them paper-money as the price of their labour. The tenant gives corn or any other goods he has to the labourer for paper-money, and the proprietor receives it for his rent.<sup>38</sup>

This circular process is outlined in Diagram 8.3. This is not an analysis of the actual *status quo* but of a desired economic situation produced by the creation of money. The *status quo* is represented by a barter economy in which there is a bilateral flow of commodities and rent payments between the agricultural tenants and the landlord or proprietor in an economy operating well within its production possibility frontier. By introducing money into the model the system becomes a tripartite one allowing for the employment of the 'poor and idle' and the more intensive employment of the underemployed. More specifically, the introduction of money into the system facilitates the establishment and development of a manufacturing sector which may be grafted on to the economy, enabling economic activity and employment to be greatly increased. It is important to stress this development for in its initial barter state the island economy is deemed to be incapable of producing a manufacturing sector. It is the introduction of money to the island economy which permits the creation of a manufacturing sector. Law was stating that a shift to a money economy permitted the transformation of the island economy from a primitive agricultural barter system into a more progressive manufacturing-cum-agricultural economy. He was also implicitly assuming that there was a latent stock of expertise available to produce a manufacturing sector and that its output would be very responsive to increased demand.

Law then added a complication to this model. Suppose the labourers do not purchase enough agricultural goods to enable the tenant farmer to pay his rent, but use the money instead to purchase non-agricultural goods, thereby pushing up the price of the latter. In his model he assumed that the landlord issued money in the form of paper notes equivalent to the annual rent payments made by the farmers to him. He also assumed that the workers in the manufacturing sector earned four

units but only needed to consume two units of the products of the tenant farmers. In this case, 'the labouring men being masters of the remaining part of the paper, and having no occasion for more goods from the tenants, might raise the value of the paper.'<sup>39</sup>

He overcame this problem, not by analysing the dynamics of relative price movements as the prices of agricultural goods fall due to excess supply, and non-agricultural goods rise due to excess demand, but by recommending the further expansion of the money supply. He envisaged this further increase in the money supply increasing the demand for manufacturing labour, thereby attracting an inflow of labour, 'part of the poor and idle of the Continent to the island'. This increase in manufacturing employment increases the demand for the agricultural output of the island. Law explained that it 'occasions a greater consumption, whereby the tenants are able to pay their rent in paper as contracted for'.<sup>40</sup>

## The Money-In-Advance Requirement

The island model, showing Law's understanding of the circular flow of income, appears in chapter VII towards the end of *Money and Trade*. The demonstration of the circular flow of income was not, however, Law's primary concern. It was just an element of a larger design, for he wanted to show that money was an integral part of the circular flow of income process. Without money society could only exist at a primitive barter level of economic activity. With money it could develop away from the rural agricultural model to incorporate a manufacturing sector producing a flow of goods and services between landlords, farmers, and workers in the manufacturing sector. The expansion of the circular flow required further injections of money.

He was proposing what is currently termed the Clower or cash-in-advance requirement model, which specifies that money needs to be acquired in advance before any transactions, and therefore expenditure, may take place.<sup>41</sup> Long before such twentieth-century theorizing Law was stating that money was needed to bring transactors (buyers and sellers, employers and employees) together. The quotations given above clearly demonstrate his conviction that money was central to the employment and income-generating processes. Law was prepared to admit that his belief that there was a positive relationship between the growth in the money supply and income might have been deemed by some people as 'a supposition that's extravagant', but he went on to point out that such critics should have observed the example of other countries. 'As the money of England has increased, the yearly value [national income] has increased; and as the money has decreased, the yearly value has decreased.'<sup>42</sup> It was a theme which Law returned to a year after the publication of *Money and Trade*, when in the 'Mémoire touchant les monnoies et le commerce' he posed the question as to why employment was not

generated in conditions where money was rare, unemployment was common, and employees willing to work at low wage rates:

It will be asked if countries are well governed why they do not process their wools and other raw materials themselves, since, where money is rare, labourers work at cheap rates? *The answer is that work cannot be made without money*; and that where there is little, it scarcely meets the other needs of the country and one cannot employ the same coin in different places at the same time. [Emphasis added]<sup>43</sup>

This passage shows that Law was quite prepared to accept the possibility that in the face of heavy unemployment wages could be flexible. He was not prepared to accept that such flexibility would solve the unemployment problem. Money was required to put the buyers of labour into contact with the sellers of labour. Without it, Law saw little possibility for a solution of the unemployment problem.<sup>44</sup> Employers need money in order to hire labour; labour needs money in order to express a demand for commodities. Without money the two sides cannot effectively communicate their potential offers of labour and their potential demands for commodities.

It seems wrong, as is the case with the Walrasian general equilibrium model, to hypothesize that money may be removed from the model and to maintain that all of the mutually interesting transactions that take place could take place without money. Money in that type of model is seen as having a passive role. It is the relegation of money to the role of acting just as a *numéraire*. Law acknowledged that barter trading can take place without money, but suggested that barter limits the range of economic activity:

In this state of barter there was little trade, and few arts-men. The people depended on the landed-men. The landed-men laboured only so much of the land as served the occasions of their families, to barter for such necessaries as their land did not produce; and to lay up for seed and bad years. What remained was unlaboured; or gifted on condition of vassalage, and other services. The losses and difficulties that attended barter, would force the landed-men to a greater consumption of the goods of their own product, and a lesser consumption of other goods; or to supply themselves, they would turn the land to the product of the several goods they had occasion for; though only proper to produce of one kind. So, much of the land was unlaboured, what was laboured was not employed to that by which it would have turned to most advantage, nor the people to the labour they were most fit for.<sup>45</sup>

He seemed to be arguing that an economy can only stay at a primitive Robinson Crusoe level of development in its barter phase and in particular cannot develop a manufacturing sector without money. Like Cantillon later, he delineated the dominating role of the landlord in the determination of the allocation of resources in such an economy.

Law accepted that the use of specie money, particularly silver, had enabled society to evolve from a barter economy to a money economy, an evolution that had helped to reduce unemployment and increase output:

As money increased, the disadvantages and inconveniencies of barter were removed; the

poor and idle were employed, more of the land was laboured, the product increased, manufactures and trade improved, the landed men lived better, and people with less dependance on them.<sup>46</sup>

To Law, however, the evolution to a specie-using economy was only a partial solution to the unemployment problem. Supplies of silver were uncertain as they were subject to the vagaries of discoveries in the Spanish Americas. There was an insufficient supply of silver money in Scotland at the time of his writing *Money and Trade*. A method had to be found of supplementing, if not supplanting, the monetary system based on silver.

## Money Demand, Money Supply, and Inflation

Law believed that by increasing the money supply it was possible to increase economic activity, which in turn, would increase the demand for money, thereby locking the increased money supply into the domestic economy without inflationary effects—the balance of payments effects will be discussed later. It has already been shown that Law was the first economic writer to use the concept of the demand for money in the *Essay on a Land Bank*. In *Money and Trade*, which contains frequent use of the term, he specified the factors influencing the demand for money, saying that it was ‘proportion'd to people, land or product’, with product being synonymous with what is defined as national income today. ‘Money in Scotland is not above one 40th part of the money in England, proportioned to the people, land, or product; nor above a 10th part proportioned to the demand.’<sup>47</sup> The juxtaposition of people and land with (national) product takes on a greater meaning later, for Law's concept of the optimum quantity of money involved a fully employed economy where people and land were fully utilized:

It cannot well be known what sum will serve the occasions of the nation, for as manufacture and trade advance, the demand for money will increase; but the many poor we have always had, is a great presumption we have never had money enough.<sup>48</sup>

Starting with a disequilibrium situation of unemployment, he argued that each increase in the money supply would, by generating an increase in economic activity and employment, thereby create an increase in the demand for money:

The paper money proposed being always equal in quantity to the demand, the people will be employed, the country improved, manufacture advanced, trade domestic and foreign will be carried on, and wealth and power attained.<sup>49</sup>

and

At present perhaps 3 or 400,000 lib. is more than there is a demand for; but as trade and manufacture increase the demand for money will be greater.<sup>50</sup>

He thus assumed, with output expanding in line with the increase in the money

supply, there was a potential non-inflationary demand for money up to that level of economic activity consistent with full employment. He was not advocating that the money supply be expanded *ad infinitum*, for he realized, and he had already written about this in the *Essay on a Land Bank*, that if the money supply was expanded out of line with the demand for money it would have inflationary repercussions: ‘If money were given to a people in greater quantity than there was a demand for, money would fall in its value; but if only given equal to the demand it will not fall in value.’<sup>51</sup> The text has a number of other instances in which Law states that the prices have increased, or money fallen in value, as a result of the money supply expanding out of line with the demand for money: ‘As the quantity of money has increased . . . much more than the demand for it; and as the same quantity of silver has received a higher denomination, so of consequence money is of lesser value.’<sup>52</sup> He argues that silver had been overexpanded globally over the previous two hundred years resulting in a twenty-fold increase in international prices. It is clear, in this context, that Law is discussing the price of internationally traded goods because he cites the increase in the prices of goods such as wheat, wine, meat, and malt. Furthermore, he cites the examples not only of Scotland, but also France and England: ‘In England 20 times the quantity of money is given for goods, that was given 200 years ago’.<sup>53</sup> The cause of the overexpansion in silver was the increase in silver from the Spanish Americas which pushed up European prices:

The reason is plain, why silver has increased more in quantity than in demand. The Spaniards bring as great quantities into Europe as they can get wrought out of the mines, for it is still valued though not so high. And though none of it came into Britain, yet it will be of less value in Britain, as it is in greater quantity in Europe.<sup>54</sup>

Law was attempting to show that on a global basis the money supply (i.e. silver) had been overexpanded relative to its demand, thereby causing prices to rise substantially, or put another way, the purchasing power of silver was only one-twentieth of what it had been some two hundred years previously. It is important to stress this so that we may understand that Law recognized the way an overexpansion of the money supply could cause inflation. He was not a naïve advocate of monetary expansion expecting that in all cases an increase in the money supply would generate only output rather than price increases.

## Global Inflation and the Law of One Price

The dilemma he faced was that of reconciling the situation in Scotland with the overall European situation, and in the context of contemporary eighteenth-century attitudes we may equate Europe with the world. Scotland was suffering from a shortage of money, whereas the European money supply had been overexpanded, causing the value of silver to fall. If this was the case surely Scottish prices should have been a great deal lower than European prices? He resolved this

dilemma by posing two objections, and in Socratic fashion finding appropriate answers. In providing these answers he demonstrated a very sophisticated approach to what is now termed 'the law of one price' by global monetarists.

The first objection raised was that 'the demand for silver is now greater than the quantity'.<sup>55</sup> While he acknowledged that this was the current situation in Scotland, it had not been the European experience over the previous two hundred years. If silver had not been overexpanded relative to its demand then prices and interest rates would have remained unchanged. Instead interest rates had fallen and prices had increased:

It is answered, though the demand [for silver] is greater than the quantity; yet it has not increased in proportion with the quantity. 200 years ago money or silver was at 10 p. cent, now from 6 to 3. If the demand had increased as much as the quantity, money would give 10 p. cent as then, and be equal to the same quantity of victual, or other goods that have kept their value . . . If the demand [for silver] had increased in the same proportion with the quantity, and the money had not been raised, the same interest would be given now as then, and the same quantity of victual to pay the interest.<sup>56</sup>

Law acknowledged that he still needed to explain why prices in Scotland had not fallen, reflecting the depressed level of economic activity there, and the fact that the demand for money was greater than the supply. Instead prices in this depressed environment differed little from those which prevailed when money was in greater quantity. It is worthwhile presenting this second objection in its entirety to show the way his mind was working on this issue:

It may be objected, that in Scotland the quantity of goods are proportioned to the demand as they have been some years ago; and money scarcer, the demand for it the same or greater. So if goods and money are higher or lower in value, from their greater or lesser quantity in proportion to the demand for them; money should by its great scarcity be more valuable, and equal to a greater quantity of goods. Yet goods differ little in price, from what they were when money was in greater quantity.<sup>57</sup>

Law's answer to this objection shows that he grasped two essential elements of what is currently referred to as global monetarism. These were: (1) international, that is, eighteenth-century European, inflation was caused by an excessive expansion of the money supply out of line with the demand for money; (2) prices for traded goods were determined by the international forces of demand and supply rather than the domestic forces of demand and supply:

The value of goods or money differs, as the quantity of them or demand for them changes in *Europe*, not as they change in any particular country. Goods in *Scotland* are at or near the same value with goods in *England*, being near the same in quantity in proportion to the demand as there: Money in *Scotland* is not above one 40th part of the money in *England*, proportioned to the people, land or product; nor above a 10th part proportioned to the demand. If *Scotland* was incapable of any commerce with other countries, and in the state it is now, money here would buy 10 times the quantity of goods it does in *England*, or more: But as *Scotland* has commerce with other countries, though money were much scarcer than now, or in much greater quantity than in *England*; if there were but 10,000 lib. in *Scotland*,

or a million, the value of goods would not differ above 30 per cent from what they were abroad, because for that difference goods may be exported, or imported. Prohibitions may raise the difference higher.<sup>58</sup>

This passage shows that Law had a clear understanding of the way in which excessive expansions in the international money supply generated inflation, and how such inflation was transmitted into a small open economy. He acknowledged that if the Scottish economy were a closed one then the existing money supply could purchase ten times the amount that was currently possible. But this was not the case. The Scottish economy was an open one so that its price level was determined by the international price level plus a mark-up of 30 per cent,<sup>59</sup> to meet what he had earlier called 'charges and profit'.<sup>60</sup> Of course if trade regulations (prohibitions) were put in place then the Scottish price level could diverge even more from the European price level.

He had earlier discussed the way in which international arbitrage kept prices in line across national frontiers:

If goods worth a 100 lib. in Scotland, are worth 130 lib. in England, these goods will be exported, 30 per cent being supposed enough for the charges and profit. If the price of these goods lower in Scotland from a 100 lib. to 80, the price in England will not continue at a 130; It will lower proportionably, for either Scots merchants will undersell one another, or English merchants will export these goods themselves. So if they rise in Scotland from 100 lib. to 120; they will rise proportionably in England, unless the English can be served with these goods cheaper from other places, or can supply the use of them with goods of another kind.<sup>61</sup>

Thus in Law's schema prices in a small open economy are determined by international prices rather than by domestic money supply factors. He attacked William Petyt who, when writing *Brittania Languens* (1680), had argued that prices are proportionately related to the money supply. In strikingly pre-Humean language, Petyt had asked what would have happened if the English money supply had been reduced to only £500. Would this not have caused oxen to be sold for a penny each? 'If there were but 500 l sterling in England, an ox could hardly be worth a penny, nor could the revenue of all England be 500 l per annum, or not above.'<sup>62</sup> Law disagreed, contending that as oxen were internationally traded goods their price would be determined by international rather than by domestic factors. As oxen could be exported their price would be determined by that potentially available on markets, such as the neighbouring Dutch market, rather than in a depressed English market: 'as the ox might be exported to Holland, it would give a price in England equal or near to that it would give in Holland'.<sup>63</sup>

In identifying Spain as the main culprit for the overexpansion of the European money supply he showed his understanding of the general transmission of inflation:

If the money of any particular country should increase beyond the proportion that country bears to Europe; it would undervalue money there, or, according to the way of speaking, it



would raise goods: But as money would be undervalued everywhere the same, or near to what it were there; it would be of great advantage to that country, though thereby money were less valuable: For that country would have the whole benefit of the greater quantity, and only bear a share of the lesser value, according to the proportion its money had to the money of Europe. When the Spaniards bring money or bullion into Europe, they lessen its value, but gain by bringing it; because they have the whole benefit of the greater quantity and only bear a share of the lesser value.<sup>64</sup>

In producing an acute and perceptive analysis of the way inflation had been generated and transmitted in Europe he hoped also to show that silver was an inappropriate type of money because of a continuous erosion in its purchasing power. He also demonstrated how inflation had been transmitted into Scottish prices, enabling him to explain the apparent paradox of why Scottish prices were still high even though the economy suffered from a dearth of money. Following on from this analysis, the issue he wished to address concerned the introduction of a new type of money capable of stimulating economic activity in Scotland, and, at the same time, providing its holders with a more stable purchasing power than silver.

He was reuniting two of his major themes. The first theme involved his demonstration of the vital role that money played in developing and stimulating economic activity. In a more complex economic society embracing a manufacturing sector, in contradistinction to a primitive barter-based agricultural society, there was a money-in-advance requirement. Transactors, employers, and employees needed money in advance in order to come together in the production process. Without money there could be only a notional excess demand for labour matched by an effective excess supply. Unemployment and underemployment, alongside a depressed level of economic activity, would continue in this type of environment. The solution, according to Law, was to expand the money supply. But how could the money supply be expanded without the type of inflationary consequences produced by the expansion of silver money? Dismissive of silver money because of the erosion of its purchasing power, consistency dictated that he find a substitute which could be increased in line with the macroeconomic requirements of the economy while, at the same time, retaining its purchasing power. Law believed that a land money was capable of meeting these twin requirements. His views on the stability of value of a land money in *Money and Trade* follow those which he had presented in the *Essay on a Land Bank*, as discussed in Chapter 7.

## Law on the Balance of Payments

Although Law's early writings in both the *Essay on a Land Bank* and *Money and Trade* show considerable sophistication, they also contain the seed which was to lead to the excesses of 1720. This seed was Law's belief that an expansion in the money supply could produce not only an increase in output and employment, but

also a balance of payments surplus. While the early parts of *Money and Trade* seem to indicate a strong belief in a positive relationship between the money supply and exports, Law's position, as shall be shown, showed less certainty on this issue in the latter parts of the book.

He was critical of the viewpoint that money was scarce as a result of a balance of payments deficit, believing that the shortage of money was the cause as well as the consequence:

Most people think scarcity of money is only the consequence of a balance due; but it is the cause as well as the consequence, and the effectual way to bring the balance to our side, is to add to the money.<sup>65</sup>

This was the implicit premiss which had enabled him earlier to specify a positive relationship between the money supply and exports:

The first branch of foreign trade, which is the export and import of goods, depends on the money. If one half of the people are employed, and the whole product and manufacture consumed; more money by employing more people, will make an overplus to export. If then the goods imported balance the goods exported, a greater addition to the money will employ yet more people, or the same people are employed to more advantage; which by making a greater, or more valuable export, will make a balance due. So if the money lessens, a part of the people then employed are set idle, or employed to less advantage; the product and manufacture is less, or less valuable, the export of consequence less, and a balance due to foreigners.<sup>66</sup>

In clear unequivocal terms Law believed that expansions in the money supply could generate a balance of payments surplus and a reduction in the money supply could produce a balance of payments deficit. This viewpoint is repeated as the book progressed: 'For without some addition to the money, it is not to be supposed next years export can be equal to the last: It will lessen as money has lessened.'<sup>67</sup> Later on he wrote that if £100,000 was sufficient to carry on trade and produce a balance of payments surplus: 'the same measures, and a greater quantity of money, would make the balance greater'.<sup>68</sup>

Law's views on the relationship between money and balance of payments become clearer in the context of the isolated island model with its circular flow of income. The island economy is initially in equilibrium, exporting part of the raw materials it produced in return for cloth manufactured on the Continent. The introduction of money into the island economy is the catalyst which shifts the unemployed and underemployed agricultural workers into a new manufacturing sector which produces new manufactured exports and import substitutes. This represented, as has been shown above, a significant technological transformation in the economy of the island, entailing the movement from this type of primitive agrarian economy to an agricultural-cum-manufacturing economy. However, he presented no detail on how such a transformation would arise in practice. He was assuming that the economy could effortlessly achieve this transformation, that there was a latent range of manufacturing activities that could be implemented

immediately, and that the only constraint was the lack of money. Incidentally, Law would later attempt in 1720, while expanding the money supply, to develop the French manufacturing sector, establishing a range of factories in Versailles and importing skilled foreign labour to train French workers.

He expressed the view that in the island economy the quick responsiveness of output to an increase in the money supply would expand exports and reduce imports, thereby producing a balance of payments surplus.<sup>69</sup> Law repeated this type of argument in the 'Mémoire touchant les monnoies et le commerce' addressed to the French authorities in 1706:

The balance [of payments] between countries depends on the quantity of money and the way in which it is used. Example. Suppose that half of the population, capable and happy to work, is employed and that trade is equal with foreign countries, that is to say that we are not in deficit. If a greater quantity of money or silver is put into circulation, it will employ more people and on more profitable types of work; in this way the country will produce more, manufactures will increase, and there will be less need for foreign manufactured goods, trade from the kingdom will be bigger and worth more; and consequently foreigners will owe the balance.<sup>70</sup>

Once again Law was expressing confidence in the responsiveness of output to an increase in the money supply, a responsiveness that not only solved the unemployment problem but also brought the bonus of a balance of payments surplus. There were two problems with Law's analysis. First, was he naïve in assuming that output could respond so quickly to increases in the money supply, that a predominantly agricultural society could be transformed into a largely manufacturing society once entrepreneurs—and he uses such a term in the 1706 'Mémoire'—were relieved of their cash-in-advance requirement? It could be argued that at the time he was writing there had been a great surge of entrepreneurial ideas, as reflected in the number of companies floated on the Exchange Alley, and that Law had seen on his travels the way in which nations such as Holland had developed a sophisticated manufacturing structure. These developments might have led him to think that, once money was made available, the combination of surplus labour and entrepreneurial ideas would produce a huge boost in output capable of pushing the balance of payments into surplus.

A second problem with his analysis was that he seemed to be unaware of its dynamically explosive implications, for if an increase in the money supply produced a balance of payments surplus, this surplus would in turn engender a further increase in the money supply which in turn would generate a further balance of payments surplus, and so on.

It is only towards the end of the book, when dealing with the specific situation of Scotland, that Law recognized that he had introduced a highly restrictive assumption into his analysis, namely, that during the monetary expansion domestic consumption would not increase. Assuming output increased as a result of the monetary expansion then it was easy to suggest that this would produce a balance of payments surplus if domestic consumption expenditure was constrained from increasing:

as this addition to the money, will employ the people are now idle, and these now employed to more advantage: So the product will be increased, and manufactured advanced. *If the consumption of the nation continue as now*, the export will be greater and a balance due to us. [Emphasis added]<sup>71</sup>

Later on this same page he repeated that if Scotland's low propensity to consume were to remain static then there would be a considerable improvement in the balance of payments:

And our consumption not being half what the same number of people consume in England; *if the consumption continued as now*, the balance due to Scotland would be greater, than the balance due to England. [Emphasis added]<sup>72</sup>

Law was sufficiently intelligent to recognize that this might be a highly stylized assumption, and asked what would happen if he were to relax it and allow the increase in consumption expenditure to outstrip the increase in domestic output—'if the consumption and expense increased equal to, or beyond the improvement'.<sup>73</sup> Would this not cause the balance of payments to move into deficit? He offered two contrived solutions to this problem. In the first place he contended that if the paper money was only acceptable in Scotland it would not be possible for such money to leave the country, 'so the people would not be set idle, nor the manufacture decay: that money being like an estate entailed'.<sup>74</sup> In this scenario importers would be forced to reduce their imports into Scotland because the country could not offer any money, over and above that consistent with a balance of payments equilibrium, in payment for imports. In the second place, even if the country decided to pay for the balance of payments deficit ('credit given for the balance') the deficit could be met, according to Law, by subsidizing certain types of exports so as to increase their growth: 'the revenue of the Commission will be a great help towards advancing our trade in its infancy.'<sup>75</sup>

At this point in his analysis Law had belatedly acknowledged that his further conclusion that a growth in the money supply produced a balance of payments surplus was contingent on the assumption that consumption remained static. In other words, Law changed his approach as he came to analysing the particular way in which the policy might work in the Scottish economy where trade was 'in its infancy'. Indeed, a year later, when writing the 'Mémoire touchant les monnoies', Law recommended restrictions on consumption expenditure in France, contending that if this was not done there would not be sufficient commodities to export and so to balance the foreign trade.<sup>76</sup> He was also prepared to envisage restrictions on international trade in order to shift the balance of payments from deficit to surplus: 'If a greater value of goods was imported than was exported . . . such restrictions may be put on consumption of our own and foreign goods, as may make a balance due.'<sup>77</sup> Furthermore, he proposed that the profits of the land bank commission be used to subsidize exports by means of a draw-back:

What encourages the export of goods, encourages the manufacture of them; And that money given as a draw-back, will not only encourage the export and manufacture; but likewise

regain the reputation our goods have lost, and give them a better reputation than the goods of other nations.<sup>78</sup>

Thus in the case of infant industries Law recognized that there might be a need to bolster the profit margins of certain companies producing goods that did not 'yield a reasonable profit abroad' by means of a subsidy. He argued that such a subsidy was more necessary in Scotland than in other countries, 'for we do not manufacture so well as other nations: We are not able to sell for the same profit, our stocks being much smaller; and the goods of other nations will be preferred to ours, because our goods are suspected'.<sup>79</sup> It should be noted, however, that Law dropped this subsidy suggestion in his other draft proposal on a land bank for Scotland, the '1705 Act for a Land Mint'.<sup>80</sup> In this latter proposal he envisaged profits from the bank accruing to shareholders rather than subsidising infant industries.

It is paradoxical to note that a book which starts with a very clear statement of the way in which the forces of supply and demand operate, finishes with a range of recommendations on ways of interfering with the price mechanism in Scotland through restrictions on consumption expenditure and subsidies for exports. Law attempted to resolve the paradox by invoking the infant industry argument in the specific context of Scotland. Already, however, two important characteristics of his behaviour are evident, interventionism and improvisation. Law was not prepared to sit back and wait for the market mechanism to produce full employment in Scotland. In his view it could not do this without the appropriate quantity of money being channelled into the economy. This was to be the consistent theme of his commentaries not just on Scotland, but on all the other economies he examined. According as problems developed, as reality clashed with theory, as in the possible situation of Scotland's balance of payments being unable to cope with an expansion of the money supply, Law invoked a whole range of secondary policies to stem the undesirable effects flowing from the primary policy (the expansion of the money supply). His mind, so full of ideas, was capable of recommending a wide range of policies to fill in emerging holes in the dyke, but such policies tended to distract him from analysing the implications of the primary policy. It was this improvisation which was to cause him, later in 1720, to devote too much of his energies to producing secondary policy solutions for effects produced by the primary policy.

Rather than asking if there was a problem with the primary policy, namely whether the rate of monetary expansion was excessive relative to the productive capacity of the economy, Law tended to look at the effects and state that he had a further solution for these effects. Hence, when the monetary expansion produced a balance of payments deficit, it was not a question of asking why this had happened or whether a more moderate rate of monetary expansion might be desirable. Instead, Law, with instinctive confidence of being able to master all problems, looked at the balance of payments deficit and suggested that it could be cured by restrictions on consumption expenditure and the subsidizing of exports. Even the plan for subsidizing exports out of the profits of the land bank commission was

not an absolute on Law's list of policy proposals, for the '1705 Act for a Land Mint' envisaged an alternative land bank proposal with notes issued by a publicly quoted company and the profits from such an enterprise accruing to the shareholders. If this proposal had been implemented there would have been no immediate source to draw on in order to subsidize exports.

## Conclusion

In one sense *Money and Trade* may be seen as an extension of the *Essay on a Land Bank*. In it Law develops his ideas on the nature of money and functions of money. But whereas the *Essay on a Land Bank* dealt solely with the issue of money and inflation, the main focus of attention shifted to output and employment in *Money and Trade*. In producing a more general theory in this latter work Law pushed forward the frontiers of macroeconomic theorizing with such innovations as (1) the cash-in-advance requirement; (2) the circular flow of income; (3) the analysis of global inflation in a supply of money/demand for money framework; and (4) the law of one price. These were noticeable achievements and should be recognized as such.

At best his analysis of the relationship between the money supply and the balance of payments is *ad hoc*, relying on the dual assumptions that output would be highly responsive to increases in the money supply, and at the same time, domestic consumption would remain static. Law's analysis of the issue of money supply and balance of payments was to prove one of his theoretical weaknesses and created problems when it came to monitoring the Mississippi System. However, it should not detract from the rest of the body of analysis that he had created. Such analysis has outlived the downfall of the System.

## Appendix

Once it is accepted that Law was the author of the '1705 Act for a Land Mint',<sup>81</sup> an interesting issue arises as to its content. A cursory reading might suggest that the 1705 Act represented a draft outline of the specific institutional detail for the proposed land bank. There is an important difference between it and *Money and Trade* in that the former deals with a joint-stock bank, where the profits accrue to the shareholders, whereas the latter proposed a group of forty commissioners administering the bank with the net profits used to subsidize exports by the Commission. Why did Law table two different proposals with respect to the ownership and management of the bank in the same year? Secondly, which proposal was made first?

Law's fertile mind seemed to be perpetually at work creating variants of his banking proposals. He was concerned to have a land bank established and was prepared to see this

either in public or private ownership. I suspect that he favoured the latter as Law was not averse to appropriating for himself some of the profits of his proposed banks. It may have been the case that he initially felt that the Scottish Parliament, concerned with the failure of Darien scheme, was not predisposed to establishing another privately owned enterprise which if it failed would bring the further odium of the populace on the heads of the parliamentarians. We know the *Money and Trade* proposals were under consideration in June 1705, from William Greg's letter to Robert Harley, dated 9 June 1705 (quoted on p. 68 above).<sup>82</sup>

It is noticeable that Greg referred to just one project of John Law's, that proposed in *Money and Trade*, where he suggested that the initial note issue was to be £50,000 sterling. The Scottish Parliament considered the specific proposals of *Money and Trade* in July of 1705 with Greg noting, in a further letter to Harley, that the Earl of Roxburghe had reminded the Parliament that Law 'had not dedicated his book to the Estates of Parliament, nor put his name to it'.<sup>83</sup> The reference to *Money and Trade* suggests that it was the banking proposal of this work which the Parliament was considering. This seems to imply that Law wrote up the '1705 Act for a Land Mint' after the Scottish Parliament's refusal to accept the banking proposals as outlined in *Money and Trade*. Perhaps he felt that there was nothing to lose in making another proposal, but on this occasion he suggested that it would be subscribers from the private sector who would assume the risk of operating the bank. Another possibility was that someone such as the Duke of Argyll, the Queen's Commissioner in Scotland, suggested that Law draw up an alternative draft proposal for a joint-stock bank.

There was to be a later parallel to Law's dual banking proposals of 1705. This arose in France in 1715–16. Law's proposal for a state-controlled bank was rejected in 1715, but, undaunted, he managed, as has been shown above, to persuade the Regent to allow him to create a privately run joint-stock bank in May 1716. Unlike the French, the Scots rejected both of Law's proposals in 1705.

## 9 The Conceptualization of the System

The period 1694–1712 was one of great financial innovation. In London the Bank of England had been established in 1694, the new East India Company, formed in 1698, then partially merged with the old company under the title ‘The United Company of Merchants trading to the East Indies’, was fully amalgamated in 1709, and the South Sea Company was formed in 1711.<sup>1</sup> During this period insurance companies were founded in Britain and a wide range of land bank proposals, including those by Law, were made. In France, a new type of money, the *billets de monnaie*, was created in 1701 to help finance the Royal treasury.

The wars of the period had forced governments to be financially innovative. Just out of a war that had lasted from 1689 to 1697, England and France found themselves once again in opposition facing the long and costly War of the Spanish Succession which would last from 1702 to 1713. These wars bled both economies of specie, much needed to finance the warring armies on foreign soil as hostilities spread across the European continent, as well as greatly increasing state borrowing and indebtedness. The economies of the period needed some new type of money to supplement a depleted specie money supply, and the respective government treasuries needed new ways of borrowing funds from the public to meet their increased expenditure commitments. Monetary creation and debt management—this term is used in the widest possible sense to include policies affecting the composition and the level of the government debt (including government borrowing)—were of paramount importance.

Turned down in Scotland, and obliged to exit from there because of the impending Act of Union, which extended his status from that of a fugitive before English law to that of a convicted murderer under the newly combined legal jurisdiction of England and Scotland, Law embarked for the Continent. Over the next nine years, between 1706 and 1715, he attempted to convince a number of different ministers of finance and monarchs of the viability of his projects.

Building on the corpus of economic theory that he had already developed in both the *Essay on a Land Bank* and *Money and Trade*, Law's theory further evolved with an increasing emphasis on two issues: (1) the view that specie money could be replaced by a paper credit system, and (2) the belief that monetary policy, a necessary condition for reviving the French economy, needed to be accompanied by a debt management policy. The two were interlinked but it was only when Law



abandoned his land bank proposal that the linkages between them clearly emerged, linkages which eventually would be fused together to produce his theoretical grand design which in turn would be progressively implemented as the Mississippi System between 1716 and 1720.

In the *Essay on a Land Bank* and *Money and Trade Law* Law tried to show that it was possible, in the case of England, to supplement the inadequate specie money supply, and in the case of Scotland, to replace specie money with a paper money collateralized by land. In the first of these writings he intimated that it was also possible to envisage a broader conception of the money supply, one embracing not only paper money but also including shares of the large trading companies, debentures, and so forth.

In analysing the problems of the French economy he realized that there was not just a monetary crisis but also a financial crisis. The latter was characterized by an inability to manage the French national debt, in marked contrast to the relatively smooth management of the national debt by the British. In Britain the Bank of England and the large trading companies such as the East India Company and the South Sea Company had been designed with a particular emphasis on addressing the Crown's debt-management problems. The liabilities of these companies, that is, their shares, were in part matched by government debt. Shares, the counterbalancing financial instruments of such government debt, were regarded by Law as part of a wider concept of money. These interlinkages between the money supply and government debt induced Law to conceptualize a system embracing both elements.

Money and debt are closely linked, and at times are synonymous, in that the creation of one usually engenders the creation of the other. Interpreted at the individual level money is an asset, and debt is a liability. One man's financial asset is another man's financial liability. At the institutional level money, in the form of deposits, represents the liability of financial institutions, whereas debts, in the form of loans, represent their assets. Financial institutions have a dual product role in that they create both deposit products and loan products. Corresponding to each deposit there is a loan, be it to the private or public sector; liabilities are matched by assets.

This had not been the case up to the start of the eighteenth century. Then the dominant form of money was gold and silver coins. Specie money existed as an asset without a corresponding liability. By this it is meant that the holding of specie did not involve the individual in any debt relationship. The public held outside money, that is, money not matched by any corresponding debt. Money was just fulfilling one of its roles. At the time when Law had started to write on monetary issues, some European countries were embarking on a path of monetary change which would ultimately lead to the replacement of the specie money system by the modern dual product inside money system involving both assets and liabilities.

This movement from a specie-based outside money system to a dual product

inside money system represented a revolutionary step for economic man, a step that helped smooth the establishment and development of capitalism. Yet few early eighteenth-century writers were able to discern the newly emerging monetary system which enabled money to be used not just as a medium of exchange, but also as a method for facilitating additional expenditure.

Even today the full nature of this revolutionary change has been badly understood, as textbook writers on monetary issues underline the functions of money as medium of exchange and store of value. Specie money had these attributes too. So where does modern inside money differ from specie money? It has to have a further role. Unfortunately this role has been obscured by the emphasis on the depositor's usage of money. It conceals the other side of money's activity—money held by one individual is also used by another individual, the borrower. Money is not held passively on the balance sheet of a financial institution. It is actively used, not only by depositors, but also by borrowers, enabling the latter to increase their expenditure.

The difference between specie money and bank money is quite clear. Specie money facilitates the exchange of commodities; bank money has the same function, but it also has another attribute which specie money does not possess, namely that of enabling borrowers to utilize money that is held by the bank. With specie money, transactions can only take place according as its owner decides when to spend it; with bank money, even if the depositor is not involved in the expenditure decision, a borrower is able to utilize the funds which depositors have lodged with the bank.

Consider two scenarios. The first scenario is characterized as a specie-only system in which there are no banks. I am the owner of a gold coin which is considered legal tender. It is a net asset in the sense that it has no corresponding liability. I can spend it or hold it. If I spend it expenditure is increased. If I hold it then expenditure is postponed. Expenditure is contingent on my decision as the holder of the gold coin. The expenditure process may be widened if transactors increase the velocity of circulation of the specie they hold.

The second scenario represents a modern banking system. I am a holder of a bank deposit in this banking system. Once again I can spend the deposit, thereby transferring it to some other ownership within the system, or hold it. Expenditure will be increased or postponed depending on my decision. The expenditure process may be widened if transactors increase the velocity of circulation of deposits within the system. There is, however, a further dimension which did not exist under the first scenario. My decision is not the only one that counts in this second scenario. My deposit is matched on the bank's books by a loan to some other individual. This loan is used, by some borrower, to increase expenditure, be it consumption or investment expenditure. It is deepening the expenditure process within the economy. With a specie system there is no potential for deepening the expenditure process. It is a two-dimensional system with specie holders buying commodities with specie and other agents selling commodities for specie. At most

the expenditure circuit may be widened by an increased velocity of circulation of specie. Bank money, on the other hand, creates a three-dimensional system involving not only expenditure widening, between agents buying and selling commodities, but also expenditure deepening, which enables a hitherto excluded party, the borrower, to participate in expenditure decisions.

Within these extremes of a metallic-only and an a-metallic system, there is a third scenario, namely, that of a specie reserve-based banking system where the expenditure widening and deepening process take place but in which the deepening process is limited by the amount of specie reserves held by the banking system—the gold standard system.

At the end of the seventeenth century banking was still at a rudimentary stage. Goldsmiths acted as deposit-takers, minding specie and bullion entrusted to them for safe keeping. The first scenario prevailed, though goldsmiths had started to advance credit against the reserves of specie and bullion that they held, and there was a long tradition of intra-merchant credit. The establishment and development of the Bank of England enabled institutionalized banking to make the transitional step of moving from deposit-taking solely, to the joint roles of deposit and credit creation—the third scenario. However, credit creation was limited by the amount of specie reserves held by the Bank of England. Specie reserves provided the metallic anchor which limited the expansion of bank deposits. The transition to the modern banking system was not complete as specie reserves were still of fundamental importance to the monetary creation process.

In John Law's view, and here we see the extent to which he was so modern, it was possible to move the system from the first scenario, a specie-exclusive system, to the second scenario, a system where specie was no longer used. Law was suggesting a revolution far more dramatic in its outlines than that actually emerging on the ground at the end of seventeenth and the beginning of the eighteenth centuries. The intermediate process, as characterized by the third scenario, was unnecessary in his reasoning, providing the banking system was regulated so that prudential banking practices prevailed. His message was quite clear. Gold and silver were not necessary for the functioning of the modern banking system. In fact it was dangerous to base a monetary system on imperfect flows of gold and silver, the size of which were dependent on the vagaries of discoveries of such minerals. Furthermore, reliance on gold and silver delayed the development of the banking system by creating an opposing system to it.

Once prepared to jettison specie from the monetary system a whole range of fascinating possibilities arise. Instead of having paper money or bank deposits counterbalanced by specie they were to be counterbalanced by debt. The differences between the two systems may be summarized in Table 9.1. There are two important aspects to this transformation from a specie-based system to a credit-based system. These are the array of new monetary products (liabilities) which can be created and the range of loan products (assets) that can be developed. Law was quick to realize these dual product possibilities. Without the limiting constraints

Table 9.1. Specie-based and Credit-based Systems

	SCENARIO	
	Specie-Based System	
<i>Assets</i>		<i>Liabilities</i>
Gold/Silver		Banknotes/Deposits
	SCENARIO	
	2 Credit-Based System	
<i>Assets</i>		<i>Liabilities</i>
Loans to Private and Public Sectors		Banknotes/Deposits

of gold and silver reserve backing, the potential of the system to expand its array of monetary liabilities is only limited by the prudential behaviour of the liability-creating institutions. This behaviour is linked to the nature of the loans created. A country developing its economic resources needs financial capital so as to enable the factors of production to be remunerated. This financial capital may be made available by financial institutions providing the public is prepared to deposit funds with these financial institutions. Such deposits will be contingent on (1) the type of deposit instrument offered—its liquidity characteristics, its income yielding possibilities, and so on; and (2) the profile of the assets held by the financial institution, in particular the riskiness of the assets. Banks, constrained by the liquidity of their deposits, will normally opt for a low-risk loan strategy.

While banks were a necessary part of the deposit-cum-loan process, Law realized that other financial intermediaries had been created which were offering differing types of financial instruments from those of the banks. These other financial intermediaries were the large trading companies such as the East India and South Sea companies. The parallels seemed evident to Law.

In the first place, like the Bank of England, these companies acted as a conduit for funds from the private to the public sector, trading off, in this process, loans to the government in return for monopoly trading privileges. The companies undertook to lend money to the government, or to take over existing government debt, at advantageous rates of interest, in return for the acquisition of a particular monopoly trading privilege. Government debt, therefore, formed a significant part of the companies' balance sheet on the assets side. Share capital, on the liability side, had to be raised from the private sector in order to make such money available to the government. This share capital was provided by a private sector attracted by a guaranteed minimum return accruing from the interest on the public debt, along with the possibility of high dividends and capital gains on their shares as a result of the companies' exploitation of their privileges or monopoly rights.

Secondly, in order to develop their trading privileges, the companies had to

acquire assets other than government debt. Investments had to be made in developing the companies' business of colonial trading. This involved acquiring capital assets in the form of ships, trading forts, stocks, and so on. Just as the Bank of England acquired a portfolio of private sector loans, collateralized by private sector property and investments, so also the trading company acquired a portfolio of investments to develop its business.

Thirdly, the shares of the companies were perceived by Law as having many of the liquidity characteristics of money. They were traded amongst merchants who used them to purchase commodities and settle debts, secure in the knowledge that they could be sold for specie or banknotes in Exchange Alley. Because of the ease with which they could be negotiated Law, as has been shown, deemed them to be a new type of money. Certainly the shares had one key aspect of liquidity in that they could be negotiated speedily; on the other hand there was no guarantee as to the price at which they could be negotiated—a second feature of the liquidity characteristics of a financial instrument. In a falling equity market shares can very quickly lose their liquidity attribute. Law was to commit the mistake of believing that either share prices only moved upwards or that the downside associated with shares was not very significant—a mistake that was to prove very expensive in 1720.

Comparing the balance sheet of the Bank of England with those of the trading companies it may be seen how Law developed and extended his views on the role of money and financial intermediation. Table 9.2 shows, in broad outline, the balance sheets of the Bank of England and the trading companies. To Law the similarities were quite apparent:

- (1) On the liabilities side, shares were common to both balance sheets. Because shares were negotiable on Exchange Alley Law believed that they could be classified as a new type of money, similar in many respects to banknotes and deposits.
- (2) On the assets side monopoly trading privileges were common to both balance sheets. The Bank of England had a monopoly banking privilege and the East India and South Sea companies had monopoly trading privileges. More importantly government debt featured as a significant asset on both balance sheets. The importance of government debt will be returned to below. Furthermore, loans to the private sector by the Bank of England had a parallel with investments in the private sector by the trading companies.

The similarity in the balance sheets and in the activities between the Bank and the trading companies ultimately led Law to think in terms of merging their French counterparts—the Royal Bank and the Mississippi Company. This merger led to the realization of Law's grand design. This design aimed at producing a system capable of solving both the monetary and the financial crises that France faced.

There were three phases in the evolution of Law's thought leading up to the creation of the grand design.

Table 9.2. Balance Sheets of the Banks and the Trading Companies

BANK OF ENGLAND		EAST INDIA AND SOUTH SEA COMPANIES	
<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>
Shares	Gold/Silver	Shares	Fixed/Working Capital
Banknotes/Deposits	Reserves Government Securities		Government Securities Colonial Trading Privileges
↓		↓	
BANQUE ROYALE (earlier Banque Générale)		COMPAGNIE DES INDES (earlier Compagnie d'Occident)	
<i>Liabilities</i>	<i>Assets</i>	<i>Liabilities</i>	<i>Assets</i>
Shares	Gold/Silver	Shares	Fixed/Working Capital
Banknotes/Deposits	Reserves Government Securities		Government Securities Colonial Trading Privileges
↘		↙	
	MISSISSIPPI COMPANY		
	<i>Liabilities</i>	<i>Assets</i>	
	Shares	Gold/Silver Reserves	
	Banknotes/ Deposits	Fixed/Working Capital Government Securities Colonial Trading Privileges	

- (1) The banking proposals of the *Essay on a Land Bank* of 1704 and *Money and Trade* in 1705, the draft submission for the Bank of Turin in 1710–12, and the range of plans for the General and the Royal Bank in France in 1706–7 and between 1715 and 1718.
- (2) The emerging theoretical analysis of the role of the trading companies between 1706 and 1717.
- (3) The recognition of the debt-management role of the trading companies.

This evolution in Law's thought was influenced by the changing pattern of the problems he examined between 1704 and his rise to power in France during the period 1716–20. In Scotland in 1705, in Savoy between 1710 and 1712, and in France in 1706–7 and 1715–16, Law analysed monetary crises in these three states.

In France from 1715 onwards he faced two problems: a monetary crisis and a financial crisis. Law's grand design was to attempt to solve the monetary and the financial crises by merging the banking and the trading arms of the companies that he had created. These companies, modelled initially on the Bank of England and the East India and South Sea companies, were to serve in turn as the inspiration for the South Sea Company's plan to take over the British national debt, a plan that provoked the South Sea Bubble in 1720.

The sequential development of Law's thought on these issues after the publication of *Money and Trade* will be traced in this chapter through the following works:

- (1) 'Mémoire touchant les monnoies et le commerce' (November, 1706).
- (2) 'Mémoire pour prouver qu'une nouvelle espèce de monnaie peut être meilleure que l'or et l'argent' (1707).
- (3) The Bank of Turin manuscript (1710–12).

In Chapter 10 this sequence is further developed by the examination of three of Law's main writings in 1715:

- (1) 'Mémoire sur l'acquittement des dettes publiques' (May 1715).
- (2) 'Mémoire sur les banques' (December 1715).
- (3) 'Lettre au Régent' (December 1715).

In November 1706 Law submitted a proposal to the French authorities, 'Mémoire touchant les monnoies et le commerce' which was deemed worthy of the attention of the Controller-General Chamillard.<sup>2</sup> Chamillard was sufficiently impressed by the proposal to consider it in detail and to make a number of detailed annotations on it. This suggests that Law was considered not just as some lightweight projector but one who merited the direct attention of France's Minister of Finance at that time.

The 'Mémoire touchant les monnoies et le commerce' is of significance in that it represented Law's first attempt to persuade the French Crown of the validity of his views on the role of money and, by implication, the necessity to establish a bank capable of expanding the money supply. Though Hamilton maintained that it was 'the best single presentation of Law's theory',<sup>3</sup> most of the material covered had already appeared in *Money and Trade*. The major addition was Law's emphasis on the cash-in-advance requirement, as mentioned in Chapter 8.

In the opening lines of the 'Mémoire touchant les monnoies et le commerce' Law produced his standard statement on the vital role of money:

Money is a subject matter of the greatest importance. Trade and population, which render a state rich and powerful, depend on the quantity of money and the way it is used. Money properly employed provides work for the public. Work produces and maintains trade, it increases it and enriches the country. Even if the money is not used productively by individuals it may still be of benefit to the state.<sup>4</sup>

He gave the example of 'an entrepreneur' employing 50 people at £1 per day, an

overall labour cost of £50. He supposed that their work only resulted in output of £40 but contended that even though the entrepreneur lost £10, the workers only consumed £30 of the output, thereby leaving a surplus of £10 for the benefit of the state. He gave a similar example in *Money and Trade*, but it is interesting to note his use of the term ‘entrepreneur’—a term Richard Cantillon would use and define in his *Essai sur la nature du commerce en général*—here in place of ‘employer’.<sup>5</sup>

He then reintroduced the cash balance constraint, initially developed in *Money and Trade*, maintaining that employment was positively related to the amount of money in circulation:

A limited sum of money can only employ a limited number of people and laws aimed at making people work in a country where there is little money have little success. The best laws may increase the velocity of circulation of specie to its highest point and help it to be used for useful employment; but the best laws may go no further and more people cannot be employed except with more money.<sup>6</sup>

He also introduced the balance of payments argument, repeating the results obtained from the island circular flow of income model developed in *Money and Trade*. As in the island model he assumed that there were underutilized resources in the economy and that only half of the population was employed. By making the assumption that domestic output was highly responsive to an increase in the money supply Law once again argued that balance of payments surpluses were positively related to the growth in the money supply.

Law's next two *mémoires* to the French authorities, the ‘Mémoire sur l'usage des monnaies’ (1706–7) and the ‘Mémoire pour prouver qu'une nouvelle espèce de monnaie peut être meilleure que l'or et l'argent’ (1707),<sup>7</sup> were the last to contain land bank proposals. One can glimpse, in the second of these works, the way in which Law had become more impressed by the success of the Bank of England. He included the market valuation of the shares of the Bank of England in his estimation of the amount of additional money created through the establishment of the bank. In addition to the money created through the issue of banknotes and shares by the Bank of England, he expressed the view that there was a ‘new’ type of money developing in Britain:

What approximates most to a new type of money is the East India Company. The stock of this Company is divided into shares like that of the Bank. They are traded each day on the exchange and the current price is published for the public's information in the gazettes. As the transfer of these shares is easy they are given and received in payment at the price at which they are traded, so that the merchant or trader with payments to make does not need to hold money on reserve. As part of his capital is held in the Indies Company he can use these shares for payment and if there are difficulties in exchanging them at that day's market rate all he has to do is send them to the Exchange and convert them into specie, but as they are convertible they will not be refused.<sup>8</sup>

In the *Essay on a Land Bank* Law had already included ‘the stocks of the East India Companies, of the Bank, Irish debentures, etc.’ as serving the uses of money.<sup>9</sup> He was developing this earlier line of thought to show that shares had the added value



of being inflation-proof. The price differential that emerged between money (specie, bank deposits, bills of exchange, and exchequer bills) and shares arose not because 'the shares were worth more, it happened because money was worth less as a result of debasements and increases in its supply. Shareholders did not gain as they had thought, they avoided part of the losses they would have suffered if their capital had been employed as money, and gained a higher income on it than if it had been invested in bonds.'<sup>10</sup>

The 'Mémoire pour prouver' shows that by 1707 Law's concept of money was undergoing a progressive transformation. Though at a policy level he wished to replace specie money with a banking system issuing credit against the collateral of land, at the theoretical level he had developed his monetary ideas further by starting to emphasize the liquidity aspects of money. He was defining as money any financial instrument that could be used as a medium of exchange. Tallies, exchequer bills, and bills of exchange were used for facilitating exchange and so came to be regarded as money. He was also looking for a financial instrument that had something more than a medium of exchange function. He was searching for an instrument that had a store of value function superior to that of contemporary financial instruments. He believed that shares had the dual attributes of acting not only as media of exchange but also of providing a superior store of value. He had seen shares traded by merchants and used in settlement of debts in Exchange Alley, thereby demonstrating that they could be used as media of exchange. Shares had a further attribute in that they were perceived by him to be inflation-proof.

This viewpoint was developed along the following lines. An increase in the global money supply, caused by an influx of precious metals from South America or state-induced debasements of the coinage, would increase prices and thereby reduce the value of money. The nominal price of shares, he contended, would rise in line with the increase in inflation, thereby immunizing the shareholder from inflation-led losses. His reasoning here was that the capital of trading companies, such as the East India Company, was not in money but in productive investment 'the capital of the Company is not at all in money, it consists of stores stocked with merchandise brought from the Indies, ships, forts, canons, etc.'<sup>11</sup> He acknowledged that there was a risk attached to possessing shares and that people unwilling to face such risks could convert them into gold and silver. But he added that 'the others prefer them [shares] to specie because these shares have a value which is already employed, and gold and silver do not produce except when the occasion arises to use them'.<sup>12</sup>

He wanted his new monetary system to be tied to the real economy through the linking of money to productive assets. Under his land bank proposal banknotes were directly linked to the productive earning powers of the land. However, his growing theoretical perspective had extended beyond land to consideration of other real assets, most notably the productive earning powers of the trading companies. The shares of these companies were interpreted as media of exchange because of their ready marketability and, in Law's view (a view that tended to dismiss

the downside risk associated with share ownership), were superior stores of value to money because they were linked to a productive capital base. As he was still attempting to interest the French ministers in his land bank proposal Law's main argument was that land constituted a less risky asset than specie money. What he said at this stage about the East India Company and the Bank of England may be interpreted more as *obiter dicta*. Law was obviously interested in the activities of both companies, but his advocacy of the land bank project inhibited him from developing his interest at this stage.

In 1711, by which time he had abandoned the land bank proposal, Law returned to his earlier views on the significance of shares created by the Bank and the East India Company in expanding the broad money supply. Law had once again shifted locations and was advising Victor Amadeus II, Duke of Savoy (1666–1732), on the way to establish a bank in Turin.<sup>13</sup>

This manuscript containing his advice to Victor Amadeus will be referred to as the Bank of Turin manuscript. It was published recently in its entirety for the first time and may be interpreted at two levels.<sup>14</sup> At the first level, that examined by Perrero (1875) and Prato (1914),<sup>15</sup> it shows John Law's specific recommendations to Victor Amadeus concerning the establishment of a bank at Turin. At a second level there is a more significant story to be analysed. It concerns Law's assessment of two major monetary experiments, the first involving the establishment and development of the Bank of England, along with the restructuring of the East India Company, and the second revolving around the French issue of *billets de monnaie*. This second interpretation was not possible without the examination of the complete manuscript, for the abridged copy, as published by Perrero and Prato and reproduced by Harsin, excluded Law's analysis of the *billets de monnaie* experiment.<sup>16</sup>

The two issues of monetary creation and debt management were interrelated though it must be remembered that the debt-management issue was not of direct relevance in the context of Law's specific recommendations for the establishment of a bank in Turin. Law's objective was to introduce a credit-creating bank issuing banknotes at Turin based on the Bank of England model. The French had also created a quasi-paper money, the *billets de monnaie*, which circulated between 1701 and 1711. He wanted to show why the British had been successful and why the French had failed. In doing so he had to discuss the debt-management issue, as in both instances monetary creation and government borrowing were interlinked, leading Law to raise the paradox as to why Britain had succeeded in simultaneously establishing the Bank and making a loan to the government, thereby helping to boost economic activity, whereas France established a new credit system enabling the government to increase its borrowings but in the process reduced economic activity.<sup>17</sup>

In England, prior to the establishment of the Bank of England, the government had found it difficult and expensive to borrow money. After the establishment of the Bank, the government discovered, according to Law, that it could borrow

greater amounts more cheaply than before even though the state's indebtedness had greatly increased. In France, however, the collapse of the *billets de monnaie* served to increase the public's hostility to borrowing and government debt. Why had the Bank of England experiment succeeded while the *billets de monnaie* had failed?

## The Billets De Monnaie

The *billets de monnaie* were first issued in 1701 by an *arrêt* of 19 September of that year. They were issued to transactors as a type of short-term certificate of deposit in return for coin that transactors brought to the mint following an edict of that month stipulating a reform of the coinage. As the mint had an insufficient stock of new coins ready to pay to holders of old coins, the *billets de monnaie* were issued pending the minting of sufficient new coins. A further *arrêt* of 25 October 1701 stipulated that a 4 per cent interest rate would be paid to holders of *billets* who had not up to that time been paid in the new coinage. Initially the *billets de monnaie* were issued only in modest amounts. Armand Seligmann observed that by December 1703 the *billets* in circulation amounted to just 6.7 million livres and the *billets* were trading at only a modest discount of 18. Due to another monetary reform, in May 1704, it was decided to have further recourse to the issue of the *billets de monnaie*.

The financial shortages accentuated by the increasing expenditure on the War of the Spanish Succession forced the government to expand the issue of the *billets de monnaie* so that by October 1706, according to Seligmann, 173 million livres of *billets* were in circulation—the estimated French specie money supply was 500 million livres.<sup>19</sup> Care needs to be taken with Seligmann's estimates in that the *billets* were standing at a very hefty discount of up to 75 per cent so that the market value of the *billets* was considerably below their issue price. At the same time the estimate of the specie money supply by Seligmann, which was based on Forbonnais's calculations of the amount of money re-minted in 1690, was probably too high in that a great deal of specie had left France to pay for the war effort.<sup>20</sup> It is nevertheless apparent that the quantity of *billets*, along with a variety of other short-term paper, such as bills on the Receivers General, the General Tax Farmers, and the Caisse des Emprunts, which the government had issued, was disproportionate to the amount of specie in circulation and the public had lost confidence in the *billets*.

In January 1707 an attempt was made to encourage holders of the *billets* to use them in part purchase (50 per cent *billets* and 50 per cent specie) of the *rentes* of the Hôtel de Ville or promises of the Caisse des Emprunts. Forbonnais later wrote that merchants were unwilling to convert the *billets* because of a fear that the Government would renege on paying the interest and capital of the newly contracted

*rentes* or *promesses*, and also because they would not be able to use these contracts as a means of payment in trade—a problem that Law highlighted in the manuscript.<sup>21</sup>

Because of the failure to convert *billets* into annuities and other forms of government debt it was decided in May 1707 to limit to 72 millions the amount of *billets* which could be used in trade. Various other measures were promulgated attempting to improve the attractiveness of the *billets* but with little success. Finally in October 1710 it was declared that from February 1711 the *billets* could no longer be used as means of payment and provision was made to convert them into *rentes*. Thus ended France's first experiment with paper money.

## Law's Comments on the Billets De Monnaie

The Bank of Turin manuscript provides us with Law's first analysis of the failure of the *billets de monnaie*. The analysis is important in that Law is commenting on the failure of the French to introduce a quasi-paper money into the economy. In his later *mémoires* there are frequent references to the *billets de monnaie* as he attempted to distance his banking proposals from this earlier experience with a type of paper money.<sup>22</sup>

The first defect of the *billets de monnaie* highlighted by Law was that they were issued as high denomination notes and so could not be used for ordinary small transactions. Secondly, he criticized the behaviour of the government in forcing the acceptance of the *billets* for ordinary payments yet at the same time refusing to accept them in payment for the Hôtel de Ville's annuities (the *rentes*). The government's inconsistency in using the *billets* to finance its expenditure, allied with its reluctance to accept them for payment of long-term government securities, did not, as Law pointed out, serve to increase the public's confidence in the *billets*.

Thirdly, Law condemned the Minister, presumably Chamillard, the Controller-General of Finances until his replacement by Desmarets in 1708, for not maintaining specie reserves in order to ensure convertibility of the *billets*. The Minister discredited them further by forcing them on merchants in payment of foreign exchange drafts rather than paying for these drafts with specie. As a result Law stated that when he had been in Paris some five years earlier (1707) the *billets* were sold at a 50 per cent discount in foreign exchange transactions. Furthermore, their heavy discount in the foreign exchange market enabled transactors to overcome legal prohibitions on dealing in the *billets* at below their par value. On the foreign exchange market there was a two-tiered exchange structure with quotations made in both specie and the *billets de monnaie*. By buying a bill of exchange on Holland with specie, and then selling this bill of exchange for *billets*, quoted at the depreciated rate, a transactor could easily bypass the legal prohibition on converting specie into *billets* at the discounted rate. Law added that raising the interest rate on

the *billets* to 7.5 per cent had no effect in increasing their attractiveness because of the heavy discount at which they stood.

Law acknowledged that Chamillard may have predicted the consequences of an overexpansion of the *billets*, but that the pressing needs of the war and the shortage of alternative sources of funds forced him to rely on them. Notwithstanding the constraint of meeting the extra expenditure incurred from the war, Law believed that the Minister should have worked harder to increase the demand for the *billets* in such a way as to stabilize their value. All this would have been possible if the Minister had had a proper understanding of money and credit.

Ultimately, having allowed them to be used in part payment (one-third *billets*, two-thirds specie) for the purchase of long-term government securities, a policy that failed as the latter stood at a 50 per cent discount, Law noted that the Minister withdrew them completely from trade forcing holders of the *billets* to invest them in annuities. At this point in the manuscript Law delivered a pointed, and in the light of later events a revealing, attack on this policy of converting the *billets* into annuities.

Law interpreted the conversion of the *billets de monnaie* into annuities, a development that took place in 1711, as destroying part of the economy's working capital as well as encouraging the richer merchants to become a burden on the state rather than continuing to increase economic output. He clearly expressed this viewpoint:

An artisan who has only a capital of one thousand écus lives by his work, raises his family and is useful to the state. If this 1,000 écus is employed in annuities the artisan becomes useless and has nothing to live with. A merchant who has one hundred thousand écus of capital and who is obliged to employ it in annuities has enough to live on but instead of being useful to the state becomes a charge on it.<sup>23</sup>

The French system had forcibly reduced part of the working capital of tradesmen and merchants, for once the *billets* were converted into annuities the tradesmen and merchants found themselves holding an asset which could not be used as a medium of exchange.

Law ventured the viewpoint that if the British had used the same approach they would have failed. The British approach had been different and it had succeeded. The paradox, raised earlier, reappears again but, by implication, Law has solved it. Britain succeeded because of its different approach to monetary creation and government borrowing. These activities had been facilitated by the establishment and development of the Bank of England and the restructuring of the East India Company. These institutions, while providing long-term finance to the government, were also promoting economic enterprise, the Bank through the growth of its payment and credit mechanisms, and the East India Company through the growth of its colonial trade. Investment by these institutions in government debt did not block off the use of these investors' funds as it did in the case of the French merchants when the *billets* were firstly depreciated because of over-issue, and later, when they were converted into annuities.

Law had witnessed the progressive demonetization of part of the French money supply. First of all transactors exchanged specie for *billets de monnaie*. As the *billets de monnaie* depreciated in value they served less and less their functions of money. Ultimately their forced conversion into annuities removed them altogether from the channels of monetary circulation.

The problem in the French case was that investors' funds went solely and exclusively to the government. Temporarily employed as a form of paper money, the *billets* were then taken out of circulation and converted into long-term government debt through the issue of *rentes* of the Hôtel de Ville. By contrast, in the British case investors' funds only indirectly went to the government. Money was lent, via share issues, to the bank and the East India Company. These companies then lent part of their shareholders' funds to the government.

In the British case investors' funds were matched not just by government debt but also by monopoly privileges for banking and trading that enabled the Bank of England and the East India Company to have a diversified portfolio of assets. The profitability of these institutions was not solely contingent on the interest accruing from their holdings of government debt. Profits could greatly increase as banking and trading were developed. This diversified strength on the assets side of their balance sheet created confidence not only in the banknotes and deposits of the bank, but also in the shares of the bank and the East India Company, shares that were used as a type of money. Calculating the market capitalization of the Bank at £2.4 million sterling and credit expanded by the Bank at £2 million sterling, Law estimated that the King in borrowing 2 million had produced the same effect as if the 'quantity of money had increased by 4,400,000'.<sup>24</sup> He also included once again, in his definition of this widened version of the money supply, the shares of the East India Company: 'Like the Bank the stock of the Indies Company is also divided up into shares, they are negotiated and received in payments . . . Most [traders] prefer them to coins.'<sup>25</sup>

This led him to conclude that there were a range of credit instruments in Britain: 'There are many types of credit in England, banknotes, Exchequer bills, tallies, goldsmiths' notes or those of private bankers, the shares of the Bank, the Indies Company, etc.'<sup>26</sup> Aside from the exchequer bills and tallies, the other financial instruments referred to in this passage were issued by the private sector. The British paper money supply, as defined by Law, was primarily issued by the private sector. Government debt only appeared as one of a number of assets on the balance sheet of companies such as the Bank and the East India Company.

The British model differed from the French model in that private sector companies mediated between the public and the government in providing dividends which were only in part dependent on the tax revenue of the Crown. In France, the interest payment on the annuities derived exclusively from the tax revenue of the state. In Britain, the public lent money, by subscribing for shares, to these companies which in turn lent part of this money to the government. The promptness of the government in paying the interest on the government debt held by these

companies helped increase their reputation in the eyes of the public. As well as this stream of income from the government, the companies also had the potential of declaring larger dividends as a result of profitable operations generated from trading and banking privileges. In the case of the *rentes* the income stream accruing to their holders derived solely from the government's tax revenue, though ostensibly paid by an intermediary in the form of the Hôtel de Ville.

The Bank of Turin manuscript shows that John Law did not oppose the principle of creating a new form of money. His criticism of the conversion of the *billets de monnaie* into annuities, thereby reducing the money supply available to the merchant community, shows that he felt some type of new monetary instrument was necessary. Law's opposition concerned the management of the *billets de monnaie*, which predominantly involved using them to raise finance for the government rather than with exploiting their role as a new form of money. The *billets* had been issued in excessively high denominations, they had not been backed by adequate reserves of specie, they had been refused by the government in certain exchange transactions, and at the same time they had been forced on an unwilling merchant community in payment of foreign drafts. All these actions served to increase public hostility to the *billets* rather than instilling confidence in them.

Law's repeated references to the British model shows where he believed the solution was to be found. The British had established and nurtured a new type of money in the form of banknotes issued by the bank and shares of both the bank and the East India Company. The assets base of these companies was not solely dependent on the tax revenues of the Crown. These companies, in expanding their activities into banking and trading, were increasing economic activity in Britain and at the same time strengthening their balance sheets. Their liabilities, shares and banknotes, were perceived by Law to be a new type of money, as shown above. Their private sector assets such as loans to merchants, investments in overseas trading, and so on, were improving Britain's capital base.

## The South Sea Company

Law's vision of the essential elements of his future System would have been further sharpened, during the period between the writing of the Bank of Turin manuscript and 1715, by another financial development in Great Britain. This was the establishment in 1711 of 'the Company of the merchants of Great Britain, trading to the South Seas and other parts of America and for Encouragement of the fishing', popularly known as the South Sea Company.<sup>27</sup> The company was founded to exploit the trading potential of the area known as the South Seas. In return for this privilege the company undertook to take up part of the floating debt of the government at a reduced rate of interest. Whilst it would later seem that Law was to model the Company of the West on the South Sea Company, it must be remembered that the South Sea Company had in its early days been modelled on the East India Company and the Bank of England.

The success of the South Sea Company, as seen by its successful transfer of part of the British floating debt into a longer-term type of financial instrument, would have reinforced Law's views, already heavily influenced by the success of the South Sea and East India Companies, on the role that companies of this type could play in the financial and economic development of the country.

In Table 9.2 (p. 111) the main elements on the balance sheets of the Bank of England, the East India Company, and the South Sea Company are traced, to show the way in which Law used these models for the development of the Mississippi System. Presented in this way it can be seen that the Royal Bank (the Banque Royale) was modelled on the Bank of England and that the Company of the Indies (the Compagnie des Indes), popularly known as the Mississippi Company, was modelled on the East India and South Sea Companies. The Bank and the Company of the Indies were merged in February 1720. This merger is shown at the bottom of Table 9.2. In the merged company the liabilities side of the balance sheet shows a spectrum of liquid instruments, ranging from shares to banknotes and deposits. The assets side of the balance sheet was composed primarily of government securities and colonial trading privileges. The merged company combined to fulfil Law's targets of (1) the expansion of the money supply, with shares ranking alongside banknotes and deposits as money, (2) the management of the national debt, and (3) the development of the real economy. The crucial difference between developments in France and Great Britain was that in Britain the Bank of England was kept separate from the trading companies.

Ironically, it was the success of the Mississippi Company, a success mirrored in the jump in its share price from 150 livres in 1717 to over 10,000 livres in 1720, that generated the environment and momentum for the South Sea Company to undertake a similar experiment to that carried out in France, namely the vesting of most of the national debt under the company's ownership. As the Bank of England, along with the East India Company, were large holders of government debt, it looked for a moment in time as though the South Sea Company would take over both of these companies. Fortunately there was considerable opposition to such take-overs and the bank and the East India Company managed to remain independent of the South Sea Company.

This is to anticipate events. By 1712 Law seems to have become convinced that the British model was the one to follow. It would take him another five years to persuade the French authorities to allow him to introduce his British-inspired system in France.

## Conclusion

This chapter has outlined the evolution of Law's thought from 1706 to 1715. It shows the way in which Law's attention shifted to solving France's public finance problems, problems created by an inefficient and venal tax system, and a massive national debt. These problems constrained France's potential for economic development.



Law, while believing that the expansion of the money supply was a necessary condition for economic development, also recognized that it was not sufficient. The problem of 'les finances' had to be solved to produce an environment conducive to the operation of an expansionary monetary policy. Whereas money had been of primary importance in *Money and Trade*, written against the backdrop of a Scottish economy not suffering from a debt burden, its role had to be understood in the context of a more general set of policies in France during the Regency, when the debt problem was perceived to be first on the policy agenda: 'Mr Law was convinced that this huge quantity of debt, with which France was overburdened, was the greatest obstacle to affluence.'<sup>28</sup> When it came to making a choice between monetary and debt-management policies Law would choose the latter: 'He sacrificed the reputation that he had acquired, through the establishment of his bank . . . to the extreme desire that he had to re-establish promptly the state's affairs by the extinction of all the debt.'<sup>29</sup> Ultimately, Law sacrificed monetary policy to debt-management policy. He felt that monetary policy could not operate effectively unless the superstructure of accumulated state debt was dismantled. This is to anticipate the development of the Mississippi System.

## Appendix: Technical Proposals in the Bank of Turin Manuscript

Written in 1712, a midpoint between the publication of *Money and Trade* (1705) and the establishment of the Compagnie d'Occident (1717), it shows that by this time Law had abandoned the land bank model, which he had recommended to the English, French and Scottish authorities during the period 1705–7, and instead was proposing the establishment of a bank at Turin based on the Bank of England model.

In this manuscript Law proposed the establishment of a bank in Turin, called the Bank of Turin, which would be given a charter for twenty-one years. The share capital was to be 1,000 shares of 100 pistoles each giving a total of 100,000 pistoles. There was to be a minimum subscription of one share of 100 pistoles and a maximum subscription of ten shares (1,000 pistoles). The projector of the bank, that is, John Law, was to be allowed to purchase 10 per cent of the share capital; here we see Law looking after his own interest as well as that of Victor Amadeus II, Duke and ruler of Savoy.

## 10 France 1714–1715

The year 1715 would prove to be a frustrating one for John Law. By Christmas of that year he must have been ruefully wondering what was necessary to have his theory converted into practice. Once again he had come tantalizingly close to having his ideas accepted, not once but on two separate occasions during that year and by two different rulers, Louis XIV and France's Regent, Philippe, duc d'Orléans. As he sat down to rewrite yet another 'Mémoire sur les banques' he must have wondered whether there was some fatal flaw in his presentation that forced rulers to balk at his proposals at the last moment. To Law these late refusals were so much *déjà vu, déjà entendu*. In 1704 he had attempted to persuade Godolphin of the merits of a land bank for England but had been turned down. In 1705, though he had persuaded part of the Scottish Parliament of the attractions accruing from a land bank in Scotland, his proposal was eventually rejected. Some seven years later Victor Amadeus, Duke of Savoy, had expressed considerable interest in Law's proposal to establish a bank, modelled on the Bank of England, in Turin. Again the proposal did not result in the establishment of a bank.

Law, who had mainly travelled in France, Italy, and Holland after his departure from Scotland in 1705, seems to have decided to settle down in France in 1714. On Christmas Eve of 1713, he was back in Paris, for he wrote to Nicolas Desmarets, the Controller-General of Finances, requesting a meeting.<sup>1</sup> Although Desmarets annotated Law's letter with the comment, 'when he comes I will see him', Law had still not achieved an interview by 11 January 1714. He seems to have returned briefly to Holland, but apparently just to pack his furniture so that it could be sent to France, for by 6 May 1714 he was writing to Desmarets once again requesting that his cases, containing his furniture and personal effects, be allowed to pass unchecked at the customs at Rouen. Desmarets replied that this type of privilege was only accorded to ambassadors and that the best that he could do would be to have Law's baggage inspected at the customs in Paris.<sup>2</sup> The removal of his furniture from Holland to Paris suggests that he was moving on a more permanent basis to Paris. His request for special favours from the most powerful administrator in France indicates that he had already established himself with certain members of the government. This is confirmed by a letter of 22 July 1714 from Marc René de Voyer de Paulmy, marquis d'Argenson (1652–1721), then the lieutenant-general of police at Paris, in which he remarked that Law was living in style in a house in the

place Louis-le-Grand and making a fortune at the gaming tables. At the top of this letter there is the comment, 'He is not suspected of anything. One can leave him alone.'<sup>3</sup>

Law's growing influence was not just limited to the French administration, for the new British ambassador to Paris, the Earl of Stair, who arrived to take up his post on 23 January 1715, met Law on his first night in the capital. Stair seems to have been initially captivated by Law, writing less than a month later, 'He is a man of very good sense, and who has a head fit for calculations of all kinds to an extent beyond anybody.'<sup>4</sup>

During the summer of 1715 Law appeared finally to have persuaded Louis XIV and Nicolas Desmarests to accept his plan for a bank. Law had been discussing financial issues, including ways of remedying the problems of the French national debt, from as early as 9 May.<sup>5</sup> In the 'Mémoire sur les banques', dated by Harsin as having been written in July 1715, Law noted that Louis XIV had already agreed that he (Law) would manage the project: 'comme Sa Majesté a déjà agréé qu'il ait la direction de son projet' ('since His Majesty has already agreed that he was to direct his project').<sup>6</sup> It would seem illogical that Louis XIV would have agreed to Law's direction of the bank if he had not already accepted in principle that the bank be established. The 'Mémoire sur les banques' of July 1715 was accompanied by a letter to Desmarests in which he asked the Controller-General to continue to act as his protector, adding, 'I am persuaded, because I have had the honour of hearing your principles, that my sentiments are in unison with those of your excellency.'<sup>7</sup> In a second letter, dated 26 July 1715, Law proposed that if the King gave his approval for the bank on 1 August then it could be opened within two weeks on 15 August with the first issue of banknotes scheduled for 20 August. Five days later he was sufficiently confident to remark that if approval was given for the bank it could be opened on 10 August. He also asked Desmarests to accept the title of protector of the bank. It would have been presumptuous on Law's part to suggest opening the bank on or before July, within ten days of writing this final letter, if he had not already received assurances that his proposal was very close to acceptance. The further interest of Louis XIV is borne out by Law's comment in this letter, 'this project will respond to all that I proposed in my first *mémoire*, on which the King had the grace to grant the conditions that I took the liberty of requesting.'<sup>8</sup>

On the day Law wrote this letter the British ambassador discussed Law's project with the financier, Samuel Bernard. Bernard informed the ambassador that 'the council [the Conseil Royal de Finance] would refuse Law's project, there being no foundation for the Bank he proposes, in a country where everything depends on the King's pleasure'.<sup>9</sup> It is not known whether Law's proposal was presented to the Conseil Royal de Finance. It seems likely that the King's deteriorating health prevented the formal presentation of the proposal. Law's letter to Victor Amadeus in December 1715 provides confirmation of how close his proposals were to implementation: 'Monsieur Desmarests had obtained from the late

King the conditions that I had demanded; and this minister assured me that if this prince had lived he would have established my project.<sup>10</sup>

On 12 August the King fell ill. During the night of 24 August the fever reappeared and the doctors changed their earlier diagnosis of erysipelas to gangrene. During dinner the next evening the King reportedly spoke to his nephew, Philippe, duc d'Orléans: 'My nephew, I make you regent of the kingdom. You are going to see one king in the tomb and the other in the cradle; always keep in mind the memory of the former and the interests of the latter.'<sup>11</sup> At 8.15 a. m. on 1 September the 76-year-old monarch died, leaving his five-year-old great-grandson to carry on the legitimate Bourbon dynasty.

Temporarily at least Law's proposal was put aside as Philippe, duc d'Orléans (1674–1723), the 41-year-old Regent of France during the minority of the future Louis XV, attempted to group his forces and consolidate his position. The duc d'Orléans had been planning the take-over of the Regency for some time, as is indicated by a discussion that he had with the Earl of Stair. The latter, writing on Monday, 26 August, related a conversation with Orléans in which he said that he would be appointed Regent but there were some conditions in the will to hamper him 'by a council of regency and a tutele, that was to have the command of the troops; but he said he was little in pain about that, being sure of the Parliament and the troops'.<sup>12</sup>

The Parlement was essentially a judicial body acting as a court of appeal in civil and criminal matters, but it also considered that it had a political role. This political role had formerly involved the Parlement as a major participant in the agitation which produced the civil war of the Fronde (1648–53), and later in the eighteenth century saw it calling for the recall of the Estates General in 1788, a call which would lead to the French Revolution and, ultimately, the dissolution of the Parlement in 1790. It was the dissenting and defiant Parlement discussing the interests of the state which allegedly provoked Louis XIV's celebrated riposte, 'L'état c'est moi.' Whilst the accuracy of this story may be doubted, the intentions of Louis XIV towards the Parlement, as encapsulated in the phrase, were fully consistent with it. He resented the way the Parlement had tried to represent itself as the true representative of France during his minority, and more importantly its role in the Fronde. He reduced its power systematically by taking from it the name of sovereign court and replacing it with the term high court, exiling its members to their domains in 1667, and withdrawing the right of remonstrances prior to the registration of edicts in 1673. From then on all edicts were registered without debate or delay.

Ironically it was to the Parlement that Orléans looked for his support on the death of Louis XIV. He faced problems in that Philip V, King of Spain, Louis XIV's grandson, would make a claim on behalf of his family to the French throne once he heard of the death of Louis XIV. A second complicating factor was Louis's divisive will which stipulated sharing the power of the Regency between a triad consisting of Orléans, the duc du Maine (one of Louis's bastard sons by

Mme de Montespan), and a Regency Council. Orléans moved quickly to counter the will and to vest the Regency under his absolute control. In order to do so he needed to keep Philip V in the dark as to developments in France, and in this interim period legitimize his control of the Regency. To achieve the first objective Orléans imposed the equivalent of a news blackout on Louis XIV's death by banning the use of the external mail and courier services for a period after the King's demise. This was aimed at ensuring that there would be a crucial delay in Philip V learning of the King's death. During this delay Orléans worked to set aside the King's will and ensure that absolute power was vested in him.

The King's will limited Orléans's power by nominating him only as head of the Regency Council (Chef du Conseil) as well as stipulating that the duc du Maine would be responsible for the future King's education as well as controlling the King's household troops. On 2 September, the day after Louis XIV's death, Orléans arranged for the Parlement to annul parts of the late King's will, which limited Orléans's power, promising the magistrates of that body in return that he would restore their right to remonstrances, that is, their right to review edicts submitted to the Parlement for registration, a right that had been taken from the Parlement by Louis XIV in April 1667 and February 1673. By clever political manipulation Orléans succeeded in having the Parlement declare him as the Regent with full powers rather than as the head of the Regency Council. He then suggested that the tutorship of the young king should remain in the hands of the duc du Maine but proposed that such a scholarly task did not require the control of the Royal household guard. By relieving the duc du Maine of this military command, Orléans ensured that the absolute power to run the country was vested in him. In making the 23-year-old duc de Bourbon, a grandson of Louis XIV and Mme de Montespan, head of the Regency Council he diplomatically headed off part of the opposition from that side of the family (Bourbon would later play a key role in Law's System). Orléans had left nothing to chance, diligently preparing in advance the effective annulment of Louis XIV's will. Though Saint-Simon produced a highly colourful account of the meeting in the Parlement, contending that Orléans experienced considerable hostility from both the Parlement and the late King's two illegitimate sons, the duc du Maine and the comte de Toulouse, the reality seems to have been quite different, with the Parlement rubber-stamping decisions that for the most part had already been agreed. Orléans's comment to Stair that he was sure of the Parlement, even before the King's death, is pertinent in this respect for it shows that he had recognized the need for this body's support and had agreed to restore its right to remonstrances in return for its support. This increase in the authority and power of the Parlement would pose problems for Law from January 1718 as it grew increasingly hostile to his proposals and became one of the focal points of opposition to him.

Orléans's take-over also ensured that Philip V of Spain had no role to play in the succession stakes and that the delicate European balance produced by the Treaty of Utrecht would be maintained. By blocking the claims of the family of

Philip V to the French throne he allayed British fears about the possible succession of a Spanish Bourbon to the throne. In resorting to the power of the Parlement, bought at the expense of returning its right of remonstrances, he vested himself with the cloak of judicial legitimacy, thereby preventing Philip V from pressing his claims to the French crown.<sup>13</sup> Orléans's *coup d'état*, which destroyed the aspirations of both the duc du Maine and, more importantly, Philip V, showed that he was a man of ability, able to balance diplomatically the different power groupings at the court.

The duc d'Orléans quickly changed the administrative structure governing the country, establishing a type of collegial system (the Polysynodie) headed by the Conseil de Régence with six councils, those of Foreign Affairs, War, Finance, Navy, Interior, and Conscience (dealing with religious matters), reporting directly to it. The chief of these councils was the Conseil de Finance. Desmarets, the Controller-General of Finances from 1708 and whose rise to power under Louis XIV had undoubtedly been helped by the fact that he was Colbert's nephew, was sacked and the position of Controller-General abolished.<sup>14</sup> Desmarets was succeeded by the 37-year-old Adrien Maurice, duc de Noailles (1678–1766), who was appointed the President of the Conseil de Finance.

The first meeting of the Conseil de Finance took place on 30 September 1715, presided over by the duc d'Orléans. While Marshal Villeroy was nominated the Chef du Conseil, this was just a figurehead position with the real power being vested in Noailles as the President of the Council. The others in attendance were the Antoine Coeffier-Ruzé, marquis d'Effiat (1639–1719), the Vice-President; the councillors of state Michel Robert Le Peletier des Forts (1675–1740) (who would later be appointed Controller-General of Finances between 1726 and 1730), Louis Fagon (1680–1744) and Rouillé du Coudray (discussed below), the 'Maîtres de Requêtes', Henry François-de-Paule Lefèvre d'Ormesson (1681–1756), Pierre Gilbert de Voisins (1684–1769), Jean-Baptiste de Gaumont (1663–1750), Gabriel Taschereau de Baudry (1673–1755), and Charles Gaspard Dodun (1679–1736), 'Président des Enquêtes'.<sup>15</sup>

After Noailles the next most important member of the Conseil was Hilaire Rouillé du Coudray (1652–1729), described by Saint-Simon as 'l'âme des finances' ('the soul of the finances'), by which he meant the chief architect of the finances, during the presidency of the duc de Noailles.<sup>16</sup> His appointment confirmed his importance, stipulating that he was to be 'Directeur des finances et du controle general'.<sup>17</sup> It was Rouillé du Coudray who would later introduce the provisions for the implementation of the Chamber of Justice.<sup>18</sup> He retired from the Conseil de Finance in 1718, and in November 1719 when the Regent was feeling wealthy as a result of the success of the Mississippi System he gave him 200,000 livres. He would, as will be shown, have much to say about Law's banking proposal when it was presented to the Conseil de Finance in October. The first meeting of the Conseil de Finance was to address France's economic situation.

## France 1715

Louis XIV left France bankrupt. Two wars, lasting some twenty-six years, had imposed huge demands on the treasury, demands which had been compounded, in Law's view, by mismanagement of the financial administration by every minister of finance after Colbert. He held that the stewardship of these ministers had produced a worse effect than the wars themselves. To Law the most important part of the government of a country was the management of its financial situation and, unfortunately for France, the principal source of France's financial plight was 'a bad management of the finances'.<sup>19</sup>

The duc de Noailles, writing on the financial situation he faced in 1715, remarked that 'the Treasury is absolutely empty and loans made by the Receivers General are such that the Royal Treasury is almost entirely owned by them up to 1718'.<sup>20</sup> At the end of the seventeenth century the state's revenue and expenditure was balanced at between 100 to 120 million livres. About 30 million livres was raised through direct taxation and sixty million in indirect taxes. During the War of the Spanish Succession state expenditure rose from 175 million in 1702 to 264 million in 1711. According to Harsin, revenue receipts were unable to rise in line with the increased state expenditure, so that two-thirds of the state's expenditure had to be covered by resorting to 'moyens extraordinaires', that is, the creation of offices and borrowing.<sup>21</sup> In 1715, even with the war over, the net tax revenue amounted to only 69 million, whereas expenditure was 146 million, leaving a deficit of 77 million.<sup>22</sup>

Du Tot, probably the best contemporary commentator on Law's System, portrayed the financial situation facing the Regent. He noted that the long-term government debt, the *rentes* of the Hôtel de Ville, stood at a 50 per cent discount, and he confirmed Noailles's statement that the tax revenue was already committed for up to three or four years to the Receivers and Farmers General. He further noted that, notwithstanding the forced reduction of the floating debt from 600 million to 250 million, the overall debt of the state was over 2 billion (2,062,138,000) livres with interest payments running at an annual 90 million livres.

Assessing the burden of this debt is difficult in the absence of official national income estimates. Du Tot noted that Vauban had estimated the country's income ('revenus du Royaume') at 2,337 million livres when he was writing the *Projet d'une dixme Royale* in 1699. Though this figure does not appear in the actual published version of the *Dixme Royale* (1707), Du Tot was probably furnished with this statistic from papers used by Vauban. Goeuvin de Rademont in his *Nouveau traité de la dixme Royale* (1715) estimated the 'revenu annuel de tous les héritages du royaume, maisons, bâtiments et édifices' ('the annual revenue of all the kingdom's estates, houses, buildings and edifices') at 2,495 million livres. Averaging out these two estimates by Vauban and Goeuvin de Rademont, Du Tot produced an estimate of 2.4 billion livres which he then capitalized to show the wealth of France at 70.5 billion.<sup>23</sup> John Law had a lower estimate for France's income. First

of all he calculated England's income at between 500 to 600 million livres. Then acting on the basis that there was a 3:1 ratio between France and England he supposed that France should have had an income of between 1.5 and 1.8 billion livres. He then qualified this by arguing that as England had a far superior monetary system, France's national income was only 1.2 billion, with the potential of rising to 1.8 billion if his advice on the relevant type of banking system to establish were accepted.<sup>24</sup> Boisguilbert estimated national income at 1.5 billion livres for 1690.<sup>25</sup> More recently J. C. Toutain calculated that the total agricultural product per annum in the first decade of the eighteenth century in France was between 964 and 1,406 millions.<sup>26</sup>

The back-of-the-envelope exercises of Boisguilbert, Goeuvin de Rademont, and Du Tot present a spread of between 1.2 to 2.4 billion livres as estimates of the French national income. (Du Tot estimated it at around 2 billion livres while Marcel Marion later calculated it at 2.2 billion for 1715.) They are extremely rough estimates and would not have included any attempt to measure the volume of economic activity taking place in the rural barter economy where money would have not been used for many transactions. The estimates are useful in the sense that they represent contemporary perceptions of the national income, and by expressing the debt as a percentage of these estimates we can arrive at a rough calculation of the contemporary assessment of the burden of the national debt. Using Law's lower national income estimate the ratio of debt to GNP was 167 per cent, while the estimate of Vauban and de Rademont produces a lower, but still significantly high, ratio of debt to GNP of 83 per cent. Using Braudel's estimate of the population of 20 million in 1700 the per capita debt works out at around 110 livres.<sup>27</sup>

While one struggles to express the financial situation in terms of modern indicators such as the relationship of debt to GNP, it may be noted that it was so bad shortly before Louis XIV's death that the King, in order to borrow 8 million livres in specie, was obliged to avail of the credit of Samuel Bernard, one of the biggest financiers of the age, and his associates, for 32 million in *billets*. Remarking that this was 'a true fact which posterity will not believe', Du Tot added that the King was issuing 400 livres of debt in order to have 100 livres in specie. Specie was consequently four times more expensive or rarer than government debt. Indeed because of the King's virtual bankruptcy many of his creditors were technically bankrupt, inducing the King to provide up to 4,000 safe conduct passes to protect them in turn from their creditors.<sup>28</sup> A deflationary domino effect was running through the financial system, with the King unable to pay his creditors, and these creditors in turn unable to pay the traders who supplied them with goods. The depressing financial situation fed into the real economy. Du Tot wrote of it:

Credit which supplemented specie had entirely disappeared. The shortage of credit was universal, trade was destroyed, consumption was cut by half, the cultivation of lands neglected, the people unhappy, the peasant badly dressed and nourished, debtor to the King, his lord, the money-lender, and unable to pay anyone.



The nobility was not better treated. Ruined by taxes and the expenses of the war, drawing practically nothing from the King neither by way of pensions or appointments. It saw itself as crippled by its creditors . . . The most moderate money-lenders charged 12 to 15 per cent . . . A general and reciprocal distrust forced those who had money to hide it not daring to use it for any useful work. The farmers had difficulty in making payments because money was scarce and agricultural commodities were selling at too low a price. Accordingly the volume of trade fell each day.<sup>29</sup>

Because of the strong interrelationship between 'les finances' and the real economy it is relevant to synopsise briefly some of the main elements of the French financial system at this point in time.

## 'Les Finances'

The key to analysing Law's rise and fall lies partially in understanding the operations of the financial system and the political power structure behind this financial system. Law came to power because of the near collapse of the financial system under Louis XIV. The bankruptcy of the financial system encouraged the search for a financial innovation that might remedy 'les finances' and encourage the growth of the real economy. Law, with his fertile and imaginative mind, his ability to master statistical detail, along with his desire to think of solutions outside those normally presented to the administration, represented the type of person that not just the Regent, but even prior to him Louis XIV and Desmarets, wanted to consult over the financial situation. As events would unroll over 1716–17 the financiers, the potential opponents of Law's proposals, were forced to maintain a low profile. Blamed for profiteering out of the financial system, their wealth was subject to scrutiny and in some cases to taxation, their holdings of government securities reduced, and in some cases they were threatened with imprisonment. This witch-hunt of the financier class would provide a propitious set of circumstances for Law to gain the ear of the administration at a time when his opponents had gone to ground. But while the financiers were under attack they only represented a front for the real power élite, the rich nobility. It was this aristocratic grouping that was the principal beneficiary of France's cumbersome financial system, the financiers acting as mere intermediaries for them. It was this group which would form the political power base opposing Law's plans. Law would find that it was a formidable opposition and that once his System started teetering he had little support at the court for his ideas. Law, wittingly or unwittingly, was attempting not just a financial revolution but also a political revolution. He seems to have recognized that success for his financial revolution would promote vigorous political opposition, remarking to Orléans in December 1715, 'the more I can be of service the more I expect to find opposition.'<sup>30</sup>

This was in contrast to the English situation where the financial revolution went

hand in hand with the political revolution. The Glorious Revolution of 1688 led to William of Orange, a Protestant, taking over from James II, a Catholic. Despite the victories of William's armies in Scotland and Ireland in 1690–1, Louis XIV continued to oppose William and the Protestant succession. Short of money in 1694 William, as has been shown, agreed to the establishment of the Bank of England because it permitted his government to borrow £1.2 million at 8 per cent from the stockholders. The Bank of England was closely identified with the Whig government of William. It was important for the Whig government to ensure that the interest on the money lent to the government was paid promptly; it was in the interests of the bank to extend further lines of credit to the government when it needed it. The political power structure was behind the bank and the bank was behind the political power structure. This was not to be the case in France. If Law's System succeeded, the rich aristocracy and a multitude of financiers and agents would have been deprived of the cash cow that they had milked so successfully over many generations. Deprived of such money their power base and wealth would have eroded. They recognized this as Law went from success to success, and in 1720 took appropriate steps to ensure that there was little popular support for him when things started to go wrong. But this is to anticipate the events of 1720. For the present it is important to show the role of the financiers, the interrelationship of the financiers with the rich aristocracy, and the nature of the financial system.

Bosher, observing that a financier was defined in the dictionaries of the eighteenth century as someone who received, held, or spent government funds, says that this definition provides a clue to a key problem with the French administration, namely that 'there was little practical distinction between private and public funds or between private businessmen and public officials'.<sup>31</sup> Thus though the term 'finance' referred to the financial administration of the public sector there was a curious asymmetry about it. The monarch and his finance minister had control over the expenditure side but it was a grouping in the private sector, the financiers, which controlled the revenue-collecting side. While the term 'finance' referred to the public sector, the term 'financier' referred to an individual in the private sector motivated by the profit motive to collect taxes. Here, as will be shown, there is a further complication which obliges us to distinguish between the apparent financiers and the real financiers. In the popular mind the financiers were those people who made profit through tax collection and the management of the finances of the public sector. In reality, as a recent work by Daniel Dessert shows, they were for the most part agents rather than principals in the fiscal–financial system of the *ancien régime*. The principals in this system, who hid behind the façade of the financiers, were the old aristocracy. The nobility lent the money that the Crown needed, a need that grew significantly as France became involved in long and costly European wars, via the mediation of the financiers. There was, as Dessert has pointed out, no law inhibiting the aristocracy from involving itself in finance.<sup>32</sup> In fact the various leases for the tax farms actually specified that the

nobles could take part in them. However, because of the hostile public perception of all things associated with the state's finances, prudence dictated that the aristocracy should not be seen to be involved in this business. Profit, on the other hand, encouraged their involvement. The profit motivation combined with the need for discretion led to the use of the financier as an intermediary, frequently as a man of straw, in the process whereby the aristocracy anonymously bought fiscal privileges and lent money to the Crown.

The whole fiscal–financial system rested on a triad involving the minister, the aristocrat, and the financier. Bribes were paid to ministers so that they would grant tax farm leases or privileges to certain named individuals. The Controller-General of Finances, Nicolas Fouquet, imprisoned by Louis XIV for his involvement in such bribery, was not an exception, according to Dessert. Dessert shows that Colbert, Fouquet's successor, was particularly adept at ensuring that members of his circle benefited greatly from the money to be made out of the French finances. The high nobility of the sword and robe, high-ranking bishops, and aristocratic ladies, in particular widows keen to ensure that the family's wealth was kept intact, were involved in profit-making out of the state's finances. Both the nobility and the common people identified the financiers as the source of France's problems. The financiers were perceived as bloodsuckers (*les sangsues*) who fiscally pillaged the country. Yet the irony of the situation was that the financiers were just the front for the rich nobility.

This interpretation of financial power politics casts doubt on the accepted stereotype of an absolutist monarchy. The monarchy was not financially independent. It needed money, money that was lent by the rich nobility via the mediation of the financiers. Whilst seeming to express its political independence from time to time it was continually constrained by its financial dependence on this power group.

There were four principal methods available to the monarchy to finance its expenditure in the early eighteenth century. The first were the *impositions*, a general term covering all types of direct taxation on individuals. The *impositions* were managed by an agency known as the General Receivers and were levied in the form of the *taille*, the *capitation*, and the *dixième* or *vingtième*. The *taille* was the main form of direct taxation, having been established as far back as 1429. It was a highly regressive tax in that the peasants were forced to pay it but there were exemptions for the clergy and nobility. The *capitation* was a graduated tax first introduced in 1699 when all citizens were included in one of twenty-two socioeconomic classes. The tax varied according to the class of the taxpayer and so was a more progressive tax. The third form of direct taxation, the *dixième* (a 10 per cent income tax), or *vingtième* (a 5 per cent income tax), was an emergency form of taxation most usually exacted during a war when the state's finances had reached a low ebb.

Indirect taxes, the *perceptions*, constituted the second method of financing the state. The *perceptions* were managed by the General Farms and were levied in the

form of the *traites* (customs), *aides* (sales tax, mainly on alcohol), and *gabelles* (salt tax). If the monarchy could have kept expenditure in line with the revenue accruing from direct and indirect taxation then the balancing of the budget would have made other financial methods unnecessary. Under Louis XIV equilibrium between tax revenue and public sector expenditure was not maintained. Frequent wars and ostentatious building programmes, such as the construction of the château at Versailles, necessitated recourse to other methods of financing. These other methods were the sale of public offices and borrowing.

Venality—the sale of public offices—was an endemic feature of French public life in the seventeenth and eighteenth centuries. At one level it could be interpreted as a temporary privatization of rights, such as those of tax collection, which would normally be regarded as coming within the domain of the public sector. In theory the monarchy could re-nationalize these rights once it had the money to repay the capital that the office holder, or his predecessors, had paid over to the Crown. Given the chronic state of the public sector's finances such repayments were not feasible and venal office holding became embedded as a permanent feature of the legal and financial administration of the *ancien régime*. At another level venality reduced the flow of income accruing to the Crown, with the office holders further distancing the monarchy from its revenue sources. Office holders were entitled to an income from the particular office that they had purchased. This income was deducted from the tax or income source of the office, thereby reducing the overall amount paid over to the Crown. Furthermore, as the system had become greatly decentralized there were considerable delays in the collection of such state revenue. Marion cites delays of between two to three years in the collection of tax revenue and in some cases, such as that of Auvergne, five to six years. The Crown, faced with continuous flows of expenditure and discontinuous streams of tax revenue, found it necessary to borrow. Such loans were provided by the financiers and their backers, thereby increasing the dependence of the public service on this private sector grouping. Loans were made to the Crown with specific taxes or other sources of Crown revenue assigned to pay the interest on such loans.

## Direct Tax Collection by the General Receivers

The most striking areas of venality, from the viewpoint of the financial administration of France, were those pertaining to the General Receivers and the General Tax Farms. As has been shown the administration of direct taxes resided under the control of the private sector grouping, the General Receivers. The post of the General Receiver and the hierarchy of offices that it spawned down the line were so lucrative that the Crown sold the offices not just once but twice. There were two General Receivers, two Financial Receivers, and so on, who alternated each year in carrying out their tax functions. The delays in the collection of direct taxes meant that this grouping's activities developed from one of tax administration to financial

mediation involving the lending of their private funds, or private funds vested under their control, to the Crown. George Matthews has explained how the delays in tax collection arose.<sup>33</sup> In the case of the *taille*, once the taxpayer was assessed he had between eighteen and twenty-four months to pay his tax bill to the state. So the tax year of the *taille* stretched to as long as two years and even more, with Matthews noting that ‘often three or four calendar years were required before all parishes could acquit themselves of a single fiscal year's tax’.<sup>34</sup> Because of the delay in tax collection the Crown relied on the General Receivers to provide a steady flow of funds to the treasury. Matthews has observed: ‘The most significant duty of the General Receivers was not merely to remit tax money but also to advance those sums in anticipation of collection.’<sup>35</sup>

## Indirect Tax Collection by the Company of the General Tax Farmers

The rights to the collection of indirect taxes were also vested in the private sector. Syndicates of tax farmers tendered for the rights to collect indirect taxes through the mechanism of the United Tax Farms and were referred to as tax farmers. Whereas the General Receivers were paid a fixed amount for each livre of taxes collected (1.7 to 2.5 per cent of the tax), the tax farmers tendered for a lease to the tax farms from the Crown. The value of the annual lease was directly linked to the estimated yield of the indirect taxes. If the yield exceeded this estimate, as expressed in the winning tender price, then all of the surplus accrued to the tax farmers. If it fell below the estimate then the tax farmers made a loss. From the Crown's viewpoint the benefit of farming out the indirect taxation system was that it ‘guaranteed a steady income not subject to the hazards of war pestilence, famine, business fluctuations, or political disturbance, all of which had a direct and adverse effect upon the yield of the taxes’.<sup>36</sup>

Like the General Receivers, the tax farmers were also involved in financial transfers and financial mediation. To obviate the costly duplication involved in transferring tax money from the provinces to Paris, part of which money would be sent back as Crown expenditure to the provinces, the tax farms were used as local clearing agencies for the receipt and disbursement of government funds. The use of the tax farms in this way led to them assuming the role of financial intermediaries when the Crown ran short of funds. In such periods of financial stringency the Crown would need funds over and above the lease price agreed with the tax farms. The tax farms extended credit to the Crown by lending at interest against the collateral of future lease prices. The credit instruments used in these transactions were *assignments*, the loan being assigned against the lease price of a stipulated future tax farm revenue stream.

The tax farmers also periodically required money, for the payment of the annual lease price, to meet the wages and administration costs of the tax farms, to lend money to the Crown via the *assignments*, and so on. They borrowed from the

public via the issue of the *billets des fermes* which were interest-bearing negotiable instruments.

Matthews's analysis shows that tax farming was basically a method of tax anticipation. It involved two stages: (1) the payment of the annual leases to the state in return for the acquisition of the rights to the tax farms—as such the leases represented an anticipated stream of tax revenues; (2) the loan of money against the value of future annual leases. In this case the loan represented a claim against future tax revenues. The tax farmers therefore made their money in two ways: (1) by maximizing the revenue of the tax farms over and above that paid to the state by the annual lease, and (2) through financial intermediation. This latter activity involved the tax farmers borrowing money from the public and lending it to the state. The public was willing to lend to the tax farmers because of the profits they made from managing the tax farms. At times the Company of General Farmers did not take up the lease for managing the farms, leaving it to a state-appointed *régie* to do so. In such instances the state found it difficult to borrow funds.

As the state's financial needs grew, the two private sector groupings managing the French taxation system, the General Receivers and the Company of General Tax Farmers, moved increasingly into the area of financial mediation. The 'financiers' (also called the 'gens de finance' and the 'gens d'affaires') became a vital crutch of the Crown's borrowing not just against current tax revenues but against future tax streams. As Du Tot showed, the whole of the French tax system was mortgaged to the financiers for three to four years into the future on the death of Louis XIV. The state was bankrupt.

Three possibilities were presented to the Regent to overcome this financial plight of the Crown. The first involved declaring a general bankruptcy of the Crown absolving it of all its debts. The second involved the abolition of part of the debt by recourse to the Visa. The third involved the establishment of a Chamber of Justice (*Chambre de Justice*) aimed at punishing and taxing the financiers who had made excessive profits out of the financial system.

Those urging the declaration of a general bankruptcy argued that the holders of government debt only amounted to one out of every six hundred inhabitants, so that the destruction of their holdings of government debt would only affect a small percentage of the population whilst bringing great benefits to the vast majority of citizens. The Regent rejected this option of a general bankruptcy, maintaining that it would dishonour the state and the King forever. More probably he was unable to take this course of action, if we accept Dessert's thesis, because of the power of the financiers. Philippe, duc d'Orléans, already suspected in the popular mind of having poisoned some of Louis XIV's heirs to the throne, was not in a sufficiently strong political position to attack the power base of the nobility and financier class at the start of his Regency. On the other hand the other two options, those of the Visa and the Chamber of Justice, had already been used in previous reigns. The Visa involved an enforced reduction of the Crown's debt. It was therefore a type of partial bankruptcy. The Chamber of Justice involved criminal prosecution

of those who were believed to have fraudulently exploited the Crown's finances. They were partial solutions to the problem, creating the impression in the public mind that action had been undertaken against the financiers and that the debt had been reduced. But both actions really amounted to political window-dressing, for in the case of the Visa, with government debt already standing at a hefty discount in the market, official reductions in it were just a *de jure* recognition of the *de facto* market situation. The Chamber of Justice, as will be shown, used its seemingly Draconian powers primarily against the smaller players rather than the big financiers and more particularly their noble backers.

Both actions did have important consequences for the ensuing development of Law's System, in that (1) the financial debt problem of the state remained to be solved; (2) for a crucial period between 1716 and 1717, when Law was pushing his ideas at the Regent, the financiers, forced into hiding by the Chamber of Justice, were obliged to keep their heads low and were unable to form an effective lobby group against Law; (3) the new government debt instrument, the *billets d'état*, created under the Visa, would become the first type of government debt to be converted into the equity of Law's bank and company.

Under the Regent's new administration, the duc de Noailles, who was made President of the Council of Finances (Conseil de Finance), was entrusted with the task of *inter alia* reducing the state's debts. He reduced the interest rate on all the long-term government debt, the bulk of which was held in annuities on the Hôtel de Ville, to 4 per cent. Most of the long-term borrowing of the state was carried out through the mediation of city governments particularly the Hôtel de Ville in Paris issuing annuities (*les rentes*). The annuities were a well-embedded element in the state's finances. They had been first established by Henry II in 1522 when they were issued as annuities against the taxes on cloven-hoofed animals and wine. In 1576 by an edict of Henry III the annuities were issued by the Hôtel de Ville de Paris.

The *rentes* were annuities, either for a lifetime (*viagère*) or for an indefinite period (*perpetuelle*), bearing a given rate of interest paid from a stipulated source of government revenue. They were the principal source of long-term borrowing for the government. The Hôtel de Ville acted as an intermediary between a borrowing state sector and a lending private sector. Julian Dent outlines the reason for the Hôtel de Ville intervening in the borrowing and lending process and acting as a guarantor for the Crown: 'The theory was that the Hôtel de Ville could itself be forced by the individual *rentier* to honour its obligations in the matter of interest and that it was a body powerful enough to make the king think twice about failing to pay his debts to it.'<sup>37</sup> Investors lent money to the municipality in return for a fixed interest bond. The city then lent this money on to the government in return for which the state assigned specific tax revenues to it to pay the interest on the city's bonds.

The floating debt, that is debt which was not directly linked to a tax revenue source and payable in the immediate short run, in theory at least, was drastically

restructured. It was made up of a variety of short-term obligations and notes including *billets de monnaie*, *billets de la Caisse de Legendre*, *billets de la Caisse des Emprunts*, and the *billets des receveurs et des fermiers généraux*. These were subject to the Visa, introduced by a ‘déclaration’ of 7 December 1715, whereby 597 million livres of the old floating debt was reduced to 198 million livres, wiping out some 400 million livres of this debt. It was converted into a new uniform debt known as *billets d'état*. Not wishing to miss the opportunity to raise some new funds the government issued some 52 million livres of *billets d'état* on its own account, thereby raising the total amount outstanding to 250 million livres (Du Tot makes the mistake on this issue of thinking that the floating debt was reduced to 250 million livres).<sup>38</sup> The Regent would later use the government's holdings of *billets d'état* to buy into shares of the Mississippi Company, a point which will be developed at a later stage when discussing the financing of the company. In market value terms the 597 million of floating debt stood at an effective discount of 50 per cent, so that its real value was around 300 million livres. The creation of the new *billets d'état* did not prevent the market marking them down by 50 per cent.

The precise manner in which the old heterogeneous collection of floating debt was converted into new *billets d'état* depended on the type of debt subject to conversion, whether its holder had been the original purchaser, whether he had purchased it with specie or other types of paper debt, and so on. The complexity of the Visa's operations was frequently simplified by arbitrary decisions on the part of the inspectors carrying it out, with the principles of equity frequently being forsaken owing to the size of the bribe or favour offered by the holder of the old floating debt. Lüthy suggests that the huge growth in the wealth of the Pâris brothers, the chief administrators of the Visa and later opponents of Law, may be traced to this period in 1715–16 when they supervised the Visa.<sup>39</sup>

The attack on the financiers, which started with the sacking of Desmarets and the introduction of the Visa, seemed to deepen with the establishment of the Chamber of Justice on 14 March 1716, registered in the Parlement on 20 March. Prepared by Law's adversary, Rouillé du Coudray, this Chamber was an extraordinary commission established to judge and punish financiers and profiteers deemed to have made their wealth in a dishonest manner at the expense of the Crown. It was not a new phenomenon—there had been four Chambers of Justice in the seventeenth century, in 1601, 1607, 1625, and 1661. They fulfilled a dual role, providing, in the words of Richelieu, a blood-letting (*saignée*)—presumably of the bloodsuckers (*sangsues*)—while at the same time holding out hope of raising badly needed revenue for the Crown. Under the 1716–17 Chamber of Justice 8,000 people were investigated with just over half, 4,410, taxed a total of 220 million livres. In some less fortunate cases people found guilty were sent to the galleys, imprisoned, or locked in the stocks and pilloried. Unlike some of the earlier Chambers of Justice, no one was executed.

As was the case with previous Chambers of Justice, the scope for evasion of its penalties was great. A secondary unofficial market in exemptions and special



dispensations arose between the favoured members of the Regent's new administration who could plead for clemency and leniency and the financiers ready to purchase such favours. Accordingly, the rich financiers for the most part escaped or were treated favourably, while the unprotected and less wealthy class were dealt with harshly. This inequitable treatment caused popular opinion, initially greatly in favour of the Chamber, to turn against it. Of the 220 millions in taxes levied by the Chamber only 95 millions were actually paid, much of it in depreciated paper. Noailles estimated in April 1717 that the effective amount of money collected through the activities of the Chamber of Justice was only 50 million livres.<sup>40</sup> But this forced contribution to the Crown's finances was more than offset by the stagnation in trade and financial activity that it engendered. Financial witch-hunts of this type forced money abroad and underground. For obvious reasons the moneyed class did not wish to be seen as ostentatious spenders. Credit tightened up further and bankruptcies increased. The damage caused by the Chamber of Justice to the circulation of money was belatedly recognized in the edict of March 1717 that terminated its activities: 'It is not possible to punish such a large number of offenders without causing a type of general disturbance in the State . . . stopping the flow of business and suspending the circulation of money.'<sup>41</sup>

A significant by-product of the Chamber of Justice's activities was its taxing of Antoine Crozat, who ranked alongside Samuel Bernard as one of the biggest financiers of the period, for the sum of 6.6 million livres, a fine which was to have considerable repercussions for the development of the Mississippi Company.

## Law's Proposals of 1715

Against this background we may now examine Law's proposals of 1715. It is important to emphasize that Law, in starting to address the problems of the French economy, faced a different environment to those of England, Scotland, and Savoy, on which he had written. Like these countries he believed France faced a *monetary crisis* in that economic activity was slack and there was a shortage of money. But France had an additional problem for him to address which he had not encountered before. As well as suffering from a monetary crisis France was also experiencing a *financial crisis*. This financial crisis manifested itself in an excessively high level of state indebtedness and a very high level of interest rates, the latter resulting from the inability of the state to service the debt.

In earlier chapters it has been shown how Law had started to interest himself in some of the wider aspects of the financial revolution in Britain. This involved examining trading companies issuing financial instruments (shares), which had many of the characteristics of money, as well as providing ways for the state to borrow large lines of credit from them in return for the transfer of monopoly banking and trading privileges.

Despite the seeming hiatus in his writing between 1712 and 1714 these issues started to reappear in his writings of 1715. Leaving aside the nearly 200-page-long *mémoire*, 'Restablisement du commerce', which has been shown to have been written not by Law but by Pottier de La Hestroye, the second volume of *John Law: Œuvres complètes* contains four other *mémoires* (V, VI, X, XII) and three letters (VII, VIII, XI) written by Law in 1715. Even though some of these were written prior to Louis XIV's death, the general themes are similar in that Law proposes the establishment of a bank in France and also suggests that there is a need to provide an appropriate debt-management solution.

Unfortunately, the continuity in Law's thought linking the monetary proposal with the debt-management proposal is not evident when consulting the *Œuvres complètes*, where Paul Harsin presented the 'Mémoire sur l'acquittement des dettes publiques', which he dated as having been written in May 1715, as Law's first economic *mémoire* for 1715, and as separate from Law's proposals for a bank. Harsin misinterpreted this *mémoire*, stating that its contents 'deal exclusively with the creation of a sinking-fund for the floating debt'.<sup>42</sup> Examination of it in the Bibliothèque Nationale in Paris shows that it does not have the title 'Mémoire sur l'acquittement des dettes publiques' that Harsin attributes to it. Instead it bears a title, which may have been attributed to it later, 'Mémoire concernant l'établissement de la banque de Law'. This latter title is partially accurate because a closer reading of the *mémoire* shows that the proposal for the creation of a sinking-fund was made alongside a proposal for the establishment of a bank. In it Law distinguished between a project ('un projet') for establishing a sinking-fund to pay off part of the floating debt and a business ('une affaire') which he wanted to establish. Whilst not mentioning explicitly the nature of this business it is clear that it is the banking proposal which is to be found in the 'Mémoire sur les banques' of July 1715. The business was to be a joint venture between himself and the King, with the latter taking 75 per cent of the profits and Law being entitled to the remaining 25 per cent. It was to have a charter for twenty years; it was to be managed at Law's expense; if it failed Law promised to donate 500,000 livres to the poor.

The technical details of the proposal involved the establishment of a fund with a guaranteed income of 7 million livres a year. With this a 5 per cent interest could be paid on 100 million livres of notes of the Caisse des Emprunts, with the remaining 2 million used to repay the principal off this debt over a 25-year period. Law also mentioned the possibility of the King consigning an income of 10 million per annum to repay the 'dettes en général' estimating that he would be able to re-establish the credit rating of such paper and repay a principal sum of 50 millions over 25 years.

He was quick to acknowledge that, given the perilous state of France's finances, Louis XIV would not have access to funds that could be specifically allocated to repaying part of the national debt. In lieu of such funds Law proposed that the King's profit of 75 per cent from the business (i.e. the bank) that he was proposing could be consigned for such purposes. In other words Law, even at this early stage,

had a scheme which he believed capable of solving the monetary crisis and part of the financial crisis. He proposed the establishment of a bank to meet the shortage of money, and, the use of the profits of the bank to pay off part of the national debt. He was linking monetary policy and financial policy.

This linkage was developed further by Law in the 'Mémoire sur les banques' presented to the French authorities in July 1715. Here Law recommended the establishment of a bank on the lines of the Bank of England, that is, a credit-creating bank that issued banknotes. Once again Law reminded his audience of the further benefits derived from the Bank of England's shares, which stood at a 30 per cent premium, being used as a type of medium of exchange. Their ease of negotiability meant that they had 'the same effect in trade, as the same sum in specie'.<sup>43</sup> He proposed investing the initial profits from the bank to purchase the Hôtel de Soissons which would be used as the site for the bank and a stock exchange. This suggestion for using the initial profits to help establish a stock exchange was consistent with his earlier viewpoint of using the profits to reduce the national debt, in that active management of the debt required such a stock exchange. Law also envisaged using the proposed complex in the Hôtel de Soissons as a centre for foreign exchange transactions.

It is clear from this that the 'Mémoire sur l'acquittement des dettes publiques' is part of a larger scheme which involved the creation of a bank and the application of a policy aimed at reducing part of the public debt. Later on in a letter to Desmarets on 31 July 1715, in which Law discussed further aspects of his banking proposal, he added that he hoped 'my other ideas will be useful in helping you redress the balance with foreigners in favour of France and of arranging or disposing the state's indebtedness'.<sup>44</sup>

At this stage in his career Law believed that it was necessary to establish a new monetary system but that the credit created by it had to be at par with specie and its introduction into trade had to be voluntary. If the new credit were forced upon unwilling transactors it would do more harm than good and if were not at par with specie there would be no barriers to limit the losses on it. Specie would be just hoarded to a greater extent and such hoarders would be in a position to determine the price at which they were prepared to negotiate such paper. An even greater evil would be that such a paper would increase France's overseas debt. France's exchange rate would be adversely affected, allowing foreigners to buy French commodities at half their value. Outflows of specie, instead of stopping, would increase and the national income would be reduced. He added that it was not possible to re-establish credit and restore credibility in the national debt in one operation. The debt, which stood at an 80 per cent discount, could not be put back at par in one day.<sup>45</sup>

Ironically the very banking-cum-debt-management scheme that Law was attacking seems to be that presented in the 'Restablisement du commerce', erroneously attributed at one stage to Law by Harsin, and included in his edited collection.<sup>46</sup> The main idea embodied in the banking and debt-management proposition

of the 'Restablisement du commerce' was that the bank would acquire up to 900 million livres of government debt on which the government was paying an average of 5 per cent (the debt was far greater than this sum though the author seems unaware of it). The government would provide an annual fund of 45 million livres to the bank, that is, a sum equivalent to the annual interest payment of the government. In return the bank would issue notes equivalent to 900 million livres on which a 4 per cent rate of interest would be paid. The residual created between the government's annual grant and the interest payments on the debt would be used to cancel out the debt over a twenty-five-year period.

This aspect of the proposition has similarities to that presented by Law. It differed in one essential respect in that the suggested new money, called 'argent de banque', would have the status of legal tender for up to 50 per cent of the value of each transaction—that is, no one could refuse a payment offered half in specie and half in 'argent de banque'.<sup>47</sup> Some transactions, mainly those relating to land and property transactions and the payment of taxes and money owing to the King, were to be exempt from this provision and were still reserved for full payments in specie, but the rest were to be carried out with this mixture of bank money and specie. Law was very much against such a proposal, contending that it was extremely dangerous to force such a type of bank money, whose backing consisted of heavily discounted government paper, on a reluctant population.

Law's 'Mémoire sur les banques' of July 1715 saw him returning to the macroeconomic theme that he had already developed in *Money and Trade*, namely, the very strong link between money and economic activity. His opening sentence shows that his faith in the role of monetary policy was as strong as ever: "Trade and population which make the wealth and power of a state depend on the quantity and management of money."<sup>48</sup> Once again he explained that it was necessary for a state to have a certain quantity of money proportioned to its population and that more money was necessary if more people were to be employed. As with the island example in *Money and Trade* he assumed that a large part of the population was unemployed but that if the money supply were increased and productively employed,

the other half of the population assumed to be lazy would find work, agricultural output would increase, manufacturing output would advance, the exchange of commodities would be greater both in volume and value, a balance would be owed by foreigners, and their specie or gold or silver bullion would flow into the country. On the contrary, if the quantity of money were reduced, a part of those employed would no longer find employment, or would be employed less productively, the exchange of commodities would not be as great in volume and in value; and provided that the consumption expenditure of the state was not diminished proportionately, a balance would be due to foreigners, and specie or bullion would be exported to pay for it.<sup>49</sup>

Some of the main tenets of Law's macroeconomic approach are to be found in this extract. First, the existence of underutilized resources and unemployment were evidence to him of the need to expand the money supply. Once again Law

was advancing the money-in-advance requirement. Labour could not sell its surplus labour and entrepreneurs could not demand extra labour services without money. Second, Law was assuming that the money would be used productively. As with *Money and Trade* he did not want the money to be used in an extravagant consumption-led spending spree. He favoured an expansion of output and employment and implicitly seems to have been inferring that the extra money would have to be spent on investment. If this assumption were fulfilled then he could make the jump to his third assumption that, with consumption expenditure kept under control, part of the extra output would seep out as exports thereby generating a balance of payments surplus. Conversely, if the money supply were reduced, output and employment would fall and the reduced money supply would cause a balance of payments deficit, unless consumption expenditure fell proportionately in line with the reduction in the money supply.

Law also advanced a strong political argument in favour of a bank. He posed the question as to how Britain, a less populous and poorer country in natural resources than France, could successfully fight a prolonged war against its larger neighbour:

It is said with reason that necessity is the mother of invention. The English introduced credit in trade because they were forced to do it; the war against France forced them into substantial expenditure to pay for the troops overseas . . . The establishment of the bank restored order to the finances and abundance in trade and supported the Crown and the state during two long wars which cost proportionately larger sums than those experienced by France.<sup>50</sup>

The implication was clear. There was a strong relationship between war and finance. Armies and navies, if they were to be effective, needed to be sustained by money. The Dutch, Italians, Swedish, and more recently the British had shown how a developed banking system could help sustain the war effort. France without a bank was in isolation. Had the time come to establish such a bank?

When Orléans had established himself firmly in control as the Regent, Law must have been fairly optimistic that, given the state of the French economy, there was a good possibility of acceptance of his arguments in favour of the establishment of a bank. The duc d'Antin observed that once the Regent had assumed power, 'Mr Law was one of the first to enter the scene, he had made many proposals to Mr Desmarets while the King was alive'.<sup>51</sup>

Law seems to have been quite sick in early October, judging by a letter sent to Victor Amadeus of Savoy which reported that 'though he had improved in recent days he holds out little hope of curing his indisposition unless he risks a very dangerous operation'.<sup>52</sup> Mindful of the fate of his father at the hands of a French 'barber-surgeon', Law seems to have decided not to risk an operation. Within a couple of days, on 15 October, Law was in sufficiently good form to present his proposals to a group assembled by the new President of the Conseil de Finance, the duc de Noailles, consisting of Argenson, Amelot, Fagon, Baudry, Contest, and the Prévot des Marchands. Noailles related to Villeroy that this group was seemingly

most impressed by Law's presentation, so much so that 'the only doubt that remains relates to the greater or lesser utility that will be produced by implementing the proposition; and that it is not possible to fear any inconvenience from it'. Noailles's growing interest in the proposal was borne out by his request to another group of businessmen, Fénelon, Tourton, Guiguer, and Piou, to come back once again the following morning to discuss it along with his request to Fagon and de Baudry to work with Law 'to give the business a greater precision and to determine its objective'.<sup>53</sup> On 19 October Noailles wrote to Amelot enclosing Law's replies to some objections raised by Amelot in a *mémoire*, remarking, 'I believe that you will be happy with Mr Law's response which I am sending you.'<sup>54</sup>

All seemed to be moving along very well for Law, with Noailles's conduct at this stage suggesting that he was supporting Law's proposals. The duc d'Antin related how Law made it his mission to talk to each member of the Regent's inner circle: 'he came to see me and from our first conversations I was struck by his ideas, they appeared to merit a most detailed attention.'<sup>55</sup> Even though Antin did not want to get mixed up in other people's business Law, according to him, took him aside many times and attempted to show him what he intended implementing. At this stage Law had persuaded Noailles as to the merits of his banking proposal. Antin related that Law was the 'master of the minister and well in with the Regent' ('*maître du ministre et bien avec le regent*').<sup>56</sup> Events seemed to be running in his favour.

On 24 October an extraordinary session of the Conseil de Finance, presided over by Orléans, was held in order to consider Law's proposal for a bank. The Regent invited along thirteen bankers and traders to give their opinion on the scheme. From the report of this meeting it is evident that Law was proposing the establishment of a state bank which would be used to receive and disburse all money flowing into and out of the Royal treasury. The banknotes, printed in denominations of 10, 100, and 1,000 écus, would be issued against specie deposited in the bank. In this way the banknotes would be fully backed by their specie equivalent so that no transactor would be obliged to hold the banknotes in preference to specie. This proposal suggests that Law was proposing a deposit-taking rather than a credit-creating bank, the main advantage of which would be that these banknotes would abolish the cost and danger of transporting specie to and from the Royal treasury. Though not radical in banking terms—the bank maintaining a 100 per cent reserve ratio—it was quite radical, from the political viewpoint, in envisaging the bank as the centre for the receipt and disbursement of Royal funds. If given such power the bank would have removed a very profitable line of business from the financiers. Law later reminisced that as a result of these meetings of councillors of state and finance (*conseillers d'état et des finances*) under the chairmanship of Noailles, and of follow-up sessions with the Regent, the latter had decided to initiate the bank and went to the Conseil de Finance in order to establish it.<sup>57</sup> He even wrote, a few months later:

The duc d'Orléans knew of all the steps that I took in this business. This prince had examined

it attentively and had honoured it with his protection; also I had reason to expect that it would have been approved in the council, yet it was decided that it was an inappropriate time to undertake it.<sup>58</sup>

While the Regent would later declare that he went to this meeting of the Conseil de Finance with the intention of voting in favour of the bank, one wonders whether this was the case or whether he made this remark just to pacify a disappointed Law. The proposal was still open to debate, as borne out by the presence of thirteen bankers and merchants who had been especially invited to present their views to the Council. Only four of them, Fénelon, Tourton, Guiguer, and Piou, felt that it would be useful to establish the bank immediately. One of them, Anisson, felt that the bank was a good idea but it was inappropriate to establish it at this juncture. The other eight, including Samuel Bernard, Heusch, Mouras, and Lecouteulx, entirely rejected the proposal. With a 9 to 4 vote against the bank on the part of the business community there was little chance of the Conseil de Finance favouring it.

Indeed, one of the members of the Council, Rouillé du Coudray, had produced a savage indictment of Law's proposal in a *mémoire* that he presented to the Regent the morning before the meeting of the Conseil de Finance. Du Coudray, who had worked closely with Desmarests, and was also in close contact with Noailles, opposed the bank on the grounds that even though it was only to issue notes equivalent to its specie and bullion reserves it would eventually be used to expand credit and Law, benefiting from one-quarter of the profits, would make a considerable profit from such operations. He felt that the temptation would be too great for both Law and the Crown to expand credit. He questioned what would happen if the bank found itself short of capital as a result of the bankruptcies of some of its debtors. Would the King be obliged to meet the shortfall in capital, as he implicitly seemed to own 75 per cent of the bank? —Law had stipulated that the Crown would obtain three-quarters of the profits once it declared any dividend. He pressed on his attack asking his audience to consider the implications of the Crown's borrowing substantial sums of money from the bank. In such an instance what protection would the banker and the public have against the King? There had been many instances of the Crown raiding other funds such as those of the lottery and the 'caisses des consignations'. He cited the undesirable repercussions that had arisen from such Royal borrowing with the Bank of St George in Genoa and the Bank of Stockholm.<sup>59</sup> Antin was of the opinion that it was 'Monsieur Rouillé' who was responsible for the defeat of Law's proposals.<sup>60</sup>

Only Argenson, who was not a member of the Conseil, spoke in favour of the proposed bank, regarding it just as an agency for the collection and disbursement of the state's funds. This, he felt, would help restore confidence in the economy. The duc de Noailles, while agreeing that a bank would be useful, felt that it was not appropriate at this point in time when mistrust was rampant and the business community 'whose confidence is essential' were against it. Noailles carried the Conseil. The Regent concluded by stating that while he had favoured the proposal

prior to the meeting that on hearing the merchants and bankers he had come around to the viewpoint of Noailles.<sup>61</sup>

It is germane to point out here that of Law's few supporters that day, Jean-Baptiste Fénelon, would become an inspector of the General Bank, Jean Piou from Nantes would be one of the founding directors of the Company of the West, and Argenson would be Noailles's successor as President of the Conseil de Finance. Law remembered his supporters.

These friends notwithstanding, Law's proposal had been firmly, though not permanently, rejected. Out of the ashes of this failure there was still hope on Law's part, the Regent still had faith in the eventual viability of the proposal, while the charitable element of Law operating a state-owned bank rather than one on his own behalf disappeared. The Regent was still interested. This was borne out the next day when he sent Noailles to see Law to reiterate his view that the bank could be useful to the state. He hoped that Law would not decide to leave France on account of the Council's refusal to establish the bank. Noailles added that the Regent wished to do all he could to help make Law's stay as comfortable as possible and it was even the opinion of the Conseil that the Regent should consult with Law because of his deep understanding of the issues. Law replied that he did not need any financial assistance and that his only wish was to make himself useful to the state rather than pursue his own self-interest. If the latter had been his objective, he argued, he would have proposed the creation of a privately owned share-issuing bank, such as that which he later established and in which he took up one-quarter of the share capital, rather than a state bank in which he would have had no equity interest.<sup>62</sup> Was Law being disingenuous here? It should be remembered that Law had made two separate proposals in Scotland in 1705, one involving a state bank with the profits used to subsidize exports of certain Scottish goods, and the other involving a privately run bank with share capital. Earlier he had proposed a bank with share capital to Louis XIV. This would suggest that Law kept his plans for both types of bank and proposed the one which he felt most politically acceptable as the circumstances permitted. In opting for a state run bank in the autumn of 1715 he seemed to have been following the advice of the Regent who was convinced that 'it was the most suitable to the way in which France was governed'.

The Regent, on further reflection, after the Conseil de Finance's rejection of a state-run bank, changed to the viewpoint that a privately owned bank with share capital would encounter less opposition in the Councils and the Parlement and recommended Law to make such a proposal. Law agreed to do so, remarking that he would not have thought of making this second proposal if the Regent had not pressed him to do so.<sup>63</sup> One wonders, was Law continuing to play to the gallery? Writing early in December 1715 to Victor Amadeus, Law praised the Regent for his support of his proposal and added that he was of the opinion that France 'will be obliged to implement my project, or else to lose the position that it has to maintain amongst the big powers; because the bank properly established and administered is worth more than the Indies' trade'.<sup>64</sup>



He returned to this theme in a letter he wrote to the Regent in December 1715 pointing out that, while the discovery of the Indies had been of benefit to certain large trading nations, and at the expense of small nations such as that of Scotland which had not benefited in terms of output increases but had experienced the effects of the price increase induced by the global expansion of the money supply, the introduction of credit by the English was more important: 'If Spain had ceded the Indies to the English, the benefits accruing from that trade would not have been as great as those arising from its credit.'<sup>65</sup>

Emphasizing the English example Law contended that France had been more powerful than England until the Bank of England was established. After that France's attempts to wage war, without a credit-creating bank, against England was analogous to a country using bows and arrows against one using firearms. Once again Law put forward the cash-in-advance requirement as being a *sine qua non* for expanding output and employment. If France's money supply was not increased workers would be forced to emigrate and trade would decline further:

if Your Royal Highness decides not to introduce credit into France to increase the quantity of money, the workers will abandon the country to find work in foreign countries, manufactures will collapse, and the state will be in danger of perishing.<sup>66</sup>

It is to be noted that Law was now proposing a credit-creating bank which would expand the money supply rather than the deposit-taking bank which would just speed up the velocity of circulation of money which he had recommended to the Conseil de Finance in October. But this project for a credit-creating bank was not the only proposal that Law seemed to be advancing. Once again he tantalizingly suggested that there was a more ambitious and grandiose design lurking in the background. On two occasions in this letter he referred to the benefits to be obtained from this design. First, he recalled a meeting with the Regent at Marly, where the latter had informed Law that as a result of his assistance he was starting to see how France's problems could be tackled. Law had replied at the time, 'I had the honour to tell him then that *my idea for a bank was not my biggest, that I had one by which I would furnish 500 million which would cost the public nothing*'<sup>67</sup>

Three paragraphs later Law returned to this theme: 'But the bank is not the only nor the biggest of my ideas—I will produce a work which will surprise Europe by the changes that it will generate in France's favour, changes which will be greater than those produced by the discovery of the Indies or by the introduction of credit.' He added that he was confident that his policies would, *inter alia*, raise income to 3,000 million.<sup>68</sup> Now, as in the earlier letter to Desmarests he had estimated that the establishment of his banking scheme might raise the national income from 1,200 million livres to somewhere between 1,500 and 1,800 million, the evidence seems to suggest that Law was hoping to double the national income by measures that would supplement his monetary policy, adding that this project would enable the Regent

to raise the kingdom out of the sad situation into which it had fallen, and to make it more

powerful than it had ever been, to establish order in its financial situation, to restore, provide for, and increase agriculture, manufactures, and trade, to increase the size of the population and the general revenue of the kingdom, to repay the useless and onerous ‘charges’, to increase the King's revenues while caring for the people, and to reduce the state's indebtedness without hurting its creditors.<sup>69</sup>

While specific as to the benefits that his scheme would bring, he did not outline the structure that would produce all these benefits. By inference we may deduce from some of the allusions which he went on to make, that he was referring to a scheme which involved the creation of another type of money, namely shares that would be traded on a stock exchange. He wrote: ‘I will lighten the burden of the King and the state in lowering the rate of interest on money, not by legal methods, but by an abundance of specie.’ He seems to have been using the term *specie* (*les espèces*) somewhat loosely here, for in the next sentence it becomes clear that he is not referring to metallic specie but to a new type of ‘credit’:

The specie which France mints from the bullion taken from the Indies falls and loses its value in accordance with the quantities brought into Europe—the credit which I propose to introduce will have a more assured value and will gain 20 and 30 per cent on specie. [Emphasis added]<sup>70</sup>

As Law had already discussed the creation of bank deposits and banknotes, the ‘credit’ which he was proposing for this more elaborate scheme was obviously not bank money. As seen above, the value of such bank money would in his opinion be affected by changes in the supply of specie from the Spanish Americas. We also know from his earlier writings (see Chapter 9) that he believed that shares were a new type of money, the real value of which was not linked to changes in the supply of specie. It has been noted that he included the 20 per cent increase in the market price of Bank of England shares when calculating the increase in the money supply brought about through the creation of those shares.

In Chapter 9 it has also been shown, using the Bank of Turin manuscript, the way in which he believed shares enabled their holders to increase their capital by 10 to 15 per cent. Linking Law's allusions in this ‘Lettre au Régent’ with his earlier statements on how shares of the Bank of England and the East India Company approximated to money, it seems clear that the grander design that Law was hinting at involved the issue of shares by a bank and trading company to the public in France. Combining this inference along with his stated intention of using the initial profits of the bank to purchase a stock exchange, and the subsequent profits to start redeeming part of the national debt, suggests that Law had, by December 1716, mentally drafted the skeletal structure of what was later to become the Mississippi System. This interest in the wider financial issues besetting France was borne out by a letter describing Law in July 1716 in which the writer remarked,

This M. Lass who took a great interest in instructing himself about the state of the Kingdom, and which he examined with great attention, before making his proposals for the

bank, assured me that it will be restored within two years to a better state than it was before the war. And that the contracts on the Hôtel de Ville de Paris, which have lost up to 72 per cent, will be at par within a year, which is the thermometer of the current state of the finances in France, as shares are with you.<sup>71</sup>

# 11 The Establishment of the General Bank

The circumstances were for once in Law's favour when the General Bank was established in May 1716. In March of that year the Chamber of Justice (Chambre de Justice) had been introduced, and while most of the substantial financiers and their backers would, in the long term, escape its attention, it created enough initial fear for these people to run for cover. Alongside this development the domestic devaluation of the French currency in December 1715 was responsible for an even greater paucity of specie in trade. With the financiers gone to ground and specie in such short supply there was little opposition to Law's bank. More importantly the Regent had become convinced that such a bank was the only long-term solution to solving the monetary shortage.

In examining the development of the General Bank over the following eighteen months it is important to determine the extent to which the bank was successful in its operations. Certainly if one reads Law, Du Tot, and the anonymous author of the 'Histoire des finances', the bank was a great triumph. According to them it succeeded, *inter alia*, in increasing the money supply, reducing the interest rate, improving France's exchange rate with other countries, and helping to re-animate a moribund commercial sector. These claims have to be examined very closely, as Law's contemporaneous assessment of the success of the bank was geared to propagandizing its profile in the minds of the public and, more importantly, pushing the Regent to transform it into a state bank with the title of Royal Bank.<sup>1</sup> Both Du Tot and the author of the 'Histoire des finances' read and used Law's contemporary *mémoires* in which he claimed that the General Bank had been of great benefit to the nation. Were they just repeating the words of the master?

The question must be asked (and unfortunately, because of the destruction of the papers of the bank, it is one that can only be partially answered) as to how a bank with such a small capital base, and constrained by its charter from lending money to the government or to the private sector, could effectively produce such beneficial results for the French economy in such a short space of time. A further question that should be asked is how such a small bank was able to generate seemingly enormous profits for its shareholders.

The initial difficulties that the bank faced derived mainly from the state's inability to manage its financial situation. How could the public be confident in the new money when the previous experiment with a paper money, that of the *billets de*

*monnaie*, had been such a notable failure? Furthermore, the consequences of the initial activities of the Chamber of Justice, activities carried out, according to Du Tot, with 'more passion than justice . . . So much violence and severity had never been seen before',<sup>2</sup> were that they induced wealth holders to hoard money. Nobody wanted to be seen spending money for fear of encouraging their neighbours, attracted by the prospect of attractive financial rewards, from denouncing them to the Chamber of Justice.

## Domestic Exchange Rate Changes

A further complicating factor was that money had been moving out of France because of domestic currency manipulations. Before outlining the development of Law's General Bank it is necessary to understand these currency manipulations and the reasons why they were so frequently invoked by French monarchs.

The economies of Europe utilized a bimetallic system based on gold and silver. However, the need to have prices expressed in terms of both these metals was obviated by the use of a common money of account. The necessity for such a money of account was all the greater because of the multiplicity of gold and silver coins of different size, weight, and fineness adopted by different countries but frequently circulating in the same country. The money of account, also referred to as imaginary money, produced a common set of prices through which coins of different metals and of different weight, fineness, and size could be evaluated. In Britain the pound sterling served as a unit of account even though there was no coin corresponding to it, the nearest equivalent being the golden guinea worth 21 shillings. In France the unit of account was the livre tournois (l.t.), worth twenty sous, each sou worth in turn 12 deniers, while the circulating media of exchange were the louis-d'or and the silver écu. The livre tournois would slowly metamorphose, as the eighteenth century advanced, into the franc.

In previous centuries there had been an actual livre tournois minted in the city of Tours from which it derived its name, but this had disappeared from usage well before the eighteenth century. It ceased to be used as a medium of exchange, becoming instead a unit of account with most transactions expressed in livres, sous, and deniers. Though abstract in the sense that it no longer existed as a specific metallic coin, the livre tournois was real in the sense that wages, contracts, and debts were expressed in livres and the monarch could change its value relative to metallic coins. Such arbitrary changes of the exchange rate between the money of account and the metallic media of exchange were known as *augmentations* (enhancements) and *diminutions* (reductions). An *augmentation* of the currency arose when the monarch or government raised the value of metallic coins in terms of the money of account, for example, a decree by the French monarch such as that of December 1715 raising the value of the louis-d'or from 14 to 20 livres. An

*augmentation* therefore devalued the money of account and conversely revalued the specie. It was an inflationary measure as it increased the nominal value of gold and silver coins, the circulating media of exchange. Perhaps the easiest way to look at this issue is to envisage the relationship between media of exchange and unit of account as a domestic exchange rate, a louis-d'or or écu being worth so many livres. An *augmentation*, in making specie worth more and the unit of account worth less, was the equivalent of a devaluation of the unit of account.

A *diminution* of the currency involved lowering the nominal value of metallic coins in terms of the money of account, as happened, for example, between January 1713 and September 1715 when Desmarets introduced a phased series of *diminutions* of the louis-d'or from 20 to 14 livres, and the silver écu from 5 to 3 livres 10 sols. In terms of the domestic exchange rate a *diminution* revalued the money of account and devalued specie in terms of the money of account. It was a revaluation of the money of account. This measure was intended to have a deflationary effect, as prices tended to fall after its introduction. For ease of exposition it is intended to discuss these operations as devaluations or revaluations of the domestic exchange rate.

These changes in the domestic exchange rate did have real effects on the eighteenth-century economies where they were practised.<sup>3</sup> It was a world characterized by imperfect information and less than perfect price flexibility. Prices were slow to adjust to changes in the domestic exchange rate. Law explained this in *Money and Trade* when discussing the adverse effects that 'raising the money' had on the balance of payments. According to Law the change in prices was not fully proportionate to the change in the domestic exchange rate:

For, as their goods do not rise to the full proportion the money is raised, so French goods are sold cheaper, and foreign goods are sold dearer, which makes the balance greater, occasions a greater export of money, sets idle so many of the people as that money employed, lessens the product or manufacture, the yearly value of the country, and the number of the people.<sup>4</sup>

Obviously the speed of adjustment accelerated if the monarch increasingly relied on such expedients. When infrequently practised, smooth readjustment of incomes and prices to the new exchange rate, along the lines suggested by classical economics, was difficult because of the sticky nature of the price/income mechanism highlighted above by Law. *Rentiers* and wage-earners in general opposed devaluations because their contracts and wages were stipulated in terms of the money of account, so that they received less real money (specie) for their loans and labour services after the devaluation. Employers and debtors, with their wage bill and debts denominated in the unit of account, favoured a devaluation, for it meant paying less specie to meet their commitments.

This was of particular importance to governments in countries such as France where a devaluation had the effect of generating tax revenue for the state as well as reducing the burden of the public sector debt as expressed in specie. Law had earlier pointed out the tax gains arising from such a devaluation, but had

counterbalanced the tax argument by pointing out the extent to which such changes reduced the amount of money in circulation, as individuals either sent their specie to Holland and re-imported it into France via bills of exchange in order to prevent the state appropriating the tax gain on their money holdings, or, alternatively, hoarded their money. This reduction in the money supply was a policy which Law deplored:

Raising the money in France is laying a tax on the people, which is sooner paid, and thought to be less felt than a tax laid on any other way. When the King raises the Louis d'or from 12 livres to 14, they are taken in at the Mint for 13 livres, and given out for 14; so the King gains a livre on the Louis d'or, and this tax comes to 20 or 25 million of livres, sometimes more, according to the quantity of money in the country. But so far from adding to the money, it stops the circulation: A part being kept up till there is occasion to export it to Holland, from whence a return is made by bill, of a sum of livres equal to the same quantity of new Louis d'ors that were exported of old ones, and 8 or 10 per cent more, according as the exchange is on the Dutch side. Others who won't venture to send the money out, keep it till the new money is cried down, so save a 13th part, which the King would have got if they had carried the money to the mint to be recoinced. This tax falls heavy on the poorer sorts of the people.<sup>5</sup>

The consequence of a domestic devaluation reducing the amount of money in circulation, predicted by Law in 1705, happened in France as a result of the duc de Noailles's domestic devaluation of December 1715. Faure, using the narrative of the 'Histoire des finances', which, as has been shown, was not written by Law, incorrectly suggests that Law supported this devaluation.<sup>6</sup>

It arose in the following circumstances. Desmarests had reduced the louis-d'or from 20 livres to 14 livres, and the écu from 5 livres to 3 livres 50 sols, in eleven stages between 1 December 1713 and 1 September 1715. This was a deflationary policy. At a time when money was already in short supply this policy aggravated the monetary crisis. The duc de Noailles, in his role as President of the Conseil de Finance, reversed this policy by raising the louis-d'or from 14 to 20 livres and the écu from 3 livres 10 sols to 5 livres in December 1715. Its real objective was an attempt to improve the fiscal situation rather than solve the monetary crisis. It represented a crude attempt by Noailles to appropriate substantial tax gains for the Crown, in that all the coinage was called in so that it could be altered (*réformé*). This alteration of the coinage did not involve minting new coins but striking the old coins with a special mark (*frappe*) which converted them into louis-d'or réformé and écu réformé. The theory of the operation was that the public would bring their coins to the mint to be stamped. Assume that an individual brought ten louis-d'or originally worth 140 livres (1 louis-d'or = 14 livres). The mint took in these ten coins and returned eight of them, struck with the new stamp or mark, signifying that they were worth 160 livres (1 louis-d'or = 20 livres). The individual seemed to have gained in that he had been given coins worth 160 livres, and the state had certainly gained in that it has appropriated the other coins which were

worth 40 livres, a 25 per cent profit. In reality the individual had been subject to a seigniorage tax of 25 per cent.

With the specie money supply estimated at around 1,000 million livres the potential seigniorage gains to the Crown of the December 1715 devaluation were some 250 million livres. Additionally, and more importantly, this measure immediately reduced the real cost of the state debt by 25 per cent, this at a time when the Visa was already reducing the amount of state debt outstanding. Thus *rentiers* were under a double attack in that their holdings of government debt were reduced through the Visa, and, additionally, the reduced holdings were worth less in specie because of the domestic devaluation. In fact, the revenue gains generated from the devaluation or reformation of the coinage were a great deal smaller than expected, with the state only benefiting to the extent of 110 million livres rather than the 250 million expected. Quite simply, many members of the public felt it inappropriate that the state was appropriating 25 per cent of their money holdings when all that was needed was for their coins to be stamped in a particular way. Despite heavy sentences for those caught altering the coinage with the appropriate mark or stamp outside the mint, human ingenuity ensured that a secondary market developed in non-reformed coins which were smuggled into Holland and other adjoining countries, there to be stamped by private workshops or, alternatively, melted down with the proceeds remitted to France via bills of exchange. Given the shortfall in tax revenue resulting from this devaluation or reformation of the coinage, it may be surmised that this happened to about 60 per cent of the coinage, the Dutch artisanal 'reformers' and bankers not being subject to the rigours of French law. This private market appropriation of the gains of the 'reformation' had a very serious effect in reducing the amount of gold and silver coins in circulation, thereby further dampening economic activity.

Law seems to have believed that the French specie money supply was not as high as had been estimated and that, therefore, the shortfall of tax revenue had been overestimated. He calculated that the specie money supply should have been 1.1 billion livres but that so much money had already moved out of France that it was scarcely half this amount.<sup>7</sup> When judging the full effects of the Mississippi System it is important to have a reasonable estimate of the specie money supply existing at the start of the System. Law's lower estimate of around 550 million livres in 1715 is therefore of some relevance to later developments.

## The Establishment of The General Bank

It was against this background of depressed economic activity, a shortage of money, and with the financiers in hiding, that on 2 May 1716 the letters patent for the establishment of the General Bank were granted to John Law and his



company—‘Lettres Patentes du Roy Portant Privilège en faveur du Sieur Law et sa Compagnie, d'établir une Banque générale. Mai 2, 1716.’ After at least twelve years of attempting to have a bank created in a variety of different countries Law had succeeded.

The preamble of the letters patent noted the success of public banks in many other European countries and the fact that Law had attempted to interest the Conseil de Finance in a public bank. The proposal for a public bank had been rejected because of the circumstances of the time, but it had now been decided to allow Law to establish a private bank financed by his own funds and those raised by the company that would be established.

Article I of the letters patent gave the company the exclusive monopoly to be a General Bank for twenty years. It further stipulated that its banknotes would be denominated in specie equivalent écus (‘écus d'espèces—écus de banque’). By this it was meant that they would always have a metallic money equivalence ‘in terms of weight and title which could not be subject to any variation’. As such it was aimed at encouraging specie holders to deposit their money in the bank so as to protect their money from these frequent exchange rate changes. Under article IX an inspector was to be appointed to the bank by the Regent, the bank's patron, who could replace him whenever he wished. The Regent and this inspector were to be the principals who decided what the bank would be permitted to carry out. Effectively this meant that there was to be no control, aside from the Regent's, exercised over the bank. The *privilege* accorded to the bank was not meant ‘to prevent in any way the bankers of our kingdom from continuing their usual business’.

In the ten articles of these 2 May letters patent there was little detail on the way the bank was expected to operate. At the end of the letters patent some models of the words to be used on the proposed banknotes were shown. Otherwise the articles varied from mundane details such as the number of locks and key-holders for the bank's safe (article IV) to the geographical location of its main office, ‘either in Mr Law's house or in such other place in the city deemed convenient for the public’, and its opening hours (article VI). Forging of the banknotes was to be punished by death (article VIII) and, significantly, the Regent was to be ‘the Protector of the bank’ (article IX). Article X stipulated that the bank was not intended in any way to stop the ‘bankers of our Kingdom’ from continuing their ordinary business.

There was, however, no outline of the main functions of the bank. Was it just to be a deposit-taking bank or would it have powers of credit creation? The absence of detail on such substantive issues may have been thought politic in order to ensure that the principle for establishing the bank was accepted by the Parlement. The letters patent were registered by the Parlement on 4 May. There were further letters patent issued containing regulations for running the bank on 20 May 1716—‘Lettres Patentes du Roy Contenant Règlement pour la Banque générale accordée au Sieur Law, et à sa Compagnie. Données à Paris le 20 Mai 1716’—registered by the Parlement a couple of days later. These letters patent provide greater detail on the capital base and *modus operandi*, at least in theory, of the bank.

The capital of the bank was to be made up of 6 million livres consisting of 1,200 shares each worth one thousand écus, that is, 5,000 livres. Subscriptions were to be taken up from 1 June 1716 and as soon as the 1,200 shares were taken up the bank would open for business. The share register was to be inspected by Fénelon, the newly appointed Inspector of the bank—Fénelon, as has already been shown, was one of the four merchants who supported Law's prior proposal for a bank in October 1715. Étienne Bourgeois (1683–1754) was appointed the bank's treasurer. The bank, based at Law's house, was awarded a twenty-year charter. It had the power to discount bills and letters of exchange (article XVII) but was not allowed to trade either by land or sea in commodities or maritime assurances so as not to prejudice the activities of the merchants and bankers (article XVIII). Its banknotes were to be payable on demand and it was not to be allowed to borrow money at interest.

It is obvious from the two series of letters patent establishing the bank that Law had been obliged by the circumstances of the time to modify considerably his grand design. His proposal for a state bank had been rejected and in its place Law obtained a charter to operate a bank with a very limited capital base. The bank did, however, have the power to issue banknotes, albeit banknotes fully backed by specie. Du Tot remarked that 'it was wished to test the public by trying this bank under the name of a private company'.<sup>8</sup>

The initial reaction of the public to the bank was to ridicule its activities:

This bank with its small capital excited the derision of the public; everyone, the Council, the companies, the guilds, the bankers, the merchants derided it; no one had confidence in it. Everyone swore that they would not hold its notes overnight and all were against it though not banding together on the issue. However it was noticed that the bank's daily balance sheet showed that deposits of specie were greater than withdrawals, and that withdrawals fell each day. This success announced the return of confidence and credit. The specie reserves of the bank increased; its banknotes multiplied outside and substituted for silver.<sup>9</sup>

Du Tot's assessment of the early days of the bank was quite similar to the above. He added an extra element by describing the obstinacy of the Regent in wanting the bank to succeed:

But every one appeared to be opposed to his [Law's] views; the extent to which its [the bank's] beginning was strewn with difficulties is known, the obstacles which had to be surmounted were incredible, and it may be said that these obstacles would never have been surmounted without the Regent's deep understanding, his painstaking and assiduous energy, allied with his perseverance against all obstacles.<sup>10</sup>

Pâris-Duverney acknowledged the role of the Regent in attracting support for the bank, claiming that a number of rich people deposited specie in the bank in order to attract the favourable attention of Orléans—'pour faire leur cour au Régent'.<sup>11</sup>

On 18 May the *Gazette de la Régence*, in a rather scrambled report, confirmed that the bank had the support of the Regent and four or five of the richest people

in Paris. The rumours circulating in Paris, and here one wonders whether this was due to Law's talent for marketing his schemes through elaborate puffing, suggested that the Regent was thinking of making a large deposit of some 15 to 20 million livres in the bank and that it had already received 4 to 5 million in deposits. There was also a curious reference to another proposal for a competing bank headed by Nicolas:

The supporters of Law's bank want to see it developing, that it will become acceptable and that it could develop an opening for the trading of *billets d'état* by discounting in specie or letters or bills of exchange on the principal markets, particularly as this adventurer, a Scotsman and leading Jacobite, has four to five of the best purses in Paris backing him and furthermore, through the offices of the duc de Noailles, the protection of the Regent who thinks highly of him, and will, it is said, put 15 to 20 million in its reserves, even expects that this company has already collected 4 or 5 [million livres], but as this was also the objective of Nicolas's bank which has also good backing and protection, they could collapse one on top of the other.<sup>12</sup>

Lüthy surmised that the General Bank may have initially concentrated on acting as an international banker to these people at the Regent's court, an activity formerly carried out by Samuel Bernard.<sup>13</sup> The take-over of this profitable business would have increased Bernard's hostility towards Law, particularly as Law charged a far lower interest rate for discounting bills of exchange, and seemed to be attracting the business, not only of the Court, but also of the Parisian bankers, a claim which Law made in 1717:

Before the establishment of the bank, usury had become so excessive that the bills of exchange of the most creditworthy merchants of the Kingdom were commonly discounted at the rate of 4 per cent per month which amounted to 48 per cent per year.

By contrast the bank has reduced the discounts to a half per cent per month, that is to say six per cent per year. Today it is the rate and the average paid, not only in Paris but also in all the commercial towns of the Kingdom and most of the bankers who talk the loudest against this establishment have recourse to it to discount their bills.<sup>14</sup>

Law also recounted the story of the transfer of 150,000 rixdallars to the King of Sweden, an operation carried out by the General Bank shortly after its establishment. This money was part of a subsidy which the French were paying to Charles XII of Sweden and may have been linked to an intrigue whereby the Swedes would provision part of a Jacobite expedition to invade Britain on behalf of the Pretender. The Regent, when looking at this transfer, saw that Law had carried it out 25 per cent more cheaply than the cost levied by some bankers for a similar transaction some months earlier. He questioned Law on this, observing that the latter must have made some mistake. Law replied that there had been no mistake, at which the Regent remarked: 'I now see why the bankers have risen up in opposition to your establishment, they are not traders, they are thieves.'<sup>15</sup>

This foreign exchange transaction, according to Law, took place just after the bank had been established. Though Law may have been successful with this transaction

action the public was still very sceptical about the bank. On 22 May 1716 the *Gazette de la Régence* opined that the new bank 'is a vision' and that everyone was laughing at it. About a month later it reported the first general meeting of the bank, remarking that 'no one knows the real object of this establishment, nor how it will be created'. On 19 July the *Gazette* noted that the Law's bank was advertising that it would handle remittances from one market to another by giving transactors bills of exchange without charging any interest or taking any profit.<sup>16</sup> This implied that Law was offering, as a loss leader, a free remittance services, via bills of exchange, to traders who deposited money at the bank. Such a service did not allay the public's continuing mockery and ridicule of the bank.<sup>17</sup>

During the month of August the bank seems to have made its first inroads on this adverse public opinion. On 21 August the *Gazette* reported that 'The new bank is doing everything it can to establish its credit and I know in fact that one person having a number of its banknotes amounting to 30,000 livres . . . they were all paid in cash immediately'.<sup>18</sup> Five days later, on 24 August, it was reporting that the Regent had directed the mint to send one million livres to the bank: 'It is believed that it will be maintained because Royal funds will be coming into it. A striking aspect is that up to now it has charged nothing for foreign exchange and that all banknotes are paid immediately.'<sup>19</sup>

If the *Gazette de la Régence's* account is accepted then Law's bank experienced considerable difficulties in its opening months of business. Furthermore, in order to attract deposits in the summer of 1716 it had to offer free discounting services, free remittances, and free foreign exchange conversions in order to attract business. At the same time it was trading heavily on the close link between Law and the Regent. On 7 September the *Gazette de la Régence* once again alluded to Nicolas's bank, suggesting that the Conseil de Finance was almost ready to allow it to be established with initial specie reserves of 4 million livres and the Regent promising to make a substantial contribution. It was to issue banknotes against *billets d'état*, accepted at 50 per cent of their par value, and these banknotes were to have the status of legal tender for commercial transactions. The banknotes could be converted into specie at a 10 per cent discount. With close to 200 million livres of *billets d'état* overhanging the market and this proposed bank prepared to convert *billets d'état* into banknotes and banknotes into specie it is not surprising that it was never established. It does suggest, however, that the Regent was prepared to countenance a certain amount of competition to Law's bank.

The *Gazette* on 18 September made a most revealing comment on the General Bank: 'Law's bank is a new source of misfortune; it has swallowed up the little trade that is taking place (*elle engloutit le peu de commerce subsistant*)'. This suggests that during August and September 1716 Law's bank had started to have a major impact on domestic trade in France. After a shaky opening the combination of support from the Regent, the offers of free discounting and foreign currency conversions, along with immediate payment of banknotes in specie, was enticing traders to use the bank. By this time it had issued 24 million livres of banknotes,

which sum, though not in itself large, must have had a significant effect on a commercial environment so cowed by the activities of the Chamber of Justice.

A question arises as to how the bank made its profits. Presumably the free offers and loss leaders of its opening months were dispensed with as the bank's business grew, but would the discounting of bills of exchange and foreign currency conversions have generated the type of profits which the bank made over the following two years until its conversion into the Royal Bank in December 1718? In analysing the profitability of the General Bank it must be remembered that although the initial capital of the General Bank was stipulated at 6 million livres (about £383,000 sterling), its actual capital base was much smaller than this, due (1) to the dilution of the share capital with *billets d'état* which were trading at a heavy discount, and (2) the fact that only one-quarter of the share capital was actually called up. Under the bank's charter, shares were to be subscribed for by a payment consisting of one-quarter in specie and three-quarters in *billets d'état*.<sup>20</sup> There was therefore a debt-management objective, albeit a small one, built into the activity of the bank. As the *billets d'état* were then at a discount of about 60 per cent, the effective amount of capital to be subscribed was:

Specie	1.5 million livres (£95,725)
<i>Billets d'état</i>	1.8 million livres (£114,870)
Total	3.3 million livres (£210,595)

However, as only one-quarter of the share capital was actually called up, the bank's initial capital base was:

Specie	375,000 livres (£23,930)
<i>Billets d'état</i>	450,000 livres (£28,717)
Total	825,000 livres (£52,647)

The capital base of only 825,000 livres, with a working capital base of only 375,000 livres in specie, was remarkably small to develop a bank with Law's ambitious objectives.

Notwithstanding this small capital base, the poor economic situation, and, as Law noted, despite 'the antagonisms, the opposition, and even to say the slander of the bankers and other ill intentioned people',<sup>21</sup> the bank's activities grew at a sensible pace. This may be seen from its note issue over the two-and-a-half-year period that it operated as the General Bank (June 1716 to December 1718) as presented in Table 11.1. These statistics on the issue of banknotes, compiled most probably by Bourgeois, the bank's treasurer, show that the bank steadily expanded its note issue creating 44.4 million livres in 1716, 51.6 million in 1717 and 52.6 million in 1718, an overall total of nearly 149 million livres.

These figures would have surprised the old Controller-General, Nicolas Desmarests. Annoyed by his sacking and the by appointment of Noailles, one of his officials, to replace him, he felt that the bank would have difficulty in making a profit. His line of argument was that with the bank holding only 1,125,000 livres of

Table 11.1: Note Issues of the General Bank, 1716–1718

<b>1716</b>	
16 and 23 June	6,000,000
28 July	6,000,000
26 August	12,000,000
13 October	6,000,000
4 November	6,000,000
29 December	8,400,000
<b>Total for 1716</b>	<b>44,400,000</b>
<b>1717</b>	
2 March	3,600,000
13 April	18,000,000
7 September	12,000,000
9 November	18,000,000
<b>Total for 1717</b>	<b>51,600,000</b>
<b>1718</b>	
25 January	12,000,000
8 March	12,000,000
8 June	12,000,000
30 August	6,000,000
18 October	10,560,000
<b>Total for 1718</b>	<b>52,560,000</b>
<b>Total Banknotes</b>	<b>148,560,000</b>

SOURCE: Paul Harsin, *Les Doctrines monétaires et financières en France du xv<sup>e</sup> au xviii<sup>e</sup> siècle* (Paris, 1928), pp. 305–6.

billets d'état bearing an interest rate of 4 per cent, the income from this source would only be 45,000 livres. On the other hand he reckoned that the bank's annual running expenses were at least 60,000 livres.<sup>22</sup> Desmaret's surprise must have been greater over the following two and a half years, as the General Bank became more and more profitable.

It is possible, despite the destruction of the bank's books, to recreate a general picture of the bank's profitability and then, on the basis of this substantial profitability, to question whether the bank stuck to its charter of acting only as a deposit-taking institution or whether it involved itself in credit-creating activities. The profitability of the bank may be reconstructed by aggregating (1) its dividend income and (2) its repayment of its share capital. The bank paid dividends totalling 615 livres per share over its life as the General Bank. With 1,200 shares issued its total dividend income was 738,000. While shareholders were only called to subscribe for one-quarter of the 5,000 livres, that is, 1,250 livres, they were repaid in full at the end of 1718, prior to the General Bank's being transformed

into the Royal Bank. Assuming the *billets d'état* were deemed to be at par, then the net cost per share to the bank would have been 3,750 livres. Multiplying this by 1,200 shares gives a total net repayment of share capital of 4,500,000. On this basis the overall profitability of the bank was:

Dividend income	738,000
Net repayment of share capital	4,500,000
Overall profits	5,238,000

Hence with an initial subscribed share capital of 1,500,000 livres the bank made overall profits of 5,238,000 livres, an overall return of some 250 per cent. The profit of individual shareholders was far greater when one takes into consideration the fact that they subscribed three-quarters of the capital called in heavily discounted *billets d'état*.

Law's personal holding of bank shares is revealing. When the bank's shares were issued, Law acquired a holding of 300 shares with a nominal value of 1.5 million livres, one-quarter of the bank's share capital.<sup>23</sup> However, as only one-quarter of the capital was called up this suggests that Law only paid up 93,750 livres in specie and 281,250 livres in *billets d'état*. As the *billets d'état* were at a discount of 60 per cent the real cost to Law of his subscription in *billets d'état* was 112,500 livres. Adding this to the specie cost of 93,750 livres it meant that the market cost to Law of his 25 per cent shareholding was 206,250 livres rather than the 1.5 million livres which he implied that he paid.<sup>24</sup> Assuming that he held his shares until they were repaid, he would have made some 1,309,000 livres in terms of dividends and capital repaid (retained profits), a profit of 535 per cent. Presumably the Regent made a similar if not bigger killing on the shares of the bank, along with members of his circle. With profits like that it is no surprise that Law was able to convince the Regent of the merits of the companies that he proposed establishing and developing. Indeed if we are to believe Law the profitability of the bank at the moment it was converted into the Royal Bank in December 1718 was far greater than this:

When His Royal Highness resolved to make the bank Royal, I withdrew with my own resources or by my credit those shares held by individuals, in this way I made the King the owner of the bank with the consent of the shareholders. It is true that later His Royal Highness reimbursed me the price of the shares, but I only counted them at par as I had purchased them and they would have been worth twenty times the capital if they had remained in private hands.<sup>25</sup>

There is a considerable contrast between Desmarests's estimate of the income of the bank, 45,000 livres, and the profit of at least 5.2 million livres that it earned. Where did this profit come from? This is difficult to determine, given the destruction of the records of the bank and the fact that Law's contemporaries seemed to have been able to learn little about its activities. Even members of the Regent's inner circle would have had little knowledge of the workings of the bank, for Law seems to have been in absolute control of it and was not showing the books to anyone.

He admitted, in a letter to the Regent on 11 November 1717, that he had more or less operated the bank as his own private fiefdom in its first year of operation without the restraining control of inspectors nor the examination of the balance sheet by shareholders:

Up to now the secret operations of the bank were directed by one individual. Operations of the second type, dealing with the order and daily accounts of the activities of the bank, were not known even by the commissioners working for the director. Shareholders had no knowledge of the balance sheet producing the dividend, no member of the bank's council had verified the sections dealing with the profit and loss account or the general expenses. The books of the bank were never presented to the shareholders, nor did they appoint anyone to examine and verify the balance sheet.<sup>26</sup>

Law wrote this at a time when he was requesting the Regent to transform the General Bank into a Royal Bank, using it, incidentally, as an argument in favour of greater state control over the bank!

Given Law's near-absolute control over the bank, and the destruction of its records, it may never be possible to determine the full range of its activities. It is doubtful that its known activities such as (1) holding deposits and clearing balances amongst its private clients, (2) discounting bills of exchange, and, at a later stage, (3) acting as the government's banker, could have generated such large profits. The suspicion remains that Law involved the bank in credit creation. Desmarests probably interpreted the provision in the statutes of the bank guaranteeing the specie value of the notes issued as implying a 100 per cent reserve ratio and therefore as prohibiting the bank from lending money to individuals—this is certainly Lüthy's interpretation.<sup>27</sup> Law seems to have interpreted the statutes differently involving the bank in credit creation:

As the resources of the bank increased, it used them to meet other needs of the State. It advanced funds to restore and maintain the manufactures. It prevented bankruptcies. It lent to merchants to help sustain them, and after some months it reduced its interest rate from 6 to 4 per cent.<sup>28</sup>

The author of the 'Histoire des finances' was clearly stating in the above that the General Bank was involved in lending activity and, presumably, by such credit creation it was able to generate the high profits that it earned. At the same time the bank's lending activities were fairly conservative, for the bank seems to have maintained close to a 50 per cent ratio of reserve to deposits.

By the end of January 1717 the author of the *Gazette de la Régence*, who was firmly opposed to Law, was forced to acknowledge that the General Bank was becoming firmly based in the French system: 'it has never been so well regarded and the government has been deriving great utility from it'.<sup>29</sup>



## The Transformation of the General Bank into the Royal Bank

Law was not content to just run a private bank. His vision, as reflected in his earlier *mémoires*, involved a great deal more than this. He wanted the state to be formally involved in the banking system. He had been preparing for this eventuality, which of course was his original proposal in the autumn of 1716, by successively involving the bank more and more as the banker to the government. On 7 October 1716 the Conseil de Finance requested the provincial *intendants* (administrators of specific areas) to order the Royal tax collectors and tax farmers not only to pay on sight the banknotes of the General Bank, but also to remit future tax receipts to Paris only in banknotes.<sup>30</sup> However, the General Bank's note issue was insufficient to meet such remittances and the financiers were able to use this as a pretext for not remitting in this manner. Their reluctance to use the bank was of a relatively short-lived duration, for on 10 April 1717 there was an *arrêt* of the Council of State which stipulated that banknotes could be used as legal tender in payment of taxes. The official reason given for this *arrêt* was that the transportation of specie to and from the provinces was interrupting trade. It was believed that the best way of increasing the circulation of money, thereby reviving trade, was to allow bank-notes to be used for payments into and out of the Royal treasury. This heralded the start of the bank's involvement as banker to the government. It was, according to Du Tot, the most important measure taken for the development of the bank though Pâris-Duverney strongly disputed this, stating that all it did was to extend the market for the banknotes.<sup>31</sup> The relatively moderate expansion of banknotes in 1717, in line with the 1716 note issue, would tend to support Pâris-Duverney's viewpoint. The 10 April *arrêt* was important in developing the bank's formal link with the state. Du Tot explained a further important element of the measure of 10 April in that hitherto no Royal paper (*billets de monnaie*, *billets d'état*, bonds, and so forth) had been accepted by the King in payment for taxes. Undoubtedly the monarchy was reluctant to accept its own debt in payment of taxes because it generally stood at such a hefty discount. The fact that banknotes of the General Bank could be used in payment of taxes meant that they started passing as a type of legal tender (*argent comptant*). 'It increased necessarily the demand for banknotes and the reserves of the bank.'<sup>32</sup> Du Tot added that the *arrêt* was issued without Noailles's knowledge and that, on learning of its contents, he wanted to have it revoked. This is the first hint of a split in the working relationship between Law and Noailles, a split which would deepen during the year and eventually lead to Noailles's departure from the government at the start of 1718. According to the *Gazette de la Régence* the Chancellor, Henry François d'Aguesseau (1668–1751), joined with Noailles in objecting to the *arrêt*:

The Chancellor sealed the *arrêt* of the Council stipulating that all Royal payments are to be made in notes of Law's bank. He asked the Regent who had advised this *arrêt*; he replied that it was himself, at his own initiative, who judged that it would be appropriate.—

Monseigneur, said the Chancellor, it was Law who advised you to do this, but it will not be to anyone's taste and I believe it to be impracticable.—In fact, this new arrangement had resulted in everyone talking against Law who is a foreigner, a gambler by profession, and whose extravagance and expenditure give scandal.<sup>33</sup>

The *arrêt* of 10 April meant that the bank had started to act as a banker to the government, a link that was strengthened by a further *arrêt* on 12 September 1717 ordering that all tax receipts in Paris and its suburbs were to be made in banknotes of the General Bank. By 11 November Law was reporting that the bank was growing daily with more of the growth emanating from the government than from the private sector.<sup>34</sup> This led him to state that 'it is the King's funds which are the principal and first object of the bank today'.<sup>35</sup>

With the state's receipts and expenditures flowing through the bank it was bound to prosper, but Law was not satisfied with this. He wanted the bank to become the official state bank, a Royal Bank. One of the arguments he advanced for this related to the capital of the bank. He contended that the capital of the bank was too small to provide a sufficient guarantee for the public. It was only made up of 'six millions of which three-quarters comprised [state] paper'.<sup>36</sup> Furthermore, Law added that the General Bank was unable to build up its reserves because its profits were distributed to its shareholders every six months. These statements were disingenuous on two counts: (1) as has been shown, the paid-up capital was only, in nominal terms, 1.5 million livres (1,250 livres per share paid up on shares with a nominal subscription price of 5,000 livres) and not 6 million livres, and (2) according to the author of the 'Histoire des finances', the remaining three-quarters of the share capital had been deemed to be filled with the retained profits of the bank. This meant that over the last six months Law repaid each shareholder the full 5,000 livres for shares that would have effectively cost the shareholder only 688 livres per share, when allowance is made for the fact that only one-quarter of the share capital was paid up and three-quarters of that was paid in *billets d'état* standing at a 60 per cent discount. As the dividend income on each share was 615 livres over eighteen months, the overall return to the original shareholders of the General Bank was very substantial. These capital gains and high dividends would undoubtedly have encouraged these shareholders to support Law's other schemes when the bank was declared a Royal Bank in January 1719. But before this would happen, there were other elements in Law's grand design that had to be put in place, most notably the establishment of the Company of the West.

# 12 The Establishment of the Company of the West

In the space of three years, between 1717 and 1720, John Law raised the market capitalization of the Mississippi Company from around 34 million livres to over 5 billion livres, showing in the process a degree of financial sophistication which would be admired, even today, by practitioners of leveraged buyouts. Modern exponents of mergers and take-overs have used debt, colourfully described in the 1980s as 'junk bonds', to acquire the equity of companies; Law adopted the opposite procedure, using equity to take over debt, in this case the national debt.

He started these operations with a company, the Company of the West, which acquired the monopoly trading concession of French Louisiana—Louisiana, named after Louis XIV, who seemingly was not over amused when told of its discovery. French Louisiana in 1717 comprised the present-day states of Arkansas, Illinois, Iowa, Louisiana, Minnesota, Mississippi, Missouri, and Wisconsin. Developing the trading potential of Louisiana was only one of Law's objectives. By 1720 Law had assembled and fused together all of the French trading companies, the tax farms, the tobacco farm, the mint, the French national debt and a quasi-Central Bank under a giant holding conglomerate popularly known as the Mississippi Company.

In this chapter the techniques used by Law to start this series of leveraged buy-outs will be shown. As well as describing these techniques it is also necessary to explain the different power struggles that the growth of the Company of the West produced, struggles within the Regent's circle between supporters and opponents of Law, between the Parlement and the Regent, and between Law and the groups he was attempting to displace, the *rentiers*, and the rich nobility operating behind the cover of the financiers. If one accepts Daniel Dessert's thesis on the financial power structure of the *ancien régime*, Law was eventually going to encounter massive opposition from this latter grouping, the rich nobility, as they realized that Law's System was displacing the old financial system which had served its ends so well.<sup>1</sup>

This opposition, as was indicated in Chapter 10, kept its silence initially because of a variety of factors, most notably the interest of the rich in keeping a low profile during the operations of the Chamber of Justice, but also through a belief amongst many of them that Law's ideas would founder quickly. It would not

be until 1720 that the rich nobility would successfully regroup and start to attack Law's policies, conjoining with the Parlement, which consistently opposed Law, to weaken his hold over the economy as the System started to show signs of over-heating. This opposition was probably helped by Law's inability to counter such potential power groups. He failed to assemble in sufficient numbers an alternative grouping of the nobility which would fully support him. Law tended to rely for support on the Regent, some members of his circle, most notably the duc de Bourbon and the duc de la Force, and ministers such as Dubois. His involvement in the dismissal of his two predecessors, the presidents of the Conseil de Finance, the duc de Noailles and the marquis d'Argenson, deprived him of the backing of these ministers and their families when the System ran into difficulties in 1720.

Mergers and take-overs require finance. Law raised such finance by seven issues of shares, totalling 624,000 shares, between August 1717 and October 1719. Two hundred thousand shares, representing the first issue, were subscribed for between September 1717 and September 1718. The remaining 424,000 shares were subscribed for in the comparatively short space of time between May and the first week of October 1719. The seven share issues are chronologically listed in Table 12.1. By the end of November 1719 the shares had a market value of close to 5 billion livres.

The seven share issues may be split between the first three involving the *mères* (mothers), *filles* (daughters), and *petites filles* (granddaughters), and four issues of September and October 1719. The names of the first three issues suggest a close family relationship. Subscription rights to the second (*filles*) and third (*petites filles*) issues were contingent on ownership of *mères* for the second issue, and *mères* and *filles* for the third issue. The second and third issues were rights issues essentially keeping the ownership of these shares in the hands of the original shareholders. By the use of rights issues Law attempted to build up a loyal group of supporters for his System. These original shareholders—which included the Regent, with a 40 per cent shareholding on behalf of the young King, and Law himself with a significant shareholding—purchased their shares at market prices ranging from 150 to 300 livres in the case of the *mères*, 550 in the case of the *filles*, and 1,000 in the case of the *petites filles*. Neophyte shareholders, unless they had been lucky enough to purchase *mères*, *filles*, or *petites filles*, faced in the open market a price of 5,000 livres a share for the fourth, fifth, sixth, and seventh issues. As the price of shares rose to a high of 10,000 even these latter purchases must have seemed to be good value.

## The Company of the West and the First Issue of Shares

It has been shown in earlier chapters that Law recognized when dealing with the French economy that there was a need to provide a solution to the debt burden accumulated by Louis XIV, and that he had been greatly impressed by the success

Table 12.1. Share Issues by the Mississippi Company (In Livres)

Date		Share issued	Nominal price	Cost	Terms
June and September 1717	<i>Mères</i>	200,000	500	140–160	Shares bought with <i>billets d'état</i>
June 1719	<i>Filles</i>	50,000	500	550	Paid in 20 instalments. Had to have 4 old shares for 1 new
June 1719	<i>Petites filles</i>	50,000	500	1,000	Paid in 20 instalments of 50.4 <i>mères</i> and 1 <i>filles</i> for 1 new
26 September 1719		100,000	500	5,000	Paid in 10 instalments of 500
28 September 1719	<i>Cing cents</i>	100,000	500	5,000	As above. Meant to be reserved for office-holders, etc.
2 October 1719		100,000	500	5,000	As above
4 October 1719		24,000			
		—————			
		624,000			

On 29 November 1719 Du Tot calculated the market value of the 624,000 shares of the Mississippi Company at 4,781,740,000 *livres tournois* (average price per share of 7,663 l.t.).

of the British trading companies. The Company of the West (Compagnie d'Occident) was founded by Law with the dual objectives of (1) debt management and (2) development of colonial trade. The immediate reason for the creation of the company, which fitted perfectly into Law's grand design, was the surrender by the financier Antoine Crozat of the trading rights he had acquired over French Louisiana.<sup>2</sup> Crozat had acquired these rights some five years earlier but despite spending 1.5 million livres in specie attempting to develop the colony he found that the investment was not yielding an appropriate rate of return.<sup>3</sup> He ceded his rights to Louisiana as a part payment for the tax of 6.6 million livres levied on him by the Chamber of Justice in 1716, though as events will show he continued to maintain an interest in developments in this area.

Before officially ceding Louisiana to the King through an *arrêt* of 23 August 1717, Crozat attempted to renegotiate his situation by proposing on 17 March 1717, through the intermediary of his son-in-law, Le Gendre d'Arminy, a Compagnie de Mississippi with a capitalization of 4 million livres, for which, according to Jacob Price, 'The most significant financial arrangements subsequently embodied in Law's Compagnie d'Occident were present in miniature'.<sup>4</sup> These arrangements included capital to be subscribed in *billets d'état*, the income derived from the interest on the *billets d'état* to be used as the working capital of the company, and the income for this interest to be assigned to a specific branch of government revenue. Law had used a similar principle when creating the General Bank in 1716, three-quarters of the share capital of which was to be subscribed in *billets d'état*.

A variety of proposals, most probably inspired by the duc de Noailles in his role of President of the Conseil de Finance, were presented for the market capitalization of this company in 1717. These ranged from those of Duché who proposed a company of 2.4 million livres, Arminy who proposed one of 4 million livres, and Arminy and Crozat with a second proposal of 12 million on 14 May 1717. According to Law he was approached by two influential men ('considérable dans l'État') who offered to issue two million livres worth of shares which would be subscribed for by the public with *billets d'état*. He was asked to make a substantial subscription so as to encourage other members of the public to follow his example. To Law the operation was dangerous on two grounds. In the first place it represented, in his opinion, just an exercise, amounting to a confidence trick on the public, to reduce the amount of *billets d'état* in circulation by two million. In the second place Law felt that there was a secret agenda to involve him in this affair which would fail and thereby tarnish his image in front of the Regent and the public.<sup>5</sup>

Law countered the proposal and argued that it needed not just the debt-management aspect but also a trading aspect:

He informed those who had proposed this business to him, that he had a far broader idea than they had, which he would undertake to establish with success, that 50 million in shares needed to be created, subscribed for with *billets d'état*, that it would suffice to pay 4 per cent on them as had been done hitherto, and that moreover he would afterwards find other profits

to repay the confidence of the shareholders which would not constitute a burden either for the King or his people.<sup>6</sup>

Seemingly this proposition astonished those to whom it was made, for they had been discussing the retirement from circulation of far smaller quantities of *billets d'état*. According to the author of the 'Histoire des finances', Law, stung by their limited vision, raised the stakes by undertaking to issue 100 million livres worth of shares. Furthermore he undertook to push to par the remaining amount of 150 million *billets d'état*, then standing at a 70 per cent discount. The account of the 'Histoire des finances' is somewhat suspect in that it collapses the timing of events surrounding the issue of the first shares of the Company of the West. The issue, when originally offered to the public in September 1717, did not specify the amount of share capital to be raised. It was not until December 1717 by the 'Edit du Roy qui fixe à cent millions le fonds de la Compagnie . . . ' that this amount was fixed at 100 million livres.

Law's willingness to withdraw a significant part of the 250 million livres of *billets d'état* outstanding, and stabilize the price of the remainder, must have been music to the ears of the duc de Noailles, who had been expressing his concern about this floating debt. This would have increased Noailles's admiration for Law and raised his status amongst the councillors close to both Noailles and the Regent. The duc d'Antin remarked that 'since the establishment of the bank from which he hoped to draw the main resources of the state he [the duc de Noailles] swore only by him [Law]'. In August 1717 Law was given permission to float the Company of the West on the market by the 'Lettres patentes en forme d'édit portant établissement d'une Compagnie de Commerce, sous le nom de Compagnie d'Occident'. Overall the company would issue 200,000 shares at 500 livres each. As such the nominal market capitalization was 100 million livres. However, as the shares could only be purchased with *billets d'état*, then standing at a discount varying between 68 and 72 per cent, the effective market capitalization was much smaller (30 million livres = £1.5 million sterling) and the market price per share worked out between 140 and 160 livres, an important point when considering the growth in the market valuation of the company's shares in later years.

At this stage the French System was modelled on rather than giving a lead to the South Sea Company. The parallels between the Company of the West and the South Sea Company were noted by a writer in the French ministry of foreign affairs at the time:

The Company that it is proposed to form, under the name of the Company of the West, has like the English South Sea Company two objects—that of trade and that of retiring a considerable quantity of *billets d'état* and replacing them with shares, the credit of which it is hoped will be better sustained than those of the *billets d'état*.<sup>7</sup>

Thus the Company of the West was perceived as having two functions. It was granted a trading privilege in exchange for the company's conversion of depreciated government debt, at a lower interest rate, into company stock. By agreement

with the Crown the company was given exclusive trading rights to French Louisiana for twenty-five years, while the Crown benefited by the company's conversion of part of the floating debt into shares at a lower interest rate. The working capital of the company was to consist of 4 million livres, about £200,000, derived from the first year's interest payment accruing on the government debt held by the company—assuming the issue of 100 million livres was fully subscribed. This was a very limited base on which to develop the commercial potential of half of the future United States! In fact the problems of working capital for the company were even more acute. There were two difficulties. The first involved the timing of the transfer of *billets d'état* by the new shareholders to the company. The second raised the issue as to whether the Crown actually paid any of the interest income due to the company.

Apropos of the first difficulty it may be noted that as the company only succeeded in raising the full 100 million towards the latter part of 1718 it would not have been entitled to a full year's interest payments on 100 million livres, hence reducing its potential working capital. Du Tot wrote that the actual issue of the shares did not take place until the summer and early autumn of 1718:

In the month of August 1717 he [Law] established a trading company with shares which it only issued by virtue of the *arrêts* of 12 and 28 June and 22 September 1718. Following this *arrêt* 78 millions were issued [*distribuées*], since of the 100 millions there only remained 22 millions of *billets d'état* to furnish to the cashier of the company.<sup>8</sup>

Du Tot's analysis is confirmed by the *arrêt* of the Conseil d'État of 22 September 1718 which extended the payment period for the remaining 22 million livres of *billets d'état* to 1 January 1719.

This seems to suggest that it is necessary to distinguish between the allocation to and payment of shares by individuals. With the exception of the initial flurry to subscribe for the shares it took a considerable amount of Law's time and effort to raise the 100 million. Some investors appear to have been prepared to subscribe for the shares, but seem to have delayed delivering their payment in *billets d'état*, deeming their subscription for shares as an option to purchase rather than a commitment to pay immediately for the shares with *billets d'état*. On this basis alone it would seem that the company's working capital was distinctly limited. The reality seems to have been worse than this, for Law later wrote that Noailles seized the funds destined for the company during its first year and used them for other purposes.<sup>9</sup> It may have been on account of this that he wrote elsewhere of putting up 10 million livres of his own money in order to provide the working capital necessary to equip an early colonization project. This suggests that the primary activity of the Company of the West during its first year was that of debt management, that is, the acquisition of *billets d'état* in return for shares, rather than colonial trading.

It is difficult to be precise with respect to the date on which the company was formally established, the letters patent just stipulating 'Paris, August 1717'. The Conseil de la Régence had approved this edict on 21 August, with the name of the



company, the Company of the West, given a rather general character so as not to attract the suspicions of either the Spanish or the British as to France's incipient colonial pretensions over this part of North America.

Though the edict had been agreed by the Regency Council it still had to be approved by the Parlement, a consequence of the return to the Parlement of its right to register legislation part of the *quid pro quo* which had legitimized Orléans as Regent in 1715. The edict was included along with a variety of other financial measures, some of which seemed to be of far greater importance, such as that stipulating the abolition of the *dixième*, submitted to the Parlement in the first week of September. Edgar Faure has directed attention to a certain article XIII in one of the edicts which specified that holders of *billets d'état* who did not convert their *billets* into financial instruments such as the *rentes* or the shares of the Company of the West would be deprived of any interest on their *billets d'état* from 1 January 1718. This appeared to be an attempt to force such holders to move, *inter alia*, into the shares of the company. According to the author of the 'Histoire des finances', incorrectly assumed by Faure to be Law, this attempt to force holders of government debt to move compulsorily into another type of debt was totally contrary to Law's approach and wishes. He felt that in order to restore confidence there should be no element of compulsion to buy the company's shares. He added that Law was so angry with this article that he halted subscriptions of shares to the company, though Faure found no evidence to suggest that Law took such action.<sup>10</sup> The Parlement, encouraged by the new *modus vivendi* it had exacted from the Orléans, appointed commissioners to examine the edicts and gave them the authority to request further details about the nation's financial situation and how it was intended to balance the books. Such interference in matters of state was not appreciated by Orléans and it took a further meeting which lasted four hours on Saturday, 4 September, to reach broad agreement on these issues. On 6 September 1717 Fanny Oglethorpe wrote late in the evening to the Duke of Mar about Law's latest scheme: 'Mr. Laws is going to make a lottery of the billets d'état, offers to take for 50,000 millions, and take the island of Misispy for him. The Parlement won't agree to it saying he's an adventurer, not fit for the nation to trust.'<sup>11</sup>

Even though Fanny, later to be involved in a consortium sending a group of settlers to develop a parcel of land in Louisiana, had mixed up most of the story along with her classification of the Mississippi as an island, her letter shows that Law's scheme was widely talked about in Paris and that it was encountering some opposition from the Parlement. She was not up-to-date on her news, however, for on that very day of 6 September the Parlement accepted the edicts that had been presented to it, with two exceptions. These were (1) that it did not accept that Parisian home owners should be billed for the upkeep of lanterns for street lighting; (2) that article XIII relating to the abolition of interest on the *billets d'état* should be enforced. There was no specific objection presented by the Parlement concerning the Company of the West. The Parlement's two objections were presented as remonstrances on 9 September. Both objections were acceded to by the Regent.

Law's Company of the West could issue shares and there would be no element forcing holders of *billets d'état* to subscribe for them.

The amount the company was to raise in the first issue was initially open-ended. Nevertheless Law would have been disappointed by the market's take-up of the shares. 28.5 million livres worth of shares subscribed for between 14 and 24 September and just another 1.2 million between 25 September and 6 October.<sup>12</sup> Though Law could contend that these subscriptions amounted to nearly 30 million livres, a sum far greater than that deemed feasible by any of the rival plans, it is noticeable that Law had subscribed for over one-third of these shares. Later Argenson, then Keeper of the Seals and Minister of Finance, when opposing the issue of the *filles* in 1718, expressed the view that the first issue would not have been successful if the Regent 'had not helped by taking such a large shareholding on behalf of the King'.<sup>13</sup> Faure refers to a letter by the British ambassador, the Earl of Stair, which suggested that the Regent took up 40 per cent of the first issue, that is, 80,000 shares.<sup>14</sup> By his own account, John Law purchased 6 million livres of shares when the company was established, raising it subsequently to 10 million livres.<sup>15</sup> An analysis of the subscribers between 14 and 24 September reveals that Law, contrary to his own account, subscribed for a great deal more than 10 million livres of shares. Étienne Bourgeois's listing of the initial subscribers shows that Law subscribed on four occasions for 10 million livres, 2.5 million livres, 100,000 livres, and 300,000 livres, a total of 13.3 million livres (26,600 shares), close to 45 per cent of amount subscribed over the first ten days, a development that would suggest that Law was attempting to puff up the market's evaluation of the company by large-scale purchases on his own behalf.<sup>16</sup> He was also demonstrating his confidence in the company by showing that he was prepared to back it with his own money. In April 1720 the British representative in Paris, Daniel Pulteney, reported that Law had registered in the books of his Company 16,000 shares on his own account, a shareholding worth at that time £3.6 million sterling.<sup>17</sup>

Étienne Bourgeois observed in an accompanying letter that even though only 29.8 million livres had been subscribed for, the public believed that 34 million livres had been raised and that he believed 'there was no inconvenience in leaving them with this idea'. His listing shows that neither the King's nor the Regent's name appears on the list of initial subscribers, and it may be surmised that the Regent's acquisition of 40 per cent of the shares of the company on behalf of the King took place at a later stage. It is of interest to note that Pâris de Montmartel, later to become an arch-enemy of Law's, subscribed for shares to a value of 300,000 livres during these first ten days.

In examining the register of the initial subscribers for shares in the company it is of relevance to return to the distinction between subscriptions and payments. How many of the early subscribers paid immediately for their shares? The *arrêts* of 1718 indicate that the company had considerable difficulty in eliciting more than the initial downpayment, a one-fifth payment in *billets d'état*, from subscribers.

On 28 June 1718 an *arrêt* permitted the cashier of the Company of the West to issue a type of option note guaranteeing delivery of shares to subscribers against an immediate downpayment of one-fifth in *billets d'état* with the remaining four-fifths to be paid in *billets d'état* by 1 November of that year. If the remaining four-fifths payment was not made by that date the downpayment was to be confiscated by the company.

As Law was the major subscriber for shares after the launch of the company, and as he seems to have recognized that the circumstances were not sufficiently propitious to push the share issue too hard during the remaining months of 1717, it is appropriate to think of the company as going through a dormant period in the months following its creation. The shortage of subscribers and the distinction between subscription and full payment for shares essentially meant that the company had little or no working capital during these months—though Law may have used his own resources to initiate some developments. This shortage of working capital would have continued right through 1718 as the *arrêt* of the Conseil d'État of 22 September 1718 extended the period of grace for recalcitrant subscribers, and there was still a shortfall of 22 million livres in *billets d'état* at this date, to make full payment for their shares to 1 January 1719.

On 15 September 1717 Orléans approved the appointment of the directors of the company. They were Law, Duché, Piou, Mouchard, Moreau, Castanier, and Artaiguiette. A document in the Archives des Affaires Étrangères lists the functions of these directors, with Duché directing the military affairs of the colony, Castanier and Artaiguiette responsible for the purchase of provisions and food in France, Moreau appointed to buy and provision ships, Mouchard to act as the liaison for the Canadian part of the company's business, and Piou acting as the purchasing officer for negro slaves. This document lists two other directors. One of these was De La Barre, who was made responsible for the beaver account and the sale of beaver pelts to the Parisian hatmakers. The other director listed is a great deal more surprising. It was no less a person than Crozat, named jointly alongside Law as responsible for international remittances and the purchase of foreign provisions which would be needed in Louisiana.<sup>18</sup>

This document suggests that it was initially envisaged that Crozat would jointly manage the company alongside Law. Crozat never officially became a director of the company; he appears to have been operating in the wings. The *Gazette de la Régence* reported on a number of occasions over the following months that he was about to take over the company. But Crozat never took over the company, which remained very much under Law's control.

# 13 The Slow Development of the System

The development of Law's System in the year 1718 provides insights not only into Law the economic policy-maker but also Law the political strategist. By the start of 1718 all Law had achieved was the establishment of a moderately successful bank and the launch of a trading company, most of the capital of which had not yet been subscribed. We know from Law's writings that his objectives were more grandiose than this and that he wanted to implement a monetary and a financial revolution. Revolutions seldom have smooth paths, particularly those involving money and finance. There was a monetary and financial structure already in place, strongly supported by a significant part of the political establishment, most notably the Parlement. The Parlement, with its re-established powers of remonstrances, its strong links with the nobility who controlled the financial structure, and its conservative attitude to monetary and financial policy, was a major obstacle to Law's monetary and financial innovations. France's two leading administrators, Aguesseau and the duc de Noailles, constituted two further obstacles. The powers of the Parlement needed to be limited and Aguesseau and Noailles dismissed from office if the main political blocks to the development of Law's System were to be removed.

The Chancellor and Keeper of the Seals, Henry François d'Aguesseau, had occupied a series of important positions in the Parlement. Like many other members of the Parlement he was a conservative, unwilling to support Law's policies. The President of the Council of Finance, Adrien Maurice, duc de Noailles, had supported Law during the first sixteen months of the General Bank's existence. During this period the duc d'Antin remarked that Noailles 'only swore by him [Law]'. This suggests that not only was Noailles supporting Law but that Law had convinced him that the bank would be a significant source of funds for the state. This relationship seems to have broken down on 12 September 1717 when the *arrêt* obliging taxpayers in Paris and its suburbs to pay their taxes in banknotes was published without either Noailles's knowledge or consent.<sup>1</sup> From then on the relationship soured, with Louis de Rouvroy, duc de Saint-Simon, who detested Noailles, observing:

For a long time, Noailles, jealous of Law, caused problems for his bank and his schemes. Not only did he block him at every point by his manipulations and the authority of his financial position, but he also encouraged as much opposition as he could raise in the

councils and in the Parlement which frequently stopped and even sabotaged his most reasonable proposals.<sup>2</sup>

In December 1717 there was a dispute between Noailles and Law which was so intense that Fanny Oglethorpe reported on 17 December that 'Law is fallen out with the Duc de Noailles and pretends he can stand on his own two legs'.<sup>3</sup> Noailles's opposition to Law would be short-lived. The Parlement's opposition was to be very much longer-lived. As the opposition between Law and the Parlement was to develop into a major tactical struggle it is appropriate to examine the role of this body.

## The Parlement

J. H. Shennan defined the Parlement as a 'judicial court staffed by men learned in the law, whose duty was to dispense justice in the King's name and on his behalf'.<sup>4</sup> Deriving its name from the Latin *pallamentum*, meaning a conference or general discussion, the Parlement's history spanned a period from St Louis, who became King in 1226, to the French Revolution. It evolved as a specialist court of the *curia regis* according as the needs for a more formal judicial institution emerged with the extension of the monarch's power and authority. It was not a democratically elected representative body and it would be erroneous to equate parliamentary activities in the modern sense of the term with the functions of the Parlement in the eighteenth century. Most of its activities were of a judicial rather than of a legislative nature. Although primarily a judicial body, the Parlement assumed a political role through its right of remonstrances. This right arose because the Parlement registered Royal enactments, thereby enabling a record to be kept of the monarch's legislative acts. As a judicial body registering legislation it assumed the role of advising the monarch with respect to any potential difficulties which the new legislation might present. The remonstrances made by the Parlement were then communicated back to the monarch for his consideration. Remonstrances took two forms, (1) those representing the Parlement's response to royal legislation, and (2) those independently initiated by the Parlement. In the second case the Parlement, rather than responding to legislation, initiated a complaint via remonstrances against specific political or economic developments. It was this second form of remonstrance which was to feature in the Parlement's activities in 1718.

Its right to remonstrate was akin in some respects to the modern process of judicial review, and in the absence of a representative parliamentary body it provided a type of judicial check on the monarch. This quasi-separation of powers between the absolutist monarch and the Parlement was bound to produce tension and even outright conflict at times, the main manifestation of which arose during the Fronde of 1648–9. The monarchy in breaking the opposition of the Parlement

at that time effectively removed its right to remonstrate. Orléans had restored this right in order to legitimize his claim to the Regency in the autumn of 1715. By 1718, when the position of Orléans as Regent was consolidated, he found the Parlement in using its returned powers of remonstrances had begun to chip away at the Royal authority. There was a tension between the two sides, and Law's System provided the catalyst for this tension to emerge in public. This tension existed not just between Law and the Parlement but, more significantly, between the Regent and the Parlement, with the latter institution, if credence is given to the partisan Saint-Simon, intent on removing all the Regent's powers and just leaving him a useless and impotent figurehead.<sup>5</sup> If this assessment is correct it means that Law was to be one of the central figures in the Parlement's attempt to attenuate severely the power of the monarchy in the summer of 1718.

The Regent's trade-off in August and September 1716, involving the restoration of the Parlement's power in return for its legitimization of his Regency, was to prove a costly one. The Parlement wanted to return to its pre-Fronde position of authority and, in the process, curtail Orléans's powers. Law, who was starting to show his usefulness in providing a flow of new funds to the Crown, thereby increasing the independence of the Regent, was seen as a threat by the Parlement. As a conservative body of magistrates they were against Law's financial innovations. As a group partially drawn from the aristocracy, some of whom were the main beneficiaries of the old financial system, they had a vested interest in blocking Law's progress, every step of which threatened to reduce the benefits they derived from 'les finances'. Financial conservatism, combining with self-interest, was sufficient to lead the members of the Parlement to oppose Law. More than this, they probably recognized that each of Law's financial successes strengthened the Regent's position and made him less dependent on the Parlement's support. The Parlement was involved in a political power game for high stakes, hoping to add to the gains that it had made for legitimizing Orléans as Regent by reducing his powers to act independently of it. Thus the Parlement's opposition to Law should not just be interpreted as an indirect assault on the Regent's power, but also as a recognition of the growing mutuality of interests between Law and the Regent. Law's success would consolidate the Regent's position, therefore Law had to be opposed.

Law, along with the Regent, had a further powerful ally to help him counter the Parlement, Noailles, and Aguesseau. This was the abbé Dubois. The 62-year-old abbé Guillaume Dubois (1656–1723) was a fellow-traveller with John Law when it came to ambition. He had been a close friend and adviser of the Regent's from 1687 when he had been appointed as tutor to Orléans, then the duc de Chartres. As with many of the personalities of this period it is difficult to determine fact from fiction when it comes to the abbé's relationship with the Regent. Voltaire, amongst others, blamed the abbé for corrupting the morals of Orléans; Duclos insinuated that the abbé used to slip a variety of young laceworkers and laundry girls into the young Orléans's bed in the Palais-Royal.<sup>6</sup> In an age not noted for its sexual prudishness,

suffice it to say that the abbé's supposed role in corrupting his young Royal charge may have been exaggerated, though both were notorious 'coureurs de jupons'. These nocturnal activities did not prevent the pupil from becoming Regent and the tutor from becoming Minister and Secretary of State at the Department of Foreign Affairs in 1718, Premier Ministre d'État in 1722, and wearing the purple hat of a cardinal which the Pope bestowed on him in 1721.

During 1717–18 the abbé Dubois was busy improving Anglo-French relationships through a type of shuttle diplomacy between Paris, Amsterdam, and London to establish the Quadruple Alliance. Prior to moving back to London in December 1717 it appears that he had encouraged the Regent to dispense with the services of both Noailles and Aguesseau and their replacement by Argenson.<sup>7</sup> Dubois saw Noailles both as an enemy and a political opponent who would block his own political rise and therefore needed to be cast out of the Regent's administration.

There was no longer, as has been shown, any *entente cordiale* between Law and Noailles and it seems likely that Law's growing friendship with Dubois was inspired by the desire of both men to force Noailles out of power. This, at least, is Saint-Simon's viewpoint, and he maintained that he was in daily contact with Law. He also surmised that Law may have been providing Dubois with a secret fund to help develop his international negotiations.

## Developments in the First Half of 1718

Saint-Simon's memoirs indicate that by the end of 1717 the Regent had become convinced that Law was the person to pull France out of its economic recession and that, in order to do so, he had to be given greater policy flexibility. His current status was only that of a banker who happened to have also launched a company with grandiose pretensions to alleviate part of the debt problem and develop colonial trade. The company, however, had been only partially launched before a cynical French audience. Law was keen to implement his plans at the very start of the New Year. The Regent, recognizing that no great progress had been made in the financial situation since the death of Louis XIV, was keen to support Law's policies. Law's policies offered an exciting new alternative to the tried and tested policies which Noailles had been using with no great effect, but neither Aguesseau nor Noailles showed any great enthusiasm for them.

On 6 January the Regent arranged a meeting over supper between Law, Aguesseau, and Noailles at the latter's residence, La Raquette. This meeting, also attended by Antin, was an attempt to reconcile Law and Noailles. Noailles was asked to outline his economic policy. Following this the Regent intimated that he was unhappy with its lack of success. Law then presented the overall plan to solve France's dual crises, the monetary crisis and the financial crisis, that he had been alluding to since 1715. To solve the monetary crisis he proposed to carry out on a

large scale what had already been successful on a smaller scale. Specifically, he recommended that the General Bank be converted into a state bank and that all transactions above 500 livres would be obligatorily made in banknotes. To address the problem of the financial crisis he proposed developing the Company of the West in such a way that the public would convert its state debt into equity of the company: 'and to form a powerful *trading company* whose shares would interest the public the capital of which would be subscribed in paper owed by the King who would thereby be discharged of it'.<sup>8</sup> This approach to debt management, the conversion of state debt into private sector equity, was described by the author of the 'Histoire des finances' who wrote: 'The capital of this company had to be composed of Royal debt, and distributed in shares which would interest a considerable body of merchants.'<sup>9</sup>

These proposals did not find favour with Noailles. Antin noted: 'This project did not please the duc de Noailles either because he did not believe it to be viable or because he felt the Parlement, towards which he was very careful, would not favour it.'<sup>10</sup> But the Regent's growing enthusiasm for Law meant that the latter's views prevailed at the meeting. So it appeared that as a result of this meeting all was set for him to develop further the System to solve France's monetary and financial crises.

The Parlement—one wonders if Aguesseau appraised some of its members of the meeting at La Raquette—counterattacked on 14 January. Ostensibly concerned about the late payment of the *rentes*,<sup>11</sup> it requested an account of the finances of the Hôtel de Ville and following on this it sent remonstrances questioning the financial policy which obliged the payment of state revenues into a 'caisse nouvelle', a reference to the General Bank. It also indirectly criticized Law by recommending that the receipt and disbursement of state funds should be carried out by the traditional office holders assigned to such work, implying that these transactions should not be handled by the General Bank. Furthermore, the remonstrances attacked the conversion of the Royal debt into 'a hitherto unknown type of note', a reference to the Company of the West's shares.<sup>12</sup>

Saint-Simon remarked that 'Law although not named was strongly attacked, likewise the Regent's administration both in substance and in form'.<sup>13</sup> Antin has provided us with the immediate reason for the Parlement's opposition to Law: 'The great point of dissension was Las's [sic] proposal . . . to make all payments through the bank and to multiply money to infinity through credit. This proposal was resisted by everyone.'<sup>14</sup> Antin elaborated that the reason for this unanimous opposition to Law's proposal was the belief that it would give the Crown the facility 'to put its hand on the bank's treasury whenever it wanted'. He added that, notwithstanding the Regent's support for Law's proposals, the latter felt it politic temporarily to suspend these discussions so as to calm the members of Parlement and let them taste little by little the benefits that were to be derived from such a well-run establishment.<sup>15</sup>

This attack on Law spurred at least one commentator to believe that the Regent



would replace Law. The author of the *Gazette de la Régence*, ever hopeful about Law's impending demise, wrote on 14 January that 'Monsieur Crozat is at the head of the Mississippi Company'. Once again there is this fleeting reference to Crozat's potential involvement in the Company of the West. Crozat did not in fact take over from Law, who was able to ride out this particular crisis, and ten days later the *Gazette de la Régence* regretfully reported that Law still had the support of the Regent: 'It is learnt with sorrow that the duc d'Orléans wants to keep John Law whom the public strongly detests and is eminently detestable.'<sup>16</sup>

The battle lines were set. Law, intent on implementing his System, was opposed by the Parlement which wanted to maintain the old financial system. It saw no role for financial innovations and was deeply suspicious, as its recent remonstrances showed, of projectors of new theories and systems such as that of Law.

Initially, Law seemed to gain the upper hand when, on 28 January, Aguesseau, a supporter of the Parlement, was removed from office as the Keeper of the Seals. Noailles, aware of these developments, offered his resignation, remarking to the Regent: 'If you have given credence to the rumours that he [Aguesseau] has stirred up the Parlement against you I am as much to blame as he is.'<sup>17</sup> Their posts were given to Marc René de Voyer de Paulmy, marquis d'Argenson (1652–1721).<sup>18</sup> Argenson, appointed according to Faure because of his bitter opposition to the Parlement,<sup>19</sup> had been the Lieutenant-Général de Police in Paris since 1697. He had the reputation of a law-and-order hard-liner, showing at times excessive enthusiasm in incarcerating people for long periods without formally charging them.<sup>20</sup> His appointment was an indication of the Regent's intent to take a strong stance against the Parlement. As the Lieutenant-Général de Police he had already been involved in a number of disputes with the Parlement, which disliked Argenson intensely, to the point of attempting to have him brought before the Chamber of Justice on the pretext of corrupt behaviour. By vesting the two positions—Keeper of the Seals and Minister of Finance—under Argenson's control the Regent was sending a strong message to the Parlement that he was no longer prepared to tolerate its interference in the executive decision-making process. While keeping the Parlement in check would be one of Argenson's functions, what was to be his function as *de facto* if not *de jure* President of the Conseil de Finance? Did Argenson have any great expertise to serve him as Minister of Finance? Argenson's limited financial knowledge was discussed by the banker Isaac Thellusson, who wrote that Argenson told him a hundred times that he had no understanding of financial issues.<sup>21</sup> The author of the 'Histoire des finances' caricatured Argenson travelling at night with a lighted candle in his carriage to show the public that he never stopped working either during the day or by night. Like Thellusson, the author of the 'Histoire des finances' believed that 'he had no knowledge of finance', and that he was only appointed so as to carry out Law's policies. Furthermore, on his appointment, even though it was intended that he should work jointly with Law, he intrigued against Law, linking up with the financiers and searching out for 'bankers and enemies opposed to Mr L[aw]'.<sup>22</sup>

Faure disagrees with the view that Argenson was appointed just to act as a man of straw for Law, arguing that he was appointed to break the power of the Parlement. As the dispute with the Parlement was primarily concerned with the financial situation, he needed to be seen to be in control of the finances, that is, to be the President of the Conseil de Finance, as well as the Keeper of the Seals, in order to control the Parlement.<sup>23</sup> The Regent may have appointed Argenson to the two positions so as to allay public suspicions that Law was dictating economic policy. This strategy had the further advantage that once the Parlement attacked any financial legislation it was attacking Argenson in his role as Minister of Finance. Argenson was not a man who would flinch when faced with the Parlement's opposition.

Saint-Simon reported that the Regent only discussed the economic situation on a one-to-one basis with Law and Argenson. Indicative of the changed situation, the Conseil de Finance, presided over by the duc de la Force, seldom met. Law was starting to move centre stage. In preparation for this it was necessary for him to change his religion from Protestantism to Catholicism. On 9 May he abjured before the Cardinal de Noailles, prompting Selletin, the Prussian envoy in Paris, to write: 'it is rumoured that the Regent has chosen him [Law] to direct the Kingdom's finances.'<sup>24</sup> This rumour would not become reality until January 1720, but Law's abjuration and the rumours surrounding it must have convinced the Parlement that Law's rise needed to be stopped. The devaluation edict of May 1718 acted as a catalyst for the Parlement to attempt to increase its power and authority over the Regent and in the process to destroy Law.

In May 1718 Argenson issued an edict which included a devaluation of the currency, a re-coinage, and a limited attempt to reduce part of the debt.<sup>25</sup> Argenson persuaded the Regent that this edict did not need to be registered by the Parlement and recommended instead its registration in the Chambre des Monnaies.<sup>26</sup> At the same time the Regent signed an *arrêt* of the Conseil d'État stipulating that the General Bank's banknotes could be taken in payment of all taxes. The Parlement took deep umbrage at these moves, which it saw as diluting its powers of remonstrances. Furthermore, even though Argenson was responsible for the devaluation of the currency, Law was judged to be its instigator. Given Law's closeness to the Regent and Argenson's seemingly limited financial knowledge it would be wrong to deny Law's involvement in this edict. In one of the manuscripts of the 'Histoire des finances' it was maintained that 'Mr Law was consulted, was pressurized, and consented to it without approving it.' In the other manuscript versions of the 'Histoire des finances' there was an addendum explaining that as credit money was expanding there was no need to devalue the currency and that the main objective of the devaluation was to force coin holders to bring *billets d'état* to the mint in partial payment for the newly struck coins. In this way the objective of the devaluation was geared at debt management, that is, reducing the number of *billets d'état* in circulation.<sup>27</sup> Would Argenson have been capable of working out such a debt-management strategy? Law's hand seems to have been very much at work in this

edict. Chavigny, writing to the abbé Dubois on 31 May 1718, explained that 'he [Law] is in part the author of the big changes taking place with the money, the edict on which was sent to you by your nephew'.<sup>28</sup> It does appear, however, that there were measures in the edict with which Law disagreed, Chavigny later remarking: 'Mr Law, who unfortunately has been the object of all the public's hatred, told me at the time of the edict announcing the *augmentation*, that it contained many things of which he disapproved.'<sup>29</sup>

The Parlement, led by its First President, Jean-Antoine de Mesmes (1661–1723),<sup>30</sup> attempted to rally the other Cours—the Chambre de Comptes, the Chambre des Monnaies, and the Chambre des Aides—to its side in opposing the edict. On 17 June Mesmes met the Regent and proposed its revocation. The Regent, plainly concerned by the growing brazenness of the Parlement's representatives, ordered the King's household troops on stand-by. On Sunday, 19 June he listened to a deputation from the Parlement arguing against the devaluation, but he rejected its proposals. The following day the Parlement produced its own *arrêt* of 20 June, prohibiting workers from altering the coinage as stipulated by the edict. This *arrêt* struck at the very heart of monarchical power, banning workers from following the orders laid down in a Royal edict. If implemented, the *arrêt* would have transferred financial control to the Parlement. That afternoon the Regency Council revoked the *arrêt* and prohibited its publication. Soldiers were sent to the various markets in Paris to ensure that the new money was accepted.

The Parlement, in attempting to revoke the Crown's financial legislation, was on a collision course with the Regent. This developing crisis broke on 12 August when, after a two-day meeting, the Parlement issued an *arrêt* limiting the role of the General Bank to its original charter, thereby denying it the right to be involved in the collection or disbursement of Royal funds. Furthermore, this *arrêt* prohibited any foreigner, even those who had become naturalized, from having any involvement in the collection or disbursement of Royal funds. These measures, alluded to in January 1718, were directly aimed at John Law and the General Bank. Though it could be argued that the Parlement had legitimate worries about Law's System, its manner of attacking it raised an even more important issue, namely, the authority of the Regent and the role of the monarchy. Saint-Simon feared that the Parlement was becoming the master of the kingdom and that Orléans was in a position analogous to the earlier plight of Charles I in England.<sup>31</sup>

In this climate Law, wishing to consolidate his position, had been busy building up alliances with some of the emerging power brokers, most notably the duc de Bourbon and the duc de la Force. Bourbon was involved in his own particular power struggle against the duc du Maine, whom he wanted to replace as the King's tutor. The duc de la Force, in attacking the Parlement, was seeking a seat on the Regency Council. Events developed quickly when it was learnt that the Parlement had set up a commission to investigate the financial situation. It was also rumoured that it proposed having Law arrested and executed.<sup>32</sup> Against this tense political background, undoubtedly exaggerated by Saint-Simon who wanted

the Parlement to be suppressed, the duc de la Force, Louis Fagon (1680–1744), a member of the Council of Finance, Saint-Simon, Law, and the Regent met at Saint-Simon's apartments on 19 August.

The pressure on Law was intense, if Saint-Simon's account of the meeting is accurate. He described the Scotsman as close to tears and as 'more dead than alive'.<sup>33</sup> It was agreed that Law's life was in grave danger and that even a safe conduct pass from the Regent would not prevent him from being hung by the Parlement. Law was instructed to move into the apartment of his absent friend Nancreé at the Palais-Royal.<sup>34</sup>

Antin, though not present at the meeting, dismissed the rumour that the Parlement wanted to hang Law, maintaining that such a process was unknown and that, furthermore, he knew of no one in the Parlement 'sufficiently daring to make it'. Instead Antin maintained that it was more reasonable to believe in two possible hypotheses:

(1) that Mr Law had been frightened, (2) that he used the opportunity of these rumours to alert the Regent and to make him adopt a strong stance against the Parlement which was hostile to him [Law] on all occasions and was preventing him from executing a number of operations which he believed good and useful in the current state of affairs. If he was thinking this approach, and I have no doubt he was, it was the action of a very good politician.<sup>35</sup>

Faure interpreted Antin as suspecting 'an element of comedy' in this pretended panic of Law.<sup>36</sup> Antin suspected a great deal more than comedy. He surmised that Law had a deft political touch and may have used the affair to expedite his economic policies. If Law was so fearful for his life why did he go through with the purchase of a huge estate at Tancarville at this point in time? Certainly if Law had talked with Argenson he would have been immediately reassured. The latter's son René Louis de Voyer de Paulmy (1694–1757), who would later become the marquis d'Argenson, related how, when he outlined to his father the extent of the Parlement's anger and opposition, the latter calmly replied, 'My son, your Parlement does it have troops? As to us we have one hundred and fifty thousand men; there is the nub of the matter.'<sup>37</sup>

Saint-Simon proposed a *lit de justice* as the solution to controlling the rebellious Parlement. As the courts of justice derived their power from the sovereign it ceased when the monarch himself presided over the court or courts. The *lit de justice* was a full meeting of the Parlement presided over by the King in which the latter could impose his full authority and ensure the registration of laws which the Parlement had opposed or was unwilling to register. The Chancellor would read the Royal acts to be registered and after peremptory discussion 'à voix basse' out of the King's hearing, the Chancellor would announce, 'The King, in his *lit de justice*, has ordered and orders that the letters which have been deliberated on may proceed to registration.' The humiliated Parlement had a mere rubber-stamping role during the *lit de justice*. Saint-Simon, delighting in the suppression of the Parlement's activities, which he regarded as treasonable, left a very detailed account of the extravagant ceremonial surrounding this *lit de justice*, providing

charts of the seating arrangements which he supervised for the princes of the blood—he placed them so that they were looking down on the Parlementaires—the nobility, the presidents, the counsellors and other notables, as well as the march of the Parlementaires in their heavy gowns from the Palais de Justice to the Tuileries where the *lit de justice* took place.

The substantive measures registered on 26 August limiting the Parlement's powers were listed in the 'Lettres patentes' of that date. Article I confirmed that the Parlement still had the right to remonstrate but only with respect to legislation sent to it. In other words, if financial legislation was not sent to it, as was the case of the contentious devaluation edict, then the Parlement had no right to remonstrate. Article VIII reinforced this by prohibiting it from interfering in the administration of the finances or in any business concerning the government of the state. This further narrowed the areas in which the Parlement could remonstrate. Even where it had a right to remonstrate, articles I and II specified that remonstrances could only be made within an eight-day period from receiving the proposed Royal legislation. If they did not remonstrate within this period the legislation would be deemed to have been registered by the Parlement. Even where remonstrances were made by the Parlement the monarch, by virtue of article V, could override them and order the legislation to be passed by the Parlement. Article VII banned the Parlement from forming any 'association, union, confederation, consultation or assembly' with any other courts—this was aimed at ensuring there would be no repetition of the earlier events when the Parlement attempted to win over the other courts to its cause.

By virtue of article IX any *arrêts* made in the past or the future with reference to legislation not sent to the Parlement for its advice were declared null and void. Following from this, article X declared that the *arrêt* passed by the Parlement on 20 June—which had been voided by the Regency Council on the day of its promulgation—was confirmed to be null and void along with the earlier *arrêt* of 12 June perceived as attempting to attenuate the authority of the King. Finally all the legislation passed by the Parlement without the King's approval was to be removed from the registers. The *lèse-majesté* of the Parlement was to be removed from its registers as if it had never existed. It was game, set, but not quite match, as events would show, to the Regent in his battle with the Parlement.

To add to Saint-Simon's joy, the 'bastards'—Saint-Simon's appellation for Louis XIV's two illegitimate sons by Mme de Montespan, the duc du Maine and the comte de Toulouse—were reduced in rank from Royal princes of the blood. This meant that the duc du Maine could no longer act as the tutor of the young king. His position was filled by Law's friend the duc de Bourbon. Within a few days another powerful friend, the duc de la Force, who had been prominent at the meeting in Saint-Simon's house when it was decided to call the *lit de justice*, was appointed to the Regency Council.

These events meant that the institutional opposition to Law's plans had been silenced and that his friends had been promoted to key positions within the

Regent's circle. The way was now open to develop and expand the System on the lines that he proposed at the supper meeting in La Raquette in early January.

After the gagging of the Parlement, Law set about putting in place his strategy for developing the Company of the West and converting the General Bank from a privately owned bank to the nationalized Royal Bank. He was aware that this strategy would be opposed by the financiers, and it appears that Law made an effort to entice some of them, most notably the Pâris brothers, to his side. The traditional interpretation has it that Law was locked in head-to-head conflict with the financiers from the start and that this grouping actually attempted to create an anti-System.<sup>38</sup> Law was more astute than this. Rather than making enemies with powerful figures such as the Pâris brothers, he attempted to entice them to his side by encouraging them to establish their own company to manage the United Farms tax lease with the eventual objective of uniting this company with Law's Company of the West. Both Du Tot's Poitiers manuscript and the 'Histoire des finances'—one author paraphrasing the other—show that the objective of creating the United Farms Company was to merge it eventually with the Company of the West.<sup>39</sup> If the United Farms Company represented the anti-System why did Law encourage its foundation? Du Tot unequivocally shows that the original plan was to allow the creation of the United Tax Farms with the ultimate objective of merging it with the Company of the West:

With the view to uniting the General Farms to the Company of the West and to assure the execution of the lease which had been awarded to Aymard Lambert for six years on 29 August 1718 . . . the sureties of the said Lambert were permitted . . . by an edict in October, registered in the Parlement on the 26th of that month, creating 4 million livres of annuities at 4 per cent on the *tailles*, to issue up to 100 million livres of shares on the said farms to all those who wished to purchase them.<sup>40</sup>

Law and the duc de la Force seemingly persuaded the Regent to award the lease of the United Farms to the Pâris brothers without their knowledge. Pâris de la Montagne later wrote that the brothers were reluctant to assume the lease of the United Farms because they were owed so much money by the state. It was only after they had been promised that these debts would be fully paid that they bid 48.5 million livres in annual payments for the lease and agreed to the launching of a public company based on this lease.<sup>41</sup> The brothers had already helped Law in the past. Pâris de Montmartel was one of the first subscribers on the Company of the West's register in 1717, acquiring shares to the value of 300,000 livres. The creation of the public company seemed to cement Law's friendship with the Pâris brothers, but it was only a fleeting friendship.

On 29 August 1718 a group of financiers led by Pâris-Duverney, using Aymard Lambert as a straw man, purchased a six-year lease of the United Tax Farms by offering to pay 48.5 million livres per year. On 6 September there was a 'délibération préliminaire' to form a joint-stock company to take over the United Tax Farms. On 16 September by an *Arrêt du Conseil d'État* this company was authorized to issue 100 million livres of shares which were to be subscribed for in *rentes*,

that is, long-term irredeemable government debt. Each share was to be worth 1,000 livres with a 10 per cent downpayment to be made immediately and the remaining 90 per cent on 1 January 1719. The profits and losses of running the tax farms were to be borne by the shareholders.

The United Farms Company was modelled closely on the Company of the West, having a similar capitalization of 100 million livres and a similar debt-management objective, as the shares of the company were to be paid for with annuities, 'contrats de rentes sur les aydes et gabelles, sur les tailles, les recettes generales', and so on.<sup>42</sup> This annuity debt was to be converted into lower-yielding debt bearing a 4 per cent rate of interest. Shareholders had this as a minimum yield plus the profits made from the successful administration of the General Farms. The Tax Farms Company aimed to retire 100 million livres of long-term government debt by converting it into its equity. The state in return for this conversion guaranteed an income stream of 4 million livres per annum, similar to that paid to the Company of the West, drawn from a tax revenue source, the *tailles*. Rights to shares, as was the case with the Company of the West, could be acquired by a small downpayment. Presumably the assets of the company, collateralized by this 4 per cent income stream, could be used to borrow the funds necessary to pay the annual lease. Under article XI each of the company's sureties (*les cautions*) were obliged within two weeks to furnish 500,000 livres in appropriate government debt for which they would receive 500 shares, of which 300 shares would be held during the course of the lease 'pour tenir lieu d'avance et de seureté de sa gestion envers Sa Majesté et le Public'. The other 200 shares could be used as the sureties wished. In terms of size the United Farms Company had a greater potential market capitalization in that it aimed to convert long-term annuities (*les rentes*) into equity, as against *billets d'état* in the case of the Company of the West. The *billets d'état*, as has been shown, were at a considerable discount—up to 70 per cent of their value—whereas the *rentes* were more gilt-edged and stood close to par.

Sometime between 16 September 1718 and March 1719 the amicable arrangement established between Law and the Pâris brothers broke down. Du Tot reported that:

Lambert's sureties [i.e., the Pâris brothers], feeling that the management of the farms was going to be taken from them, made all sorts of efforts to maintain it. They announced that the farms would be subject to losses if not left in the hands of those who were knowledgeable and competent in the art of managing them. Mr Law, knowing full well that they would quickly show signs of their incompetence, abandoned its management to them to do as they willed. Their much vaunted science was reduced to creating an office for the delivery of these shares and, almost as soon as it was opened, announcing that they had been fully subscribed whereas in actual fact this was not the case.<sup>43</sup>

Du Tot added that the United Farms Company's shares, based on the known revenue capacities of the tax farm, had the potential to attract greater public interest than those of the Company of West whose activities were relatively unknown.

Nevertheless they succeeded only in selling a couple of million livres in shares and these went to a heavy discount of 80 to 90 per cent.<sup>44</sup>

Du Tot's description of the difficulties of the United Farms Company was confirmed by the *arrêt* of 31 December 1718 which extended the period for share subscription to the end of March 1719: 'Arrest du Conseil d'Etat du Roy, qui proroge jusqu'au dernier Mars 1719 le delay porté par celui du 16 Septembre 1718 pour acquérir des actions sur les Fermes Unies'. This shows that the company was experiencing considerable difficulties in selling its shares.

The risk of the United Farms Company posing any threat to Law's company was stillborn. Its rapid demise suggests that Law's company succeeded in attracting greater public attention and interest and also shows the extent to which Law, rather than the Pâris brothers, had the confidence of the Regent. It appears that Law initially encouraged the Pâris brothers to set up the United Farms Company with the objective of integrating it with the Mississippi Company at a later stage. The breakdown of Law's working relationship with the Pâris brothers prevented this. Within a year the tax farm lease was compulsorily removed from Aymard Lambert, that is, from the Pâris brothers, and the Mississippi Company took over the tax farms.

Law's growing confidence and desire to construct his System became more manifest on 4 December 1718 when the General Bank was nationalized into the Royal Bank.

## The Creation of the Royal Bank

The General Bank had issued 148.6 million banknotes of which 89.5 million had been cancelled. At the time of its transformation there were still 39.5 million banknotes in circulation. The bank held 9.2 million in specie and 1.6 million of bills of exchange.<sup>45</sup> This implied that the General Bank had been prudently managed, not over-issuing banknotes and maintaining a near 25 per cent ratio of specie reserves to banknotes. The legislation transforming the General Bank into the Royal Bank (*Banque Royale*), granted on 4 December 1718, by the 'Déclaration du Roy pour convertir la Banque Générale en Banque Royale', gave the new banking entity far greater powers. It would now become a major force for change in the way envisaged by John Law in the many memoranda that he had written on the role of banking and money creation. No limitations other than seeking the approval of the King's Council were imposed on the bank's power to issue banknotes. Though the bank was the King's bank its links with the Mississippi Company were clearly delineated, showing that it was envisaged that the two should be considered not as distinct and separate entities but as one unique enterprise.

The preamble alongside article II of the 'Déclaration' clearly showed the extent



to which the bank and the Mississippi Company were to be interlinked. The original capital of the General Bank had been repaid to shareholders in specie. The bank's holdings of *billets d'état*, which shareholders had subscribed for the bank's shares, were now converted into shares of the Mississippi Company. The capital base of the newly established Royal Bank was therefore part of the equity of the Mississippi Company. Article VII stipulated that banknotes could only be issued as a result of a decree by the King's Council. This meant that in theory there was no limiting factor to the creation of banknotes once the council had granted its approval. Furthermore, this article stated that the banknotes were to be payable at the choice of the holder either in écus of the bank or in livres tournois. This suggested that unlike the banknotes of the General Bank, the banknotes of the Royal Bank were no longer to be invariant to changes in the domestic exchange rate.

The expansionist aspirations for the bank became more manifest through an *arrêt* of 27 December 1718 permitting the bank to establish branches in Lyon, La Rochelle, Tours, Orléans, and Amiens. The merchants in Lyon strongly opposed the establishment of the bank in their city, so used to clearing merchants' accounts at the Lyon fairs. They eventually had to bow to Law's pressure in the summer of 1719.<sup>46</sup> More significantly this *arrêt* showed the start of a campaign by Law to remove silver from circulation. Article IV specified that henceforth in Paris, and from 1 March 1719 in the provincial towns which had branches of the bank, all transactions exceeding 600 livres were to be paid for only with gold or banknotes. The public was prohibited from using silver for such large-sized transactions. The campaign to demonetize specie and replace it with a paper money had started.

## Appendix

As well as the Company of the West and the United Farms Company there was at least one other company mooted in 1718. In the spring of that year a project was launched involving the creation of a company to build a canal, using the waters of the Durance river, beside the road between Lyon and Marseille. The company involved a number of very prominent members of the court, for under its proposed articles of association the duc de Bourbon, the duc d'Antin, the marquis de Brancas, the marquis d'Oppède, and Jean Joseph Cyprian were to hold 50 per cent of the company's shares in their role of owners of the rights to the river. The marquis d'Oppède had received a *privilege* to divert the waters of the river Durance to make the canal. They had passed an *acte de délibération* before Richard and his Associate, notary of Paris, on 13 March 1718, inviting individuals to take up shares in the company which would entitle them to 50 per cent of the profits derived from the canal. The *acte* stipulated that if the shareholders did not receive at least a net 10 per cent dividend on their shares they would be entitled to any shortfall by drawing on the dividends due to the five owners who possessed the other 50 per cent of the equity of the company. The shares were to be worth 500 livres each, one-fourth to be paid immediately and the other three-quarters paid in equal portions at the end of each of the following three quarters. The share capital for these equity holders ('ce sera les Actionnaires qui en fourniront les deniers') was

to be 5 millions, by implication the five owners were donating their land and rights to an equal sum, giving it a total share capital of 10 million livres. It was presented to the Council on 25 April and letters patent were given on 4 May.<sup>47</sup>

With a share capital which was only one-tenth that of the Company of the West this canal company did not seem to offer any threat to Law's company. It does show, however, that Law did not have an absolute monopoly on the joint-stock business in France at the time, that members of the Regent's inner circle had a strong interest in such type of enterprises, and that Antoine Crozat was also playing a role in the development of this company acting as a treasurer for funds raised by the company. As with Law's company in 1718 the public seems to have been reluctant to rush into the shares, for on 1 December a sweetener, in the form of an addendum, was incorporated in the terms for buying shares in order to execute more promptly the construction of the canal. The addendum stipulated that those shareholders who subscribed cash would be repaid their capital prior to the payment of any dividends, and that while the capital was subject to repayment an interest rate of 5 per cent would be paid on the money owing. It was further stipulated that once the shareholders' capital was fully repaid they would be entitled to 50 per cent of the profits with the other 50 per cent accruing to the original five owner-shareholders.

# 14 The Rise and Rise of the Mississippi Company, 1719

By May 1719 Law needed to generate some momentum in the Company of the West, whose shares were still languishing at a discount well below their nominal issue price of 500 livres per share. The first action he took was to merge two trading companies, the Company of the East Indies and the China Company (Compagnie des Indes and Compagnie de la Chine) with the Company of the West, by an edict sent to the Parlement on 23 May.<sup>1</sup> The newly merged group was named the Compagnie des Indes. Another trading company, the Company of Africa (Compagnie d'Afrique) was taken over on 4 June 1719.<sup>2</sup> These operations required financing, for both the Company of the East Indies and the China Company were heavily in debt due to mismanagement and over-borrowing.<sup>3</sup> Additionally, fresh funds were required to re-equip existing ships and build a new fleet to exploit the colonial trade which, as a result of the mergers, was now almost completely under the control of the Company of the Indies. Law later explained that his plan was to use this money to provide and fit out twenty-four ships, each of 500 tons.<sup>4</sup>

Mergers and acquisitions need to be financed. To finance such ventures the *arrêt* of 17 June, 'Arrest du Conseil d'Etat du Roy concernant la réunion des Compagnies des Indes Orientales et de la Chine, à la Compagnie d'Occident', implemented the earlier May edict, 'Edit du Roy, portant réunion des Compagnies des Indes Orientales et de la Chine, à la Compagnie d'Occident', which had been sent to the Parlement on 23 May. The delay in registering this edict shows that the Parlement had once again been reluctant to sanction an initiative by Law.

By virtue of article VI of this 'Edit du Roy' the company was granted permission to raise 25 million livres of nominal capital. It did this by issuing 50,000 shares at 550 livres per share, the nominal value of the shares remaining at 500 livres. It should be noted that this second issue of shares, unlike the first issue which had been totally subscribed in *billets d'état*, was to be paid in money ('argent comptant').

Law was still encountering obstacles to his proposals. There had been opposition to this new share issue both from within the Regency Council and from outside by the Parlement. Argenson, the Keeper of the Seals and the Minister of Finance, was, according to Law, jealous of this proposal. He argued at a number of

meetings of the Regency Council that Law would not be able to raise 25 million in specie. He told the council that Law had experienced considerable difficulty in filling the first issue of shares notwithstanding the fact that their real issue price was only 32 per cent of their nominal price in specie (that is, the *billets d'état* stood at a 68 per cent discount) when initially issued. He also contended that the Regent had purchased a very large quantity of the shares on behalf of the King, thereby greatly facilitating the flotation of the first issue. Argenson further argued that even though the shares were trading at only a 10 per cent discount (that is, at 450 livres) this price had only been reached through manipulation of the market and the shares would surely fall in price if a further issue of 50,000 was launched on the market. Argenson wanted the colonial trade of the Indies to be vested in another company so as 'to prevent all the eggs being in the same basket'.<sup>5</sup> According to Law, the Regent hesitated to authorize the new share issue and had it discussed at a number of meetings. Meanwhile Law presented his proposal to some of his supporters showing them that the new shares had only to be paid for on the basis of 10 per cent per month over ten successive months. The company was to finance the building and provisioning of the shipping fleet on a phased basis and would not have an immediate need for the money to be raised in one single payment. Shareholders therefore would be able to subscribe on a phased basis. This convinced his supporters, and a number of them agreed to commit themselves for one million livres of shares each. Law later, in a conversation with Montesquieu, revealed these supporters' names as the duc de Bourbon, the duc de la Force, the Marshal d'Estrées, Nangis, and Lassay.<sup>6</sup> Their support for Law persuaded the Regent to authorize the second issue of shares.<sup>7</sup> The edict for the share issue was delivered to the Parlement in May, which obstinately refused to register it. The Regent took the matter out of the Parlement's hands and legalized it by the *arrêt* of 17 June.

When the original measures for this new share issue had been considered in May the price of the old shares was still not at par. By Law's account the share price was standing at 450 livres. It rose to 490 livres, 98 per cent of the par value, during the period of his discussions with prospective investors. Law then made a very daring offer: 'I offered to take the new shares at 110 [i.e., 550 livres], to make my first payment of two and a half million and to lose this sum if I did not fill the other payments on the agreed terms.'<sup>8</sup> This suggests that Law, along with his friends, offered to personally underwrite the new share issue—2.5 million livres downpayment as a first instalment would have committed him to making payments of 25 million livres. Once again this is evidence of Law's calculated gambling instinct. He believed in his proposal, he wanted to have it implemented, and he was prepared to back his conviction with his own capital and that of his friends. By showing that he was prepared to invest his own money in it he demonstrated to all who doubted in him his absolute confidence in its success. None the less it was a worrying time for him, which he described as follows:

The Regent having passed the edict on the Sunday, the old shares rose to 120 livres [i.e., 600

livres] on the Monday and the subscriptions for the new shares were worth more because of their [phased] payment terms. On the Monday night I did not sleep; I had gained a great confidence with the public and I feared losing it by the action that I had taken.<sup>9</sup>

Presumably he was worried that the public would see, assuming the issue was a success, that all of the profit on the new share issue was accruing to himself and his friends. Law did not want the public to judge him as an opportunist, and so he resolved 'to cede the profit that I would have been able to make by this action and to give it to the first shareholders according as to the quantity of shares each of them had'.<sup>10</sup> Law later wrote that his concession of the rights to the second issue was worth 300 million livres: he was making the exaggerated assumption that he would have been able to sell all these new shares at the market high, and he was also not deducting from it the rights that later accrued to him as a very sizeable shareholder of the *mères*. While Law's paper loss on ceding the rights of the second share issue back to the original shareholders was a great deal less than 300 millions it is nevertheless true to say that his paper fortune would have been considerably increased if he had insisted on the original agreement. The indecision as to who was to benefit from the rights to the second issue of shares may be evinced from the 'Edit du Roy' which contains no statement that the rights were to be conferred on those holding the *mères*. This latter grouping would learn only later that it alone could purchase the *filles* on the basis of one new share for four old shares. Though all of the profits on this new issue would not accrue to Law he did ensure that the profits to be made on it would be confined to holders of the old shares.

By 17 June the old shares were valued at 650 livres. This rise augured well for the new issue in that the register for the new shares was not to be opened until 26 June. In an effort to improve the marketing of this share issue Law softened the proposed set of payment schedules of ten monthly payments of 10 per cent, to shareholders paying 50 livres immediately and the remaining amount in twenty monthly instalments of 25 livres per share. Indeed, a decree of 27 July stipulated that it would only be necessary to pay the 50 livres premium immediately with the first payment of subscriptions deferred until 1 September. Though these measures were used to improve the attractiveness of shares, they also meant that the flow of new funds into the trading companies would be delayed, with only 1.25 million livres per month accruing to the company for this purpose over a period of twenty months. Again this suggests that Law was not devoting enough attention to the working capital for his company, a development already highlighted when discussing the first issue of shares. This leads one to suspect that Law did not consider it over-important to source funds immediately because he could temporarily borrow such working capital from the Royal Bank.

The rights to the shares could be sold once the initial payment of 50 livres was paid. By the issue of partly paid *filles* Law provided leverage for investors to make capital gains which were a multiple of their initial investment. For example, as the shares rose to 1,000, which they did by mid-July, then the holder of a partly paid *fille*, assuming he had just paid the 50 livres premium, could make a profit of 450

livres [1,000 – 50 – (25 × 20)], a capital gain of 800 per cent. Additionally the shareholder would have been making a considerable profit on the *mères* that he held, for these had been bought with heavily discounted *billets d'état*, costing around 150 livres at market prices when they were first issued.

Law also ensured that there was sufficient liquidity in the market to facilitate the purchase of the new shares. Another 50 million livres of banknotes were issued on 10 June, giving a cumulative total of 160 million livres of banknotes created by the Royal Bank for the first six months of 1719.

Du Tot reported that the second issue, the *filles* issue, was so successful that it was oversubscribed: 'such was the public's rush to purchase the new shares that over 50 million was offered.'<sup>11</sup> It may have been at that point that it was decided to limit the issue of *filles* to holders of the *mères*. Du Tot seems to be mistaken in writing that the *mères* were worth 2,000 to 2,300 in specie in June 1719. On this basis he maintained that the 200,000 *mères* were worth 440 million (assuming a price of 2,200 livres) whereas they had effectively cost their owners only 30 to 34 million (assuming that the *billets d'état* were worth between 150 to 170 livres on the issue of the *mères*), a net increase in their market valuation of between 406 to 410 million livres.<sup>12</sup> The author of the 'Histoire des finances' also gave a price of 2,300 livres in specie for June 1719, and also a price of 3,000 livres for July 1719,<sup>13</sup> although, given that Du Tot advised him, he may have taken the price of 2,300 livres from Du Tot. Irrespective of their sources, one questions how the *mères* could have been selling at such a high price relative to the *filles* and in particular why Law would have issued the third bloc of shares, the *petites filles*, at just 1,000 livres a share if the old shares were selling at this stage at over 2,000 livres, or even, if the 'Histoire des finances' is to be believed, at over 3,000 livres! Unfortunately, there is not a good series on the share price for the period June–July 1719 to solve these problems. but it would have been most unlike Law to have been selling the new rights to shares in the company at such a massive discount relative to their supposed market prices.

The *filles* share issue and the expansion of the money supply in June were just intimations of things to come. On 20 July the profits of the mint over a nine-year period were awarded to the company. Law estimated that the annual profits from the mint were at least 6 million livres but, with the financial manipulations that he was planning, he probably believed that he could double that profit. The price of acquiring the rights to the mint was 50 million livres, payable to the Treasury over a fifteen-month period commencing in October.

Five days later on 25 July the Royal Bank's note-issuing power was increased by 240 million livres, an overall increase of 150 per cent of its note issue, giving a cumulative total for the year to date of 400 million livres. The next day at a general meeting of the company Law raised the company's dividend for 1720 to 60 livres per share of 500 livres. This dividend of 12 per cent was to be made in two half-yearly payments. The following day, 27 July 1719, by virtue of the 'Arrest du Conseil d'Etat du Roy qui permet à la Compagnie des Indes de faire vingt-cinq

millions de nouvelles actions', a third issue of shares, which came to be known as the *petites filles* (the granddaughters) issue, was authorized. The objective of this issue was to raise the 50 million livres needed to pay for the mint.

Law was moving extremely quickly. Within a couple of days he had increased the money supply and thus oiled the speculative wheels of the stock market, he had channelled more shares on to the market, and he had promised a very high dividend on the company's shares. The company needed to generate 18 million livres of income in order to pay this dividend on the 300,000 shares that had been issued. Harsin estimated that the company would generate profits of at least 3 million on the tobacco monopoly, 6 million from the profits of the mint, 4 million in interest payments due on the 100 million of *billets d'état* that it had converted, and at least 5 million profit from its trading companies.<sup>14</sup> On this basis Law was not promising a dividend which was excessively extravagant given the revenue-raising capacity of the company at this point in time.

The terms of the third issue, a further rights issue, were as attractively marketed as the issue of 17 June. Fifty thousand shares were issued at a price of 1,000 livres per share, the company appropriating a 500 livres premium on the nominal share price of 500 livres. To subscribe for one of these new shares, the *petites filles*, a purchaser had to possess four *mères* and one *fille*. Again Law was confining the new shares to holders of the *mères* and *filles*, keeping them in the family, so to speak, and again payment was to be on easy instalment terms in the form of twenty monthly payments of 50 livres. This would have meant that an original holder of four shares of the Company would have been able to buy the rights to a *fille* and a *petite fille*, giving him overall control of six shares. The cost by September 1719 would have been 520 livres for the four old shares (4× 130, the market price of the discounted *billets d'état* in 1717–18) plus 125 livres of subscriptions to the *filles* (50 livres premium plus the first instalment payment of 25 livres in September 1719 for the *filles*; 50 livres for the first instalment payment of the *petites filles*), a total of 645 livres. On 4 September 1719 the market value of his shares and partly paid shares would have been 11,000 livres. This represented a huge capital gain for the original holders of the shares, including Law and the King, the latter's portfolio being under the control of the duc d'Orléans.

Pâris-Duverney identified a second reason for confining the share issues to this small inner group, owners of the *mères* and *filles*, namely that this group was reluctant to sell its shares, believing that they would continue to rise further. This meant that the market for the company's shares was very thin and so it was relatively easy to push the price of the shares upwards, particularly as Law was able to use the bank's funds to create a demand for the shares.<sup>15</sup> As the share price rose further through the autumn these gains became far greater. But this is to anticipate events.

By August 1719 Law had made four share issues. The first had involved the General Bank, whose shares had been bought back from the original shareholders prior to its transformation into the Royal Bank in December 1718. The other three

share issues had involved the Company of the West, later the Company of the Indies, which will henceforth be referred to as the Mississippi Company. In all Law had issued 200,000 *mères*, 50,000 *filles* and 50,000 *petites filles*, a grand total of 300,000 shares. These share issues had been used to fund 100 million livres of *billets d'état*, to purchase capital assets for the trading companies, and to purchase the rights to the mint. Thus Law could contend that he had mopped up a large part of the floating debt and in the process pushed the remaining *billets d'état* back to par, that he had injected much-needed funds into the trading companies, and that he had added an important revenue-earning source, the mint, to the company. At the same time he had been using the Royal Bank to expand the money supply, a process which had also led to further reductions in the interest rate. By an *arrêt* of 8 July 1719 it was stipulated that banknotes would no longer be guaranteed in terms of 'écus de banque' which had been the case for those notes issued by the former General Bank. By this measure all the banknotes issued by the General Bank were withdrawn from circulation and presumably converted into banknotes of the Royal Bank, which had no metallic-content guarantee as to their value. As these banknotes amounted to 149 million livres their conversion into banknotes of the Royal Bank may explain part of the further expansion of the latter's note issue by 240 million livres on July 25. The remaining part, at least 100 million livres, may have been expanded to facilitate the launch of the *petites filles* on 27 July.

The 'Histoire des finances', though extolling the great progress that Law had made, pointed out that the biggest problem that the state faced had still to be addressed: 'the deepest wounds of the state were still not cured and it was necessary to apply even stronger remedies. What had been seen up to this point was more a preparation for the cure rather than a radical cure.'<sup>16</sup> Law wrote that it was France's indebtedness that forced him to go beyond the activities of the bank and the company:

If the King's receipts equalled expenditure and the other parts of the state had been kept in order, I would have been happy to have established the General Bank and the Company of the Indies and I would have maintained them. But faced with the state in which the kingdom found itself it would have been impossible to maintain them because the Minister, having a shortfall of funds to meet necessary expenses, would have caused the bank to fail having drawn on it for help on a couple of occasions. He would have done the same with the Company of the Indies by seizing the funds assigned to it as M. de Noailles did during the company's first year and as did other ministers who preceded him. I was therefore obliged to put order into the King's affairs without which I was not in a position to sustain the credit of the bank and the company.<sup>17</sup>

What did the radical cure, mentioned by the author of the 'Histoire des finances', involve? Presumably the author was referring to Law's attempt, starting in August, to tackle the problem of France's long-term national debt. It was an action which would radically change the System.

In gathering momentum in the summer of 1719 the System started to generate an expectational roller-coaster effect. The shares had risen from 490 livres in mid-May



to over 1,000 livres by 27 July. By the end of August they would stand at 5,000 livres. One moment, when the shares rose, it seemed as if Law could do no wrong, the next moment, as the shares dipped, commentators were predicting the imminent collapse of the System. This changing perception may be seen in the correspondence of the British ambassador Stair to James Craggs, Principal Secretary of State, Southern Department, during the last two weeks of August. On 20 August Stair was predicting the collapse of the Mississippi System, but eleven days later, on 1 September, he was referring to Law as France's virtual Prime Minister. Stair was not alone in miscalculating what was happening during this crucial period. No less an astute observer than the Irish banker and economist Richard Cantillon had packed his bags and left Paris in early August convinced that Law's System was doomed to self-destruct within a very short period of time.<sup>18</sup> This did not happen and Law triumphantly turned the situation around from one in which confidence was waning in his System to one of intense enthusiasm for the Mississippi Company.

In the last two weeks of August 1719 Law produced a further dimension to the System's activities which was to cause Europe to gaze in awe at developments in France. Law persuaded the Regent and his Conseil de Finance to allow the company to take over the totality of France's national debt. It was this new and grandiose element of the System which the British rushed to follow in 1720 when permitting the South Sea Company to attempt to take over the bulk of the British national debt, a development which produced the South Sea Bubble of that year.

A week may be long in politics; two weeks were certainly long in France at the end of August 1719 as events moved ahead with breathtaking speed. On 20 August Stair had been extremely pessimistic about the Mississippi Company:

Mississippi begins to stagger; the actions [shares] fall, and there are no more buyers; which has happened because of Law's imprudence and boundless desire for gain. He has raised the actions [shares] to such a price, that it required above forty millions to pay the interest at four per cent. When the French, by degrees began to make this calculation, and found that it was impossible that ever the King could find his account to furnish such a sum annually to support Mississippi, they found themselves cheated; and they are now crowding to sell out. Law will do what he can to support the actions, but the thing is impossible . . . But by buying them [the shares] up to six hundred, to make the Regent win three hundred million, Law risks to have the whole fabric tumble to the ground. For the French who run on boldly and impetuously in the beginning of all enterprizes, run back with the same impetuosity when once they are rebuffed. I do not know if I have explained this matter to you, so that you will be able to understand—It is, certainly, something more extravagant, and more ridiculous, than anything that ever happened in any other country. I wish for your diversion, I could but talk one hour to you upon that subject.<sup>19</sup>

Stair's reluctance to commit any funds into Mississippi stock had annoyed Law and caused a rift in their friendship. On account of this, Stair's political and diplomatic antennae were not sufficiently finely tuned to pick up the discussions and debates in the Regent's circle. As usual Law had been assiduously preparing the ground in advance. On 17 August the company offered to pay the pension arrears

owing by the Crown, and, furthermore, to advance pension payments for the current year, charging a 3 per cent interest rate to those who needed such an early payment. By French standards this was a master stroke, for the Crown's pensions had always been paid after long delays causing considerable problems and annoyance to the retinue of pension holders. The Mississippi Company was offering not only to pay the arrears on the pensions but to pay them in advance. This would have created an extremely favourable impression in court circles.

There also seems to have been a plan to repay the *charges* of the Parlement. By buying back the rights to their offices the state would have put itself in a position to disband the Parlement. As has been seen, the Parlement was a permanent thorn in Law's side, refusing to ratify *arrêts* relating to the bank and the company through 1718 and 1719. Saint-Simon recounts that on his arrival in Paris on 22 August 1719 he learnt that Law, Dubois, the duc de la Force, and the Regent were plotting to repay the 'charges' of the Parlement. The Regent sought Saint-Simon's advice and even though the latter was hostile to the Parlement he felt that it had fulfilled a role in supporting the monarchy in the previous century against the League, and that it also acted as a bulwark in resisting ecclesiastical pressure from Rome. Though sick at the time he was able to send along an earlier *mémoire* showing some of the benefits of the Parlement, which seemingly encouraged the Regent to drop this proposal.<sup>20</sup> The Parlement would later exact a harsh revenge on the duc de la Force when, in 1721, spurred on by the prince de Conti—one of the biggest profiteers of the System—it accused the duc de la Force of profiteering by stocking up goods such as silk, tea, porcelain, and spices.<sup>21</sup> These accusations, believed by some contemporaries to be trumped-up charges against an innocent man, encouraged the lampooning of de la Force in verse and engravings—there is a famous engraving of him as a peddler burdened down by his stocks in Du Hautchamp's *Histoire du système des finances*.<sup>22</sup> The proposal to destroy the Parlement as an institution showed the extent to which Law and Dubois, and by implication the Regent, wanted to rid themselves of opponents to their policies, and also the way Law was combining with the abbé Dubois, the Talleyrand of this period, on issues of mutual interest. Above all it shows the very high level of confidence that these men had at this time in their own abilities and in the System that Law had created. Contemplating the abolition of the Parlement was a dramatic socio-political initiative. For the moment, as this initiative was put on hold, the real revolution was to emerge on the financial front.

On Saturday, 26 August 1719, six days after Stair's pessimistic letter predicting the imminent demise of the System, Law produced his master stroke when, in the presence of the Regent, he addressed a small group of the latter's inner cabinet at the Palais-Royal, comprising the duc de Bourbon, Argenson, the duc de la Force, and the duc d'Antin. Law proposed that the company would lend 1.2 billion livres to the King at an interest rate of 3 per cent. This money was to be used to repay the long-term state debts on the Hôtel de Ville (*les rentes*), the remaining *billets d'état*, the cost of offices (*les charges*) that had been or would be suppressed—excluding those of the Parlement—and the shares of the tax farms. There were two main

elements in Law's proposals. Firstly, the company was given the right to borrow the 1.2 billion livres by creating 'actions rentières' or 'contrats de constitution de rentes' bearing an interest rate of 3 per cent. Secondly, the lease of the tax farms which had been granted to Aymard Lambert for six years on 29 August 1718 was to be annulled and given to Law's company for a period of nine years. In this way Law deprived the financiers of the lease ownership of the United Tax Farms and in the process took over the joint-stock company that they had created to manage it. By this operation Law deprived the financiers of their *raison de vivre* and also ensured that their joint-stock company could not be used to counter or block any developments of the Mississippi Company. Jacob Price has pointed out:

Midst all these changes continuity and discontinuity were strangely mixed. The four Pâris brothers and their allies, La Roche Céry, Barré and Pierre Pellard of course ceased being farmers-general when the Aymard Lambert lease was broken. However, at the same time, Law added seventeen former farmers-general to the directorate of the Indies Company, including François Le Gendre!<sup>23</sup>

By this means Law was proposing 'the radical cure' for the French economy. He was accentuating the financial aspect of the company's activities, namely its involvement with the state's finances, in particular tax collection and debt management. Pâris-Duverney, a more than interested party at the time, given that he was one of the owners of the tax farm lease, later posed the question as to whether it was appropriate for a trading company to become a financial company.<sup>24</sup> Remembering that the term 'finance' referred to the public sector finances, it can now be seen that this development in Law's System involved the wresting of the state's financial system from the financiers and the *rentiers* and the vesting of it under the control of the company.

Du Tot said of this measure: 'This was a project which was big, elegant, and advantageous to the King and the people: but its principals were diametrically contrary to those of the old financial administration, so that its implementation was bound to encounter opposition.'<sup>25</sup> The proposals would have been anticipated by those familiar with Law. It is one of the themes of this book that there had been many intimations of this type of development in his earlier *mémoires* where he criticized the financiers and the *traitans* and questioned the viability of an economic system that was so biased in favour of the *rentiers*. There were hints in these *mémoires* of 1715–16 about the System that he could create, in the conversion of *billets d'état* into the equity of the General Bank, and later, on a far larger scale into the equity of the Company of the West. In June 1719 in the 'Mémoire sur le denier royal' he had compared the 40,000 people working on 'les finances' to being like rats in a barn full of grain. They were the parasites of the System.<sup>26</sup> Law envisaged the total dismantling of the financial system of the *ancien régime* and its replacement by his own System, which he believed would be more efficient and equitable. The measures of August 1719 therefore involved a revolution in the French financial system and directed Law into an open confrontation with the beneficiaries of the old financial system, the financiers and the *rentiers*.

This was evident in the Crown's breaking of the Lambert contract. Under the old rules of the game such a measure was both irregular and illegal. The fact that it was now possible showed the growing power of both Law and his company and the increasing shift of the Crown away from reliance on the financiers. In this particular case the financiers who lost were the Pâris brothers. Aymard Lambert, the leaseholder of the United Tax Farms lease (the control over indirect taxes), was a man of straw acting on behalf of the Pâris brothers and their fellow shareholders of the Tax Farm Company. The Pâris brothers were key personalities. As seen in the previous chapter, Law actually encouraged them to establish the United Tax Farm Company which had attempted to issue 100 million livres of shares, collateralized by the rights to the tax farms, through an edict of October 1718.<sup>27</sup> However, the rapid rise of Law's company and the failure of the United Tax Farms Company to raise finance from the public must have introduced strains between Law and the Pâris brothers. Law's take-over of the United Tax Farms in August 1719 would have deepened the enmity between them. If credence is attached to Marais's account, the direct hostilities may have started as early as July 1719. According to Marais, Argenson appears to have been responsible for issuing an *arrêt* on 21 July 1719 fixing the dividend on the shares of the United Tax Farms at 8 per cent—'Arrêt fixant à 8% le dividende de la première année du bail des fermes d'Aymard Lambert'.<sup>28</sup> Marais wrote that this *arrêt* was secretly printed in a cellar and then sent to the provinces before anyone knew anything about it in Paris. He added that Law never forgave Argenson for this action which ultimately cost him his job and his position at the end of May 1720.<sup>29</sup>

The Pâris brothers may also have attempted to test the vulnerability of Law's System by presenting substantial sums of banknotes to the Royal Bank and demanding payment in specie for them. To counter this, and as part of a wider policy aimed at reducing the attractiveness of gold relative to banknotes, there were a number of *arrêts* on 7 May and 25 July stipulating the reduction of the louis-d'or from 36 to 35 livres in May and to 34 livres on 25 July, leading on to a further reduction to 33 livres on 23 September.

In taking over the tax farm belonging to the Pâris brothers, and at the same time arranging the repayment of the shares issued by their fledgling company, Law showed that he would brook no opposition from financiers such as the Pâris brothers and that his company was the new financial powerhouse in France. The package that Law recommended to the Regent and his inner council in late August 1719 was both innovatory and revolutionary. On the one hand Law wanted to show that his company could streamline the tax-collection system and in the process rid France of the presence of the financiers. On the other hand he was also showing that the debt could be centralized by the company and the interest rate charged on it reduced. From this moment on the financiers and their backers would have realized that the successes of Law's System were driving them out of business. Law's company was not something to laugh at and dismiss but rather it was an institution that needed to be more aggressively attacked when it started to show any weaknesses.

At this critical juncture in the Regency, when Law was proposing a major shift in the operation of the financial system, it is of interest to assess the reaction of those attending the Regent's meeting of 26 August, for this was to be a meeting at which one of the key decisions relating to the Mississippi System was to be taken. Fortunately Desmarets has left a description of the reactions of each of the members of the inner council. Argenson, when asked for his view, objected to the proposal on the grounds that it would make the Company of the Indies too powerful. His opposition may have been due to the fact that the proposals had been put together without the permission or knowledge of himself. Argenson, as has been shown, had already opposed the second issue of shares in June 1719. Despite his usual subtlety, he was, according to the duc d'Antin, who was sitting near to him, unable to conceal his surprise at them.<sup>30</sup> Law intervened to counter Argenson's objection, remarking that it could have been a good one if made by a minister of the King of England, but that in France the King was absolute and could by an *arrêt* do as he wished according to his interests and the actual state of affairs of the nation. Stung by this riposte Argenson turned to the Regent and said that he had always been prepared to do as the Regent wished and that he was favourable to the project. The duc d'Antin, when asked for his view, waxed lyrical, remarking on the excellence and 'beauty of the proposal', adding that he would be unable to sleep quietly until he saw it implemented. The duc de la Force applauded the proposal with 'his natural eloquence' and the duc de Bourbon gave it his wholehearted approval. Hence, aside from Argenson's initial reservations, Law's project was most enthusiastically received by the Regent's inner council.<sup>31</sup>

The following day the Regent, perhaps still hesitant and looking for reassurance for what amounted to a radical change in French financial policy, asked the duc de Noailles for his views on it. Noailles, probably still feeling both annoyed and disappointed that he had been officially replaced by Argenson, reserved his position, replying that while he had worked zealously on the finances for two years and had tried his best to learn about them he did not know enough and 'the proposition was beyond his comprehension'. The Regent also sought the views of the Marshal Villeroy who opposed the proposal, arguing that it would cause problems for the annuity holders because there would not be the same type of control over the directors of the company. The Regent answered that all would be managed under his control and that he would be given a daily account of what was happening.

That same Sunday the project was presented to the Regency Council by the duc de la Force. Several members of the Council raised difficulties but seemingly they were not asked to deliberate on it but to rubber-stamp a decision that had already been taken on the previous day. The proposal was passed, the *arrêt* relating to it was signed by the Keeper of the Seals, and it was printed so that it could be published on the following day, Monday, 28 August. The title of this *arrêt* of 27 August 1719 indicated that four changes were to be undertaken. These were: (1) the annulment, from 1 October, of Aymard Lambert's remaining five-year lease on the general tax farms; (2) the grant of the lease of these tax farms to the Indies

Company for nine years; (3) the continuation of the company's privileges until 1770; (4) the company's loan of 1.2 billion livres to the Crown so as to settle all of the state's indebtedness.

Edgar Faure termed the *arrêt* of 27 August as the wise plan ('le plan sage'). It envisaged the company creating securities (either *actions rentières* or *rentes perpétuelles*) bearing an interest rate of 3 per cent which would be used to pay annuity holders who had securities yielding an interest rate of 4 per cent. As such it was a limited debt-conversion operation benefiting the state by reducing the servicing costs of the debt by at least 1 per cent (some of the debt bore an interest rate which was higher than 4 per cent). This plan, according to Faure, was not carried out, however. Instead, he maintains that shortly afterwards, debt holders were offered the possibility of purchasing shares in the company at 5,000 livres—a development which Faure terms as the mad plan ('le plan fou'). Faure added that 'In the inventor of System II we find again the adventurer, the dare-devil'.<sup>32</sup>

By adopting this line Faure unwittingly took the same approach as Law's enemy, Pâris-Duverney, who, writing retrospectively, argued that Law overheated the economy by creating shares with a value of 6.24 billion livres in order to take over the state's debt which amounted to only 1.5 billion. To arrive at this figure of 6.24 billion Pâris-Duverney priced the total amount of shares issued, 624,000 at 10,000 livres per share. However, at the time of planned take-over of the debt the market price of the shares was only 5,000 livres.

Was it Law's initial intention to substitute just another type of long-term security (the *action rentière* or the *rente perpétuelle*) for the existing debt? In other words, was he proposing just to substitute one type of annuity by lower costing annuities? This is what Faure suggested was System I. Alternatively, was his inclusion of annuities just part of a disingenuous smokescreen partially covering up the real objective, which was to convert the state's debt into the company's equity?

It should be remembered that Law regarded shares as another type of money and that his monetary policy aimed to expand the overall money supply and at the same time force down the interest rate to the magic figure of 2 per cent. Du Tot, Law's close collaborator, pointed out the difference between converting the *rentes* into shares or, presumably, into lower-yielding *rentes*:

The annuities fixed and idle, led to a wasteful employment of capital, and induced their holders to be lazy and languid. It was therefore beneficial to the state and its people to reduce the interest rate, and to convert the annuity contracts into instruments which could serve all the needs of trade and compete with credit money and specie in multiplying the growth of agriculture, industry, and internal and external trade.

The shares of the Indies Company may be used as easily as money, they can be used to meet all the daily needs that arise, equally have they not been made so as to substitute for annuities which were of no help to trade, not being easily convertible into money, and instead of all the other types of royal instruments which were wholly discredited.

Law was strongly opposed to annuities for the reasons that Du Tot advanced. It

would have been against his nature to confine his policy to the type of limited debt operation which Faure designates as System I and 'the wise plan'.

In fact Faure should have looked more closely at the two relevant *arrêts*, that of 27 August, 'Arrest du Conseil d'Etat du Roy par lequel Sa Majesté casse et annulle, à commencer au premier octobre prochain, le bail des Fermes Generales . . .' and that of 31 August, 'Arrest du Conseil d'Etat du Roy qui ordonne le remboursement de toutes les rentes perpetuelles de tous les billets de l'Etat. . .'. Article IV of the former *arrêt* stipulated that the company could borrow 1,200 million by issuing 'actions rentières' or annuities bearing an interest rate of 3 per cent. However, within four days, the 31 August *arrêt* seems to contain a subtle change of language. Article XI stipulated 'Conforming with article IV of the *arrêt* of 27 August everyone may acquire, at their choice either shares (*actions*) or annuities (*contracts de constitution de rente*) on the Indies Company.' The use of the word '*actions*' (shares) instead of '*actions rentières*' is revealing even though the following article, article XII, of the 31 August *arrêt*, confuses the matter by referring once again to '*actions rentières*' rather than just '*actions*'. As the term '*actions rentières*' was never defined the interchangeable use of '*actions*' and '*actions rentières*' in the *arrêt* of 31 August suggests that they were intended as synonyms. This suggests the term was used by Law just to mean 'shares for the *rentiers*'. The fact that the '*actions rentières*' were never defined and that the term was interchangeably used alongside '*actions*' in the *arrêt* of 31 August indicates that, even on 27 August, Law was offering a choice of shares ('*actions*') or lower interest-yielding annuities to the holders of long-term government debt. Furthermore, Law's clear preference for shares over annuities suggests that Law envisaged most of the debt being redeemed with shares rather than annuities. To my mind Faure is incorrect in suggesting that the 27 August *arrêt* was System I and that it contained 'the wise plan', that of converting higher-yielding annuities to lower-yielding annuities, which was abandoned within a couple of days and replaced with System II which contained 'the mad plan', namely, the conversion of the state's debt into equity of the company. There never was such a dichotomy in Law's approach. There was no System I and System II, there was no wise plan and mad plan. A reading of the *arrêts* of 27 and 31 August shows that the latter just developed some of the ideas embodied in the former. Law had only one plan, the conversion of government debt into shares of the Mississippi Company. The option to convert annuities into further annuities was just included to show that debt holders were not exclusively forced to take up the company's shares. There was, in reality, only one course of action to take. The rapid rise in the Mississippi share price clearly offered government debt holders far more exciting possibilities if they chose to redeem their government debt by acquiring shares rather than annuities.

Using Du Tot and Giraudeau as sources, the sharp rise of the shares during August may be observed. On 1 August the original shares, the *mères*, stood at 2,750. By 30 August they had risen to 4,100 and by 4 September they were at 5,000 livres, with the *filles* and *petites filles* rising *pari passu*. Government debt holders,

recognizing the prospect of a capital gain, were quite happy to transfer their debt into shares rather than annuities. After all, they needed the inducement of an expected capital gain to compensate for the cut in income on their securities from 4 per cent to 3 per cent. Their difficulty in fact became one of converting quickly enough into the shares of the company, as the price of the shares rose very sharply during September.

On 13 September the company announced a fourth issue of shares involving the creation of 100,000 shares, with a nominal value of 500 livres, costing 5,000 livres per share, to be paid in ten monthly instalments of 500 livres per month. By this issue the company was raising 500 million livres from the public. Two further issues raising the same amount were made on 28 September and 2 October. There was a smaller issue of just 24,000 shares on 4 October, though this latter issue never actually sold to the public. Thus within a three-week period the company issued 324,000 shares, of which 300,000 were sold to the public at 5,000 livres a share. Once fully subscribed the three share issues of 13 September, 28 September, and 2 October would have raised 1,500 million livres!

The company was now starting to operate in a different league to that characterizing its operations between August 1717 and August 1719 when it had raised only 105.5 million (pricing the *billets d'état* for the *mères* issue at 140 livres per share) through the first three share issues. The four issues of September and October 1719 were seventeen times greater than the first three. This amount was never fully raised. Purchasers of the September–October issues, the *cing cents* (the five hundreds) as they were called, had only to put up 500 livres to acquire their rights to the shares and then repay the rest in nine monthly instalments.

Instalment payments were one of Law's favourite marketing ploys to increase the marketability of the shares to the general populace. Another marketing technique was that the shares were bearer securities, thereby providing anonymity of ownership—an important consideration after the shock of the retrospective Visa tax of 1716. Even when the approaching monthly payment dates caused problems for investors, and perhaps more importantly for the price of shares, Law softened the repayment terms by changing them from monthly to quarterly repayments.

The scope and daring of these developments greatly impressed Stair, who on 1 September reported to Craggs:

You must henceforth look upon Law as the first Minister, whose daily discourse is, that he will raise France to a greater height than ever she was, upon the ruin of England and Holland. You may easily imagine I shall not be a minister for his purpose. He is very much displeased with me already, because I did not flatter his vanity by putting into Mississippi . . . I have been in the wrong to myself, to the value of thirty or forty thousand pounds, which I might very easily have gained if I had put myself as others did, into Mr. Law's hands; but I thought it my duty, considering my station not to do so.<sup>34</sup>

Law's successes were starting to convince Stair that the Scotsman had discovered the counter-chemist's key in that he was converting gold and silver into paper and was beginning to push France to an unheralded degree of prosperity which



might disturb the delicate political balance with Britain and Holland. Law had modelled the bank and the company on the British models up to August 1719, but now with his debt-conversion plans he was embarking on something which was far more grandiose. Brimming with confidence, he predicted, when discussing the future of the British economy, that the share price of East India Company shares would fall. Stair reported these conversations to Craggs on 9 September:

He, in all his discourse pretends that he will set France higher than ever she was before, and put her in a condition to give the law to all Europe; that he can ruin the trade and credit of England and Holland, whenever he pleases; that he can break our bank, whenever he has a mind; and our East India Company. He said publicly the other day at his own table, when Lord Londonderry was present, that there was but one great kingdom in Europe, and one great town; and that was France and Paris. He told Pitt, that he would bring down our East India stock, and entered into articles with him to sell him at 12 months hence, a hundred thousand pounds of stock at eleven per cent under the present current price.<sup>35</sup>

This 'bear' position with Thomas Pitt, Lord Londonderry, on £100,000 of shares of the East India Company, would cost Law dearly. The wager was signed into a contract on 29 September 1719 and it stipulated that Londonderry would pay Law £180,000 for £100,000 of stock in the East India Company. If the share price fell Law stood to gain. If on the other hand it rose Law stood to lose. Unfortunately for Law, the East India Company's shares rose during the 1720 boom in shares in London. Law was probably assuming that the success of the Mississippi Company in France would cause investors to sell their British shares and invest the proceeds in the French company. He did not reckon on a further development, namely, that the success of his System would inspire the British authorities to imitate it by granting the South Sea Company the right to take over most of the British national debt. This British measure would produce the boom in South Sea Company stock which in turn caused the shares of the other trading companies, such as the East India Company, to boom also. Ironically, Law's success in France was to cause him huge losses in Britain. His exact losses in this wager with Londonderry will be shown below.

The wager also had Law's marketing hallmark. Law was always prepared to put money down to back his judgement. When the Mississippi Company's price was languishing he entered into a number of wagering contracts which obliged him to buy the shares in the future. He had won on these wagers. He offered to take up all of the rights on the *filles* issue and his confidence had been rewarded by the Regent's authorization for the issue to go ahead. Law the propagandist was once again at work encouraging all in Paris to consider the confidence he was expressing in his System. If Law was sufficiently confident to predict that he could drive down the price of one of Britain's strongest companies and was prepared to put his money down on this wager then his listeners, and their myriad of followers who traded on such conversation and gossip, must have become more impressed by Law's policies. Stair reported on 23 September 1719 on the crowds that congregated at Law's house:

Pl. II. 'Rue Quincampoix in the year 1720. A true picture of the wind-trade on the Rue Quincampoix, Paris.' Print published in *Het Grootte Tafereel der Dwaasheid* (Amsterdam, 1720) 203



Pl. III. 'Flora' fool'-cap or picture of the strange year 1637.' Print published in *Het Grootte Tafereel der Dwaasheid* (Amsterdam, 1720) 204



Mr. Law's door is shut, and all the people of quality in France are on foot, in hundreds, before his door in the Place Vendôme.

I hope our success in the North will make our affairs in Parliament easy; we must in that case exert ourselves to do something decisive towards the payment of the public debts, if we do not intend to submit ourselves to the condition in which Mr. Law pretends to put all Europe. He says that he will make France so great that all the nations of Europe will send ambassadors to Paris, and the King will only send messengers.<sup>36</sup>

Despite pushing more shares on the market through these issues the price of the shares continued to rise during September. There was furious trading in the shares along the sinuous and extremely narrow rue Quincampoix, a street bounded by the rue aux Ours on the north, and the rue des Lombards on the south. This street, where the company had offices for issuing its shares, derived its name from a Nicolas de Kiquenpoit, a noble who lived there in the twelfth century. Such was the throng that congregated in the street that horses and carriages were forbidden there and a hunchback was employed hiring out his hump to transactors who wanted to sign contracts. The street had become so famous that the Comédie Française put on a play by Carolet called 'Les Aventures de la rue Quincampoix'.<sup>37</sup> The growing frenzy to trade Mississippi shares was closely monitored by members of the British embassy in Paris during this month of September 1719. A clerk of the British embassy, Pyot, reported in early September on the growing interest in the rue Quincampoix: 'The rue de Quinquempoix, which is their Exchange Alley, is crowded from early in the morning to late at night with princes and princesses, dukes and peers and duchesses etc. in a word all that is great in France. They sell estates and pawn jewels to purchase Mississippi.'<sup>38</sup> Barely a week later the same writer commented that 'All the news of this town is of stock jobbing. The French heads seem turned to nothing else at present.'<sup>39</sup> His ambassador, the Earl of Stair, reported in the third week of September that 'Everybody in this town is so much taken up with Mississippi that they seem to mind nothing else. Mr. Law tells them that their first returns from the East Indies will bring them fifty millions profit.'<sup>40</sup> The duc d'Antin, who had been in the country during September, was struck by the way the increased monetary circulation was pushing up prices and encouraging agricultural workers to cultivate land that had been hitherto uncultivated: 'One does not know how but those who note what is happening in the country clearly see that it is this circulation of money which produces effects which are so useful to the public, and this good will be further increased by the repayments [of the debt].'<sup>41</sup> Remembering that Antin had been at the August meeting which planned the debt conversion operation, and that he had been out of Paris for six weeks since that meeting, it is interesting to note that he was not surprised by the share issues, a fact which tends to support the hypothesis that there was no change of mind between the August meeting and the policy implementation in September and October of 1719: 'On arrival (after six weeks in the country) I find that another issue of 50 million of new shares has been made, constituting in all 3 billion, which is the point which Mr Law wished for them.'<sup>42</sup> This suggests that Law had clearly

laid out his plans for the conversion of the debt, amounting to 1.5 billion, to the Regent's inner circle in August and that it was understood that the operation would be carried out through the issue of shares.

In the first week of October, Law presented a management plan for the Mississippi Company. First of all he divided the company into two main sectors, those for trade (*'le commerce'*) and those for the tax farms (*'pour les fermes'*). The trade sector was subdivided into seven sub-sectors—the mint, Louisiana, the Indies, Senegal and the African Company, beaver, and Guinea, and agencies for buying and selling merchandise. The tax farms sector was subdivided into thirteen sub-sectors. The directors responsible for each of these twenty sub-sectors in Paris as well as the links which they had with the provinces were listed in a printed document, *'Departments de Messieurs les Directeurs de la Compagnie des Indes'*. A second printed document, *'Journal du travail de Messieurs les Directeurs de la Compagnie des Indes pour l'année qui commencera le premier octobre 1719'*, gave a detailed account of the daily work of each of the directors. Meetings started at nine each morning for individual sectors. At noon there was a general meeting of all the directors followed by further individual meetings which went on through the afternoon. Further meetings were specified for six in the evening. The implementation of this management plan meant that the directors of the company were extremely busy, none more than Law who was listed to attend the most important meetings.<sup>43</sup> Law even went so far as to have the names and addresses of each of the directors of the company published, including that of his own at the rue Neuvedes-Petits-Champs.<sup>44</sup>

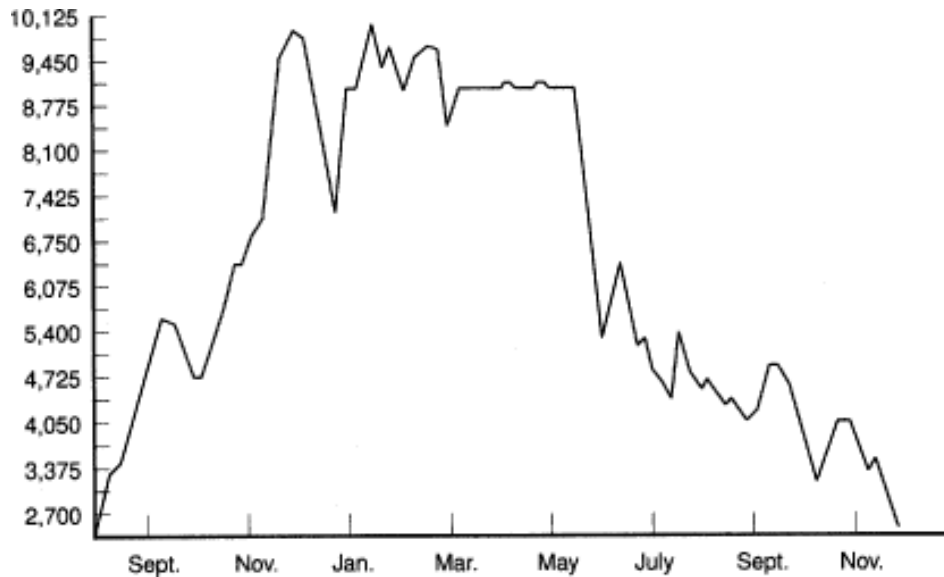
The price of shares, as may be seen from Table 14.1 and Chart 14.1, rose through the three final months of 1719. The highs and lows in each of these months were:

	High	Low
October	6,500	4,600
November	6,738	9,825
December	10,025	7,633

Contemporary reports from the embassies continued to describe the frenzy to purchase. The British clerk Pyot wrote on 28 October: *'Mississippi has engrossed the attention of all mankind here to such a degree that to talk of anything else is to be ridiculous, and not to be listened to.'*<sup>45</sup> Between 18 and 22 November the stock rose very sharply from 7,250 to 9,000, due, according to Thomas Crawford (British envoy in Paris from 1715 to 1724), to the surge in people from the provinces that had come to buy shares in Paris: *'The reason of the sudden rise of the stock here is the great number of people come from the provinces who arrived all at once in the rue Quincampoix on Saturday last—Miracles are revived. I wish religion may stand its ground.'*<sup>46</sup>

Just as Antin had observed the beneficial effects of the System in stimulating agricultural output, Daniel Pulteney noted the effects it was having on retail

Chart 14.1. Mississippi Company's Share Price (August 1719–November 1720 (Livres))



expenditure. His letter of 11 December is also significant in that it showed that an active futures market had developed in the shares and that there was an expectation in some quarters of them rising a great deal further:

I was told yesterday that a shop had sold in less than three weeks lace and linen for 800,000 livres and this chiefly to people who never wore any lace before; the accounts of this kind everyday are so very extraordinary that will be scarcely believed in other countries . . . there are still very considerable advantages to be made but it must be by putting larger stakes. For instance, the stocks were to be bought some days ago at 1,700 livres. At the same time there were people who would give for them in March next 2,400. You will ask why many did not take that offer. The reason is that those who have stocks already are persuaded that they will make more advantage by keeping them in their hands . . . The great dealers in stock are so confident of them going to 3,000 that they will give at the rate of 40 per cent for money for three or four months. Mr. Gage, the Croeseus, has taken 200,000 livres of his capital to give him £10,000 in London in a year which at the present rate of exchange is giving 50 per cent. The stock must certainly, I should think, come to a stand be it at 3,000 or 4,000, before it be long, the people here will find themselves strangely disappointed when they find themselves reduced to an interest of 2 per cent which will very ill answer the extravagant rate of living they now put themselves on. Mr. Law was yesterday at mass for the first time.<sup>47</sup>

Using Pulteney's share price quotations, and converting them into the full price of the shares (quotation  $\times$  5 + 500) share price expectations at that time may be estimated. Around the time of writing the share price was at 9,000 livres but on the futures market the shares were trading at 12,500 for delivery in March 1720, which suggested that there was a belief that they would rise further. Pulteney further explained that the reason the futures were trading at such a premium was because of the thinness of the market. The public was reluctant to sell its shares when there was the expectation of further gains to be made. He also suggested that

Table 14.1. Mississippi Company's Share Prices (August 1719–November 1720)

	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar*	Apr	May	June	July	Aug	Sept	Oct	Nov
1		4,025			9,950	9,155	9,325				5,320	4,817			5,167	
2		4,250	4,838		10,025	9,085				9,018		4,895		4,367	5,167	3,967
3			4,600			9,060	9,365		9,060	9,022	5,780	4,880		4,333	5,107	
4		4,450	5,000	6,775	9,975	9,135			9,060	9,015	5,750	4,730		4,247	4,919	3,650
5		4,463	5,000		9,975	9,235	9,420		9,055		6,210	4,825		4,247	4,833	3,500
6		4,537	5,000	6,738	9,775		9,425		9,040	9,015	6,350	4,850	4,603	4,167		3,600
7		5,000	5,038	6,810	9,725		9,435			9,010	6,247		4,673	4,200	4,787	3,450
8				6,788	9,725	10,100	9,485			9,005	5,990	4,825	4,573			3,600
9	2,830	5,450		6,788	9,750	9,890	9,570		9,012			4,765	4,567	4,200	4,800	
10			5,000	6,755		9,925	9,585		9,000	9,005	5,820	4,713		4,200	4,800	
11	2,830	5,900	5,000		9,305	9,230			9,003	9,010	5,150	4,645		4,200	4,880	
12	2,900	5,900	5,000		9,235	7,178	9,595		9,000		5,255	4,593	4,687	4,383		3,517
13		5,650	5,025	6,848	8,500	7,745	9,585		9,000	9,005	5,235	4,450	4,659	4,600	4,753	3,677
14	3,400	5,500	5,075	6,863	7,930		9,595			9,005	5,230		4,660	4,653	4,467	3,733
15		5,500	5,400	6,963	8,250	9,555	9,590		9,000	9,000	5,175	4,626			3,933	3,733
16		5,750		7,068	8,055	9,335	9,180		9,000	9,005		4,731	4,680	4,650	3,733	
17	3,500	5,800	5,400	7,088		9,310					4,683	4,458	4,724	4,633	3,400	3,633
18	3,450		5,488	7,463	8,078	9,265					5,196	4,476		4,566	3,667	3,483
19		5,650	5,425		7,633	9,255	9,580		9,002		5,457	4,539	4,640	4,473		3,367
20		5,638	5,400	8,975	7,808	9,375	9,590		9,007		5,345	4,550	4,610	4,483	3,633	3,370
21	3,400		5,563	9,275			9,580				5,216		4,553		3,200	3,420
22	3,400	5,312		9,410	7,805	9,395	9,545		9,007		5,065	4,604	4,406		3,267	3,300
23	3,450	5,275	5,900	9,175		9,555	9,345		9,023	7,905		5,403		4,497	3,733	3,367
24			6,500	9,175		9,555	9,345		9,023	7,905		5,403		4,497	3,733	3,367
25		5,228	6,463	9,325		9,540			9,028	7,605	4,517			4,853	4,000	3,640
26	3,600		6,463		9,103	9,580			9,040		4,735	5,165	4,393	5,100		
27		5,238	6,400	8,850	9,023	9,585	9,120		9,035	7,475	4,810	5,058	4,450	4,967		
28	4,000	5,113		9,825	9,000		8,505			6,075	4,740		4,400	5,000	4,233	
29	4,050			9,825	9,180	9,505	7,825		9,043	5,434		4,848	4,433		4,253	
30	4,100	4,800	6,643		9,410	9,015			9,033			4,860	4,343	5,133	4,117	
31	4,050		6,463		9,250	8,950				4,116		4,840	4,367			

\* Though no price was quoted for March 1720, the company guaranteed the price at 9,000 livres.

Source: Paris, Bibliothèque de l' Arsenal, MS. 4061, par Giraudeau, Prices derived from Giraudeau's statistics.

the market would peak in the near future but that this peak could be as high as 15,500 or even 20,500 livres. All of this indicates that in early December the market was in a euphoric mood and extremely confident about the way the price of shares would be pushed upwards over the coming months.

Within a couple of days of Pulteney's letter, and despite Law's presence at mass, the market started to dip ominously. Having peaked for the year at 10,025 on 2 December the share price fell from 9,750 to 9,305 on 11 December, then to 8,500 on 13 December and 7,930 the next day. By 19 December it was as low as 7,633, a 24 per cent fall over a seventeen-day period. Thomas Crawford pointed out the reason for this fall:

We have had a great deroutte here within these few days in the rue Quincampoix by the falling of the Mississippi Stock upon some false jealousy that arose from the Banque's refusing to lend any longer money upon the actions. No man was seen with a smile on his face in those places for two days but they got courage yesterday by the Banque's publishing that they are to lend money again on Monday next and offering to buy the actions at the rate of 1,600 from those who have a mind to sell them. The new subscriptions rose yesterday to 800 de benefice and the actions to 1,600 net the former had been at 500 and the latter at 1,400.<sup>48</sup>

Crawford's prediction that the shareholders were regaining their confidence is borne out by Giraudeau's statistics which show that the shares were pushed back up to 9,410 by 30 December, the day before the company's annual general meeting. Crawford's letter is also significant in that it shows the extent to which the share price was supported by loans from the bank. Law had provided a mechanism for shareholders to buy more shares, namely a loan of 2,500 livres at 2 per cent per annum against the lodgement of one share as collateral. With such a loan transactors were able to purchase the rights to several other shares because of the small downpayments and easy instalment repayment terms. As long as the bank was prepared to lend in such a way there would be a queue of borrowers prepared to buy shares that seemed to rise on a day-by-day basis. The interconnection between the bank and the company had strengthened.

Several other factors accounting for the rise in the share prices have already been suggested. These were the relatively thin market for *mères*, *filles*, and *petites filles* as the original holders of these shares held on to them expecting, correctly as it turned out, the shares to rise further. With a limited supply of these shares coming on the market and Law expanding the paper money supply from 400 million at the end of July to 1,000 million livres at the end of December, through further issues by the Royal Bank, there was plenty of scope for the price to be pushed upwards. The rise in prices attracted neophyte investors who found the mechanics of purchasing relatively easy in that they had only to put up an instalment of 50 livres in order to acquire rights to a share. Du Tot listed seven factors in explaining the success of the shares. These were the take-overs and mergers by the company of the tobacco farm, the Company of the Indies, the mint, the tax farms, the repayment of the long-term debt and the 'charges', and the loans of 2,500 livres



for each share held.<sup>49</sup> In analysing the economic situation for the closing months of 1719 Du Tot felt that the System had been of great benefit to France in restoring honour and liberty to debtors, drawing wealth from foreign countries, enriching the towns and country, taking people out of their oppressive state, and in destroying usury.<sup>50</sup>

He also drew up a table showing the expansion of the broad money supply, that is, banknotes plus shares. It is summarized on Table 14.2 and shows that the overall market valuation of the 600,000 shares that had been issued, though not all were fully paid up, was 4.8 billion livres. The cost to shareholders to date of these issues was 221.5 million, giving a net increase in the market value of 4.6 billion livres. Adding to this 640 million of banknotes that had been issued, he produced a total of 5.2 billion livres by which, in his eyes, the state and shareholders were richer. Was this monetary creation excessive? Had Law overheated the System?

At this point in his analysis Du Tot remarked that Law felt that the overall circulation was too great and had attempted to reduce it by placing 30 million livres worth of shares on the market with the objective of pushing down the share price. Pâris-Duverney expressed the view, and it is the line of argument accepted by Edgar Faure, that Law had over-expanded the value of shares in circulation. He produced an estimate of the value of shares at 6.24 billion livres (624,000 shares  $\times$  10,000 livres per share) which overestimated the market value of the shares in that the *filles*, *petites filles*, and *cing cents* were not fully paid up, the price of 10,000 livres (the all-time high for the shares) was only maintained for a short period during the System, and a significant holding of the shares was held by the Bank or Company. Nevertheless, Pâris-Duverney was trying to make the point, whether one uses his 6.4 billion estimate or Du Tot's estimate of 4.6 billion livres, that the market valuation of the overall share issue seemed out of line with a debt conversion involving 1.5 billion livres. Even Du Tot, whose praise for Law was excessive at times, felt that there was a hidden vice in the System, namely the pricing *ex aequo* of the new shares with the old shares (*mères*, *filles*, and *petites filles*). The new shares, the *cing cents*, had been created to convert the debt from relatively high interest-yielding government securities to lower income-yielding shares, but the high and rising price of these issues had helped push up the price of the old shares so that on 29 November 1719:

300,000 Old Shares were worth	2,656,250,000
300,000 New Shares were worth	2,125,500,000

An argument was advanced that the old shares, particularly the 200,000 *mères* had a valuation totally out of line with their underlying objective. How, for example, could these 200,000 *mères*, which, let it be remembered, had been created to convert 100 million livres of *billets d'état* with a market value of only 34 million livres, rank *pari passu* with the *cing cents* which had been created to convert 1.5 billion livres of state debt, 15 times the amount of nominal debt or 44 times the market value of the *billets d'état* converted in 1717–18? Had Law lost all sense of

Table 14.2. Du Tot's Assessment of the Financial Benefits of the System

29 November 1719	Market Value	Cost
<i>Mères</i> 9,875 l.t. (Issue: 200,000)	1,975,000,000	34,000,000
<i>Filles</i> 9,875 l.t. (Issue: 50,000)	493,750,000	27,500,000
<i>Petites filles</i> 3,750 l.t. (Issue: 50,000)	187,500,000	10,000,000
<i>Cinq cents</i> 7,085 l.t. (Issue: 300,000)	2,125,500,000	150,000,000
Total	4,781,750,000	221,500,000
Deducting cost of shares	221,500,000	
Net increase in value of shares	4,560,250,000	
Banknotes	640,000,000	
'State richer by'	5,200,250,000	

SOURCE: Du Tot, Poitiers Ms., fo. 252.

proportion? Or was the System just an inspired piece of financial engineering aimed at making extortionate profits for the original shareholders? On either reckoning the reader might perceive a large credibility gap emerging between Law, the author of *Money and Trade*, and Law the creator of the Mississippi System.

An *arrêt* of 1 December presaged the intensification of the drive to oblige people to use banknotes rather than specie. For the first time since their creation the banknotes were deemed a generalized form of legal tender, because, from that date, creditors could demand of their debtors to be paid in banknotes rather than specie. Du Tot wrote of it, 'this *arrêt* in some ways obliges individuals to request payment in banknotes, therefore one can say that the banknote takes the place of silver.'<sup>51</sup> Du Tot also mentioned that Law felt that France was capable of maintaining a monetary circulation of 3 billion livres, on the basis that England had a circulation of 1 billion and that France was capable of having a trade three times greater than that of England.<sup>52</sup> If 3 billion livres was Law's target for France's monetary circulation, embracing both banknotes and shares, then the monetary circulation that had been created was excessive, even by Law's standards.

Law had, undoubtedly, become aware of the fact that there was excess liquidity in the System and he took the first steps to try to force the public to use the new paper money rather than specie. This may be seen from the *arrêt* of 21 December 1719 which, while continuing to stress that banknotes would be received at a five per cent premium in the tax offices, stipulated through article II that transactors could no longer use silver coin for payments above 10 livres and gold coin for payments above 300 livres. Those found breaking the law were to have their payments

confiscated and to be fined 300 livres. This law, which was to have immediate effect in Paris, was to be introduced on 1 March in those towns which had mints, and from April 1 in all other parts of France. Article IV stipulated that the payment of foreign letters of credit (*lettres étrangères*) were to be made in banknotes. This article IV was less draconian than article II in that it did not contain any sanctions or punishments for those who offended against the article.

The writing was starting to appear on this new financial wall that Law was erecting. The public would be forced to use banknotes instead of gold and silver coins. The *arrêt* of 21 December was the first in a series which would make it progressively more difficult to use specie. These compulsory measures, remembering that Law in his earlier economic writings had always attacked mandatory legislation when it came to dealing with money, suggested that Law was not fully confident about the population voluntarily accepting and using the new paper money system.

# 15 A Specie-Less France, 1720

The year 1720 would become a year that would be etched on the eighteenth-century calendar in the same way as 1929 would become a financial reference date in the twentieth century. It was to be the year of a new European phenomenon, namely stock-market booms and crashes, most notably in France with the Mississippi System, and Britain through the South Sea Bubble. It was the best of times for some, as they made millions on the stock market, with the term 'millionaire' coined for the first time as a reference to lucky Mississippians; it was the worst of times for others, as family estates and property were sold to acquire shares and banknotes which would ultimately lose their value during the second half of 1720.

Daniel Defoe cynically described the French phenomenon when writing at the start of 1720:

You, Mr. Mist in England, you are a parcel of dull, phlegmatic fellows at London; you are not half so bright as we are in Paris, where we drink Burgundy and sparkling Champaign. We have run up a piece of refined air, a meer *ignis fatuus* here, from a hundred to two thousand, and now we are making a dividend of forty per cent.<sup>1</sup>

The apparent success of the Mississippi System provided the impetus in influencing the British authorities to think in 'champagne' terms and to follow the French model by attempting to convert the vast bulk of the government's debt into equity of the South Sea Company. News coming through from France in the first weeks of January 1720 would have greatly encouraged the directors of the South Sea Company for, as the New Year passed, France's Mississippi-dominated stock-market boom, which seemed to have peaked on 2 December when the company's shares stood at 10,025 livres, gathered further momentum and went to a new high in the second week of January. This second week was marked by one of the most intense bouts of speculative buying during the System, when 'le tout Paris' rushed to purchase newly created options, called 'les primes'.

Concomitant with the peaking of Mississippi shares John Law reached the summit of his own career when appointed Controller-General of Finances on 5 January. Two days later he was presented with his seals of office, the text conferring this appointment on him stipulating that he was obtaining this position and honour as a result of his monetary and debt-management policies. It was for:

the important services that you have rendered to our State as much for the establishment of

our Royal Bank, whose utility we appreciate, as for the different arrangements that have been made for the payment of our public debts, for the increase in our state revenues and the relief of our people.<sup>2</sup>

John Law, a Scotsman with a conviction for murder, had reached the highest administrative post in France, occupying a position previously held by people such as Jean-Baptiste Colbert (1666–83), Claude Le Pelletier (1683–9), Louis Phelippeaux, comte de Pontchartrain (1689–99), Michel Chamillard (1699–1707), and Nicolas Desmarests (1708–1715). The post, first created by Henry II in 1547, had grown in stature when the office of Surintendant des Finances was suppressed and the control of the financial administration vested in the office of the Controller-General in 1661. It had been temporarily suspended and replaced by the Presidency of the Conseil de Finance during the first four years of the Regency, which position had been occupied by the duc de Noailles, and later the marquis d'Argenson. The Regent had decided that there was a clash of personalities between Law and Argenson and that 'their views and principles were too different to produce agreement'.<sup>3</sup> As Law's star was in the ascendant it was relatively easy to remove the Presidency of the Conseil de Finance from Argenson, though leaving him as Keeper of the Seals, and appoint Law as the Controller-General. Effectively it made Law the Prime Minister.

On assuming office he must have reflected on the number of previous occasions that he had petitioned former holders of the office, Chamillart and Desmarests, along with a proxy holder of the office, the duc de Noailles, with his proposals. Now it was he who received petitions and proposals and who seemingly decided the financial destiny of France. His predecessors Desmarests, Noailles, and Argenson, who had not shown full support for Law, had been swept aside.

Defoe, posing the question as to how Law had advanced from 'a stock-jobber to a Privy-Counsellor', presented the following formula for Law's rise to power:

The case is plain, you must put on a sword, kill a beau or two, get into Newgate, be condemned to be hanged, break prison if you can,—*remember that by the way*,—get over to some strange country, turn stock-jobber, set up a Mississippi stock, bubble a nation, and you may soon be a great man; if you have but great good luck, according to an old English maxim:

Dare once to be a Rogue upon record,  
And you may quickly hope to be a Lord.<sup>4</sup>

## The Market High

As if in recognition of Law's achievements, the price of Mississippi shares reached an all-time high of 10,100 livres the day after he assumed the office of Controller-General. Faure had the shares peaking on 5 January,<sup>5</sup> but Giraudeau's statistics suggest that the peak was reached some three days later.<sup>6</sup>

Unfortunately, there has been considerable confusion about the peak price of Mississippi shares. A footnote in Du Hautchamp's *Histoire du système des finances* suggested that the shares went as high as 18,000 livres. It is difficult to know whether Du Hautchamp or his editor actually wrote the footnotes that are found in the *Histoire*,<sup>7</sup> for in the text, as distinct from the footnotes, Du Hautchamp mentions the shares being bid up to 'dix huit cens', by which he meant that the high of the shares was over 9,500 ( $1,800 \times 5 + 500$ ). There is no way that a veteran speculator of the Mississippi System, and Du Hautchamp was one, would have erred by converting 1,800 into 18,000 livres. A few pages later, however, the main text refers to the shares rising to 18,000 ('dix huit mille'). Again I find this difficult to understand, as Du Hautchamp had a vast knowledge of the System and would not have mixed up the peak price the Mississippi shares reached. Indeed such was Du Hautchamp's involvement in the System that he had been temporarily arrested and imprisoned in late 1719 on a charge of excessive speculation in shares.<sup>8</sup> It is surmised that the editor of the *Histoire du système des finances*, who did not understand Du Hautchamp's earlier reference to the shares rising to 'dix huit cens', altered the text so as to be consistent with the earlier footnote.<sup>9</sup> Giraudeau's series shows that the price of Mississippi Company shares never went above the 10,100 livres reached on 8 January. That is not to say, however, that the frenzied speculation in the shares dampened at this stage, nor that the market's expectation was that the market high had been reached.

In fact the reverse was the case. All the market expectations suggested that the shares would surge further ahead. Paradoxically this expectation was not reflected in the underlying share price but in the price of a new financial instrument, the *primes*. On 9 January, the day after the market share price peaked, the company created a type of option, referred to as *les primes*, through which transactors, by paying an immediate deposit of 1,000 livres, acquired an option to purchase a share priced at 10,000 livres during the following six months. If fully paid up the share price would have cost 11,000 livres.

Law later explained that he introduced the *primes* in order to dampen speculation and to convince the market that the price would not move above 10,000 livres.<sup>10</sup> It was a device specifically aimed at destroying the private quasi-forward *actions à terme* market that had developed on the rue Quincampoix. Faure refers to the latter market as an option market,<sup>11</sup> but the term 'actions à terme' suggests that it was more a forward market than an options market. These *actions à terme*, according to Pulteney, had been pricing Mississippi shares for delivery in March between 12,000 and 14,000 livres.<sup>12</sup> Law was well aware of the operations of this private forward market in Mississippi shares, believing that foreigners were exploiting it by buying shares at around 10,000 livres and then contracting to sell them for future delivery at 12,500 to 15,000 livres. According to his own account he did not want these foreigners to make such profits but, more importantly, he did not want the price of Mississippi shares to go above 10,000 livres, remarking 'I wanted to disabuse the public of the opinion that the shares could rise above this

price [10,000 livres] . . .<sup>13</sup> By offering unlimited opportunities to purchase Mississippi shares at 10,000 livres he hoped to destroy all of the private forward markets that had sprung up in Paris.

The *primes* launch, in its initial phase, had exactly the opposite result to that intended by Law. The public's expectation was that the price of Mississippi shares would rise well above 10,000 livres. This expectation combining with the leverage offered by the *primes*—a share valued at 10,000 livres, once sold, providing the transactor with the opportunity to purchase ten *primes* and therefore the rights to ten shares—produced a huge demand for *primes*. They became the main buying target of transactors. This meant that there were long queues of people lining up to sell their old shares and partially paid *filles*, *petites filles*, and *cing cents*, thereby forcing down the market price of Mississippi shares. At the same time so many people turned up to acquire the *primes* that the clerks could not write the contracts for them sufficiently quickly and the company had to resort to printing them. With intense demand for the *primes* and the supply side partially blocked due to delivery difficulties, the price of these new financial instruments grew dramatically. Pulteney wrote that the premiums on the *primes* went to between 50 and 100 per cent. This must have been during the interim period when the company's clerks were handwriting rather than printing the contracts. De Florimond confirmed Pulteney on this issue, remarking that the *primes* rose by 80 per cent within two to three days of their issue.<sup>14</sup> However, once the printed *primes* were ready Law quickly flooded the market, selling 300 million livres of *primes* to the public. Such sales entitled the owners of the *primes* to purchase 3 billion livres of shares!<sup>15</sup> If the *primes* had been taken up it would have increased the company's market capitalization by close to 50 per cent.

The new market in *primes* therefore produced the paradoxical result that, at the very moment when expectations were at their highest concerning the future price for Mississippi shares, the price of the old Mississippi shares and the partially paid subscriptions for Mississippi shares actually fell. Using the share price series compiled from Giraudeau's statistics, as presented in Table 14.1 (p. 208), it may be seen that Mississippi shares fell from their high of 10,100 on 8 January to a January low of 7,178 only four days later, then recovering to 9,555 on 15 January:

January 8	10,100
9	9,890
10	9,925
11	9,230
12	7,178
13	7,745
15	9,555

Thus it is incorrect to look at the 8 January high of the Mississippi shares and to assume that within a short period the price came under pressure. The price only fell as a result of an even higher expectation that the price would rise and that the

best way to appropriate such gains was by switching out of shares and into *primes*. Daniel Pulteney observed this phenomenon which arose from the introduction of the *primes*:

the stocks fell considerably, everybody bringing in their actions [shares] to market to enable them to pay in the praemia for those policies or new sort of actions, as the people fancied them to be and were therefore the more fond of them; this raised the value of them so extravagantly, that for two or three days it was reckoned that they be at cent per cent advance.<sup>16</sup>

A letter from Archibald, Earl of Ilay, to a Mrs Howard, on 16 January, confirmed Pulteney's account:

Your money matters go very well, though the actions [shares] are fallen from 1900 to 1750; yet the meaning of it is nothing else but people's selling their actions in order to buy new primes (as they are called), which are a sort of subscription at 2,200, 1,000 livres down, and 10,000 six months hence.<sup>17</sup>

The sale of 300 million livres of *primes* represented the final stage of the 'bull' run in Mississippi shares and constituted the real peak in the Mississippi boom. The shift into *primes* was, however, short lived, Pulteney adding in his letter that by 19 January 'those which were for large sums are below par and others not much above it'. Those who had bought the *primes* at premiums of 30 to 100 per cent, prior to Law flooding the market, were left licking their financial wounds. Furthermore, as the price of shares fell below 10,000 the value of the *primes* fell to zero which, in theory, meant that the company could have pocketed the 300 million it raised through their issue. Law did not take such an action, prudently allowing the *primes* to be converted into shares of the company, each one valued as one-tenth of a share.

The creation of the *primes* did not succeed in putting a total stop to private market dealing in options and forward contracts. This may be inferred from the 'Arrest du Conseil d'Etat du Roy portant deffenses à toutes personnes, à l'exception de la Compagnie des Indes, de contracter à l'avenir aucuns engagements sous le nom de primes, pour fournir ou recevoir à terme des actions, souscriptions, ou polices de ladite Compagnie' of 11 February. This *arrêt* prohibited all option and futures related contracts except those made by the company. The reason for this was ostensibly the heavy losses made by members of the public involved in such dealings. There was a further 'Arrest du Conseil d'Etat concernant les engage-mens sous le nom de primes des actions, souscriptions ou polices de la Compagnie des Indes' on 20 February which indicated that the public had been transgressing the spirit of the 11 February *arrêt* by antedating contracts. To prevent this it was stipulated that all such contracts would have to be examined ('visez') and without such an examination were illegal.



## Shifts in Policy

Ironically, though the Mississippi Company had reached its all-time market high in this second week of January, and Law seemed to be the omnipotent Controller-General, the remainder of this month of January was a period characterized by sharp and contradictory shifts of policy. Such was the magnitude of these shifts that Du Tot later posed the question as to whether Law had let his new-found power go to his head and decided to resort to force to achieve his objectives, or, whether a powerful cabal had succeeded in turning over his plans thereby forcing the System along a path quite different to the one which Law intended it to take:

The same thing was done and undone almost at the same time, these contrasts suggested to the public that the author of the System had been passed over and that he was no longer the master, or if he was, it was not the same man, the same spirit, nor the same principles which were causing the bulk of these operations. It may well have happened that his plans had been passed over [betrayed] by powerful people, and this is at least certain, no one living through this period doubts it. It could also have been the case that, dazzled by the unhopedor success of his preceding policies, his knowledge, and by his promotion, he had put it in his head to achieve rapidly by force what he should have done gently over a long period. These effects of the vanity of man appear quite natural. If this was true, one could say that his promotion had changed him and caused him to lose his talents which were no longer fixed to his objectives, since he fell into these errors as soon as he had been promoted Controller-General. But one knows, to the point of not doubting it, that his plans had been passed over and that a powerful cabal was conspiring his downfall to the great prejudice of the state and the nation.<sup>18</sup>

Du Tot opted for the second explanation of events, exonerating Law for the contradictory policies of January 1720 and pinning the blame on an unspecified cabal that was working against Law. Was this not a case of over-loyalty to Law on Du Tot's part? Probably not, in that he stressed that his opinion would be backed up by others and that the policies implemented were so much out of line with Law's previous approach as to be unrecognizable. It must be borne in mind that Du Tot worked closely with Law and that he was very much *au fait* with each development of the System. He has provided us with the best day to day description of what happened. Furthermore, he was an accomplished economic writer prepared to be critical of policies, and the personalities pushing inconsistent policies. If Du Tot had suspected that power had gone to Law's head and he had become an inconsistent policy-maker he would have been prepared to reveal such a development. Certainly Du Tot's admiration for Law was very considerable, but it was an admiration that was usually, though not always, based on an independent assessment of Law's policies. He was not a friend of Law's, nor did he benefit from investing in the System. He was dispassionate in his assessment of the System's successes and failures and he attempted to accumulate as much statistical material as possible to analyse and examine it. The Poitiers manuscript certainly shows his zeal and enthusiasm for recording an accurate account of the evolution of the System.

Accepting Du Tot's line, who were the people in the cabal that was countering Law's policies? It may be surmised that the financiers and the nobility backing them had become acutely aware of the extent to which their power, along with the financial cow which they had so successfully milked, had been taken from them. Du Tot later suggested that they were members of such a group in that the 'enemies' of the System wanted to restore the old financial system (*l'ancienne finance*):

But there were enemies of the author of the System and even the System, these enemies unmindful of the public good that they were destroying sacrificed it in their vengeance; with a view to re-establishing the old finances and exhausting the bank they attacked its reserves from all sides.<sup>19</sup>

Du Tot's belief that there were powerful forces massing against Law was confirmed by the chevalier de Balleroy, an independent onlooker of the unfolding events, who on 24 April 1720 wrote, 'There is a very strong cabal against Lass and his system. The Regent would very much like to be rid of it but he does not know how to go about it.'<sup>20</sup>

Bearing in mind Daniel Dessert's thesis that the rich nobility, fronted by the financiers, constituted the real power structure in the *ancien régime*, one can put Du Tot's allegations in perspective. Law, as has been shown earlier, succeeded in launching his system between 1716 and 1718 because the financiers and their backers had to adopt a low profile during the financial inquisition produced by the Chambre de Justice. Then, by making a fortune for the Regent and his circle, particularly such influential power brokers such as the ducs de Bourbon and de la Force, he created an environment which was propitious for the launching of his more daring policies in August 1719. These, as have been shown, resulted in the centralization of the tax farms under the control of the company and the conversion of all of the state's debt, including 'les charges', into equity of the company. These policies amounted to the attempted euthanasia of the financiers and *rentiers*. Law was in the process of effectively dismantling the *ancien régime's* financial structure and the power that was embedded in it. His appointment as Controller-General must have been the last straw to the financier/ *rentier* class and provoked them to think more intensively on strategies that would lead to the failure of Law's System.

## Limitations on the Holding of Gold and Silver

The contradictions in policy during January and February may initially be seen in the change in the regulations governing the holding and transfer of specie, bullion, and jewels. These regulations changed from one permitting the free outflow of specie and bullion out of France to a series of regulations limiting the holding and use not only of specie, but also the production of gold and silver objects and the

wearing of diamonds and precious jewels. The regulatory measures changed as follows:

Table 15.1. Changes and Proposed Changes in the Value (Livres) of the Louis D'or and the Silver écu from May 1718 to December 1720

	Louis d'or Écu Date (25 to the marc)	(10 to the marc)
May 1718	36 livres	6. 0. 0 livres
7 May 1719	35	
25 July 1719	34	
23 Sept 1719	33	5. 16. 0
3 Dec. 1719	32	5. 12. 0
from 1 Jan. 1720	31	5. 8. 0
from 1 Feb. 1720	30	5. 4. 0
22 Jan. 1720	36	6. 0. 0
28 and 31 Jan. and 3 Feb. 1720	34	5. 13. 6
25 Feb. 1720	36	6. 0. 0
5 Mar. 1720	48	8. 0. 0
11 Mar. 1720	42	
from 1 Apr. 1720	36	7. 0. 0
1 May 1720	To be demonetized at 30	6. 10. 0
1 June 1720		6. 0. 0
1 July 1720		5. 10. 0
1 Jan. 1721		Silver to be demonetized
29 May 1720	49. 10. 0	8. 5. 0
10 June 1720		
from 1 July 1720	45	6. 15. 0
30 July 1720	72	12. 0. 0
from 1 Sept. 1720	63	10. 10. 0
from 16 Sept. 1720	54	9. 0. 0
from 1 Oct. 1720	45	7. 10. 0
from 16 Oct. 1720	36	6. 0. 0
Sept. 1720*	36	6. 0. 0
24 Oct. 1720	46. 16. 0	7. 16. 0
8 Nov. 1720		
from 1 Dec. 1720	37. 16. 0	6. 6. 0

\* Reform of the currency

SOURCE: *Extrait de tous les Edits et Declarations de Sa Majesté, et Arrêts de son Conseil; concernant les fabrications, diminutions et augmentations du prix des monnoies de France, depuis l'Edit du mois de décembre 1689* (Amsterdam, 1732), pp. 230–97.

Early in January it had been rumoured that excessive amounts of specie had been hoarded because of the public's uncertainty. In order to allay this uncertainty and generate an environment of confidence the *arrêt* of 22 January, 'Arrest du Conseil d'Etat du Roy qui donne cours aux anciennes et nouvelles especes à proportion de neuf cens livres le marc d'or et de soixante livres le marc d'argent', permitted the free movement of specie out of France and at the same time laid a 10 per cent penal tax on the importation of specie and bullion into France. Additionally, specie was cried up (*une augmentation*) from 56 livres to the marc to 60 livres, the louis-d'or being pushed up to 36 livres. The liberalization of specie movements out of France was a brave one consistent with Law's belief, as expressed in *Money and Trade*, that market forces should not be subject to interference. But it has been shown in analysing *Money and Trade* that there was always a tension in Law's economic thought between recognition of the primacy of market forces and, at the same time, consideration of interference in the market if the market forces were not producing the desired result. When the market started reacting against his System the liberal side of Law was replaced by Law the improviser and regulator.

Within six days the liberal policy on the export of specie was overturned by the *arrêt* of 28 January, 'Arrest du Conseil d'Etat du Roy pour la diminution des especes et matieres d'or et d'argent, et qui ordonne que les billets de la Banque auront cours dans tout le Royaume'. The preamble of this *arrêt* placed the blame for the change on people conspiring to destroy the System. It stated that, notwithstanding the advantages that the King had given to his subjects by raising the value of the coinage, a development which it was believed should have increased monetary circulation, the intended benefits had not materialized because certain 'ill-intentioned people' had been working to reduce the public's confidence by hoarding gold and silver. Thenceforth instead of encouraging an open monetary environment in which specie and bullion could be exported out of France, a series

of mandatory policies were introduced aimed at forcing the public to convert specie into paper money. Already the first hints of this new policy had been seen with the introduction of the 21 December *arrêt* limiting the use of silver coins to transactions of less than 10 livres and gold coins to transactions of less than 300 livres. The 28 January *arrêt* tried to make it more attractive for transactors to use banknotes while at the same time making it increasingly more difficult and dangerous to hold gold and silver. The first article stipulated a crying down of the specie (*une diminution*), with the louis-d'or reduced from 36 to 34 livres and the rest of the coinage *pari passu*. The objective of this measure was to encourage specie holders to convert specie into banknotes at the older and higher rate of 36 livres during a three-day period of grace permitted by article VI. This period of grace was extended to 10 February for Parisians, and 20 February for those in the provinces, by an *arrêt* of 31 January. There were further extensions to 20 February for Parisian residents and the last day of February for those living in the provinces by an *arrêt* of 9 February, and later still to the end of February for Parisians and 10 March for specie holders in the provinces by an *arrêt* of 20 February. The continuing extension of this period of grace showed the reluctance of the public to abandon, at this stage, its specie holdings despite the threat, under articles IV and V of the 28 January *arrêt*, of confiscation of gold and silver that had not been brought to the mint. By these articles the authorities were given the power to enter buildings, ranging from homes to palaces, in search of money that had not been brought to the mint, to confiscate such money and to have the hoarders punished. Article III prohibited the transfer without passports of coin and bullion outside Paris or those towns where there were mints. This article was meant to be draconian in its powers so as to prevent the export of specie from France, but it was loosely worded in that it could have been interpreted as applying only to the export of specie from Paris and those towns and cities that had mints. Ingenious individuals, living outside these zones, were presumably able to argue that article III did not apply to them. However, the *arrêt* of 31 January, 'Arrest concernant les monnoyes', tidied up this sloppy draftsmanship, banning the export of specie out of France from all areas without a passport. Thus one week the public could export its money from France, the next week it could not, and the authorities were permitted to enter and search its property and confiscate its money.

These restrictive regulations were further extended by an *arrêt* of 4 February, 'Déclaration du Roy portant deffenses de porter des diamans', banning the wearing of diamonds. The preamble to this *déclaration* discussed the way in which previous monarchs had attempted 'to repress luxury and the dissipation of our subjects' property . . . We are informed that recently a large number of all classes of people have spent a considerable part of their fortune in excessive expenditure on diamonds, pearls and precious stones.' The *déclaration* went on to address this problem by banning individuals from wearing diamonds, pearls, and other precious stones from 1 March at the risk of a fine of 10,000 livres and confiscation of such jewellery. Episcopal rings and precious stones used for church ornaments

were excluded from this ban. This *déclaration* was aimed at stopping Mississippi transactors from converting their gains into jewellery. Law, who had earlier noted the ability of the public to overcome regulations and prohibitions, should have known that once one type of purchase was blocked off the money would flow towards another channel. Transactors duly turned their attention away from jewellery to investing their gains in gold and silver 'objets d'art'. The regulatory riposte to this shift in expenditure was a *déclaration* of 18 February prohibiting the production, sale, or export of gold or silver objects above a certain weight. Jewellers were prohibited from producing, showing, or selling any gold object exceeding the weight of one ounce with the exception of archbishops' crosses, 'croix des archevêques'. So once again religious objects were excluded from this prohibition and once again human ingenuity ensured a lively new market in gold and silver crucifixes, chalices, etc. These regulatory measures just presaged the culminating measure of this month, the *arrêt* of 27 February, 'Arrest du Conseil d'Estat du Roy qui fixe à cinq cens livres les sommes que chaque personne & communauté ecclesiastique, seculiere ou regulier peut garder en sa possession; et ordonne la confiscation de l'excédent, ensemble des matieres d'or & d'argent qui seront trouvées en leur possession', which banned the holding of more than 500 livres in gold or silver by any individual or religious order as well as stipulating the confiscation of any excess discovered in the possession of an individual or a religious order.

The preamble of this *arrêt* suggested that the specie money supply in France was over 1,200 million livres but that the public was deprived of the use of the coinage due to the hoarding propensities of those people who had made fortunes. Rather than attempting to induce such money back into circulation, the *arrêt* aimed to remove specie from most of the channels of circulation, stipulating that specie holdings were to be limited to 500 livres per individual, with any excess confiscated and a fine of 10,000 livres levied on the offender. Exceptions to this provision were made for treasurers of the Crown and 'entrepreneurs des manufactures, & autres commercans' who would need to use larger amounts of specie providing that they received a written permission granted by the Controller-General of Finances (Law) in Paris and from the Intendants in the provinces. Furthermore the *arrêt* also stipulated that all payments above 100 livres were to be made in banknotes. Those caught breaching this regulation were to be fined 3,000 livres.

There were further provisions to ensure that gold and silver could not be held in safe keeping by religious orders with the law officers authorized to search any house or ecclesiastical property in which it was believed specie or bullion was hoarded. As had been the case with the Chambre de Justice, whose activities Law had condemned, there were provisions for informers reporting on breaches of these measures to be rewarded. These rewards were considerable with all the proceeds of any specie or bullion confiscations to be handed over in their entirety to such informers. Pulteney reported to Craggs the way in which the King's rooms and the houses of Law's brother, William, and that of the duc de Bourbon had

allegedly been searched, a charade designed to show the impartiality of the measures:

Since the arret for prohibiting that anybody should keep above 500 livres by them in specie the company's officers have searched several houses, and among others that of Mr. William Law to show their impartiality. They began with the King's Palace and searched his own apartments, they have likewise searched the Duke of Bourbon's but took care not to find any money, though it is known that the Duke has within this fortnight drawn out of the bank about 6 millions, having drawn out 6 millions in December last. The Prince of Conti would not suffer them to search his house. From a Curé of one of the parishes of this City they took 10,000 livres which had been sent to him the night before before by an unknown hand, to be disposed of by way of restitution. A gentleman whose house was searched having declared he had no money but 60 Louis in his pockets the officers took these from him.

These prohibitions on the holding and use of specie were part of an overall scheme for removing specie from circulation, replacing it with banknotes, and keeping the interest rate at a low level. They were designed to deter people from using, or wanting to use, gold and silver but they were also accompanied by incentives aimed at positively encouraging them to move out of specie and into paper money. These incentives centred around changes in the domestic exchange rate.

## Changes in the Domestic Exchange Rate

In Chapter 11 the role of the domestic exchange rate, that is, the rate relating specie to the money of account, was discussed. There it was shown that in France domestic exchange-rate changes were far more common than in Britain, as successive monarchs resorted to them as a device for either increasing their revenue or reducing the national debt. Law used the domestic exchange-rate changes produced through devaluations and revaluations of the money of account, not for fiscal reasons, but to increase the attractiveness of banknotes *vis-à-vis* specie and to achieve his long-term objective the demonetization of specie. There were three distinct stages in his use of domestic exchange-rate changes to achieve his monetary objectives:

- (1) When he launched the first paper banknotes of the General Bank, the *billets-écus*, he guaranteed their value in terms of a specific quantity of specie. After Desmaret's revaluations (*diminutions*) there was a belief that a devaluation of the money of account (that is, a raising of the value of the coinage) would be carried out. These devaluations meant that the coinage was worth more in terms of the money of account—and correspondingly the money of account worth less in terms of the coinage—and as the banknotes were guaranteed in terms of their metallic equivalence, the banknotes would be worth more. This maintained the attractiveness of banknotes.
- (2) However, Law was not interested in maintaining in circulation these banknotes

fully guaranteed, though only partially backed, in terms of their specie equivalents. It served only as a temporary phase of the grand design which aimed to create a paper money freed from the shackles of gold and silver. By January 1719 when the circumstances were propitious for the launch of a new currency variant, the Royal Bank, successor to the General Bank, started replacing the *billets-écus* with the *billets-livres*. The expectation at this time was that a revaluation (*diminution*) of the money of account was imminent. It was therefore better for money holders to opt for banknotes (*billets-livres*), which would be worth more after the revaluation than gold or silver. The veneer of some type of real asset backing was maintained in that the *billets-livres* were repayable in silver money, but, unlike the *billets-écus*, the quantity of silver money to be repaid was not specified.

- (3) The third phase of Law's operations started in the summer of 1719 and gathered pace during the early months of 1720. In the initial stages it involved an attempt to reduce the value of gold and silver relative to banknotes, ultimately followed by a policy announcing the complete demonetization of gold and a phased series of reductions in the value of silver.

From May 1719 the price of gold had been progressively reduced. Taking the louis-d'or (25 to the marc) as the representative gold coin, and, the écu (10 to the marc) as the representative silver coin, Table 15.1 shows the way in which the coinage was changed in terms of the money of account, the livre, between May 1719 and December 1720. During the year 1719 the louis-d'or had been reduced from 35 livres in May to 31 livres in December. Silver was also reduced but by a lesser amount. This policy was aimed at making banknotes more attractive than specie for the public. It obviously was not enough for, as shown above, the louis- d'or was raised to 36 livres by an *arrêt* of 22 January 1720 followed by the threat of a reduction to 34 through an *arrêt* of 3 February. Again this reduction must have been deemed to have been ineffective as the louis-d'or was raised to 36 by an *arrêt* of 25 February and, exceptionally, by 33.3 per cent to 48 livres on 5 March, the silver écu being pushed up from 5 livres, 13 sols, 6 deniers on 3 February to 8 livres on 5 March.

The 5 March measures, part of a complex *arrêt*, 'Arrest du Conseil d'Estat du Roy concernant les billets de banque, les actions de la Compagnie des Indes, le cours des especes, et le prix des matieres d'or et d'argent', which included the fixing of the share price of the Mississippi Company at 9,000 livres, were designed to send a clear message to specie holders, namely that a further set of reductions in the gold and silver price was imminent and that it was in their interests to convert specie at these higher rates into banknotes immediately. The threatened reductions were announced on 11 March by a

Declaration du Roy pour abolir l'usage des especes d'or au premier May prochain; et pour indiquer les diminutions sur lesdites especes, à commencer du 20 du present mois pour Paris, et du premier Avril pour les Provinces. Pour abolir pareillement au premier Aoust prochain l'usage de toutes les especes d'argent, à l'exception des sixièmes & douzièmes d'ecus, et livres d'argent.

February 22	9,545 livres
23	9,545 livres
24	9,345 livres
27	9,120 livres
28	8,505 livres
29	7,825 livres.



Pour indiquer les diminutions sur lesdites especes, à commencer du premier Avril aussi prochain.

Et pour ordonner qu'à commencer du premier May prochain, les sixièmes et douzièmes d'écus, ensemble les livres d'argent diminueront de prix chaque mois jusqu'au premier Decembre, auquel jour elles demeureront fixées, scavoir les sixièmes d'écus et livres d'argent à dix sols, et les douzièmes d'écus à cinq sols.

This *déclaration* introduced a completely new order, for not only was gold to be reduced from 48 to 36 livres on 1 April but it also stipulated that gold would be demonetized on 1 May. Silver was to be progressively reduced in value from 8 to 7 livres (1 April), to 6 livres, 10 sols (1 May), to 6 livres (1 June), and so on by 10 sols a month through to 1 August when all the silver coinage with the exception of the *sixièmes* and *douzièmes d'écus* would also be demonetized. The theorist of the *Essay on a Land Bank* and *Money and Trade* was implementing as policy his belief that gold and silver were not necessary as circulating media in an economy. They could be supplanted by the use of banknotes. Law was planning to leave France specieless.

## The Pricing of Shares

The contradictions and hesitations that had been earlier manifested with respect to the policy on the export of specie and bullion also manifested themselves concerning the pricing policy of Mississippi shares between 22 February and 11 March. Initially Law seemed determined to withdraw the share support operations carried out through the *bureau d'achat et de vente* by an *arrêt* of 22 February which suppressed this office. A couple of weeks later this policy was abandoned when the 5 March *arrêt* guaranteed a floor price of 9,000 livres for each Mississippi share. Attempting to understand this *volte face* is difficult, and it needs to be discussed in the context of Law's overall macroeconomic policy during the spring of 1720, for Law at this time was attempting to control three variables, the rate of growth of the money supply, the interest rate (through control of the company's share price), and the domestic exchange rate. Law's manœuvring needs to be outlined on three crucial dates on 22 February, 5 March, and 11 March.

On 22 February there had been a further general meeting of the Mississippi Company's shareholders which gave rise to an *arrêt* the next day, 'Arrest du Conseil d'Etat du Roy concernant la Banque & la Compagnie des Indes', incorporating a number of important measures. In the first place the Royal Bank was officially taken over by the company. Secondly, under articles V and VI, the King ceded to the company his holding of 100,000 Mississippi shares, in return for which he was immediately credited with a deposit at the Royal Bank for 300 million livres and a commitment by the company to pay him 5 million livres a month over a ten-year period starting January 1721—an extra 600 million livres (far less if

accounting for it in net present value terms)—making a total of 900 million livres. This seemed to value the King's shares at 9,000 livres a share, as compared with the market price of 9,545 livres on 22 February. By this measure Law was enabling the King to liquidate partially his holdings of the company's shares at a relatively high price. From the company's viewpoint it was beneficial in that it removed 100,000 shares from the market, and meant that, in theory at least, it would be easier for the company to meet its dividend payments on a smaller share base.

Having catered for the King's shares, Law was in a position to introduce the third and most important measure, namely the abolition, under article XI, of the company's office for the purchase and sale of shares (*le bureau d'achat et de vente*). This office had been established as a result of a decision at the annual general meeting of the company on 30 December 1719 to control the price of the shares. Crawford, the British representative in Paris, explained the reasoning behind this decision in a letter dated 3 January 1720:

to stop the disorders in the rue de Quincampoix they have ordered two offices to be set up at the Banque, one for selling and another for buying actions [shares] according to the prices to be set up upon the Banque every morning, by which means they have in a manner fixed the price for some time and spoiled the trade of stock jobbing. Our Exchange Alley folks that are over here are apacking up to return. The prices put up yesterday for the first time were for buyers of old actions 1880 sellers D[it]to: 1865; for buyers of new subscriptions 910; de benefice, sellers 900.<sup>22</sup>

Between 30 December 1719, when the *bureau* was established, and 22 February 1720, the company had purchased 800 million livres of its shares. Taking an average price for the stock during this period as 9,300 livres Du Tot estimated that this involved the company's *bureau d'achat et de vente* purchasing around 85,000 shares.<sup>23</sup> These statistics show that the *bureau* had been extensively used to purchase the company's shares in order to maintain the share price at a high level. As a result, the printing presses of the Royal Bank worked overtime.

Paradoxically, at the very moment that the Royal Bank's operations were formally merged with those of the company, the previous policy of bolstering the share price was abandoned. The *bureau d'achat et de vente* was shut down and the shares were left to find their own price in a free market. Consistent with this new policy, article II decreed that there was to be no further issue of banknotes unless authorized by *arrêts* of the Council rendered as a result of the deliberations of a general meeting of the company. It seemed as if Law had recognized that he had erred in over-expanding the money supply in order to support the company's shares and that a new policy of retrenchment was required. From then on the company's shares would no longer be supported artificially and the money supply no longer expanded. Law's Pauline conversion did not last long and his retrenchment policy had an extremely short life.

The measures taken at the company's 22 February meeting—at which, incidentally, Law's brother William was appointed one of the nine new directors of the

company—produced a dramatic decline in Mississippi shares. They fell by 26 per cent within a week, as Giraudeau's series shows:

22 January	Free movement of specie and bullion out of France until the end of February.
28 January	The 22 January regulation countermanded. Export of specie and bullion prohibited.
31 January	Reinforcement of the regulation of 28 January prohibiting the export of specie and bullion.
4 February	Prohibition on the wearing of diamonds and precious jewels.
18 February	Prohibitions on the production, sale or export of gold or silver objects.
27 February	Specie holdings limited to 500 livres per person. All payments above 100 livres to be made in banknotes.
11 March	Provisions for the demonetization of gold and silver.

Reaction to this sharp fall in the price of shares was swift, with princes, courtiers, and the *petite bourgeoisie* protesting against the measures which had caused them substantial paper losses. Pulteney's letter to Craggs on 8 March 1720 summarizes the type of discontent that had arisen as a result of the fall in the price of shares and the way the public was starting to react in a negative fashion to policy changes:

A day or two before this arret [that of 5 March] came out, the public had advice that something was to be done to raise the sinking credit of the stocks and to please the people, who were extremely uneasy and discontented, upon this report stocks began to rise. But if this arret was intended for that purpose, it has certainly had very ill success, since the stocks are fallen lower than they were, the actions being offered at market for 700 [i.e., 8,500 livres], though the Arret declares the bank will receive and give bank bills for them at 800 [i.e., 9,000 livres] after the 20th of this month; but the diffidence of the people is grown so very great, that they suspect some new arret will be published before the 20th to retract that engagement.<sup>24</sup>

Within less than a fortnight the 22 February measures had been repealed by this *arrêt* of 5 March, article II of which fixed the price of shares of the company at 9,000 livres a share and article V of which created a *bureau de conversions* which would, from 20 March, convert shares into banknotes and vice versa at the price of 9,000 livres. Thus the earlier policy of allowing the price to be determined by market forces was reversed. The *bureau de conversions* was just another name for the *bureau d'achat et de vente*. More significantly Law, by providing a guaranteed price of 9,000 livres per share, was monetizing the shares of the Mississippi Company.

Du Tot expressed considerable surprise at this change in policy, reminding readers of the extent to which it was contrary to earlier decisions that had been taken by Law:

It is really astonishing that the author of the system adopted this approach, for he must have understood better than anyone all the danger that the purchase of shares and the excessive expansion of the banknotes that this purchase would necessarily occasion, weakening credit and generating alarm everywhere. Had he forgotten that he was in some way responsible because he had made it the state's money, and that it was not the same situation with respect to the shares, the subscriptions and the options, the price of which was only determined by public opinion? Did he not remember the express condition that he had inserted in article II of the *délibération* of 22 February last and of the *arrêt* of the 24th that *there would be no further expansion of the banknotes except by virtue of decisions taken at a general meeting of the company,*

and in article XI of the same *délibération* stipulating *that there would no longer be the offices for the purchase and sale of shares etc.*?<sup>25</sup>

Du Tot went on to explain that Law could have greatly reduced the banknote issue by obliging share subscribers to pay their outstanding commitments in banknotes. The dilemma Law faced was that banknotes were universally held whereas shares, even though possessing a greater value (the shares being valued at that time at 4.9 billion livres as against 1.1 billion of banknotes in circulation), were only held by a small section of the population. From this Du Tot surmised:

It is then clear that the state would lose more than four times the value if the shares were lost rather than banknotes, and that the welfare of the state demanded that the share be given preference, which proves that this operation which had been regarded as an inexcusable folly, appeared otherwise to those who examine the object and the motives.

Thus either on account of this equitable motive, or either because the author of the system was driven by an extreme desire to reestablish promptly the state's affairs by the total extinction of its debts, or either finally if one wishes, out of consideration and in recognition of the shareholders who through the confidence that they had shown in his operations had produced all his successes, he decided to protect the shares and to sacrifice the banknotes, and to maintain their price he had them bought and sold openly at a price of 9,000 livres each.<sup>26</sup>

The dilemma in all of this was that the 5 March measures were directly opposed to those announced on 22 and 24 February when it was promulgated that the bank-note money supply would be limited to 1.2 billion and the offices for buying and selling shares (*bureau d'achat et de vente*) were to be closed down, thereby serving notice to the market that the share support policy had been abandoned. Yet, within a fortnight, all the good intentions of controlling the money supply seemed to be thrown to the winds. It was manifestly evident that guaranteeing the share price at 9,000 livres meant sacrificing the earlier intentions of controlling the money supply. Was Law himself the originator of the 5 March *volte face* or was he a victim of circumstances, an unwilling accessory in these measures which ultimately led to the collapse of the System?

The problem becomes more complicated when examining the 'Déclaration du Roy' of 11 March stipulating the demonetization of gold and the phased devaluation of silver. The preamble of this *déclaration* stated that it was designed to secure 'a reduction in the price of commodities, to uphold the public credit, to facilitate circulation, to increase trade and to favour manufacturing', lofty objectives indeed. It stipulated the reduction of the louis-d'or from 48 livres—the level to which it had been raised on 5 March—to 42 livres on 20 March, to 36 livres on 1 April, and then to be demonetized completely on 1 May. Silver was to be progressively reduced in monthly instalments from, in the case of the écu ('10 au marc') from 8 livres to 7 livres on April 1, to 6 livres, 10 sols on 1 May, to 6 livres on 1 June, to 5 livres, 10 sols on 1 July. Silver was to be officially demonetized on 1 January 1721. Was Law pursuing a long-term objective of driving specie totally out of circulation and replacing it with a paper money system?

Notwithstanding the seeming success of the 11 March *déclaration*, the seeds for the destruction of the System were well and truly in place. The 5 March *arrêt* guaranteeing shares at 9,000 livres had effectively monetized those shares still held by the public. The re-opening of the bank's *bureau d'achat et de vente*, now known as the *bureau de conversions*, ensured that shareholders could convert their shares into banknotes. These measures implied that there was no control over the money supply, despite the commitment not to expand it in article II of the deliberations of the company at its annual general meeting of 22 February. Furthermore, if one believed that the 11 March measures were destined to be successful, then the paper money supply (banknotes and shares) was being revalued relative to gold and silver on a monthly basis! Indeed consistent with this possibility there was a further *arrêt* of 19 March banning the import of silver and gold specie and bullion into France. This was to ensure that foreigners would be unable to make speculative gains by importing such gold and silver into banknotes and then converting back into silver, when the banknotes were worth a great deal more in silver, at a later stage during the year.

## 16 The Lull Before the Storm

Though the seeds of its eventual destruction had been sown through the contradictory measures of late February and early March, the System was still perceived as viable by many people in the second half of March. Law's followers believed that he would be successful in imposing his paper money system on the French and that paper money would rise considerably relative to a devaluing silver. There was, as will be shown, a definite trend on the part of the public to exchange its gold and silver for paper money. One person who differed on this issue was the banker Richard Cantillon. Cantillon, who made a fortune during the early run on Mississippi shares, had left Paris for Italy in mid-August of 1719 believing that the System had over-heated and that it was close to collapsing. This prediction proved wrong as Mississippi shares pushed up from an early August price between 3,000 and 3,500 livres to over 10,000 livres in January 1720.

On his return to Paris in the spring of 1720 Cantillon became more convinced than ever that Law's System could not hold and that there were considerable gains to be made by speculating against the French currency.

Some of Richard Cantillon's British clients, strong believers in Law's seemingly divine ability, attempted to make speculative profits by selling sterling bills of exchange for French livres, anticipating that the French livres would be worth a great deal more silver by the end of the year. Then by converting the French livres back into sterling they would make speculative gains on the French currency. In *Richard Cantillon: Entrepreneur and Economist* I argued that Cantillon took a diametrically opposing viewpoint.<sup>1</sup> Cantillon felt that Law's policies were inconsistent. Law's debt-management objective induced him to pursue a low interest rate policy by keeping the interest rate at 2 per cent. At the same time he was expanding the money supply because of the guaranteed floor price of 9,000 livres per Mississippi share, and he was also, via the domestic exchange-rate changes, revaluing this expanded money supply relative to gold and silver. How could one reduce the interest rate, expand the money supply, and revalue the currency simultaneously? Cantillon realized that Law's centre could not hold and took a strong speculative position against the French currency, an action that caused Law to have him expelled from France.

But did Law himself recognize the inconsistency that Cantillon had identified? So far the theme of this book has been that Law was an outstanding monetary

theorist. If this was the case why did Law seemingly falter at this stage in the System's history?

Making sense of Law's policies at this time, in February and March 1720, is a difficult exercise. One may adopt a number of different approaches. The first and easiest approach would be the relatively simple one of acknowledging that Law made a number of serious errors through the policy moves of 5 and 11 March. This is the approach of Edgar Faure, who suggested that Law's policy became dominated by the mad plan ('le plan fou') of solving the national debt problem and that this had created a fault line in the System from as far back as late August 1719. Guaranteeing the share price at 9,000 livres by the 5 March *arrêt* was consistent with his debt-management objectives but it made it impossible to have any form of monetary control. A second approach would be to consider these policies as consistent with Law's main objectives of expanding the money supply, reducing the rate of interest, alleviating the burden of the state's debt, and replacing specie with paper money. A third approach to consider is the conspiracy approach, namely that Law's policies were hijacked and distorted by some powerful cabal which had the objective of destroying him and the System.

In my opinion it may be argued that the second and third approaches to the issue are not mutually incompatible. It would be naïve to expect Law to have a clear run to develop his System particularly as it involved the attempted destruction of two very powerful groups, the financiers and the *rentiers*. As Law's policies went from success to success these two groups realized that he was displacing them and that there would be no room for the financiers or *rentiers* in Law's completed System. It has been argued above that Law's System constituted a financial revolution and the groupings that fed off the old financial system of the *ancien régime*, the financiers and the *rentiers*, backed by the Parlement of Paris, needed to attack him in order to protect their financial vested interests. The conspiracy approach was a natural outcome of the apparent success of Law's policies.

It has been earlier shown that Law felt it necessary to address two crises in France, a financial crisis and a monetary crisis. The financial crisis had manifested itself in the form of an excessively high level of state indebtedness and the attendant problem of high interest rates. The monetary crisis was caused by an insufficient money supply. The two crises were interlinked, as will be shown below, and it was these linkages that forced Law initially to pay more attention to the financial crisis than to the monetary crisis. He believed that he needed to solve the financial crisis prior to addressing his efforts to the monetary crisis. From this perspective it may be argued that Law had a dual strategy: (1) to address the financial crisis by solving the debt-management problem, even though this involved temporarily sacrificing the Royal Bank, and (2) to restore monetary order once the debt-management problem had been solved.

Law's contemporary and retrospective analyses of the System, as well as the writings of both Du Tot and the author of the 'Histoire des finances', confirm the priority that he attached to the debt-management issue. His contemporary analysis

of the System is to be found in the letters which he addressed to the *Mercur de France* on 21 February and 11 March 1720.

In the first of these letters, later translated and published in English, 'Letter to M.\*\*\* on the New System of the Finances, and particularly on the Reimbursement of Annuities', he expressed pleasure at his correspondent referring to his work as a system and further contended that there was an inherent logic and set of principles governing his policies:

I am pleased with your calling it a System, a name which perhaps no state did ever give to the administration of its finances; and indeed, whereas that administration, when improved to the greatest height by able ministers, was only a method of receipts and disbursements in better order, here you have a chain of ideas which support one another, and display more and more the principle they flow from.<sup>2</sup>

Law was maintaining that he had revolutionized the French finances by replacing them with his System, the internal logic of which he was slowly unfolding. What was this System achieving at this point in time?

This . . . having credit for its soul, the only fountain of circulation and plenty, pays the King's debts by suppressing taxes, and turns his Exchequer, which had lost its credit by borrowing money, into an office for lending it.<sup>3</sup>

To Law the principal sources of economic activity were land and trade. However, he felt that investment in these areas was hampered and blocked by the borrowing and lending techniques in force at that time, most notably by the presence of annuities (*les rentes*). Law wanted to see money invested in trade and the agricultural sector but this, he believed, was not happening because of the nature of the financial instruments used. While short-term credit could be arranged through letters of credit (*lettres de change*) and promissory notes (*obligations*), the principal way of borrowing long term was through the creation of annuities (*rentes*) either in the form of life annuities (*rentes viagères*) or perpetual annuities (*rentes perpétuelles*). Law was critical of the way in which the lender of money, through an annuity, could specify the area in which the money was to be invested, generally the acquisition of property or an office (*les charges*), and the extent to which such loans precluded investment in trade. "The lender stipulates that his money shall not be employed in any part of trade, but settled upon a particular estate in land."<sup>4</sup> Furthermore, even if it was lent against the security of land it was generally the case that the net revenue from the land was lower than the interest of the annuities, 'so that we may affirm in general, than no man will charge himself with paying annuities, but either to rid himself of some incumbrance, and that often but for a very small time, or out of a ruinous vanity which disturbs the peace of so many families.'<sup>5</sup>

There was a knock-on effect in that the interest rate on the annuities was so high that it generally caused servicing problems for the borrower, and this in turn affected the credit rating of the lender when the borrower became unable to service the debt. Law believed that the annuities were blocking the channels of credit



in France, limiting the areas in which money could be lent, and exacting an excessively high rate of interest from borrowers when such contracts for annuities (*constitutions de rente*) were made. The *rentes* created by the state also bore an excessively high interest rate which an over-indebted state was in no position to pay.

In a detailed analysis of Law's policies between February and May 1720 the anonymous author of the 'Histoire des finances pendant la Régence' held that Law's initial objective was that of debt management and that, contrary to Law's later viewpoint, the Scotsman maintained the price of shares at 9,000 livres in order to fulfil this debt-management objective:

Mr Law believed that this enormous quantity of debt, which was crippling France, was the biggest obstacle to the abundance which it was capable of generating, and that to generate this it was necessary to begin by abolishing the annuities . . . Mr Law, judging at the time that it would be impossible to maintain [the banknotes], wished to maintain the price of shares, by having them bought at 9,000 by the bank, so that this multiplication of banknotes would spread everywhere and would reimburse the remaining amount of debt that was outstanding . . . Following on this he had planned to introduce order and simplicity into the finances and to reduce credit to its appropriate limits, where it would have been very stable. If he had excessively pushed it at that moment, it was because this excess was necessary to cure the excessive wounds of the state. But, after the cure, only a limited credit was necessary, capable of maintaining its health and force. The project was conceived in this way. But Mr Law did not explain it and despite the representations that were made to him, he persisted in buying shares, which caused a multiplication of banknotes and his own loss. He sacrificed the reputation that he had acquired, through the establishment of his bank, whose collapse was imminent, to his extreme desire to restore promptly the state's finances through the extinction of the debt.<sup>6</sup>

Later on in this text the same author explained that Law had realized for some months that he could not maintain the value of banknotes and that he took the decision to expand them further so as to resolve the debt problem:

The credit of the bank had been altered and it was only maintained by necessity and authority. Mr Law had foreseen for some months that it would be impossible to maintain it. Because of this he decided to multiply banknotes by the purchase of shares so as to force all debtors to realize the payment of their debts, and it was, so to speak the last service which he expected then from these banknotes.<sup>7</sup>

Once this debt-management objective was achieved then it was the moment to retrench by reducing the money supply. If you accept this author's views, and it must be remembered that he was significantly influenced by Law's own writings on these issues, then the unfolding scenario between February and May 1720 had a certain logic in that Law had realized that the System was overextended and that he could not guarantee the value of banknotes and shares. Initially, he decided to sacrifice the banknotes so that he could at least fulfil his debt-management objective by converting all the state's debt (including the high interest costing annuities) into ordinary shares of the company yielding 2 per cent. After he had transformed

the debt in this way he intended restoring order to the monetary system by reducing the value of banknotes and shares through the 21 May *arrêt*.

Writing retrospectively it is evident that Law recognized the inconsistencies in the policies adopted in early March 1720. Was this a wiser Law after the event, or was he, as he maintained, pushed into these policies by forces outside his control? Law himself is not all that clear in his retrospective writings in 1723 on these developments, as may be seen by comparing the ‘*Mémoire justificatif d'avril–mai 1723*’, addressed to the duc d'Orléans, and the ‘*Mémoire justificatif de mai 1723*’, sent to his friend the marquis de Lassay.

In the first *mémoire* Law was trying to convince the Regent to invite him back to France so that he could have another opportunity at setting up a ‘credit system’. He pleaded that the circumstances of France were such between 1716 and 1720 that he was obliged to pursue a debt-management strategy. If all that had been necessary was just the establishment of a bank then, he contended, it would have been easy for him to succeed: ‘My project was not limited to the establishment of a public credit; if I only had this as an objective, it was easy for me to succeed at it. . . but I had even bigger objectives.’<sup>8</sup> The imbalanced nature of the state's finances and its indebtedness was perceived by Law to be a major constraining factor to France's economic development:

If the King's revenue was equal to his expenditure and the other parts of the State were in order, I would have been happy to have established the General Bank and the Indies Company and I would have been able to maintain them. But given the state of the Kingdom it would have been impossible to maintain them because the Minister, not having sufficient funds to meet even the most necessary expenses, would have caused the Bank to fail having used it on a number of occasions to help him. He would have done the same with the Indies Company . . .

It was therefore necessary for me to restore order to the King's affairs, without which I could not have hoped to maintain the credit of the Bank and the Company.<sup>9</sup>

The above suggests that he felt that the restoration of order in the finances and debt management were necessary conditions for his System to succeed. Taking this approach there is a certain logic to his attempts to convert all of the state debt into shares of the company. But while this conversion operation seemed to necessitate a high market price for shares, how long did Law wish to sustain this high price? Not for very long, according to him in the second *mémoire* of 1723. In this ‘*Mémoire justificatif de mai 1723*’, the second part of which, as he explained to the marquis de Lassay, was to show what was lacking in ‘my system’, it is apparent that Law wanted to disassociate himself from the 5 March *arrêt*, particularly article II, which guaranteed the price of shares at 9,000 livres, and article IX, which stipulated that the banknote was a money which could not be altered in value (‘une monnoye qui n'est sujette à aucune variation . . .’). Law, reflecting retrospectively on this episode, suggested that he had not favoured fixing the share price at 9,000 livres, and that, furthermore, once this decision was taken he should have been allowed to change the value of shares and banknotes:

But having fixed the price of shares at 1,800 [i.e., 9,000 livres], having monetized the stock of shares by obliging the Bank to convert them into banknotes at this price, the banknotes being money and convertible into specie, it was necessary to allow him the control of these forms of money so as to maintain the correct relationship between them.

Fixing the price of the shares had considerable implications because it made the shares money, and it was no longer possible to stop them being subject to those variations that would be judged necessary for specie.

If it had not been determined to pursue this latter approach, it was necessary to refuse the former, as it could not be sustained by the latter.<sup>10</sup>

One of the most contentious points in the 5 March *arrêt* was article IX which declared that ‘the banknote is a money which is not subject to any variation’. Law disassociated himself from this article on two occasions in this *mémoire*, arguing that he believed in the market forces of supply and demand and that such a philosophy was not compatible with attempts to fix the value of money:

With respect to the article which promised that banknotes would be unchangeable, *I am saying that it had nothing to do with Mr Law*. His principles are that the value of all things vary according to the quantity of the good, or in the demand for it in the uses in which it is employed. Hence he was unable to promise that the banknotes would be invariable, this was to promise an impossibility. (Emphasis added)<sup>11</sup>

This inconsistency was also highlighted by the author of the ‘Histoire des finances’:

Banknotes had been inappropriately declared to be invariable money . . . in reducing money it was necessary to reduce the banknotes, without which there would have an impossible gap to fill. In fixing their price at 9,000 livres, payable in banknotes by the bank, shares had become a type of money. These banknotes were convertible into silver; hence all this stock had equal qualities to assist trade and it was not possible to vary the value of silver without varying those of banknotes and shares.<sup>12</sup>

Not only was Law seemingly totally against this notion that the banknote was unchangeable in value, he also took steps to ensure that this policy would not be maintained when, some two months later, he was responsible for the famous *arrêt* of 21 May. The combination of the 5 March *arrêt*, fixing the price of shares at 9,000 livres along with the guarantees against domestic exchange-rate changes provided for the banknotes, and the 11 March *déclaration*, with its draconian directives reducing, and eventually demonetizing, the value of gold and silver, made the measures of 21 May inevitable.

This still leaves a contentious issue to decide as to whether Law had originally intended combining the 11 March *déclaration*, providing for the quick demonetization of gold alongside the phased devaluation and ultimate demonetization of silver, with the 21 May *arrêt* aimed at reducing the value of both banknotes and shares. Certainly Law argued this point at a later date:

I have amply demonstrated that the *arrêt* of 21 May 1720 was firmly based on principles, and that it would have strengthened Mr Law's System if it had been followed. *Monseigneur*

*the Regent had examined this arrêt two months before it was brought to the Council.* His Royal Highness was *au fait* with this matter, understanding it better than anyone and had approved it. It would have been a lot happier for France if those who made sure that this *arrêt* was revoked had given the same time to it as the Regent in order to reflect on the consequences of what they were seeking. [Emphasis added]<sup>13</sup>

By 1723 at least Law was under no doubt about the inner contradictions of the measures that had been taken on 5 and 11 March 1720:

If Mr Law had pretended maintaining the price of shares and banknotes, by making money stronger, every reasonable man would have judged that he did not understand money and credit and that it was his intention to trick the public.

Credit can only be sustained by maintaining it in proportion to specie.<sup>14</sup>

One wonders whether this is a more moderate Law retrospectively assessing where he went wrong rather than the Contrôleur-Général des Finances of March 1720 who, consistent with his earlier espoused principles in the *Essay on a Land Bank* and *Money and Trade*, believed that the monetary system could function perfectly well without a metallic anchor. Or was it a case of Law, who still had ambitions to return as a policy-maker to France in 1723, deliberately presenting a more moderate approach in order to curry favour with an audience that had learnt by experience to be more cautious about the merits of a specie-less paper money system? Law, as we have seen in some earlier episodes, particularly when attempting to establish a bank in France in 1715, was quite prepared to hide his more grandiose schemes in order to win over the more conservative elements who opposed his plans.

Du Tot's interpretation of the events during these crucial months between February and May laid emphasis on a conspiracy theory, arguing that a nameless group, referred to as 'the enemies of the System', 'a cabal', or 'les gens mal intentionnés', was fully intent on destroying Law's work and forced through the 5 March *arrêt*: 'the enemies of the system who counselled the purchase of shares or the *arrêt* of 5 March and not its author [Law] as some people believed.'<sup>15</sup> He described the 5 March *arrêt* as 'the mortal blow' to the System, while continuing to maintain that Law had been forced, against his judgement, to acquiesce in this measure. A powerless Law, he maintained, was forced to act like an army general obliged to miss an occasion to rout his enemies because of secret and confidential orders not to do. Meanwhile the army, unaware of the orders, accuses him and thinks him guilty. Law was obliged for *raisons d'état* to bow to pressure without being able to say it: 'Likewise Mr Law being forced into this policy measure, he ordered it without daring to say that he was uninvolved in it except for obeying it.'

The 5 March *arrêt* guaranteeing the price of shares at 9,000 livres combining with the 11 March *déclaration* stipulating the phased devaluation of silver and the demonetization of gold were the final measures to destabilize an already delicately balanced financial situation. The guaranteed share price meant that no control could be exercised over the banknote issue, which Law had earlier, in February, tried to limit to 1.2 billion livres. The banknote issue was expanded by another 1.5

billion livres as a result of *arrêts* of 26 March, 5 April, 19 April, and 1 May. The public held 2.1 billion livres of this authorized note issue of 2.7 billion livres on 22 May.<sup>16</sup> This meant an increase of 94 per cent in the public's holdings of banknotes between February and 22 May 1720.

Table 16.1. Shares Held in May 1720

Shares issued	624,000
Shares purchased by the Mississippi Company between 19 December 1719 and 22 February 1720	100,000
Shares purchased by the Mississippi Company between February 22 and 21 May	300,000
Shares paid in to the Royal Bank	30,000
Shares held by the public on 21 May	194,000

To this total of banknotes in circulation one needs to add the value of shares held by the public. As shares had a guaranteed price of 9,000 livres and could be converted easily into banknotes, they had become monetized. Here many authors, such as Pâris-Duverney, tended to make the mistake of taking the total amount of shares issued, namely 624,000 shares, and multiplying it by 9,000 livres to give a total of 5.6 billion for the monetized value of the shares. Even Du Tot, normally so fastidious in providing every available statistic on the System, erred by taking the total value of the shares at their market price minus the amount paid up on them.<sup>17</sup> In reality the actual amount of shares held by the public was a great deal smaller than this, as the 100,000 shares belonging to the King had been sold back to the company, and the company had also been involved in substantial purchases of shares of some 300,000 from the public. Levasseur calculated that the public held only 194,000 shares on 21 May.<sup>18</sup> Daniel Pulteney, mentioning a later *arrêt* of 4 June 1720, indicated that 300,000 shares were in the hands of the company and that another 100,000 belonged to the King.<sup>19</sup> This confirms Levasseur's estimate that less than 200,000 shares were held by the public.

Taking these 194,000 shares at 9,000 livres gives a monetized value of 1.8 billion for the shares. Adding the 2.1 billion of banknotes actually held by the public, the total stock of paper money (banknotes plus shares) amounted to 3.9 billion. The specie money supply was estimated at between 1.3 and 1.6 billion livres by Du Tot. In the *Réflexions politiques* he cited an estimate of 1.3 billion livres at 65 livres to the marc,<sup>20</sup> whereas in the Poitiers manuscript he gave a higher estimate of 1.65 billion livres.<sup>21</sup> Pâris-Duverney disagreed with the size of the former estimate, contending that a great amount of specie had already been exported from France and that the specie money supply was considerably below 1.3 billion livres.<sup>22</sup> One would tend to agree with Pâris-Duverney here, and even assuming that the specie

money supply was 1 billion livres may be an overestimate. Taking it as a benchmark, it may be seen that Law's paper system was some four times greater than the specie money supply. An expansion of the money supply of this magnitude, albeit considerably smaller than many commentators of the System have estimated, was unsustainable, particularly with paper money legally appreciating against silver owing to the 11 March *déclaration*.

Ironically, for a while the System seemed to work, particularly over the last two weeks of March. The legal prohibitions on holding substantial quantities of gold and silver, allied with the apparent monetary disincentive of holding coins which were falling in value each month, encouraged some members of the public to exchange gold and silver for banknotes. Du Tot's statistics indicate that between 12 and 30 March some 40 million livres of gold and silver were exchanged for banknotes in Paris alone,<sup>23</sup> though Forbonnais contended that this was a small amount relative to an estimated gold and silver money supply of 1.6 billion livres.<sup>24</sup> Faure has noted that Du Tot's statistics related only to Paris, whereas the statistics from the provinces show that about 50 million of specie was cashed into notes during the month of March and the first two weeks of April.<sup>25</sup> While the overall total of some 90 million may still seem small relative to the estimates of specie supposedly in France at this time, the trend is of some significance. Specie was flowing into the bank, and some transactors seemed to have accepted that paper money was useful and could be fully used as a medium of exchange.

The immediate success of the measures in attracting specie into the bank was confirmed by Pulteney who suspected that Law's objective was to abolish the use of gold and to minimize the use of silver to small transactions in the French economy. If one accepts Pulteney's account then it supports the view that Law's objective at the time was the demonetization of specie and its replacement with paper money. Pulteney also believed that Law had a hidden agenda to drain Britain of all its silver:

The people continue to carry their gold and silver to the Bank and the bank bills are now preferred in all payments to coin, even at Lille and other places, where they were lately at a considerable discount; so that Mr. Law says he shall now gain the most important point in his System, which was to draw into his Bank all the gold and silver of the Kingdom; to suppress entirely the use of the gold coin, and to allow no more silver than is absolutely necessary for small payments and to support the circulation of the Bank bills. The rest of the silver is to be employed in such foreign trades as cannot be carried on without it, or as Mr. Law may propose to beat us, and the Dutch out of it by that means: The gold is to be sent abroad to turn the balance of the exchange and to purchase all the silver than can possibly be got; commissions for this purpose are to be sent to Genoa, Cadiz, Amsterdam and London. I am told that Mr. Middleton, the Goldsmith in the Strand, who is Mr. Law's agent and banker has already heaped up in his house very considerable quantities of silver. The extraordinary advantage which might be made by sending gold and silver here according to the present exchange between us and France and the high price given for it at the Bank and the Mints will no doubt occasion the melting down of a great deal of our silver coin. But to prevent us as well as other strangers from making the utmost advantage this way and at the

same time to hinder the importation of gold, an arret [that of 19 March] is published to prohibit under very severe penalties any person except the Company from importing into this Kingdom gold or silver in coin or otherwise to the end of December next when several directions for bringing the gold and silver here to the same standard as in other places will be completed.

Mr. Law has said that he will drain us of all our silver. I beg leave to submit to your consideration whether it might not be necessary for us on this occasion to lower the price of gold, that since we cannot hinder the exportation of silver Mr. Law may at least pay the full value for it, which he would not do at present according to the proportion in price between the gold and silver. If this be proper I believe you will think it should be done immediately.<sup>26</sup>

Pulteney's superior in Paris, the British ambassador, Lord Stair, in a letter to Lord Stanhope dated 12 April, also expressed misgivings about Law's policy towards Britain. He stated that Law was sending gold both to Amsterdam and London with the objective of purchasing South Sea stock, then selling it in such a way as to cause the market to crash, and converting the proceeds into silver so as to cause exchange-rate problems.<sup>27</sup>

Pulteney, writing on the same day to Craggs, recounted Law's alleged conversation the previous evening:

Mr. Law speaking last night about the rise of our stocks said we could not stand it six weeks and that we are at the mercy of three or four persons in this city. I am assured that besides the concern Mr. Law, his brother and others here have in our stocks on their private accounts, Mr. Law has great dealings in them on account of his Company; that thirty millions of livres have been sent to Holland and employed this way, besides what has been done directly from hence to London. Mr. Middleton, the goldsmith in the Strand, is Mr. Law's chief agent in these matters and I am told Monsieur Pleneuf has a share in the management. I will endeavour to know the other agents: I am assured likewise that the value of 200,000 £ st in gold is to be sent from hence tomorrow for London consigned to Mr. Middleton. You may depend on it that Mr. Law's design is to make such a strong and sudden push on our stocks as we may not be able to stand and he thinks himself sure of success.<sup>28</sup>

Some eight days later Pulteney once again expressed his fears recounting that he had information from Calais that 12 million livres in gold had been shipped from there to London on 12 April and that this cargo was 'not the first cargo which has been sent from thence, and is not to be the last; besides what may have been sent by way of Holland'. Lévy, using archival sources at the Archives des Affaires Étrangères in Paris, has confirmed that there were considerable sums of gold sent from Paris to Amsterdam.<sup>29</sup>

As there were prohibitions on the holding of more than 500 livres of specie it seems safe to surmise that the exports of specie and bullion were officially authorized by Law. What was the plan behind such exports? Was he speculating against the British currency or was he attempting to take a strong speculative position in South Sea shares as was the story reported to the abbé Dubois on 1 June? By this account Law had bought South Sea shares, in a variety of different names, for

more than £1.5 million sterling, but the Company having discovered this allegedly took action to neutralize any selling by Law by buying up the shares that he was offering for sale.<sup>30</sup> Piossens, writing around April 1720, reported that Law had bought £800,000 sterling worth of shares in the South Sea Company when they were priced at between 150 and 160.<sup>31</sup> If this story was correct then Law had bought into the South Sea shares, which would peak at 1,050 later on that summer, early in 1720. Or was Law sending the money to London just to meet margin calls on the short positions that he had taken in wagers against both the East India Company and the South Sea Company? This latter account seems more likely. Though Law would not have bought South Sea shares in his own name, there is no evidence from Middleton's papers that he was a buyer of South Sea stock.

It is impossible, due to the destruction of the company's accounts and the disappearance of all Law's notarial acts, to determine the extent to which Law may have been acting on his account or on behalf of the company in these transactions. We do know that Law had speculated in private against the British shares. On 29 September 1719 Law, disdainful of British stocks, or wishing to be seen as such, sold Thomas Pitt, Earl of Londonderry, £100,000 of East India stock at a price of £180,000 for delivery by August 1720. The contract was formally acknowledged in a contract note drawn up by Law's banker, George Middleton of the Strand, London:

London 15 February 1719/20

I do hereby acknowledge that there is deposited in my hands by Mr. Law, Director of the Royal Bank at Paris, the sum of thirty thousand pounds in performance of a contract made and signed betwixt the Rt. Hon. my Lord Londonderry and the said Mr. Law at Paris the 29th of September last whereby the said Mr. Law is to deliver up or cause to be delivered to the said Lord one hundred thousand pounds English East India stock upon the 25th day of August next old stile, he the said Lord Londonderry paying or causing to be paid for the said stock the sum of one hundred and eighty thousand pounds in money the said thirty thousand pounds being the deposit agree by the contract to be made by Mr. Law.

G. MIDDLETON.

March 23, 1720 There is deposit in my hands the further sum of ten thousand pounds more by Mr. Law on account of the above mentioned contract.

G. MIDDLETON.<sup>32</sup>

East India Company stock was priced at £192 on 30 September 1719.<sup>33</sup> Law was betting on the price of the stock falling as investors diverted their money out of British shares into the Mississippi Company. He evidently did not foresee the British following his example when permission was given, in early 1720, to the South Sea Company to take over the national debt. This produced a similar frenzy of speculation in Exchange Alley to that experienced in the rue Quincampoix. As a result of the rise in the price of South Sea shares, other shares such as those of the Bank of England and the East India Company also started to rise. This meant that Law's short position in East India stock started to show considerable losses as the South Sea Bubble gained momentum during 1720. The wager may be likened to a type of futures contract with Law making an initial payment of £30,000, followed by margin call payments, such as that of £10,000 on 23 March 1720, as the



price of British East India stock rose. Earl Hamilton in the 1960s estimated that Law lost \$970,000 on this particular wager.<sup>34</sup>

Not content with having such a sizeable and increasingly costly wager with Londonderry on East India Company shares he also took over, in April 1720, Joseph Gage's wager with Lord Londonderry on the future price of East India stock:

Mr. Law has taken on himself Mr. Gage's wager with Lord Londonderry about our East India stock on the consideration of £140,000 [corrected the next day by Pulteney to £100,000] paid him by Mr. Gage, and has since offered to lay 1 to 10 for any sum that the said stock will be under 100 in August next.<sup>35</sup>

This type of substantial and high profile wager—everyone in Paris and London seemed to be aware of them—may have been marketing and public relations exercises inspired by a desire to present Law's utter confidence in his System as well as his dismissal of any potential opposition in Britain. They were, however, wagers for huge sums of money, suggesting that Law was overweeningly confident in his own prophetic abilities. The banker at the faro tables would have played this type of hand with greater caution. He could have covered his position by selling it, or, alternatively, by purchasing the amount of East India Company stock that he promised to deliver. Law did neither. His uncovered position became more and more exposed as East India stock rose to 290 at the end of May and 420 at the end of June. The Londonderry wager was to cost him a fortune and cause him considerable difficulties for the rest of his life. The silver holdings, which he and his brother William built up at Middleton's bank, amounting to 438,586 ounces (valued at £120,611. 3s. 0d.) were used to partially discharge money outstanding on the Londonderry wager.<sup>36</sup>

The increased speculative activities of the public incited at least one clergyman to rail against what was happening in a small pamphlet, *Décision théologique sur les actions de la Compagnie des Indes*. No date or place of publication is given for this work but the internal textual evidence suggests that it was written in April 1720. Piossens in the *Mémoires de la Régence* referred to it in late April 1720, suggesting that it was published around this time.<sup>37</sup>

The theologian was extremely critical about the state of mind that the System had created: ‘The talk is only of millions and many millions; anything below this is counted for almost nothing and indeed consists only of a fragile paper susceptible to a thousand accidents.’<sup>38</sup> It is easy to see from this account how the term millionaire came to be coined for the lucky Mississippi speculators. He attacked the activities of share dealing, providing a colourful account of the frenzied buying and selling in the rue Quincampoix where people could barely move due to the numbers trying to trade: ‘shares, old and new, mothers, daughters, granddaughters, options . . . banknotes, all drugs whose price change from one moment to the next.’<sup>39</sup>

The rarity of this work is easily explained. Law and the Regent did not like opposition to the System. The *Décision théologique* was excessively critical of

shares and the capital gains and losses that were made on them. It is not surprising to learn from Defoe that orders were given to have the pamphlet confiscated and burnt:

They have seiz'd here in a Booksellers' Shop 2,000 copies of a book entituled, Religious Conclusions upon the Morality of the Actions; that is to say, in plain English, a censure of the irreligious practice of stock-jobbing. That book falls upon the general scheme of the East India Company and upon Mr. Law himself; it alledges that all contracts made in the Quincampoix Street are void, in their own nature . . . 'tis given out the author is to be prosecuted by the Lieutenant Criminel, and the book will be burnt by the hand of the hangman.<sup>40</sup>

Piossens remarked that 'this writing made little impression on those involved in this trade. No religious principles will hold in a miserly soul against the hope of a considerable profit.'<sup>41</sup> Mammon would continue to dominate; the speculative activities and gambling on the Mississippi System, and also increasingly on British shares, was set to go further.

# 17 The Measures of 21 May 1720

I saw him [Law] alive, I saw him dead, I saw him alive after his death.  
(*Journal et mémoires de Mathieu Marais*)

While Law and his followers may have been taking positions on South Sea and East India Company shares and futures, as well as in commodities such as copper and tobacco, there was a far greater task that needed to be undertaken.<sup>1</sup> This involved his efforts, postponed from March if we believe Law's retrospective account, to cool down the overheated financial system in France. There was too much paper money, in the form of banknotes and shares, in circulation, resulting in the paper-driven financial economy moving seriously out of line with the real economy. Even though there had been a considerable growth in the real economy it could not keep pace with the excessively rapid growth of the financial economy. The financial economy needed to be cooled down and brought back into line with the real economy. Law presented his financial proposals to dampen the financial economy on 21 May in the 'Arrest du Conseil d'Etat du Roy du vingt-unième May 1720 concernant les actions de la Compagnie des Indes, & les billets de banque'. The date is significant in that it was the Tuesday of the Whitsuntide holidays with most of the members of the Regency Council absent from Paris in their country châteaux.

The preamble of this *arrêt* once again contrasted the lamentable economic state of France at the end of Louis XIV's reign, as epitomized by a bankrupt exchequer, high interest rates, and a stagnant commercial and agricultural environment, with the improved state of affairs that Law's System had brought about. Even when announcing bad news Law wanted to relativize such bad news by recalling the financial state of the economy at the start of the Regency.

The objective of the 21 May *arrêt* was to reduce the prices of both banknotes and shares so as to re-equilibrate them with the reduced prices for gold and silver as decreed by the *déclaration* of 11 March. By virtue of article I of the 21 May *arrêt* the price of shares was to be reduced on a phased monthly basis from 9,000 livres to 5,000 livres on 1 December, a reduction of 44 per cent. Article II stipulated that banknotes were to be reduced on a phased monthly basis by 50 per cent during this same period. The proposed monthly reductions are set out in Table 17.1.<sup>2</sup>

In the previous chapter it was shown that, on 21 May, the public's holdings of shares amounted to 1.8 billion livres (194,000 shares at 9,000 livres each) and the

Table 17.1. Proposed Reductions in the Price of Shares and Banknotes, May–December 1720 (Livres)

	Share of 9,000 reduced to	Banknotes of 10,000 to	1,000 to	100 to	10 to
Day of publication, 22 May	8,000	8,000	800	80	8
1 July	7,500	7,500	750	75	7.10
1 August	7,000	7,000	700	70	7
1 September	6,500	6,500	650	65	6.10
1 October	6,000	6,000	600	60	6
1 November	5,500	5,500	550	55	5.10
1 December	5,000	5,000	500	50	5

quasi-authorized banknote issue was 2.7 billion livres—although the public's actual holdings of banknotes were only 2.1 billion at this point in time. The term ‘quasi-authorized note issue’ is used deliberately. The various *arrêts* governing the creation of new banknotes stipulated a total issue of 1.2 billion livres. Law's bank had actually printed 2.7 billion livres of banknotes of which 2.1 billion livres were held by the public on 21 May. There had to be a number of retroactive *arrêts* to sanction this note issue. There is even reason to believe that the Regent, by 21 May, had only been informed of the bank creating 2.1 billion livres of banknotes and that, on discovering that another 600 million had been created, he went into a fit of rage against Law.<sup>3</sup>

By the measures of 21 May Law intended reducing the value of shares to 1.1 billion livres and the value of the quasi-authorized banknote issue to 1.35 billion livres. Overall this meant that he was trying to take 2 billion livres out of the system by reducing the broad (non-specie) money supply, that is, banknotes issued and shares held by the public, from 4.5 billion livres to 2.5 billion livres.<sup>4</sup> This amounted to a cutback of 44 per cent in the issued broad money supply.

Article III permitted taxpayers, those paying the ‘tailles et autres impositions’, along with those subscribing for annuities, offered through the *arrêt* of 16 May, to obtain the pre-21 May value of their banknotes up to January 1721. It is difficult to envisage how this provision would have worked, for it would have created a twotiered market for banknotes, as those used to pay taxes were valued at the pre-21 May prices and those used for ordinary everyday transactions were valued at the lower prices stipulated by the 21 May *arrêt*.

The ‘Lettre au sujet de l'arrêt du conseil d'Etat du 22 mai 1720’, published though not circulated, provides an explanation of Law's thinking on the 21 May measures. An English translation of this text was published as ‘A Letter upon the Arret of the Council of State, dated the 22nd of May, 1720’. The French text was probably not circulated because of the speed with which the 21 May *arrêt* was

revoked, and more importantly, because it admitted that there had been a fundamental inconsistency in the System since 11 March. The revocation of the 21 May *arrêt*, on 27 May, aimed to re-establish the *status quo*. How could such a *status quo* be re-imposed if there was a semi-official letter in circulation explaining the way the system was flawed? Harsin included the French text in the *Œuvres*, believing the work to have been written by Law. I would agree with him as to the authorship of this text, as the type of reasoning advanced seems very much to be in Law's style and, furthermore, no one else would have dared or have been allowed, at this juncture, to point out in a semi-official letter any deficiencies of the System.

The 'Lettre' presented three reasons for the 21 May *arrêt*. They may be paraphrased as follows: (1) It was necessary to establish a correct exchange rate ('une juste proportion') between banknotes and specie. This made it imperative to change from the former rate. If this did not happen the shares and banknotes 'must unavoidably have lost their credit'; (2) It was unreasonable to reduce the price of specie without reducing banknotes proportionately; (3) Silver is a division of the banknote, or rather the banknote is synonymous with silver. The banknote is a division and part of a share, therefore no change can happen in silver specie without equally affecting banknotes and shares.

This reasoning shows Law suggesting that there was an inconsistency in the System, namely, that the reduction in the value of silver, as stipulated on 11 March, had disproportionately increased the value of shares and banknotes relative to silver. It was impossible to maintain this relationship between paper money and silver and the measures of 21 May were aimed at restoring an equilibrium between specie, shares, and banknotes. Furthermore he rather startlingly argued that 'the *arrêt* does wrong to nobody'. The grounds for this claim were based on linking the 21 May reductions for shares and banknotes to the earlier announced reductions for silver as contained in the *déclaration* of 11 March. Silver was to be reduced by the latter measure to half its value. The phased reduction of banknotes to half their value, as stipulated by the 21 May *arrêt*, would restore the previous exchange rate between silver and banknotes:

The Arret does no wrong to the bearer of the Bank bill [banknote], all that he could desire was to have the same quantity of bullion as he carried to the Bank or the Mint. He will have just the same. He carried in his silver at the rate of sixty, seventy, and eighty livres a mark, which silver is to be reduced to thirty livres. The Bank bill is reduced only in the same proportion.

This Arret leaves the bearers of receipts in the same condition it found them. At the time when notice was given of their reimbursement, the mark of silver was at sixty livres and by consequence would be diminished one half. The bank Bill [banknote] will be diminished no more, and will yield them as many marks of silver as they would have had if they had been paid off in silver at sixty livres per mark. Besides, the bearer of receipts may get as much by them as he would have done at that time. He will have the very same number of actions [shares].<sup>5</sup>

Law was trying to prove that the *arrêt* of 21 May did not harm anyone as it was

just re-establishing equilibrium between the price of silver and banknotes. As to shareholders, he explained that they would still receive the same forecasted dividend of 200 livres. In fact he argued that as the dividend was to be paid in stronger money (that is at 30 livres to the marc instead of 60 livres to the marc), the shareholder would in real terms have double. Because the prices of banknotes and shares were being reduced, 'the actioner [shareholder] will be as rich with his share reduced to 5,000 livres, as he was before the Arret with 9,000 livres'. Indeed, elsewhere he maintained that as the envisaged reduction in shares was only four-ninths (from 9,000 to 5,000 livres), it was less than the reduction in the price of banknotes (50 per cent) and specie (66 per cent).<sup>6</sup> From a relative viewpoint shareholders were better off than holders of banknotes or specie.

Law was reasoning that logic dictated that the reductions in the price of specie had to be accompanied by reductions in the price of shares and banknotes. To illustrate this point he took the counter-example. Supposing he had doubled the price of the marc of silver, that is, to 180 livres, and doubled the price of the share to 18,000 livres. Would this, he asked, mean that the shareholder and the holder of banknotes 'be ever better than he is now? Undoubtedly no.'<sup>7</sup>

Specie had been reduced by the *déclaration* of 11 March stipulating phased monthly reductions in the price of silver specie. The 21 May *arrêt* reducing the price of shares and banknotes seemed to be the logical complement of this earlier *déclaration*. Indeed Law later insisted that he had written up the 21 May *arrêt* two months previously, in early March:

I have amply demonstrated that the *arrêt* of May 21 1720 was based on principles and that it would have steadied Mr Law's System if it had been followed. The Regent had examined this *arrêt* two months before it was brought to the Council. His Royal Excellency is well aware of this matter, he understands it better than anyone and had approved it.<sup>8</sup>

Law made this assertion in 1723 in a letter to his friend, the marquis de Lassay, at a time when he was hoping to be recalled to France by the Regent. He was hopeful that Lassay would pass this letter on to the Regent and, given his aspirations for a return to power, he certainly would not have tried to create a false impression as to the events of early March 1720 knowing that the Regent would probably be reading the contents of this letter.

Du Tot, though he may have been paraphrasing the 'Mémoire justificatif de Mai 1723', confirmed that Law had been planning this move for at least two months before it happened:

This is the operation that Mr. Law had thought about since March last when he foresaw that it was impossible to maintain the credit of the banknote, and that he was sacrificing it in favour of the share so as to put all the debtors in a situation of being able to free themselves.<sup>9</sup>

Forbonnais, though not a contemporary of Law's, independently argued that 'the project had been drawn up more than two months before its execution and sent to

the Regent'.<sup>10</sup> Forbonnais added that anyone who attributed the 21 May *arrêt* to Law's enemies knew little about Law's principles and was badly informed.

The evidence suggests that Law wanted to deflate the System and bring it more into line with the real economy in early March 1720, but that he was not permitted to do so. Why had the Regent hesitated so long before introducing a measure that Law believed to be a necessary and logical consequence of the measures of early March? The Regent may have been motivated by *raisons d'état* to delay these measures. Furthermore, if Law's emerging position on the need to have some link between paper money and specie is accepted, it implies that the Scotsman was moving away from the earlier vision of a specie-less French economy, relying solely on paper money, in the form of banknotes and shares, to a more limited one in which there was a place for specie alongside banknotes and shares. Ironically this change in approach emerged at a time when it seemed as if Law had convinced a large segment of the French public that there was no role for gold or silver in the economy.

The preamble to the 21 May *arrêt*, a manuscript copy of which exists in Law's handwriting, is revealing:

But despite the advantages which these establishments produced, the practices of ill-intentioned people who planned to destroy them obliged His Majesty to present the *arrêt* of his council of 5 March last to uphold the credit of a system that was so useful and necessary by abating the value of the currency. By this *arrêt* His Majesty transformed the different types of paper of the Company of the Indies into just one single type and ordered that the shares were to be convertible into banknotes, and the banknotes were to be converted into shares according to the fairest proportion with reference to the value of specie. This abatement of money and the great popularity of the shares allowed debtors to liberate themselves. The only thing his Majesty had to do then was to find some use for the sums which had been reimbursed to wards of the community hospitals and other deserving creditors and at the same time to re-establish the price of these moneys in a proportion which was suitable for foreign trade and to the advantageous selling of commodities. His Majesty fulfilled these various objectives through his *arrêts* and particularly through his *déclaration* of 11 March last which stipulates reductions in the price of specie. *But as these reductions must necessarily cause not only reductions in the price of commodities and household goods but also in the price of land and other real estate His Majesty judged that the general interest of his subjects required that he reduce at the same time the price or the numerical value of the shares of the Indies and of bank-notes so as restore these effects in a just proportion with specie and the other commodities of the Kingdom*, preventing the highest value of the specie from diminishing public credit, giving at the same time the deserving creditors means to employ more favourably the reimbursements which could be made to them, and stopping the losses which his subjects could have suffered in foreign trade. His Majesty opted the more willingly for this reduction in that it will be even useful to the owners of shares of the Indies and banknotes since the repartitions and dividends due on them will be convertible into strong money thereby producing a greater quantity of silver after the reduction than at present. [Emphasis added]<sup>11</sup>

This document not only shows that Law wrote the preamble of the 21 May *arrêt*, but, more importantly, it indicates his concern that the earlier measures of March

had created a disproportionate gap between the price of paper money and specie. Article IX of the 5 March *arrêt* declared that ‘the banknote was a money which was not subject to any variation’. The 11 March *arrêt* stipulated the progressive reduction in value and eventual demonetization of specie. As the banknote could not be reduced in value it would rise in value relative to specie, a situation which could not persist over the long run. Add to this the fact that the 5 March *arrêt* guaranteed the price of shares at 9,000 livres and provided a mechanism for shares to be converted into banknotes, and it is apparent that the System was destabilized by the measures of early March.

Law clearly recognized this in 1723 when he pointed out the inconsistencies of the March measures. He asked how one could monetize the shares at a price of 9,000 livres, guarantee paper money against reductions in value and at the same time reduce the value of specie:

But having fixed the price of shares at 1,800 [i.e., 9,000 livres], having monetized the stock of shares by obliging the bank to convert them into banknotes at this price, the banknotes being money and convertible into specie, he should have been allowed to regulate the different moneys so as to maintain a proper relationship between them. The fixing of the price of shares was of the greatest significance because it monetized the shares and one could not refuse to make them subject to the variations which would be judged necessary for coins.

If one was not prepared for this latter operation then the first should have been refused as this could not be sustained without the latter.<sup>12</sup>

His 1723 comments, discussed in Chapter 16, suggest that he was aware of this problem from March 1720 onwards. His argument was based on his value theory. As early as 1704 and 1705, in his *Essay on a Land Bank* and *Money and Trade*, he had argued that value was determined by supply and demand. He was contending that his principles on these issues had not changed when he was a policy-maker in 1720:

His principles are that the value of things varies according to variations in the quantity or in the demand for the uses of these things. Hence, he could not promise that the banknotes would be invariable, to do so was to promise an impossibility.<sup>13</sup>

Was this retrospective wisdom, or did Law effectively lose the first of his battles to dampen down the System in March 1720? If the latter hypothesis is correct, and it is the story advanced by Law and his apologist Du Tot, then the start of the collapse of the System may be dated to the period 5–11 March rather than 21 May 1720.

## Consequences of the Arrêt of 21 May

The consequences of the 21 May *arrêt* were wide-ranging. The immediate reaction to the *arrêt* was understandably one of public anger—initially, somewhat



muted due to the fact that members of the Parlement and many of the big Mississippians were holidaying outside Paris and were unaware of the new developments. The measures proposed seemed to shatter the dreams of those who had seen the stock market as the way of making a fortune. The *arrêt* stipulated reductions in the price of shares and banknotes. The market in shares, which peaked in January and had been stuttering around the guaranteed price of 9,000 livres in March, April, and early May, had been stopped short in its tracks. Daniel Pulteney in a letter to Craggs described the initial reaction to these reductions:

Two days ago an arret was published for reducing the actions [shares] of the company and the bank bills; the actions are from the date of this arret to be reduced from 9,000 livres each to 8,000 and by several subsequent reductions at the beginning of each month from July to December next are then to be brought to 5,000; the bank bills are reduced immediately 20 per cent and by further monthly reductions are to be in December at one half of the value they were given out at; the preamble to this arret represents the great miseries of France when the late King died and the wonderful advantages in all kinds it has received since by Mr. Law's schemes. This reduction is the more surprising since all the good of Mr. Law's System seemed to depend entirely on the credit of the bank and bank bills, which in so many arrets and in the Regent's speeches to the company, had been declared to be invariable. It was on this principle that they founded their measures to force all people to bring their money to the bank and take bills instead of it; and the actions of the company were by the arret in March last, which fixed them at 9,000, declared not to be subject to any future variation, the bank having besides engaged to buy and sell at that price; nothing but the utmost necessity can make any tolerable excuse for such a notorious breach of faith as this is, and if there were such a necessity it would prove very plainly that Mr. Law's Scheme and management hitherto have been entirely wrong . . . the heaviest loss falls on the people of this country and affects all ranks and conditions among them. It is not possible to express how great and general their consternation and despair have appeared to be on this occasion; the Princes of the blood and all the great men exclaim very warmly against it. It is in every-one's mouth that they are robbed of half they were worth, that it is the most notorious cheat that ever was committed and that it is very plain now that Mr. Law has as little capacity as integrity . . .

I am persuaded Mr. Law could not possibly have taken a more unwise step for himself than this will prove to be; I have been assured by a very good hand that the Regent said lately he was very sorry he had ever engaged in Mr. Law's Schemes. He expressed himself further on this subject in such a manner as to make the person he spoke to judge he would not be very unwilling to sacrifice Mr. Law to the resentments of the people.<sup>14</sup>

On the other side of the Channel, Destouches, the French ambassador in London, writing on 27 May, reported that the news of the 21 May *arrêt* had been badly received: "Those who are interested in our Mississippi complain with the deepest bitterness and the others look at France as ruined and beyond repair."<sup>15</sup>

How did the share price of the Mississippi Company react to these events? Surprisingly, as may be seen from Table 17.2, which lists the price of Mississippi shares in May, there was no precipitous collapse in the share price on the announcement of the 21 May measures. Paradoxically, it appears that it was the revocation of these measures that caused an even greater downward movement in

the share price. Table 17.2 shows that the share price was steady at 9,005 between 7 and 16 May. The market was then closed for the Whit holidays from 17 to 21 May. The 21 May *arrêt*, announced on 22 May, only caused the price of the shares to drop to 8,550 on 22 May and on 24 May the price range quoted was 8,100–8,500, suggesting that the initial effect on the price of the shares was not all that great. On 25 May the share price slid to 7,605. On 27 May, the day on which the 21 May *arrêt* was revoked, the share price was 7,475, a 17 per cent fall on the price that prevailed to the announced measures of 21 May. This was a relatively modest decline and does not suggest excessive panic on the part of shareholders to the news of 21 May. A partial reason for this may have been the growing confidence that the 21 May *arrêt* would be revoked. Balleroy, for example, reported on 27 May that there was a strong rumour of another *arrêt* being published the following day.<sup>16</sup>

However, the immediate reaction to this subsequent *arrêt* revoking the 21 May measures seems to have been far greater, with the share price dropping from 7,475 on 27 May to as low as 4,200 on 31 May, a drop of 44 per cent. Thus market sentiment seems to have been more adversely affected by the revocation of the 21 May *arrêt* than by its introduction. Part of this strong selling pressure may have been due not to the *arrêt* published on 28 May but to the measures accompanying it, which resulted in Law temporarily undergoing house arrest for a short period. It is noticeable that the share price picked up significantly when Law was restored to favour a couple of days later, though Pulteney contended that this rise seemed to be due to the distrust people had for banknotes rather than to 'any good opinion' about shares.<sup>17</sup>

As the share price moved downwards in the wake of the 21 May measures the resentment of the Parisian public bubbled to the surface. Buvat reported that there was public discontent on the morning of 22 May because the offices of the bank were found to be closed. This discontent was temporarily appeased by the bank opening in the afternoon, when banknotes were exchanged at the new rates. Within three days, however, a crowd appeared outside the bank throwing stones at it and breaking most of its windows. The reason for this was that the bank appeared to be having difficulty in paying for the banknotes, which led people to believe that it had run out of funds. Eventually in the afternoon it paid these bank-notes at the new rate which was 20 per cent below the old rate.<sup>18</sup>

The crisis was developing. It was stirred along by an extraordinary meeting of the Parlement on Monday morning, 27 May. The *Parlementaires*, as has been shown, had deep suspicions of Law and his System from the very start. They had remonstrated at the time of the establishment of the Company of the West in August 1717, protesting against the suppression of the 4 per cent interest on the *billets d'état*. In August 1718 they forbade foreigners, even those who had been naturalized, from any involvement in the management and administration of the royal finances—a measure specifically directed against Law—as well as demanding that the activities of the bank be restricted to those set out in its original charter. The

Table 17.2. Price of Mississippi Company Shares, May–June 1720

May 2	9,015	
3	9,015	
4	9,015	
6	9,015	
7	9,005	
8	9,005	
9	9,005	
10	9,005	
12	9,005	
13	9,005	
14	9,005	
15	9,005	
16	9,005	
17–21		holidays
22	8,550	publication of 21 May <i>arrêt</i>
23	8,250	
24	8,100–8,500	
25	7,605	
27	7,475	
28	6,075	publication of 27 May <i>arrêt</i> revoking that of 21 May
29	5,435	Law placed under house arrest
31	4,200–4,500	
June 1	5,320	
2		Law returned to power
3	5,780	
4	5,750	
5	6,210	
6	6,350	
7	6,247	

SOURCE: The statistics for May are derived from Du Tot, Poitiers MS., fo. 442. Du Tot's statistics between 2 and 24 May have been adjusted to show the full market price of the shares. From 25 May Du Tot quotes the full share price. The statistics for June are derived from Giraudeau's price series.

Regent reacted by calling a *lit de justice* which modified the powers of remonstrances of the Parlement significantly. In December 1718 the Parlement refused to ratify the conversion of the General Bank into the Royal Bank, but, because it had not presented remonstrances within the statutory eight-day period, its protest was overruled. When the Parlement protested the Regent arranged the arrests of three of its leading members. In May 1719 the Parlement, continuing its opposition to Law and his System, presented remonstrances against the Company of the West acquiring other companies and converting itself into the Company of the

Indies.<sup>19</sup> It had consistently opposed Law and his plans, but each time it resisted Law it had found its parliamentary wings clipped by the Regent. On 17 April 1720 it sent remonstrances protesting against the reduction in interest on the annuities to 2 per cent. Here once again it is evident that the *Parlementaires* were trying to protect the old financial system in which annuities (*les rentes*) played such an important role. Pâris-Duverney, one of the leading spokesmen for the old financial model, interpreted Law's System as one aimed at destroying the *rentiers*: 'the System was preparing the ruin of the State's old creditors.'<sup>20</sup>

The 21 May *arrêt*, along with the growing street protests against Law and the System, encouraged the Parlement to direct its attention on Law once again. On 27 May, according to Buvat, it passed an *arrêt* attacking the directors of the bank as fraudulent bankrupts and as such condemned to be hanged and executed. No evidence of this *arrêt* has been found and it seems likely that Buvat was exaggerating what had actually happened in the Parlement. Nevertheless there was strong discontent with the 21 May measures and very hostile feelings towards Law. The Parlement accordingly sent a deputation led by its President, accompanied by Aligre and Portail, and the abbés Pucelle and Menguy, to express its disapproval to the Regent about the 21 May *arrêt*.

This time the Regent bowed, at least temporarily, to the pressure of the Parlement. He told its emissaries that he was revoking the 21 May *arrêt* and also indicated that he wanted to re-establish the annuities on the Hôtel de Ville at an interest rate of 2.5 per cent. The following day, 28 May, the 'Arrest du Conseil d'Etat du Roy du vingt-septième May 1720 qui revoque celui du 21 May concernant les actions de la Compagnie des Indes, et les billets de Banque' was published, revoking that of 21 May.

This short two-page *arrêt*, obviously drafted in haste, emphasized that the 21 May *arrêt* had produced contrary effects to those intended and had caused considerable difficulties in trade. Though the title of this *arrêt* mentions both shares [*actions*] and banknotes [*billets*], the actual text only refers to the restoration of the value of banknotes to that prevailing before the *arrêt* of 21 May. Was this just a case of sloppy legal draftsmanship or was it still the Regent's intention to allow the share prices to be reduced in the manner specified in the 21 May *arrêt*? As it stood the *arrêt* only partially revoked that part of the 21 May *arrêt* specifying the reduction of banknotes. This seems to have gone over the heads of the public. The following day there was a further *arrêt* delaying until 1 July the reduction in the price of new silver coins as laid down by the 11 March *arrêt*.

Law was furious with the lack of support his measures received from the Regent and the duc de Bourbon. He later accused the Regent of being panicked into revoking the 21 May *arrêt*. He was also very critical of the attitude of the duc de Bourbon and others in the Regent's entourage to the 21 May *arrêt*:

When M. le Duc [the duc de Bourbon] heatedly demanded the revocation of the 21 May *arrêt* he believed that he was acting for the public interest. When M. [le] D[uc] harangued me in the Council he did not believe that he was acting against his own best interests. When

the different parties—the old court, the Keeper of the Seals, etc.—joined together to hang me each thought that it would improve the situation. They were wrong. The Regent who knew the situation better than anyone and who in his heart wanted to be fair to me, yielded out of fear of a greater ill. But he was wrong. For in not doing the half or even the quarter of what he was forced to do later he would have sustained the System in its vigour and would have been the greatest prince who ever ruled a state.<sup>21</sup>

The revocation, or partial revocation, of the 21 May *arrêt* appeared to herald the end of Law's career in France. His attempt to restore balance to the financial system had been thwarted. The Parlement seemed to have persuaded the Regent to abandon him. Law would later bitterly reminisce on the meeting of the Council of 27 May when it was decided to revoke the *arrêt* of 21 May:

Was he consulted when the *arrêt* of 21 May was revoked? He was present, he was well aware of the consequences of what was happening but his credit was lost, he was no longer listened to; he could not hope for it, the Regent himself was no longer the master. The Council, the Parlement and the people were against Mr Law. In one moment the nation was carried from extreme trust to extreme distrust . . . I must do justice to the Regent. This prince wanted to be able to sustain Mr Law and his system but he did not feel that he had sufficient force or authority to succeed in it. He was not the King, he was the Regent. His Royal Highness feared public disobedience and a general revolt against his administration by the great men and the people. All were opposed and His Royal Highness wisely remarked that a pillar could not resist the current of a river. Mr Law felt it like the Regent and when the Council rose he offered his resignation so as to calm his enemies.<sup>22</sup>

The currents were flowing strongly against Law, and the Regent was not prepared to jeopardize his Regency by protecting him from his enemies led by the Parlement.

British investors in Mississippi stock, living in London, were not reassured by these developments in Paris. Destouches, describing the market sentiment in London in the last week of May, reported that a group of the biggest investors had met and almost unanimously resolved to withdraw everything they had from France irrespective of the losses they might have to endure on such operations. They had sent express letters to their correspondents in Paris requesting them to remit their money back to England by bills of exchange, 'consenting to lose on the exchange up to 80 per cent if it was necessary, preferring to at least save, they say, twenty per cent than to lose all'. Destouches added that the recent news from France had caused the Royal Bank to lose all its credit, an unfortunate development in that its banknotes recently 'were starting to find favour'. Despite the bad news from France, shares in the South Sea Company had been on a 'bull' run over the previous couple of days, rising to 450 on the morning of 1 June. Destouches explained that this rise in the price of South Sea stock was linked to the fall in Mississippi stock:

Such a sudden and extraordinary increase arises not only from the rush of everyone to withdraw from France so as to invest in the stocks of this country for this manoeuvre is not just limited to foreigners but also to French people who are flooding in here with as much as

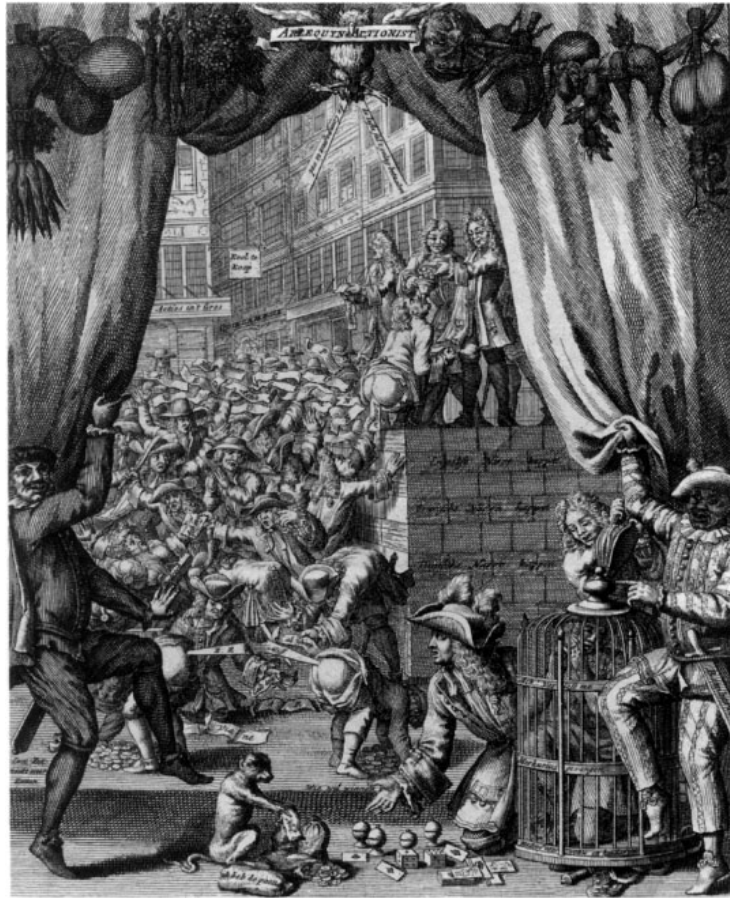
Pl. IV (a). 'The Bubbler's Mirrour: or, England's Folley.' This print starts with the lines:  
 Thus Fortune's Darling Glories in Success,  
 And boasts his Riches with a smiling face.



Pl. IV(b) 'The Bubbler' Mirrour: or, England' Folley.' This print starts with the lines:  
 Behold a Canting Miser who of late,  
 For twice the value sold a faire Estate.



Pl. V. Frontispiece of *Arlequin Actionist* (Harlequin Stockholder), a short play by Pieter Lagendyk (Amsterdam, 1720)  
256



they can carry and subscribing for or buying shares. Thus I see two things at the same time—the total collapse of our credit, and the rise of the British credit.<sup>23</sup>

Law would have had little time to reflect on the irony of the South Sea company, then modelled in large part on the Mississippi Company, rising in prominence while his own star was on the wane. The success of the ‘bull’ run in British shares was compounding the problems of the Mississippi Company as foreign investors shifted funds from the collapsing market in Paris to the booming market in London.

Law was, however, still receiving strong support from the duc de Bourbon and Henry Jacques de Caumont, duc de la Force, President of the Council of Commerce, two of the main beneficiaries of the System. According to contemporary reports the duc de Bourbon had been initially furious with the 21 May measures and their potential effect on the fortune that he had amassed through his shareholding in the Mississippi Company. Even an offer of 4 million livres from the Regent to appease him did little to control his fury.<sup>24</sup> Bourbon, motivated by self-interest, presumably worked hard to have the 21 May measures revoked, but, recognizing the vital role Law played in the System, attempted at the same time to ensure that the Scotsman continued to manage the company.

The duc d'Antin wrote on 28 May—the day on which the *arrêt* revoking the measures of 21 May was published—that Law proposed to the duc de Bourbon that a call of 200 livres be made on the company's shareholders payable in banknotes of 100 livres. Bourbon conveyed this proposal to the Regent at a meeting which was attended also by the duc d'Antin. The Regent gave the impression that he approved of this measure but Antin reported that the Regent seemed particularly tormented at this meeting. He felt the Regent was preparing to lay the blame on someone.

This someone turned out to be Law. On 29 May, two days after Law had offered his resignation to the Regent, the Secretary of State, Claude Le Blanc (1670–1728), brought him the news that the Regent, though grateful for all the services he had rendered, was dismissing him from the office of Controller-General. At the same time an officer commanding sixteen Swiss guards arrived with the alleged commission of protecting Law from angry members of the general public. Law was in disgrace and under house arrest. According to Saint-Simon, he took his dismissal and house arrest with his customary sang-froid,<sup>25</sup> though Law would later explain to Montesquieu that he lived in fear for his life for several days.<sup>26</sup> Simultaneous to Law's arrest, seals were placed on the administrative offices of the bank and three commissioners, Michel Robert Le Peletier des Forts (1675–1740), Félix Le Pelletier de La Houssaye (1663–1723), and Louis Fagon (1680–1744), were appointed to investigate the books of the bank.

All seemed lost for Law. Yet some doors were kept ajar. On hearing the news of Law's house arrest the duc de Bourbon rushed to meet the Regent who, consistent with Law's account, informed Bourbon that public pressure had forced him to remove Law from the office of Controller-General:



His Royal Highness told him that he could not resist the public pressure to remove Law as Controller-General; that he was having the accounts verified, that he was persuaded that they were good and in proper order; that he would see after that in what way he could serve him, being more convinced than ever that his system was good and that it was necessary to uphold the bank and the Indies Company at whatever price it would take; that Law had gone too fast and that the public was in horror of him.<sup>27</sup>

Saint-Simon, though not in Paris at the time, described the ‘comedy’ of the duc de la Force bringing Law that day to the front door of the Regent's chambers where the latter refused to see him. That evening the marquis de Sassenage, ‘premier gentilhomme de la chambre de Monsieur’,<sup>28</sup> talked to the Regent and was instructed to bring Law to the Palais-Royal by the back door. Antin wrote that this instruction was countermanded by a letter from the Regent written at five o'clock the next morning. Sassenage then had another discussion with the Regent which ultimately led to Law's appearance before the Regent. Law reported to Antin that he was very favourably received by the Regent and that he approved a whole range of ideas that he proposed to him concerning the bank and the company.

The Regent's initial reluctance to see Law shows the extent of the power struggle that was taking place. Law's enemies, according to Antin, were exerting huge pressure to have Law imprisoned in the Bastille. They seemed to be partially succeeding when Law was put under house arrest and inspectors were sent in to check the books of the bank. Law's friends, particularly Bourbon and de la Force, rallied to his side and attempted to counter the opposition to Law in the Regent's circle. Balleroy, who was close to Argenson, found that the news was changing so quickly with respect to Law that he had to re-open letters to include the latest news and that others were informing him that his interpretation of events was quite wrong. On 31 May he wrote: ‘I re-open my letter to tell you the latest news that is circulation: it is that M. Lass has been appointed *secrétaire d'Etat d'épée* with the inspection and general direction of the bank, whose funds and books have been found to be in very good order.’<sup>29</sup> The next day, 1 June, he reported that Law was out of favour and was to be replaced by Argenson: ‘you know it is no longer a question of Lass.’<sup>30</sup>

In this charged political atmosphere it was difficult for the ordinary courtiers to understand the complexities of the power struggle around Law. Mathieu Marais's version shows the extent to which Law's fate was in the balance:

There is considerable movement at the Palais-Royal for and against Law. No one knows what name to give him. The friends of the Regent, those called the *Roués*, are against him. Madame de Parabère, the Regent's mistress, only supports him feebly; but all the great lords, who greatly profited through him, are protecting him. Monsieur le duc [Bourbon] has been to see him on many occasions. Today he is triumphant, tomorrow beaten. He has as many friends beaten by as many enemies. *I saw him alive, I saw him dead, I saw him alive after his death.* He is as difficult to assess as a theological proposition.<sup>31</sup>

Law, ‘Lazarus-like’, emerged from the dead and re-integrated himself back into the power structure. Aside from the support he received from Bourbon and de la

Force, vociferous in their complaints to the Regent that it was Law's enemies who were destroying the economy, there was another pertinent reason for his return. Law was the only person in France who really understood the System. No one else could fully grasp the nature of the experiment that he was conducting on the French economy. Antin wrote that the Regent realized that 'the only man capable of taking him out of the labyrinth in which he found himself was Mr Law'. Law was needed to sort out the System, but first of all the bank's accounts had to be cleared.

The three commissioners sent to inspect the bank's books apparently did not find evidence of corrupt behaviour, according to the contemporary chroniclers. This verdict needs careful re-assessment. Le Peletier des Forts, formerly quite opposed to Law, had been won over to his side, according to Daniel Pulteney. Antin confirmed this, writing that des Forts reported that 'he had seen nothing to equal it, and that it was incomprehensible that an account of so many billions was in such a good state and all accounted for with *bordereaux*'. Within a few days des Forts for his efforts would be promoted to Controller-General in all but name. Le Pelletier de La Houssaye indicated that the commissioners had not sufficient time to pursue their examination of the bank's accounts, a polite way of extricating himself from making any adverse comments.<sup>32</sup> He would later, in December 1720, be appointed Controller-General. Fagon, who earlier, on 24 October 1715, had opposed at the Council Law's proposal for the establishment of a bank,<sup>33</sup> does not seem to have been happy with the findings of his audit and apparently made some disparaging remark about Law to the Regent. The Regent turned on him, remarking 'It is a cabal, this man is more correct and honest than you', and then dismissed Fagon from all of the positions that he held.<sup>34</sup> Though angry at that time with Fagon, the Regent seems to have remembered the former's reservations, for Fagon would later, in 1721, be appointed as one of the four councillors of state to act as receivers in settling the accounts of the bank and the company. In this role he turned out to be one of the great persecutors of the company.<sup>35</sup>

It is Faure's view, based on Saint-Simon and Antin's memoirs, that the inspectors sent to examine the bank's accounts discovered the extent to which the actual banknote issue exceeded the legally permitted issue and reported this back to the Regent.<sup>36</sup> The Regent then informed them that some of this unauthorized bank-note issue had been validated by secret *arrêts*—'arrêts de Conseil rendus sous la cheminée' or 'arrêts sous le manteau'. But even when consideration was given to these latter, Law had seemingly created further issues for 600 million livres of which even the Regent was unaware. There were, therefore, if this account is accepted, at least two embarrassing elements in the accounts for the Regent. These were (1) The extent to which Law may have over-issued banknotes, (a) with the Regent's consent and (b) without the Regent's consent; (2) The extent to which any of these unauthorized issues could be explained to a deeply hostile Parlement. Perhaps the Regent deemed it more appropriate to cover up what had been happening whilst officially creating the impression that the books had been examined

in depth. Was there a cover-up with respect to the bank's accounts? The promotions of Le Peletier des Forts to Controller-General in all but name and the later official appointment of Le Pelletier de la Houssaye as Controller-General in December 1720 suggest that the Regent may have bought their silence. Fagon's dismissal from his office for not conforming with des Forts and the silent La Houssaye seems to confirm this.

Des Forts expressed reluctance to be named Controller-General, an understandable attitude given the mob's hostility to the most recent holder of the office. Law in fact proposed that the British model with four people directing the Treasury be followed. This proposal seemed to have been accepted, for des Forts was appointed as head of this group with Jean-Baptiste de Gaumont (1663–1750) and Henry François-de-Paule Lefèvre d'Ormesson (1681–1756) appointed to work with him. A fourth person, Urbain Guillaume de Lamoignon de Courson (1674–1742) was appointed but never took up office.

Law, meanwhile, was working night and day attempting to sort out the problems of the bank and the company. He made a series of proposals to the Regent which the latter accepted. On 2 June, two days after his back-door entrance to see the Regent in the Palais-Royal, he was recalled to direct the bank and the company. The Swiss guards evaporated and he was given the title of Intendant-Général du Commerce, though, significantly, he was not reappointed Controller-General. Pulteney reported on the changed atmosphere:

The guard was taken off Mr. Law two days ago, and the Regent declared him Surintendant de tout le Commerce de France, Directeur General de la Banque et Compagnie et Conseiller d'Etat et d'Epee. Though he is not restored to the title of Contrôleur General there is no doubt that he will have all the power under the Regent who has said that he will be the Contrôleur himself . . . Mr. Law's fate is still uncertain though it is plain the Regent is inclined to support him, if he can safely do it, and it is thought he will influence the Commissarys a point to take Mr. Law's accounts to make a report in his favour. The Duke of Bourbon and the Prince of Conti who appeared at first very warmly against him, have since been to see him and to promise him their protection which the public does not scruple to say he purchases at a very high price. His friends endeavour to persuade the people that if Mr. Law is dropped his System must drop too, and consequently the whole nation be ruined and this opinion seems to prevail even with some who otherwise wish Mr. Law very ill but begin to look upon him and his System as a necessary evil. However, they reflect very much on the Regent for suffering things to come to this extremity.<sup>37</sup>

The market responded very favourably to Law's return to power, as Table 17.2 shows. The shares moved up from the 31 May low of around 4,200, to 5,320 on 1 June, to 5,780 on 3 June, and to 6,350 on 6 June.

A scapegoat, however, had to be found for the 21 May *arrêt*, even though Law seems to have been its main instigator. Attention was switched from Law to the man who had attempted to replace him, Argenson. During Law's house arrest Argenson had been pressing his own case with the Regent and had reported to Balleroy that he had been promoted to head the finances with the Regent acting as

Controller-General.<sup>38</sup> With Law's return to power Argenson, on Friday, 7 June, was dismissed and replaced as Keeper of the Seals by the formerly exiled Aguesseau. Such were the oscillations in the power structure at this time.

Pinning the blame for the 21 May *arrêt* on Argenson was quite an extraordinary development, showing the propagandist skills of Law and his highly placed friends. Though acknowledging, as has been shown, that Law was the author of the 21 May *arrêt* Du Tot believed that some members of the Council, informed of its contents prior to publication, had seen it as the ideal opportunity to bring about Law's downfall:

He communicated also this project to several members of the Council who greatly approved it, but in the bottom of their hearts they regarded it as the ideal opportunity to cause the downfall of its author, and from that moment they prepared their batteries so as to explode them on the publication of this *arrêt*.<sup>39</sup>

Argenson, described by the duc de Bourbon as having a soul 'as black as his wig', was listed by the duc d'Antin as one of Law's enemies at the Council alongside the Marshal Villeroy, the abbé Dubois, and M. de Canillac.

Argenson's timing was wrong in too hastily plotting Law's demise. Marais recounted the story that Argenson accused Law of attempting to flee from France, an accusation that Law was easily able to deny. Indeed Law went a great deal further, asking the Regent to send him as an envoy to entreat with the Chancellor Aguesseau to replace Argenson as Keeper of the Seals. The Regent acquiesced and Law was given the task of negotiating with Aguesseau to see, as Saint-Simon mischievously remarked, 'if he [Aguesseau] could be depended on to ensure that the wax [of the seals of office] could become softer in his hands'.<sup>40</sup>

Law, accompanied by the chevalier de Conflans, a cousin and intimate friend of Aguesseau's, travelled on 6 June to Fresnes to persuade the Chancellor to become the Keeper of the Seals. This was achieved, though Aguesseau exacted a promise from Law that he would consult him on all his future moves before implementing them. Aguesseau, who had also opposed Law's proposal for a bank at the Council meeting of 24 October 1715, had a sharp though conservative mind. He was sufficiently interested in monetary economics to draft a long *mémoire*, 'Considérations sur les monnaies', part of which seems to have been written in 1717–18, at a time when Law's proposals were meeting with the Regent's favour. This work, the other part of which was written after the collapse of the System, and may therefore reflect Aguesseau's unease with paper money, shows him to have been a profound metallist at heart.<sup>41</sup> Aguesseau, well reputed for his integrity and independence, would prove to be a difficult opponent for Law. The latter returned to the Palais-Royal on 7 June and informed the Regent that Aguesseau had accepted the seals. The abbé Dubois was sent to inform Argenson that he had been replaced as Keeper of the Seals.

Argenson was the only one of the members of the Regency Council listed by Antin as being hostile to Law who was sacrificed by the Regent. There is a certain amount of circumstantial evidence suggesting that Law may also have been part of

a group attempting to have the abbé Dubois removed from his powerful position. Rumours and reports were circulated in London in early June that the abbé Dubois had fallen into disfavour with the Regent. Destouches reported that these rumours had been spread by Lord Ilay, brother of the second Duke of Argyll.<sup>42</sup> Both Ilay and Argyll were friends of Law's. Later Dubois wrote that 'even though he [Law] had had a part, at least indirectly, in the mighty efforts of his very powerful cabal to isolate me, I have not lost all my contact with him'.<sup>43</sup> Political allegiances were shifting from day to day in the Palais-Royal, and while Dubois suspected Law of plotting against him he still had to stay close to the Scotsman in mid-July 1720.

Indeed, notwithstanding the efforts to have him demoted, the adroit abbé, the Minister of Foreign Affairs and Secretary of State, was further elevated by his consecration as Archbishop of Cambrai amidst great celebrations in Paris. Dubois later pointed out in a letter that he had been fêted by the Regent in the apartments of the Palais-Royal, on the day of his episcopal enthronement, before an invited audience of one hundred cardinals, archbishops, bishops, and courtiers. Furthermore, the Regent presented him with an episcopal ring worth forty thousand crowns.<sup>44</sup> Marais cynically remarked later: 'Law a Catholic and the abbé Dubois an archbishop are two of the big miracles of religion.'<sup>45</sup>

On 8 June there was a meeting of the Regent, accompanied by Villeroy, the newly promoted des Forts, Lefèvre d'Ormesson, and Gaumont, with members of the Parlement. At this meeting, which Law, significantly, did not attend, it was decided that annuities bearing a 2.5 per cent interest rate would be created. Law, even though back in power, was witnessing the beginning of the dismantling of his System. The Parlement had succeeded in forcing the rate of interest up above Law's target of 2 per cent. Despite Law's best efforts to suppress annuities and convert them into equity of the Mississippi Company, they were now offered once more to the French public.

Yet, from a short-term perspective, Law could look back at the previous fortnight with a certain amount of personal satisfaction. He had once again shown his powers of recovery. One moment fearing for his life, or a long-term incarceration in the Bastille, he had reinserted himself into the Regent's favour even though the latter would never have the same degree of confidence in the Scotsman that he had up to 21 May. Some of his enemies had been routed. Argenson had been sacked. On retiring to the convent of the Madeleine de Tresnel he was savagely lampooned on the walls of Paris as follows: 'Lost a big black dog with a red collar and flat ears. If found he should be returned to the abbess de Traisnel who will pay a reward for him.' Within a year he was dead. Fagon, who had been critical of Law in the presence of the Regent, had been removed from his office. The four Pâris brothers, one of whom, Antoine Pâris (1668–1733), the eldest of the brothers, had presented the Regent with an alternative plan to save the French economy in early May, were banished back to their native Dauphiné. Law remarked later to a friend in London that he had rescued the Pâris brothers from being disgraced by Argenson who had been plotting against them. However, after Argenson's downfall they had secretly

reconciled themselves with Argenson, conspiring to have Law eventually forced out of France.<sup>46</sup>

Joseph Pâris-Duverney's (1684–1770) account of what happened is quite different and shows, if one believes his version, the extent to which the Regent's support for Law was wavering and the manner in which Law used the duc de Bourbon to bolster this support. According to Pâris-Duverney the Regent was hesitating in May between a 'plan metaphysique' drawn up by Law, and advice that Pâris-Duverney had offered when his brother, Antoine Pâris, had been granted an interview with the Regent. Antoine Pâris had been very circumspect in the advice tendered because he feared that Law and his allies would not miss the opportunity to avenge themselves. The Regent, according to this account, unhappy with the interview, requested the comte de Nocé to instruct Antoine Pâris to prepare a written memoir on the financial situation. This he did with a strong recommendation to abandon the System. The Regent seemingly asked Law to inspect this anonymous memoir but Law, knowing that Antoine Pâris had met the Regent twice, quickly inferred the authorship of the memoir. He then seemingly redoubled his efforts to have the Pâris brothers disgraced, inferring that they were the enemies of the System. At this juncture the Regent was apparently accepting the advice of Antoine Pâris, but Law, as a last resort, persuaded Bourbon to intercede on his behalf and to demand the exile of the Pâris brothers. Initially the Regent refused to listen to Bourbon, insisting that the Pâris brothers were honest and hard workers, but, after further pressure from Bourbon, he acceded to his request. According to Pâris-Duverney the Regent said to Bourbon: 'You are demanding from me an unjust thing because these people have always served well and far from meriting exile they deserve to be rewarded.'<sup>47</sup>

Both Law's and Pâris-Duverney's accounts show the bitterness of the internal debate that was taking place, the indecision of the Regent, and the influence of Bourbon in helping to consolidate Law's shaky position. The Pâris brothers would, like Fagon, be brought back at the end of 1720 to act as the liquidators of the System.

By the end of the second week in June Pulteney was reporting that Law's friends were worried about his attitude:

Mr. Law's friends complain more than his enemies, that instead of being humbled by his late disgrace, he is grown more haughty and presuming than ever. This they fear will ruin him if nothing else does. He says he turned out Argenson, restored Aguesseau and will make further changes.<sup>48</sup>

Later, when assured that there was little possibility of spies reading his mail—he had sent the letter by a 'private conveyance as far as Calais'—Pulteney produced a more political interpretation of the events of the previous month inferring that the measures taken against Argenson, Trudaine, and the Pâris brothers, along with the restoration of Law to power, had been undertaken by the Regent not because of his friendship for the Scotsman but to protect the System:

The banishment of the Messrs. Paris, as well as the removal of Messrs. Argenson and

Trudene [Trudaine] from their employments are looked upon as strong proof of Mr. Law's influence with the Regent's but I am apt to think they are proofs only that the Regent is resolved to support the System at any rate for reasons which don't regard Mr. Law personally.<sup>49</sup>

If Pulteney's account is a correct assessment of the Regent's intentions then Law was living on borrowed time. He had been partially restored to his offices because he seemed to be the only person capable of understanding and controlling the System.

Despite Law's return to favour the dismantling of the System had started. The revocation on 27 May of the 21 May *arrêt*, the delay in reducing the price of new silver coins as signalled by the *arrêt* of 28 May, the abolition of controls on the holding of specie as stipulated by the *arrêt* of 1 June, and the return to annuity financing on 3 June were serious blows to the edifice that Law had created. Law was no longer Controller-General, at best he was a caretaker-general.

# 18 Law the Improviser

The System had overheated but Law had not been allowed to implement the measures which he had hoped would stabilize it. The revocation of the 21 May *arrêt*, quickly followed by the repeal on 1 June of the prohibition on the holding of more than 500 livres of gold or silver, meant that he was left to choreograph an improvisation against the backdrop of an increasingly hostile environment. Once again the Parlement had flexed its power and legal authority against Law, and there were demonstrations on the streets outside the bank protesting against its inability to provide more than a token amount of specie in return for banknotes. Share prices were falling and those Mississippians who had not already liquidated were protesting about the losses that they were encountering. In the Palais-Royal the rumour mills were working overtime. The Regent's ear was bent forwards and backwards as those for and against Law tried to gain his attention. It is a testimony to Law's own persuasive skills that he was able to hold on against this hostile background for another six months. It was to be a debilitating battle as the Mississippi Company was reduced in size and importance. With the passing of each month the price of shares of the company fell and the role of the Royal Bank and the bank-notes it issued was progressively diminished. The gradual dismantling of the Royal Bank may be tracked through the following synopsis, showing the progressive phasing out of banknotes and the restoration of specie:

1 June	The revocation of the prohibition on the holding of more than 500 livres in gold and silver.
3 June	The creation of annuities ( <i>rentes</i> ) with the objective of reducing the amount of banknotes in circulation.
13 July	The creation of up to 600 million livres of bank accounts to reduce further the amount of banknotes in circulation and to enable money to be transferred between account holders similar to the system in place at the Bank of Amsterdam.
21 July	By an <i>arrêt</i> of this date the Company of the Indies agreed to withdraw 50 million livres from circulation up to a total of 600 million over a year so that by August 1721 no banknotes would remain in circulation.
15 August	High denomination banknotes (10,000 and 1,000 livres) to be demonetized from October 1. Lower denomination notes would be legal tender until 1 May 1721.
15 September	Henceforth 10,000 and 1,000 livres banknotes could only be used for future payments providing half of the payment was made in specie. Bank accounts reduced to a quarter of their value.
10 October	Banknotes no longer legal tender with immediate effect for the payment of taxes and from November 1 for all other transactions.



These events show the extent to which Law was losing control and at the same time the way in which the old financial system was returning to favour, but it was not a continuously losing series of battles for Law. At times it looked as if Law was back in favour and successfully stemming the opposition to the System.

Initially, the war seemed to have been effectively lost for Law, during the period 27 May to 3 June, through the revocation, on 27 May, of the 21 May *arrêt*, through the publication of the *arrêt* of 1 June, which *inter alia* permitted the holding of unlimited quantities of specie and bullion, and through the reintroduction of the annuity financing sanctioned by an *arrêt* of 3 June. According to both Du Tot and the author of the 'Histoire des finances', the 1 June *arrêt* had been introduced by Law's enemies during Law's house arrest. It meant that holders of banknotes and shares were no longer limited to a maximum of 500 livres in gold and silver, a situation that had prevailed since the *déclaration* of 11 March. Thus at the very moment that Law was out of favour, his enemies, led by a revived Parlement, seized on the opportunity to have specie reintegrated back into the economy through the abolition of the prohibition on holding more than 500 livres in gold or silver. Law would later, as will be shown, mount an audacious challenge in mid-July 1720, at the very moment when the Parlement was forced into exile at Pontoise, to reintroduce the 500 livres ceiling on the holding of specie as part of a plan aimed at consolidating the essential elements of his System. In this critical period between 15 and 21 July Law almost convinced the Regent to introduce many of the essential features that he had attempted to put in place through the 21 May *arrêt*. In the interim prior to making this new proposal he was probably responsible for article V of the *arrêt* of 11 June stipulating that all payments of over 100 livres had to be made in banknotes. This measure was aimed at forcing traders with large transactions to use banknotes.

The rejection of the 21 May strategy implied that recourse had to be made to methods other than a stipulated phased reduction in the price of banknotes and shares in order to reduce the amount of paper money in circulation. The alternative strategy adopted was to withdraw a considerable quantity of the banknotes in circulation through the creation, by an *arrêt* of 3 June, of 500 million livres of annuities (*rentes*), subsequently increased to 1 billion livres, at an interest rate of 2.5 per cent. This banknote-reduction operation gathered momentum by virtue of the offer to convert 600 million banknotes into newly created current accounts at

the bank made through an *arrêt* of 13 July. In order to convince the public that the state was destroying a substantial part of the banknote issue, orders were given to have the retired banknotes burnt publicly (see Appendix A). Eight days later, on 21 July, the edict extending the privileges of the Company of the Indies *in perpetuum* contained the *quid pro quo* that the company would reduce banknotes in circulation by 50 million livres a month over a twelve-month period, so that no banknotes would be left in circulation by 21 August 1721—see article I of the ‘Edit du Roy portant que la Compagnie des Indes jouira à perpétuité de tous les droits et privileges qui concernent son commerce’.

## The Return of the Annuities

The return to creating annuities (*rentes*) in order to reduce the paper money supply marked a significant change in the course of the Mississippi System. At the end of August 1719 Law had moved the System up a number of gears in order to rid France of the problem of its accumulated annuities debt. His debt-management policy to solve France's financial crisis, as has been shown, was to force annuity holders to exchange their government debt for shares in the Mississippi Company. He wanted to abolish the debilitating system of long-term debt servicing through annuities, which was proving to be too expensive for the Crown, by forcing *rentiers* out of annuities into shares or banknotes, while at the same time abolishing the old system of offices (*les charges*) and taking over control of the tax farms. He wanted a France free of the financiers, whom he believed to have milked the state, through the tax farms, of most of its tax revenues, and of the *rentiers*, who were content to live off the income of their annuities, rather than seeking out entrepreneurial outlets for their savings and creative energies. In effect Law had implemented a policy of ‘junk’ equity financing—in contradistinction to the modern approach of ‘junk’ bond financing—as a substitute for the traditional financial instruments of state debt such as annuities, offices, and so forth.

Such was his vision. With some minor exceptions, by May 1720 Law had transformed France in line with this debt-management objective. The implementation of visions can, however, be a costly exercise, as proved to be the case with the System. There were two sizeable barriers, one political and the other economic, making it difficult for Law to realize his vision. In the first place Law had displaced the financiers, *rentiers*, and other beneficiaries of the old financial system. The second problem was that in apparently solving the financial crisis Law had exacerbated the monetary crisis. France, which had suffered from a dearth of money when Law founded the General Bank in May 1716, was now awash with liquidity. The monetary system had moved considerably out of line with the real economy.

The first was a problem of *realpolitik*. In displacing the financiers and *rentiers* Law had created a solid phalanx of enemies. Du Tot, when summarizing the

success of the System and its architect, continuously referred to a cabal of self-interested people who wanted to ensure that Law's 'edifice' collapsed:

It was a beautiful edifice, with foundations capable of supporting only three storeys, made by an able architect; in this state this edifice was admired by all in France and was the envy of our neighbours. *Its beauty even surpassed all the hopes that had been placed in it since it caused people to scorn gold and silver; it is a type of miracle that posterity will not believe, nevertheless, and this is an acknowledged fact, it is true that there was a time when no one wanted them.* Finally, without regard to the public good or to the advantages derived by the state from this establishment, a powerful cabal was formed against the architect who had built this edifice, and to ruin him it had sufficient influence to commit the government to overburden or to raise this edifice, contrary to the wishes of this architect, to seven storeys. As the foundations were not designed to carry this extra burden they collapsed and the edifice fell from top to bottom. [Emphasis added]<sup>1</sup>

Who were the members of this cabal so intent on destroying Law's System? Du Tot explained that they were the people who had been made redundant by the success of Law's System:

One can easily understand that its execution [Law's System] rendered useless the talents of the old finance whose membership was considerable. The gown because of the disappearance of lawsuits also found itself interested. They all united to thwart the progress of the system.<sup>2</sup>

Similar sentiments, raising the issue as to who was paraphrasing whom, were expressed by the author of the 'Histoire des finances':

nearly all this large group of business people of every type, all their employees, agents, directors, and clerks, their superiors who were extremely powerful and who are united with the higher courts of the kingdom, had become redundant. The gown was also extremely concerned. The payment of debts, prosperity in the state, and the unification of the finances, suppressed a great number of lawsuits. They all united to stop the progress of credit.<sup>3</sup>

The opponents of the System included therefore not only the financiers and their employees but also the lawyers, referred to as the gown, who thrived on the litigation created by the old financial system. As it was the lawyers who controlled the Parlement the growing opposition of this body to Law's System may be more clearly understood as being rooted in naked self-interest. The financiers, *rentiers*, and lawyers were losing their *raison d'être*. Du Tot reserved his most bitter diatribes for the financiers:

[this] cabal formed by envy, jealousy, and treason played a more important part than despotism in the destruction of the System. This System was useful and beneficent to the state but it was contrary to the interests of some individuals, either wealthy money holders or usurers. It removed from them the means of acquiring other peoples' goods at excessively cheap prices, it diminished their wealth and importance by permitting most people to avoid their ruinous assistance, it ran down their art by establishing that of trade, father of abundance,

before which false finance dared not appear without showing all its horrors; therefore the only losers were this small group of men, whereas all the others could gain from it.<sup>4</sup>

The ‘cabal’, controllers of the old financial system and their approach, ‘la fausse finance’, were repeatedly attacked by Du Tot in his writings. Law’s System had successfully, according to him, replaced the old financial system but its success had exposed it to the self-interested attack of the financiers:

Its objective was to introduce order and simplicity into the finances, to produce a low rate of interest, to revive trade, to make the King independent by showing him as clearly as possible the state of his financial affairs. Undoubtedly this was the secret reason for the displeasure of those whose interest lay in the confusion and disorder of their predecessors which served as a respectable example for them.<sup>5</sup>

It was a theme that he returned to with much bitterness towards the end of his account of Law’s System:

The usurers and money holders certainly preferred to see the state in the deplorable situation that characterized the start of the Regency than its situation towards the end of 1719 and even more so at the beginning of 1720. If making an unbiased comparison of the two situations it would be impossible not to lavish deserved praise on the latter and one’s preference for it over the former: but in doing so one should not consult either the *rentier* nor the money holder for just as credit was useful and advantageous to the state so was it pernicious to the wealthy money holders and usurers . . . One should not consult either another breed of men, steeped in prejudice from father to son, knowing nothing other than annuities and favoured contracts on these annuities and who are unaware that these annuities and these contracts derive all their value from the circulation of trade which in turn depends on that of credit. These two types of men possess all the extended financial power even though they may constitute one person in five hundred or perhaps in one thousand.<sup>6</sup>

Law was in the process of reducing the profit-making activities of the ruling class of the *ancien régime*—the financiers, lawyers, and *rentiers*—and they were, naturally, resisting this move by uniting together in opposition to him. The Parlement’s eagerness to revoke the 21 May *arrêt*, to abolish the prohibition on the holding of gold and silver, and to reintroduce annuities, during the time of Law’s house arrest, may be seen as a desire on its part for the quick restoration of the main features of the old financial system.

Joseph Pâris-Duverney, one of the leading financiers, who naturally had a diametrically opposing view to Law and Du Tot on these issues, warmly welcomed the re-establishment of the annuities, remarking that ‘the public were very satisfied at the re-establishment of the old credit which had been of such assistance to our kings and which Mr Law had destroyed’.<sup>7</sup>

The second problem was equally acute but it was of an economic nature. The monetary circuit, consisting of the new substitutes to the state’s debt, that is, banknotes and shares, had become too liquid relative to the real economy. The conversion of long-term debt into highly liquid shares, with a guaranteed price of 9,000 livres, and into banknotes, had greatly increased the overall liquidity of the

System. Very rough estimates by Du Tot of the French specie money supply, discussed in the previous chapter, suggested that it may have been about 1.2 billion livres in the early part of 1720. There were two problems with this type of estimate. Firstly, it was difficult to calculate the amount of coins actually in circulation, for many of them had been spirited out of France. Secondly, even if the quantity of coins in circulation could have been estimated it was necessary to convert these into livres tournois by multiplying the coinage by weight by the domestic exchange rate. For example 800 million livres of specie at 60 livres to the marc became 1.6 billion livres if the domestic exchange rate was doubled to 120 livres to the marc. Because of the frequency of domestic exchange rate movements arising from devaluations and revaluations it is difficult to make precise estimates of the specie money supply over time. For these two reasons Du Tot's estimate is subject to considerable reservations and Pâris-Duverney's estimate that it was considerably below 1 billion livres was more realistic. By 21 May 1720 the broad paper money supply, consisting both of banknotes and shares actually held by the public, was 3.9 billion livres, a multiple of more than three times Du Tot's estimate for the specie money supply and four times that of Pâris-Duverney. The public did not want to hold this amount *qua* money. They wanted to spend the paper money or at least transfer some of it back into specie.

Law's first set of measures to redress the economic problem of excessive liquidity, as presented in the 21 May *arrêt*, had been rejected. With opposition growing to Law the Parlement had intervened, and pushed for and had been granted a return to annuity financing through the creation of a new issue of annuities. Thus while Law was under house arrest the System was pushed backwards. Du Tot regretfully confirmed this on at least two occasions 'we are going backwards on this road by retracing our steps'<sup>8</sup> and 'we are retracing our steps in going backwards on this road and on the principles that we followed last year'.<sup>9</sup> Pulteney had similar sentiments, remarking that the return to annuity financing 'is undoing a great part of what Mr. Law has done, or rather restoring what he had undone'.<sup>10</sup>

Du Tot reckoned that the recourse to annuity financing to reduce the excess liquidity of the System was fatal in that it created two mutually conflicting categories of investors, the *rentiers* and shareholders (*actionnaires*). Law's System had replaced the *rentier* with the shareholder. The return to annuity financing meant that 'these two groups having opposing interests were going to decay and to destroy each other'.<sup>11</sup> The restoration of the annuities was the first step in the reconstruction of the old financial system.

The *arrêt* of 1 June, permitting the public to hold as much gold and silver as it liked, was also a significant step backwards towards the old system. The public, limited by previous regulations to holding no more than 500 livres of gold and silver and to using coins only for small transactions, was now freed to hold as much gold and silver as it liked. The return of specie and the *rentes* to favour was shattering Law's vision of a specie-less and *rentes*-free France. Still trying to keep to this vision he had succeeded in having a system of bank accounts introduced on 13

July. These accounts were to be opened on 20 July in Paris and on 20 August in the provinces, with a maximum of 300 million created for Paris and the same for the provinces, an overall total of 600 million livres. The idea, modelled in part on banking systems already in place in Amsterdam and Genoa, was a good one but it came too late—the author of the ‘Histoire des finances’ remarking that it should have been introduced six months earlier. It also contained compulsory elements which stipulated that all bills of exchange and large expenditures of over 500 livres were to be transacted via bank accounts. This meant that merchants involved in large transactions were forced to use these newly created bank accounts. Already they were obliged to pay for any transaction of over 100 livres in banknotes. The new legislation was forcing them to open bank accounts for any transaction of over 500 livres. Such types of compulsion did little to encourage confidence in the bank.

## The Battle for the Banknote

On 13 July the commissioners of the Parlement were presented with a three-point plan to redress the financial situation, involving (1) the issue of the annuities which had already been approved by the Parlement; (2) the establishment of bank accounts up to a ceiling of 600 million livres; (3) the withdrawal of a further 600 million in banknotes which would be purchased over a twelve month-period by the company in return for which it would have all its privileges confirmed.

The representatives of the Parlement naturally accepted the first point. They had urged the creation of the annuities and so this aspect of the plan was totally in keeping with their financial philosophy. They opposed the other two measures. They were against the bank accounts because of the broken promises that had been made with respect to the issue and convertibility of banknotes. They felt they had been duped with respect to the size of the banknote issue and the limitations on the convertibility of such banknotes into specie. They opposed the third point because of their hostility to anything that seemed to strengthen the position of the company and Law. They also asked where the funds would come from to purchase the banknotes.<sup>12</sup>

The parliamentary commissioners were not listened to, for on that same day the Council introduced the *arrêt* permitting the creation of 600 million livres of bank accounts. Furthermore the Parlement was asked to ratify the ‘Edit du Roy, portant que la Compagnie des Indes jouira à perpetuité de tous les droits et privileges qui concernent son commerce’. This edict, consistent with point (3) of the new financial plan, granted the company its privileges in perpetuity. In return the company was to withdraw 600 million livres of banknotes from circulation.

It is most difficult to determine the extent of Law's involvement in this particular edict. He had returned to the Palais-Royal to advise the Regent but it seems

as if the Regent had lost some of his confidence in Law and was no longer prepared to give him a *carte blanche* with respect to economic policy. The reason for suggesting a difference of opinion between the Regent and Law lies in the interpretation of two documents, the above-mentioned ‘Edit du Roy, portant que la Compagnie des Indes jouira à perpetuité de tous les droits et privileges qui concernent son commerce’, and one written by Law, the ‘Mémoire sur le discrédit’. The edict signalled the end of the banknote. Article I specified that in return for the grant of its privileges *in perpetuum* the company would withdraw 50 million livres in banknotes from circulation each month up to a total of 600 million so that by 1 August 1721 no banknotes would remain in circulation (‘en sorte que qu'au premier aoust 1721 il ne reste aucuns billets dans le commerce’). Its intention was clear, namely, to rid France of the banknote. Though rejected by the Parlement on 17 July it was legislated into existence four days later, on 21 July, by an *arrêt* of the council, ‘Arrest du Conseil d'Etat du Roy ordonne l'execution de l'Edit du present mois, qui accorde à la Compagnie des Indes la jouissance à perpetuité de tous les droits et privileges concernant son commerce’.

Saint-Simon attributed this *édit* and *arrêt* to Law, remarking that ‘it was the last resort of Law and his System’.<sup>13</sup> However, Saint-Simon's knowledge of financial affairs was extremely limited and the evidence of the ‘Mémoire sur le discrédit’ suggests that Law did not want the banknote to become extinct. Harsin credited Law as the author of this *mémoire* and suggested that it was written in June 1720. The internal textual evidence, where there are references (1) to the new bank accounts legislated for on 13 July and (2) to banknotes standing at a 50 per cent discount to specie, suggest that it was written sometime after 13 July and the end of the month—banknotes were quoted at below 50 per cent relative to specie over the second half of July 1720. The *mémoire*, which pleaded for changes in the value of specie, also had to be written before the domestic exchange rate changes (a devaluation followed by revaluations) of 30 July. In my opinion the dating of this document may be more accurately traced. It had to be written sometime after 13 July, the date on which bank accounts—referred to in the *mémoire*—were established, and before 21 July, the date on which the *édit* was forced into law through the *arrêt* of that date. It seems unlikely that the ‘Mémoire sur le discrédit’, a policy document with a range of recommendations on methods of restoring the banknote to public favour, could have been written after the *arrêt* of 21 July.

## ‘Mémoire Sur Le Discrédit’

At some point between the Parlement's first consideration of the proposed *édit* on 15 July and the exiling of the Parlement on 21 July Law seems to have decided that it was the opportune moment to try to persuade the Regent to allow the System to be remodelled. In my opinion, it was for this reason that he wrote the ‘Mémoire

sur le discrédit'. This document is a paradoxical one for in it Law ostensibly seemed to be urging the preservation of the banknote, yet the recommended measures in it were apparently consistent with the objective of the rejected *édit*, namely the disappearance from circulation of the banknote by 1 August 1721. Why did Law accept in this document that new shares (*les nouvelles soumissions*) should be created so as to withdraw 600 million banknotes from circulation? Was it because he knew that there was still the possibility of creating more banknotes or, alternatively, was he suggesting a range of measures to protect the banknote during the interim twelve-month period when the banknote would be gradually withdrawn from circulation? Law was attempting to save the banknote, the demise of which was clearly specified in article I of the *édit* which the Parlement refused to ratify on 17 July.

The 'Mémoire sur le discrédit' was a hastily assembled document. Intriguingly, and here there is evidence of a crafty strategist reintroducing the same plan in a different guise, the substantive core of this *mémoire* is very similar to that presented and rejected in the *arrêt* of 21 May. The fact that only two known copies of it are extant shows that it was not widely circulated, with Law hoping that his one-to-one discussion with the Regent would suffice to have it accepted.

The title and preamble of the 'Mémoire sur le discrédit' set out the nature of the problem. There was a credit crisis and it needed to be tackled:

If the credit crisis [*le discrédit*] had not developed so much the arrangements taken to retire banknotes would have restored confidence and specie. But in the present situation it is necessary to resort to extraordinary remedies. The banknote is money: it is losing 50 per cent against specie.<sup>14</sup>

This preamble is then followed by a heading in capital letters, *Expedient to restore the banknote to par with specie*. It seems quite clear from this that Law was prioritizing a policy of saving the banknote.

The twin prongs of the System had been the use of banknotes and shares to replace gold, silver, and *rentes*. There were now new constraints. Law recognized that if he could not reduce the value of banknotes and shares through the series of phased reductions recommended in the abortive 21 May *arrêt*, the alternative strategy was to increase the value of metallic money through an *augmentation* whilst simultaneously withdrawing a large part of the banknotes from circulation. He hoped that such a policy would establish a balance between banknotes and specie in circulation, what he referred to as 'parity between the banknote and specie'. But this parity was to be between the banknote and silver specie, and, as will be shown, even then silver was still to play a very small role in the System.

His first recommendation was to raise immediately the value of specie by doubling the value of the silver louis (louis-d'argent) to 4 livres, simultaneously raising copper and alloy coins even a little further. This *augmentation* was then to be followed by stipulated phased reductions on 1 September (3 livres 10 sous), 1 October (3 livres), 1 November (2 livres 10 sous), back to 2 livres on 1 December. It must be remembered that an *augmentation* represented a devaluation of the unit of



account, the livre tournois, in terms of specie. It was a devaluation of the domestic exchange rate and as such was an inflationary measure. A *diminution*, involving a reduction of the value of specie in terms of the unit of account, represented a revaluation of the domestic exchange rate. Put the other way, an *augmentation* involved a revaluation of specie and a *diminution* involved a devaluation of specie in terms of the unit of account. Law had requested this devaluation of the unit of account with respect to silver, followed by a phased revaluation, in order to restore the proportionate relationship between the banknote and specie ('la proportion entre le billet et l'espèce'). In other words he wanted specie, specifically silver specie, to be revalued so that it bore a more realistic value in relation to paper money. If this was the case why was the *augmentation* to be followed by a phased series of *diminutions*, along the lines of those earlier attempted on 11 March 1720? Law's implied logic here seems to have been that it was necessary to buy time for the banknote. Over the intervening months the overall amount of banknotes was to be reduced by three-quarters. As this happened the banknote would regain favour and the public would increasingly use it, the incentive to do so increasing as silver coins fell in value each month.

Around the time of this *mémoire* Du Tot estimated that the amount of bank-notes held by the public amounted to about 1.4 billion. He had calculated that the specie money supply amounted to 1.2 billion in February but that 400 million had exited from France leaving a total of 800 million livres at 60 livres to the marc. If the marc was raised to 120 livres this meant that, on his estimate, the specie money supply would amount to 1.6 billion livres and, consequently, would be greater than the amount of banknotes in circulation. Thus his conceptualization of a proportionate relationship between specie and banknotes was based on some near equality between the amount of banknotes and specie in circulation. Neither Du Tot nor Law advanced any reasons as why such an equality would create the desired equilibrium relationship. Law, as has been shown, had started off with the objective of removing specie totally from France. In the spring of 1720 he seems to have realized that this plan was too ambitious and that he would have to allow for a type of cohabitation between paper money and specie. This realization led him to draft the 21 May proposals as early as March 1720. The revocation of the 21 May *arrêt* put these plans on hold. At the same time as proposing these domestic exchange-rate changes, the arrangements taken to reduce the outstanding amount of banknotes by more than three-quarters were intended to ensure that there was an appropriate relationship between credit and silver. Thus a necessary condition for the strategy to succeed was the continuation of the policy of reducing banknotes by 'at least three-quarters'.<sup>15</sup> Law then inferred that this strategy was similar to the earlier rejected policy of 21 May in that it 'ultimately comes back to the same thing as the reduction in the banknote'.<sup>16</sup>

It is noticeable that so far in this *mémoire* Law had not mentioned gold. All of the references to changes in the value of specie relate to silver, copper, and alloy coins. Law had a different policy for gold. In fact he had still not despaired of

demonetizing gold: 'It is in the interests of the King and his people to guarantee bank money and to abolish gold specie.'<sup>17</sup> He further argued that while it was in the interests of nations such as Spain, Portugal, and China to sustain the value of gold, France, which did not produce gold, had a vested interest in developing and maintaining its own 'money' in the form of Mississippi Company shares rather than gold. Thus while attacking gold and praising bank money, the argument had now become more nuanced in that Law was maintaining that shares were far superior to gold as a type of money.

This theme that the shares of the company could be classified as a new type of money had, as has been shown earlier, a long lineage in Law's monetary theorizing. It went as far back as the *Essay on a Land Bank* (1704) and his memoirs to the French authorities in 1706–7 where he contended that shares of companies such as the Bank of England and the East India Company were a new type of money. Law always had a broad concept of the money supply. Taking the standard qualities necessary for money as the relevant criteria for judging the relative merits of shares against gold, he argued that shares were more suitable because they were more portable and they were divisible. Furthermore, he attempted to argue that their value was more certain. This was a disingenuous and difficult argument to sustain at the time, but it was one which Law unabashedly advanced on the basis that the quantity of shares was fixed whereas the supply of gold was increasing on a daily basis. He also maintained that shares or banknotes could not leave the country because their value remained in France, whereas gold could leave the state through an unfavourable balance of trade, a development which would reduce its circulation. This led him to the viewpoint that 'It is in the interest of the King and his people to increase the value of the share by giving it the quality of money and to diminish the value of gold by taking away its usage as money.'<sup>18</sup>

At this juncture it may seem that Law's dream of a specie-less France had now seemingly changed to a more compromised vision of a France with just gold demonetized. Silver was to continue in circulation alongside the new bank accounts and a much reduced quantity of banknotes—around one-quarter of the previous banknote issue. While allowing silver coinage to reappear in his newly revised model it was still only to play a limited role, and even that over the short term, for once again Law wanted the financial circuit limited to shares and banknotes with the use of silver limited to small transactions. This may be seen through the policy proposals that he recommended. Two of the first four of these proposals were more in the nature of general aspirations (proposal 1 to re-establish authority; and proposal 3 to declare that his Excellency wishes to support the System). Proposal 2 recommended that there would be a declaration that there would be no taxes or investigations, presumably along the lines of the Chamber of Justice, for those who had profited from the System. This was aimed at allaying strong rumours that the Crown was contemplating the introduction of a tax on the Mississippians. An *arrêt* of 22 July confirmed that such taxation was not envisaged. Proposal 4, confirming what had been enacted in favour of the company, was also met by this *arrêt*

of 22 July and by that of 21 July which confirmed the company's privileges in perpetuity.

The subsequent six proposals (5 to 10) showed his desire to restore many of the vestiges of his System. Proposal 5 was to implement the *arrêts* stipulating that banknotes were legal tender for all payments. Lurking behind this proposal were the *arrêts* of 11 June, article V of which stipulated that payments of over 100 livres had to be made in banknotes, and that of 17 July which reconfirmed the use of banknotes as legal tender and sentenced any merchant refusing to take them to pay the tenderer double the amount of money offered as payment. Silver could only be used as a medium of exchange to a very limited extent with such regulations in force. Proposal 6 was to abolish the use of gold as money.

Proposal 7 aimed at the restoration of the prohibition on holding more than 500 livres in specie or bullion. This prohibition, introduced in the *déclaration* of 11 March, had been abolished by the *arrêt* of 1 June. Law wanted it reintroduced. He then equivocated on the issue by saying that the limit could be stretched to 1,000 or 3,000 livres, that house searches would not be carried out, and that excess holdings of specie would be only confiscated if found in the estate of a deceased. He equivocated even further allowing that the current situation, under which unlimited amounts of gold and silver were held, could be continued, but he added that this would be dangerous: 'Or if His Royal Excellency perceives this law to be excessively constraining, we may continue to allow the public to hold as much specie as it wishes, but in the present situation I believe this freedom to be dangerous.'<sup>19</sup>

Proposal 8 recommended the opening of bank accounts, which had been sanctioned by the *arrêt* of 13 July. Proposal 9 recommended fixing a time period for the purchase of annuities, a recommendation acted upon in the *arrêt* of 31 July, 'Concernant les rentes sur l'Hôtel de Ville de Paris, et les comptes courants en banque', which stipulated that the June issue of annuities could only be purchased up to the end of August. Proposal 9 recommended that new shares (*les nouvelles soumissions*) be issued so as to withdraw 600 million livres. This proposal was enacted by the *arrêt* of 21 July which substituted for the *édit* that the Parlement had refused to ratify. But here the paradox appears, for in the *édit* and *arrêt* the text indicated that as a result of this proposal no banknote would remain in circulation after August 1721. However, in the *mémoire* it is clear that Law envisaged that one-quarter of the banknotes would remain in circulation. It may therefore be argued that the *arrêt* of 21 July went beyond what John Law actually wanted to achieve in that it was specifying the abolition of the banknote whereas Law in the *mémoire* was attempting to protect the banknote. Proposal 11 underlined his belief in the necessity 'to abolish gold money'.

Summarizing these proposals it appears that Law continued to have as an objective the abolition of gold as a medium of exchange and the confinement of silver to very small transactions. Silver was to be used for transactions valued at less than 100 livres, and transactors could hold no more than 500 livres of silver in

their possession. He wanted to force the public back to using the System's financial instruments, banknotes, bank accounts, and shares. When reading between the lines of this *mémoire* one finds Law still trying to impose a substantial part of the old model in an apparently different format. As was the case in May he accepted that the banknote circulation was excessive and needed to be reduced, though now he seemed to acknowledge that silver had to have temporarily a limited role in France's monetary circulation. But even with respect to silver Law's recognition of the necessity for a domestic devaluation, that is, increasing the value of silver in terms of the unit of account, was based more on his desire to strengthen the value of banknotes rather than any policy of permanently maintaining silver as one of the circulating media of exchange for an extended period. The devaluation of silver was to be followed by a phased series of domestic revaluations (that is, a revaluation of the domestic unit of account) which would have reduced it from 4 to 2 livres between 1 September and 1 December 1720.

It is clear from this *mémoire* that Law had not significantly changed his overall stance in that he wanted gold demonetized, silver used to a very limited extent, and shares recognized as a superior type of money to gold. While he acknowledged that banknotes needed to be reduced to one-quarter the amount previously created, this did not mean that his 'credit' money was to be reduced by the same amount. The overall amount of banknotes that had been created by the end of June was 2.4 billion livres. One-quarter of this, representing the amount of bank-notes to be left in circulation, amounted to 600 million livres. Add to this the 600 million livres of bank accounts that were being created and it produces an overall total of 1.2 billion, or a 50 per cent reduction in the non-specie money supply. This is equivalent to what he had already recommended in the *arrêt* of 21 May. Was Law just playing the same hand of cards in a different way?

In contrast, the creation of 600 million livres worth of shares would have reduced the non-specie money supply to just 600 million livres of bank accounts and no banknotes left in circulation. How can this discrepancy be explained? There are two possible hypotheses: (1) Law, hiding in the Palais-Royal from the mob, had made a mistake in his monetary calculations as he hastily wrote this *mémoire*; (2) Law did not accept the spirit of the *arrêt* of 21 July that all banknotes would be taken out of circulation. If the latter hypothesis is correct then Law's influence with the Regent was on the wane for the *arrêt* ordering 'l'exécution de l'Edit du present mois, qui accorde à la Compagnie des Indes la jouissance à per petuité de tous les droits & privileges concernant son commerce' confirmed that in return for the *in perpetuum* privilege the company would withdraw 50 million in banknotes from circulation each month to a total of 600 million livres, 'so that no banknotes would remain in trade by 1 August 1721'. This went counter to Law's recommendations for keeping one-quarter of the banknotes in circulation. It involved the total withdrawal of banknotes from circulation as well as stipulating the time horizon for the withdrawal. This meant that once the banknote had been withdrawn from circulation the System would have been dependent on just 600

million of bank accounts and shares of the company. From this viewpoint Law had lost the battle to save the banknote from as early as 21 July; Faure, seemingly unaware of the consequences of this *édit* and *arrêt* of 17 and 21 July, is incorrect in stating that the plan presented in the 'Mémoire sur le discrédit' had to be abandoned on 15 August.<sup>20</sup> Though many parts of the plan were implemented its main feature, the protection of the banknote, was abandoned on 21 July and the *arrêt* of 15 August was just the logical consequence of this earlier measure. Apparently the Regent was no longer prepared to accept all of the policies proposed by Law. As the banknote was to be removed from circulation there was also no point in reintroducing prohibitions on the holding of specie.

It seems that in this critical period of June–July 1720 the balance of political power shifted backwards and forward between Law and his enemies. The Regent appears to have been undecided whether to follow Law or the more traditional policies recommended by the bankers and financiers that he consulted. It has been shown that Law had made a return to the centre of policy-making by mid-June but confidence in the System was ebbing as reflected by the growing crowds exchanging banknotes into specie at the bank. Law's enemies initially seemed to be assisted by two outbreaks of public discontent outside the bank on 10 and 17 July, when a hostile mob gathered to change small denomination notes for specie. The pressure of the jostling crowd apparently suffocated some of those in the queue, thereby angering the crowd even more. A seemingly inanimate body was carried by the angry crowd to the Regent's headquarters at the Palais-Royal, but during this funeral cortège the body sprang back to life and the crowd found that it had no corpse to deliver! On the second occasion, on 17 July, when the Parlement was actually considering the *édit*, the tumult outside the bank was even greater. There was at least one death and the crowd that invaded the gardens of the Palais-Royal became very threatening. Carriages arriving there were attacked, though Levasseur's story of Law stopping the crowd from attacking his carriage by standing on top of it and shouting at them that they were rabble—'vous êtes des canailles'—is incorrect.<sup>21</sup> The Regent's mother, the duchesse d'Orléans, wrote that it was Law's coachman who had harangued the crowd and had Law's carriage smashed by the enraged mob for his audacity.<sup>22</sup> It was this incident that occasioned the First President of the Parlement, Jean-Antoine de Mesmes, attracted by the noise outside, to report back that Law's carriage had been destroyed:

Messieurs, messieurs grande nouvelle!

Le carrosse de Law est réduit en cannelle.<sup>23</sup>

The duchesse d'Orléans, a resolute lady who wished to show no fear, found that she was obliged to wait for an hour in her coach in the rue St-Honoré before proceeding to the Palais-Royal. While waiting she heard the crowd clamouring for Law to be hung. Law's association with her son worried her and she was greatly disturbed by the number of letters she was receiving with threats that her son would be poisoned or burnt alive by a new type of firework fired at the Palais-Royal.

Undoubtedly these street disturbances perturbed the Regent but he had a further and deeper fear, that of another Fronde. The Parlement had become even more vociferous in its opposition, as evidenced by its refusal to register the *édit*, and there were rumours that some of its members were plotting a *coup d'état* with the objective of replacing the Regent by declaring that the young King was of age to assume his responsibilities. Sutton, the new British ambassador to Paris who had just replaced Stair, wrote to Craggs that this rumour was circulating in diplomatic circles in Paris. Balleroy also mentioned it had been rumoured that the gentlemen of the Parlement 'had plotted to have the King's majority declared'.<sup>24</sup> Alternatively it may have been the Regent who planted these rumours amongst members of the Court and the diplomatic corps so that he would have an excuse for banishing the Parlement. We know from Saint-Simon that on a number of occasions between August 1719 and the summer of 1720 the Regent, on Law's advice, considered paying off all the offices held by the members of the Parlement and in this way ridding himself of this body.

The potentially explosive cocktail of street commotions and parliamentary unrest had to be tackled. The Regent's measured reaction was to introduce an 'Ordonnance du Roy portant défenses de s'attrouper' of 17 July suspending the payment of banknotes at the bank and banning the assembly of groups. He called on troop reinforcements to consolidate his position. Balleroy reported on that day that 6,000 troops had been ordered to the outskirts of Paris and camped at Charenton—these were soldiers who had been working on constructing the canal at Montargis.<sup>26</sup> Cavalry units were deployed in Chaillot and Saint-Denis. Specie was made available to ensure that the bakers provided Paris with bread.<sup>27</sup> With the troops in place and bread guaranteed for the population the Regent was ready to address the opposition of the grumbling Parlement, which on 17 July had refused to ratify the *édit* on three grounds. Firstly, it was concerned about the exact quantity of banknotes that had been created. It had been informed that only 2.2 billion in banknotes had been created, yet it feared that a great deal more had been printed. The Parlement's fears were not allayed by the refusal of Aguesseau to guarantee that no further banknotes had been created above that amount. Secondly, it wanted the directors of the company to be personally liable for ensuring that the 600 million in banknotes would be redeemed. Thirdly, it feared that the company would use all sorts of stratagems to buy in the banknotes at below their face value so that it would end up costing it 100 million rather than 600 million livres. Because of these three objections the Crown was asked to withdraw the *édit*.<sup>28</sup>

On 18 July, the day following the Parlement's refusal to approve the *édit* and the spillover of the street unrest into the gardens of the Palais-Royal, the Regent called a meeting of his close advisers. Present were Bourbon, de la Force, the newly promoted Dubois, La Vrillière, Canillac, Le Blanc, Silly, the Chancellor, and Saint-Simon. Initially Jacques Joseph Vipart, marquis de Silly, described by Saint-Simon as an 'intimate friend of Law's', objected, though Saint-Simon gave no reason for this, to the presence of Le Blanc at the meeting and stormed out of the

room.<sup>29</sup> Ultimately he was persuaded to return and the assembled group decided that the Parlement should be exiled from Paris. Blois was initially chosen as the location for its exile, but the Chancellor, backed by Dubois, recommended the more adjacent Pontoise, where Mazarin had transferred the Parlement in August 1652.

The decision was kept a close secret, though the influx of troops and their disposition around Paris created the feeling that something was about to happen. On the morning of Sunday 21 July, squads of musketeers knocked on the doors of each of the Parlement's officers to inform them that the Parlement was to be exiled to Pontoise 'for abusing the authority that we wished to give them . . . in delaying the execution of our decisions relating to the financial administration of the kingdom'. The Regent was showing his mettle in ridding himself of the Parlement's troublesome opposition. To soften the blow he provided funds for transporting the members of the Parlement to Pontoise as well as supplying entertainment expenses for the first President. That night Law, displaying what Marais termed his 'English impudence', appeared at the opera alongside the Regent.

Notwithstanding these developments, the reluctance of the Regent to accept all the measures presented by Law in the 'Mémoire sur le discrédit' shows the extent to which the relationship between the two men had become strained. Henceforth Law would be able to act only as the System's hesitant plumber rather than its confident designer, trying to plug the many holes that were appearing in its structure.

The Regent's reluctance to rely exclusively any more on Law showed in the meeting called on 25 July at the Palais-Royal, attended by the ducs de Bourbon and Chartres, the Chancellor, Marshal Villeroy, Le Peletier des Forts, Law, and representatives of the banking community. This latter grouping, led by the leading financiers Samuel Bernard and Antoine and Pierre Crozat, also included Anisson, representing Lyon, Godeheu, representing Rouen, Jean-Claude Tourton, Isaac Thellusson, and the Strasbourg banker Jean Deucher, described by Thellusson as a personal friend of Law's. It was explained to the meeting that of the 2.6 billion livres of banknotes, 554 million had been burnt and another 200 million were held by the bank ready for burning. It was envisaged that the remaining 1.8 billion would be withdrawn from circulation through their conversion into annuities, bank accounts, and shares. The Regent explained that it would take time for these policies to have their effect. Furthermore, though the Crown expected to receive 400 million in specie in October—seemingly to arrive on the boats of the company—there were only 8 to 9 million livres of specie in the vaults of the bank. He asked the meeting to consider ways of tiding the Crown's finances over the intervening period to October. The Crozat brothers, summoned, according to Thellusson, because of the Regent's aspiration that they would offer their purse for the service of France, remained mute. Little was said by the other bankers. The Regent, obviously disappointed by the response, adjourned the meeting for a week to 1 August.

At this second meeting Anisson, unable to read properly because of his age, had

his memoir, proposing the reduction of banknotes by cutting all those above 100 livres denomination to a tenth of their value, read by Thellusson. Bernard allegedly talked well but made no concrete proposals. Thellusson, whose manuscript memoirs were examined by Lüthy, argued that he saw no way of procuring specie for the Crown without discrediting the banknotes, the *sous-entendu* hinting at the need to rid France of Law and his System.<sup>30</sup> Jean Deucher, who would be later taxed 1.5 million livres for the fortune of at least 15 million livres that he made in the System,<sup>31</sup> interjected and argued in favour of massively augmenting the currency, and was supported by Law.<sup>32</sup> This seems strange as the decision had already been taken on 30 July, and passed by an *arrêt* of 31 July, to devalue the currency by doubling its value. Were Deucher and Law just retrospectively justifying an action that had already been taken? After two hours the Regent rose. On his way from the meeting Thellusson proposed a plan to bring 20 million in specie into France in the first week of September but Law intervened and had an argument with Thellusson.

The Regent's increasing disenchantment with Law was further borne out by secret meetings that he separately arranged with Samuel Bernard and later with Thellusson and another banker, François Ollivier, on 15 August. At this latter meeting, held at the house of the demoiselle de Chausseraye, an old lady friend of Villeroy's, in the Bois de Boulogne, the Regent asked Thellusson and Ollivier if he could count on them if Law was exiled. They replied in the affirmative and they proceeded to discuss potential substitutes for Law such as Le Peletier des Forts and the Pâris brothers. However, the Regent vacillated and decided not to rid himself of Law. Thellusson bitterly remarked that 'Law, who was to have been sacked the following day, was renewed in his position which he maintained for another three months at considerable cost to France.'<sup>33</sup> Thellusson, who wrote that he was always aware of Law's plans because Argenson passed on all this information to him while he held office, also contended that it was he who was responsible for Law's enforced departure in December.

The fraying relationship between Law and the Regent was in great part due to the lack of confidence in the System which in turn was compounding the substantial political and economic difficulties of the Regent. Pulteney summarized the prevailing sense of insecurity in the Palais-Royal:

One hears every day of some jest or other made by the Regent against his own measures relating to the System which provoke the people in their sufferings and lose him very much in their esteem as well as their affection. Those who speak for Mr. Law say the Regent is too weak, others think him too violent . . . Mr Law's System serves the King of Spain more effectually than his armies or Cellamare's plots could have done. The Regent seems to trust entirely to his own troops and yet it appears there are reasons to distrust many of them at least.<sup>34</sup>

Annoyed by a rash of satirical rhyming couplets against him posted on walls around Paris, the Regent allegedly promised a reward of 100,000 écus for information leading to the arrest of their author. This only provoked another two-liner:



You promise much excellency,  
Is it in paper or in specie?<sup>35</sup>

The growing crisis sharpened the public's humour. One of the favourites of the Regent's inner circle, the duc de la Force, was suspected of making a fortune through the exploitation of a monopoly position that he had developed in commodities such as wax and tallow. He was dubbed the Dieu de la Lumière (God of Light) for these activities and one day when he appeared at the opera the parterre began to sing an air out of Lully's opera *Phaeton*, 'the God of Light appears' ('le Dieu de la Lumière paroit'), which forced the duc to beat a hasty retreat.<sup>36</sup> La Grange-Chancel's *Philippiques*, with their venomous verses satirically attacking the Regent and Law, were greatly amusing members of the court. The public also was complaining that the System had not only ruined them in this world, but also for the hereafter, as the price of a mass had risen from 15 to 25 sols.

Though Law's plea for the banknote had been overruled, some of the other recommendations in the 'Mémoire sur le discrédit', as has been shown above, were accepted. On 30 July an *arrêt* stipulated the devaluation (*augmentation*) followed by a series of phased revaluations (*diminutions*) of the domestic exchange rate, as set out in Table 18.1. This table shows that Law's recommendations with respect to devaluing and revaluing the silver louis were followed almost to the letter, although there were some minor modifications with respect to the timing. This convinced Faure that the Regent was following Law's recommendations as presented in the 'Mémoire sur le discrédit'. However, as the demise of the banknote had been effectively declared on 21 July, these domestic exchange rate changes could not have had the objective of restoring the banknote to favour. They were most probably introduced to replenish the bank's holdings of specie. Furthermore, Law had recommended the demonetization of gold so it is doubtful that he would have been happy with the way gold was changed in line with silver in this *arrêt*.

The 30 July measures did temporarily help improve confidence in the bank-note. The banknote went back to par against silver—though it must be remembered that silver had doubled in value because of the *arrêt*—on the two days following the publication of the *arrêt*, moving as follows:<sup>37</sup>

August 1	100	August 17	76
2	100	19	82
3	95	21	82
5	88	22	72
6	75	23	72
7	80	26	31
9	90	27	33
12	71	28	33
13	90	31	33
14	90		

Given that the demise of the banknote had been heralded by the *arrêt* of 21 July

Table 18.1. Proposed Changes in the Domestic Exchange Rate, 31 July–16 December 1720

Changes	Dates	Gold coins					Silver coins					
		25 to the marc	20 to the marc	of 30	of 36	price of marc	Coins 30 to the marc	écus 10 to the marc	of 8	of 9	livres	price of marc
<i>augmentation</i>	31 July 1720	72 l.t.	90 l.t.	60	49.10	1800	4	12	15	13.6.8	2	120
<i>diminutions</i>	1 September	63	78.5	52.10	43.8	1575	3.10	10.10	13.2.6	11.13.4	1.15	105
	to 16 September	54	67.10	45	37.4	1350	3	9	11.9	10	1.10	90
	On 1 October	45	56.9	37.10	31	1125	2.10	7.10	9.7.6	8.6.8	1.5	75
	16 October	36	45	30	24.16	900	2	6	7.10	6.13.4	1.0	60

SOURCE: Du Tot, Poitiers MS., fo. 509.

the original reason for the *augmentation/ diminution*, namely the saving of the bank-note, was no longer applicable. Why try to save something which officially was stipulated to go out of circulation by 1 August 1721? There may have been another reason for this policy in that the *augmentation* followed by phased *diminutions* was a classic method for rebuilding the specie reserves of the bank. The bank was acutely short of specie and may have needed it to meet overseas payments.

The weaknesses of the System as this stage were further borne out by the *arrêt* of 15 August, ‘Concernant le cours de billets de banque’, which revealingly indicated in the preamble that the King wished ‘to restore the circulation of specie in all parts of the Kingdom’. By this *arrêt*, presented in the preamble as being consistent with the earlier *arrêts* of June creating the annuities and that of 13 July creating bank accounts, more annuities were to be created with the objective of withdrawing all the high denomination banknotes from circulation. From October 10,000 and 1,000 livres banknotes would no longer be legal tender. Banknotes of 100 and 10 livres would continue to be legal tender until May 1721. Again, contrary to Faure's interpretation that the *arrêt* represented the big turning-point—‘le grand tournant’—in the System,<sup>38</sup> it must be emphasized that the 15 August *arrêt* was just a logical consequence of the *arrêt* of 21 July stipulating the removal of the banknote from circulation in France. It was just outlining the demise of large denomination notes. Law's plan, as presented in the ‘Mémoire sur le discrédit’, had been stillborn and as such was not abandoned on 15 August as Faure suggested.<sup>39</sup>

Du Tot expressed his pessimism at these developments:

As one looks at it all that had been done above is being undone. Specie had been suppressed in trade for initially all payments above 10 and then above 100 francs which were made in banknotes. Here, on the contrary the large banknotes are suppressed for trade, payments for 1,000 livres and above may only be made in gold and silver and those below this sum in banknotes of 100 and 10 livres only.

Similarly the number of shares had been reduced to 200 thousand, here the number has been increased again. It is an action by principles diametrically opposed to those of credit which is being destroyed with passion without any thought being given to conserving it . . . This is the way that we are returning to the old administration of the finances which put the kingdom in such a deplorable stage.<sup>40</sup>

The forced upward and downward changes in the value of specie against bank-notes did little to encourage confidence over the longer term. This lack of confidence may be detected in the continued fall in the French exchange rate against sterling during the late summer of 1720, even at a time when the South Sea Bubble was collapsing in London. The écu, worth 24 pence sterling in early January 1720, making a livre equal to 8 pence, had fallen to less than one-third of this value by the end of August, as the following table indicating the exchange rate changes for August shows:

August	Pence sterling per écu
2	12
3	12
5	11.875
9	10.75
10	10.5
12	10.5
13	10.25
16	10
17	10
19	9.5
20	9.375–9
21	8.5
24	9
26	8.625
27	8.25
31	7.625

Law's own intellectual insecurity at this juncture in the System's history was borne out by his request to the Irish banker Richard Cantillon, whom he had expelled from France earlier in the year, to return and assist him in managing the System. Law and Cantillon had established a company, along with Joseph Gage, one of the biggest speculators in Mississippi shares, to develop a base in Louisiana. Cantillon had sent out a group of colonists, led by his brother Bernard, to develop this colonial trading outlet in 1719. But the relationship between Law and Cantillon had soured by the summer of 1720 due to the latter's speculation activities against the System. Law threatened Cantillon with incarceration in the Bastille if he did not leave France. Against this stormy background one sees Law clutching at straws when, in August 1720, he invited Cantillon, then living in Amsterdam, to return and assist him in controlling the French finances. Law had come to the realization that he needed Cantillon, who had a very deep understanding of money and banking, to assist him in propping up the System. Cantillon refused Law's overtures, though the latter kept persevering through to November of that year in the hope that Cantillon would return. Wisely, as it turned out, Cantillon rejected all these advances.<sup>41</sup>

One indication of Law's declining fortunes may be gleaned from his departure from the Palais-Royal and return to his house, the hôtel de Langlée, 19 rue Neuvedes-Petits-Champs, on Sunday, 18 August. Incidentally, while the move suggested that Law was losing favour with the Regent, it did not mean that he was forced to live in abject conditions. His residence, once owned by another great gambler, the marquis de Langlée, had been sufficiently luxurious to house a dinner for Louis XIV at the marquis's expense. It was sold for 200,000 livres in 1708 to Claude Lebas de Montargis, 'garde du Trésor Royal', who shortly afterwards sold it to Law. Ironically, it was later purchased by Pâris de Montmartel, one of Law's great enemies.<sup>42</sup> Two days later Mme de Parabère, the heavily pregnant mistress of the

Regent, took over Law's apartment in the Palais-Royal.<sup>43</sup> Law had originally been given this apartment, belonging to the marquis d'Estampes, for six months on Saturday, 3 August, when events seemed to be moving his way.

The *arrêt* of 14 August stipulating a further issue of 20,000 shares and the *arrêt* of 15 August, once they had been digested, induced a downward movement in the price of shares and banknotes. Marais reported that there had been a disagreement between Law and the Regent and that the former had left the Palais-Royal. Seemingly Law wanted to provide silver for those holding banknotes worth less than 100 livres, only to be rebuked by the Regent who said, 'I took your system so as to have money and not to give it back.'<sup>44</sup> Two days prior to leaving his apartments in the Palais-Royal the Regent's mother reported that Law dared not leave his lodgings because a network of young boys were employed to alert interested adults if he left the building: 'This suggests nothing good for him and I fear another riot.'<sup>45</sup> The duchesse d'Orléans, who had waxed so lyrical about Law a year previously, had become far more critical of him. On 28 August she wrote: 'never in my life have I seen an Englishman or a Scotsman as cowardly as Law; it is riches that take away his courage; one does not voluntarily leave what one possesses. I think there are moments when he would like to find himself in Mississippi or in Louisiana.'<sup>46</sup> Paris was becoming a dangerous place for the Scotsman and his family. On 1 September, Katherine Knowles, his common-law wife, and his daughter, the latter described by Marais as 'more insolent than her father', were attacked in their carriage by a crowd returning from the Bezons' fair.<sup>47</sup> Law had Katherine dressed so as to appear that she was pregnant in order to forestall any future attacks. Law himself, 'trembling for his life' according to Piossens, only travelled between his house and the Palais-Royal and took all sorts of precautions when travelling to meet the Regent, who had installed himself in the Louvre, close to the Dauphin.<sup>48</sup> On 3 September the crowds were hurling filthy insults and bombarding his coach with muck and stones.<sup>49</sup>

A further indicator of Law's declining influence at this time was the restructuring of the company by virtue of an *arrêt* of 29 August. This stipulated that, while the Regent would be the perpetual governor and Law the director-general of the company and the bank, the number of directors was to be reduced from 40 to 24. Law's brother, William, was one of those who lost his directorship under this new arrangement. Though Law's brother was removed from his directorship the duc de la Force was named president and Jacques Joseph Vipart, marquis de Silly, vice-president of the Council established to oversee and administer the company.<sup>50</sup> Both of them were strong supporters of Law. Shareholders' rights were limited in that voting rights were confined to those who had 50 full shares (*actions remplies*, with each tranche of 50 shares constituting one vote). Significantly, and this shows the extent to which some of the rich Mississippians still formed a powerful lobby group, an article in the *arrêt* reiterated that the profits made by the public in shares of the company would never be subject to taxation. Marais recounted that there had been a meeting of a number of nobles amongst whom was M. de Brancas,

whose son had married the daughter of André, one of the big Mississippians; André was credited with making 70 million livres in the System.<sup>51</sup> They had convened the day before the *arrêt* so as to lobby against the idea of taxing the Mississippians, an idea that was the subject of strong rumours in Paris.<sup>52</sup>

## Plague in Marseille

The difficulties experienced by the System were compounded by the emerging news of a plague in Marseille which started to filter through to Paris in late July. Apparently a boat returning from the Middle East on 25 May was carrying the plague. In disinfecting its cargo some workers contracted the virus and died. It then started slowly spreading through the city, but there was no clear medical viewpoint that the plague had hit Marseille, with doctors at the quarantine station denying it. Some doctors who proclaimed that the plague had arrived were attacked by municipal officers and accused of trying to create an imaginary illness, ‘a new Mississippi’.<sup>53</sup> Many of Marseille’s rich citizens, fearing the worst and remembering that Marseille had been hit by seventeen plagues since the days of Julius Caesar—the last of which had occurred some seventy years earlier and was still vivid in the folk memory—started leaving the city in July. On 31 July a *cordon sanitaire* was erected around the city and its outlying area, stopping people from leaving the area and breaking up the traditional markets that provisioned the city. Marseille came to resemble a city of the damned. Fires were lit all over the city in the belief that their smoke would kill the plague. People smitten by the plague died on the streets while many others died of famine. Untended corpses piled up as workers refused to go near the dead bodies. Galley slaves, forced to bury the dead, frequently terrorized the population further by pillaging their houses and killing the occupants. J. B. Troy painted a scene, *La Peste dans la ville de Marseille en 1720*, vividly showing M. Rozé directing the removal of corpses from the Place de la Tourette where they had been stockpiled. Contagion and panic became endemic to Marseille. Between 15,000 and 20,000 people, one-third of its citizens, died of either the illness or famine. The tentacles of the illness spread through Provence, hitting Aix in August. Of the 8,000 patients ‘treated’ at the hospital there only 466 survived.<sup>54</sup> In October it hit Toulon, killing over a third of its population of 26,000 citizens.

The bad news from Marseille as it filtered through became more and more ominous in August. On 9 August Marais reported that the *Gazette de Hollande* of 6 August announced that the plague had struck Marseille having been brought to the city by a boat that had made a false declaration to avoid quarantine restrictions. By 15 August Marais was writing that the plague compounded by famine was continuing in Marseille, ‘where they have neither goods nor money . . . all that they have are banknotes’.<sup>55</sup> On 20 August he wrote that the court had been very moved

by the news from Marseille, and had sent money to be distributed in Provence. He also reported that the doctors in Marseille had found worms in the bodies of the plague victims. They had tried killing these worms with vinegar, wine, and alcohol but had not succeeded. Then by mixing a compound of lemon and oil together they succeeded in killing the worms, leading them to the belief that they had found the remedy for this contagious illness.<sup>56</sup> Such was the type of supposed medical expertise that the people of Marseille had to rely on. The plague continued to ravage their ranks with Marais reporting on 25 August that it was spreading through Provence. By 2 September the situation had greatly deteriorated with M. Chicoineau, a doctor from Montpellier and son-in-law of Pierre Chirac (1650–1732), the Regent's doctor, who had been sent specially to review the unfolding tragedy of Marseille, reporting that he had found a hospital with 500 dying patients who had been abandoned without having access even to drinking water.<sup>57</sup> On 20 September it was reported that the plague was over and that it had killed 20,000 people in Marseille as well as forcing three-quarters of the population to leave the city. This confidence in the plague's having terminated proved to be false. On 28 September the news came through that the plague was worse than ever and that another 1,400 people had died. It was even rumoured that Law had advised the Regent 'to burn the town, its houses and everyone inside it'.<sup>58</sup> This story is probably apocryphal for it is known that Law had charitably sent 100,000 livres to the citizens of Marseille.<sup>59</sup>

On 9 October the news from Marseille was still bad. It was having economic consequences for the south of France: 'the plague there is ruining the trade of Lyon where money is as rare as it is in Paris'.<sup>60</sup> The *Corrédendants de la Marquise de Balleroy* shows that the plague not only killed a large number of people but also badly affected France's Mediterranean trade, through the closure of such important ports as Marseille and Toulon. The fear of contagion spread right up the Rhône as far as Lyon, the hub for so much of France's continental trade through its trade fairs.<sup>61</sup>

Law later wrote, in a short *mémoire* in 1723, 'Effets que la peste arrivée en Provence en 1720 a pu causer sur le crédit', that the plague played a key role in destroying the System in that it caused the public to switch its demand away from paper money to specie because the latter was regarded as a better means of payment for the purchase of goods and necessities in a plague-stricken environment. He posed the question as to what might have happened in Britain if one of its regions had been affected by plague. In such an instance the public would have attempted to build up its holdings of specie in order to have funds to purchase food. This would have created an extraordinary demand for specie which would have provoked a run on the banking system. He then extrapolated on the economic effects that a plague in Britain would have created—breakdown of trade, ships remaining in port, workers put of work, a fall in taxes, an inability of the state to service its debt, and so on. Then switching to France he remarked, 'I am saying

that if France had been exempt of this illness it would have been possible to sustain Mr Law's system.<sup>62</sup>

## Appendix A

2.7 billion of banknotes had been created by 1 May in the following denominations:

Banknotes of 10,000 livres	1,134,000,000
Banknotes of 1,000 livres	1,223,200,000
Banknotes of 100 livres	299,200,000
Banknotes of 10 livres	40,000,000
Total	2,696,400,000

Between 28 June and 29 August, 707 million livres of banknotes were burnt in the following quantities:

28 June	116,803,000
1 July	155,850,000
9 July	101,390,000
16 July	100,000,000
23 July	100,000,000
30 July	23,713,030
6 August	23,972,430
20 August	35,599,000
29 August	50,000,000
Total of banknotes burnt	707,327,460

SOURCE : AN, K 1252, material collected by M. de Florimond.

Some 79 per cent of the banknotes burnt were the high denomination notes of 10,000 livres and close on 20 per cent were 1,000 livres notes.

## Appendix B. The Publication of the French Translation of 'Money and Trade'

Law's sensitivity with respect to his position in France may be better understood by examining the lengths he went to in order to have the French translation of *Money and Trade* suppressed in the summer of 1720. A second English edition of *Money and Trade* had been published in 1720 at the height of Law's success in France. Unlike the Scottish edition of 1705, this time Law's name was on the title-page, 'By Mr. John Law, now Director of the Royal Bank at Paris'. It was published by 'W. Lewis, near the Piazza in Russell Street, Covent-Garden'. There were two printings of this octavo edition, the first with one preliminary and 106 text pages (Kress 3237), the second with two preliminaries and 96 text pages (Kress 3238).



This second edition differed from that of 1705 in that it included a two-page 'bookseller's introduction to the reader'. This introductory addendum is important to note for, in my opinion, it contains passages which Law found offensive, thereby fashioning his antagonism towards the French translation of the second edition.

This French translation of *Money and Trade*, translated as *Considérations sur le commerce et sur l'argent* 'par Mr. Law Contrôleur General des Finances', was published by the Dutch publisher, Jean Naulme, in The Hague, in the summer of 1720 (Kress 3235). Despite a flattering portrait of John Law, opposite the title-page, this book provoked his immediate wrath leading to the somewhat unusual situation of the author attempting to suppress his own work. Law's displeasure with its publication and his attempts to ban its circulation, may be gleaned from the correspondence of the French embassy in The Hague.

On 30 August 1720 a letter was sent from the Ministry of Foreign Affairs in Paris to the comte de Morville, the French ambassador at The Hague. It was explained to Morville that Law was angry that this book had been published with his name. It was recognized that there was no point in attempting to have the book suppressed as it had already been printed and a large number of copies distributed; nevertheless, it was pointed out that Mr Law wished that every measure should be taken to suppress those copies remaining unsold. The writer, most probably, the French Minister of Foreign Affairs, the abbé Dubois, went on to add that the only way to achieve this was to buy up the unsold copies. At the same time the writer was shrewd enough to acknowledge that even this would not, in a free country, prevent the publication of another edition. In spite of this the French wanted to demonstrate to Law that they were doing everything possible to suppress this book and so the ambassador was instructed to purchase all the outstanding unsold copies and to persuade the Dutch magistrates to do everything possible to prevent any further editions.<sup>63</sup>

Four days later, on 3 September 1720, Morville replied that he was angry that the Regent had seen a copy of the *Considérations* some three days before Morville had expedited it to Paris—a comment that enables us to state confidently that Law's book was published in the summer of 1720, most probably in early August. Following his instructions Morville said that he intended purchasing all remaining copies of the book and that he would do everything possible to prevent the publication of any further editions. With respect to the latter he was not sanguine about his prospects. He reminded the Ministry of Foreign Affairs that the Dutch publishers had freedom to publish and that even if the magistrates prohibited publication, which they no longer did, the prohibition would be useless as the Dutch publisher/bookseller would just ask one of his colleagues in another province to print it.<sup>64</sup>

Morville was able to report three days later that he had arranged the purchase of 430 copies of the book through the intermediation of a bookseller friend. Additionally, he had taken the necessary measures to have those copies with book-dealers in Amsterdam, Rotterdam, and Delft withdrawn from sale in the space of four or five days. Morville learnt that the print run of this edition was around 1,500 copies. This is an important detail for it enables us to determine the type of market which the Dutch publisher felt was available for an economics work of this type, albeit written by a man whose Mississippi System was being so animatedly discussed in the major financial capitals of Europe. The comte de Morville, working through M. Basnage—presumably the writer Jacques Basnage de Beauval (1653–1723), resident in Holland, who had greatly assisted the abbé Dubois when he was negotiating the Triple Alliance with the Dutch in 1716–17—discovered the background to the publication of the *Considérations sur le commerce et sur l'argent*. Seemingly,

after the second edition of *Money and Trade* was published in England, it was then translated into French. The translation was then sent by the translator from London to The Hague. The printer at The Hague was reluctant to reveal the name of the translator, though he admitted that he was perfectly well known to Law with whom he had even corresponded. Morville felt that this information should make it easy for Law to identify the translator. He indicated that he was continuing to put pressure on the Dutch authorities to ensure that a second edition of the French translation was not published.<sup>65</sup>

Morville was thanked by the Ministry in Paris in a letter dated 13 September 1720. He was asked to continue his efforts to block the sale of Law's book to the public and to prevent the publication of a second edition.<sup>66</sup> The abbé Dubois, even at this late stage in the decline of the Mississippi System, wanted Law to know that he had done everything in his power to prevent the widespread circulation of the *Considérations*.

Law later admitted that he had attempted to suppress the publication and sale of the *Considérations*. In 1722 Count Rosemberg, the president of the finances in the kingdom of Serbia, wrote to Law saying that he had greatly appreciated reading the *Considérations*, so much so that he had proposed the idea to the Emperor. Law replied to the Count in a letter of 16 March 1722:

The small book which describes me as the author was printed in Holland. I had it suppressed. It is badly enough written, although it contains reflexions which I had made, sixteen years previously, at the request of my friends when I was in Scotland.

There is some good in the idea of a land based money; but I have since reflected a great deal on this matter and I find great difficulties in it.<sup>67</sup>

A week later Law wrote to his friend the marquis de Lassay informing him of Rosemberg's interest in his 1705 proposal to the Scottish Parliament for a land bank. Law remarked that it would be difficult for Rosemberg to succeed with this proposal for reasons that were not known. At the same time Law admitted that 'this approach merited attention'.<sup>68</sup>

Why was Law so antagonistic towards the French translation of *Money and Trade*? There are a number of possible reasons. In the first place, it must be remembered that *Money and Trade* was published anonymously in 1705. Law's name had not been associated publicly with the work until the second English edition of 1720. In the meantime Law's thought had greatly evolved from the original land bank proposal.

Law, during the summer of 1720 when the Mississippi System was collapsing, may not have wished the French populace to associate his name with a land bank scheme at a time when the value of the lands of the Mississippi region was subject to downward revision and the merits of converting debt into Mississippi equity was being subject to increasingly hostile questioning.

In the second place the bookseller's introduction to the 1720 London edition, which was included directly in the *Considérations*, related how Law had continuously sought a pardon from the Crown for his capital conviction arising from his killing of Edward Wilson when duelling in London in 1694. The Regent and his inner circle knew of Law's duelling conviction. However, the Scotsman may not have wanted a wider French public to learn that he had killed a man in a duel, that he had been convicted of a capital offence, that he had escaped from prison when under the sentence of death, and that he had been a fugitive from British justice till the recent granting of a pardon. At a time when the French public had become increasingly disenchanted with the Mississippi System and Law had to be protected from the mob by an armed guard, he probably did not wish the French population to

start asking questions as to how a convicted murderer had become the Controller-General of Finances.

A third possible reason for Law's antagonism towards the *Considérations* may have been a feeling on his part that it had been badly translated. Harsin alludes to an unpublished letter by Law in which he criticized the translation.<sup>69</sup> One has only to look at the transformation of the title of *Money and Trade Considered* into *Considérations sur le commerce et sur l'argent* to realize the extent to which the translator erred in his understanding of Law's theory. Law's use of the generic noun 'money' rather than the more specific silver ('l'argent') was deliberate. Law wanted to replace silver specie with a paper money and credit system. He certainly would not have wanted any reference to specie money in the title of his book, a work aimed at showing how an economy could establish an a-metallic monetary system. It is noticeable that when General de Sénovert published a superior French translation of *Money and Trade* in 1790 that the title of the work was *Considérations sur le numéraire et sur le commerce*. Sénovert obviously felt that 'le numéraire' was a more faithful translation of 'money' than 'l'argent'.

# 19 Requiem for the Banknote

On 1 September, according to Du Tot, the *Etat general des dettes de l'Etat a la mort du feu roy Louis XIV arrivée le premier Septembre 1715 . . . jusqu'au premier Septembre 1720* was published.<sup>1</sup> Pulteney sent a copy of this work to London stating that Law had written it: 'I send a pamphlet lately published by Mr. Law entitled *Etat General des Dettes . . .*'.<sup>2</sup> Marais finished his critical examination of this work by referring satirically to Law, 'O le grand homme et le grand arithméticien que M. Law!'<sup>3</sup> Judging by these comments by two contemporaries it appears that Law was very much behind the writing and publication of this work.<sup>4</sup> It reads like *Hamlet* without the Prince.

Without the Prince the plot was relatively simple. On his death on 1 September 1715 Louis XIV left France with a considerable burden of debt. These debts had been greatly reduced by September 1720 through the conversion of this debt and the suppression of offices. Overall the state's indebtedness had amounted to nearly 2 billion (1,977,120,061). This would have cost the Crown 90 million livres (89,983,453) in annual interest payments if no action had been taken. Instead the Company of the Indies, first mentioned on the second-to-last page of this pamphlet, had taken over 1.6 billion livres of the debt on which the Crown would only pay an interest rate of 3 per cent or 48 million per year. Additionally 37 million of the debt had been paid off, leaving the Crown owing debts of just 340 million which at an interest rate of 2 per cent would only cost 6.8 million in interest each year. Adding these interest payments together he concluded that the Crown would have to pay 55 million livres in interest (48 million + 6.8 million) as against the 90 million which it would have had to pay if there had not been this transformation in the finances. The yearly saving was therefore 35 million in interest. But this was only part of the good news. The savings to the public from the suppression of offices was estimated at 36 million livres and the improvement in the Crown's revenues through the more efficient management of the tax and tobacco farms was estimated at 12.5 million livres. Consequently, adding these three elements (interest savings on the debt, public benefits arising from the suppression of offices, and improvements in tax gathering), it was contended that the finances of France had improved by 83 million livres annually.

Additionally, it was pointed out that a further 85 million livres had been expended in meeting arrears on the irredeemable and life annuities, tontines (9.9 million),

further secret expenditure made in foreign courts (5 million), expenditure on the King's household unpaid from 1714 and 1715 (50 million), and interest on the *billets d'état* for 1718 (20 million).

Thus, making no reference to the Royal Bank, and only one reference to the Company of the Indies, the writer was asserting that some remarkable transformation had been wrought at no cost in the French financial situation. This was Law at his disingenuous best. The Crown's financial situation had been improved but no mention was made about the problems that the System was encountering. Marais, as was to be expected from a member of the legal system, was scathing in his criticism of this document and in particular the way in which 1.6 billion livres had been found to convert the debt:

This memoir is very elegant and the calculations are just. But it omitted the trifling *bagatelle* of how the company obtained the 1,600 millions to pay the debt (*Ubi prenus* says Panurge). And as it was obtained by extortion and a thousand tricks on the backs of the public one may easily conclude from this memoir: consequently the King only owes 330 million and France is ruined.—It is to be noted that in the accounts it is stated *nine hundred and sixty millions of town annuities repurchased*, and there are currently one billion new ones created which makes 39 million of capital more than there was . . . O what a great man and a great mathematician is Mr Law.<sup>5</sup>

Du Tot was more circumspect in his assessment:

This piece which is curious, by recalling the situation in which Louis XIV left the kingdom, enables us to better judge the effects of the System and to compare them to those of the shameful bankruptcy proposed by the old administration. No one envisaged that it was possible to restore the situation without someone suffering. Given this, was it not for the best to choose the system under which fewer people had to suffer and where losses had to fall on the rich rather than the poor people?<sup>6</sup>

The contrast between Marais and Du Tot is striking. Marais, the *avocat*, saw the System destroying the power base and the wealth of many of his clients, colleagues, and friends. Du Tot, now acknowledging that the System had harmed a sector of the population, consoled himself by noting that it was the richer section of the populace that had been sacrificed and that it was inevitable, given the legacy of indebtedness left by Louis XIV, that one section of the population would have to suffer. Pulteney felt that the timing of this document was wrong: 'This account given by Mr. Law is thought to be very ill timed as it pretends to show that people are richer and happier while they complain with reason of want and ruin.'<sup>7</sup> Pulteney was correct in his assessment, for Law's carriage, with his wife and daughter inside, had been attacked on the day of the publication of the *Etat*. The crowds in the street were not prepared to be told that they were better off. The anguish of holders of banknotes, current accounts, and shares was to increase greatly during the month of September.

On Monday, 16 September, at five in the afternoon, the famous *arrêt* of 15 September was published—'Arrest du Conseil d'Etat du Roy, portant reglement

pour les billets de banque, et les actions de la Compagnie des Indes'. It was euphemistically described, in its preamble, as a 'general arrangement' ('un arrangement général') which Marais punned into a 'general reversal' ('un renversement général'). Article I stipulated that the revaluations (*diminutions*) signalled by the *arrêt* of 30 July would take place on their due date. Article II signalled that high denomination notes of 10,000 and 1,000 livres would be demonetized from 1 October. In the interim they could only be tendered in payment if 50 per cent of the payment was in specie. Prior debts, however, could be fully met by the use of such banknotes. Article III stated that for payments of 20 livres or more banknotes of 100, 50, or 10 livres could only be used if accompanied by 50 per cent of the payment in specie. All payments below 20 livres were to be made in specie. Article IV allowed holders of 100, 50, and 10 livres banknotes to purchase annuities with them without having to tender any specie. Article V reiterated the stipulation in the *arrêt* of 15 August that transactions involving bills of exchange and other large transactions would have to be carried out through the use of bank accounts. Article VI reduced the value of bank accounts to one-quarter of their previously stated value. Holders of such bank accounts were to be permitted to withdraw their bank accounts by converting them into banknotes of 1,000 and 10,000 livres before the end of the month. Article VII fixed the value of the company's fully paid shares at 2,000 livres in bank account money. Article VIII permitted the company to issue 50,000 new shares created in units of one-tenth of a share (i.e., 500,000 of these one-tenth shares) at a price of 800 livres. Adding these 50,000 shares to the 20,000 issued by the *arrêt* of 3 June the total amount of shares in circulation would be 250,000. The dividend on each share was to be 360 livres and 36 livres on these tenths of a share. Article IX invited holders of the subscriptions to purchase shares, by virtue of the *arrêts* of 31 July and 14 August, to convert these into tenths of shares at 800 livres each. Article X set a ceiling of 500 million livres for shares, tenths of shares, and bank accounts. Once this sum was filled up it was forbidden for the directors to receive anything above it. Article XIV stipulated that all bills of exchange, commercial bills, and large transactions of goods obliged to be paid by current accounts through the *arrêt* of 13 July were to be paid through the new current accounts ('les nouvelles écritures'), that is, at a quarter of their value.

This *arrêt* had considerable implications, particularly for the merchant community and shareholders. Merchants with large transactions had been obliged by the *arrêt* of 13 August to carry out their business through bank accounts which were to be inviolate with respect to changes in the domestic exchange rate. Now by the stroke of a pen these bank accounts were reduced to one-quarter of their value and all large commercial debts were to be paid at this new rate. As Marais said, if you owed 1,000 francs your debt was met by paying 250 francs.<sup>8</sup> The rumoured reason behind this change was to penalize merchants and foreigners who had been making excessive profits. Pulteney, a mere onlooker rather than a speculator in the System, described his plight in Paris as a result of these developments:

This reduction falls very heavily on several of his Majesty's subjects who have considerable

effects in actions [shares] and in accounts at the Bank and it affects likewise those who have been only lookers on without having any concern in the gaming part. I happened to draw not long ago for 1,000 when the exchange was at 15 and at 12 believing as others did that it could not possibly be lower and designing to make myself some amends this way for the extravagant prices of things. The exchange fell to 7 and the prices rose in proportion. The bills of 1,000 and 10,000 were cried down and I was forced to put them into accounts at the Bank which are now reduced to one quarter and it is a doubt whether this quarter will be worth anything. The bills of 100 and so which I kept are refused in all payments and I can't hope to save 100 L[ivres] of the 1,000 L[ivres]. The desolation among the French is not to be expressed, one hears everywhere instances of families which used to live with ease and plenty reduced to misery and despair; of people who have lost at once the little they had been heaping up by the labour of many years they had been forced to convert into paper.<sup>9</sup>

Shareholders in the company were also greatly alarmed by this 15 September *arrêt*. Henceforth the shares were to be valued at only 2,000 livres. Those who had purchased their shares at the fixed price of 9,000 livres, in the spring, and met the additional call of 3,000 livres, in the early summer, had paid 12,000 livres for shares which were now reduced to 2,000 livres. Pulteney did some rapid mental arithmetic on what had happened:

The accounts at the Bank alone were by former arrets to be 600 millions, the old actions [shares], the number of which had been fixed by former arrets at 200,000 on the foot of 12,000 for each action would amount to 2,400 millions, the new actions for which subscriptions were given in July and August last were to be 70,000 at 9,000 each action which makes 630 million; the 500,000 tenths of actions at 800 livres each created by this arret amount to 400 millions; in all 4,030 millions which by this arret are reduced [to] 500 millions.<sup>10</sup>

The 15 September *arrêt* was a far tougher one than the rejected 21 May *arrêt*. In reality it represented a partial liquidation of the System. With shares reduced to 2,000 livres and bank accounts forcibly cut back to one-quarter of their value it must have made many people bankrupt, though Law, according to Pulteney, was saying that 'the people are blind and don't see their happiness'.<sup>11</sup> Harsin and Lüthy, invoking the spectre of the anti-system, both believe that the forced reduction of the bank accounts was the work of Law's enemies.<sup>12</sup> Edgar Faure has taken a completely different viewpoint, describing it as an 'unrecognized work of art' and representing 'one of his most brilliant initiatives, being the principal part of a revised monetary policy'.<sup>13</sup> Faure asserted that the 15 September *arrêt* was a return to the 21 May *arrêt* with the difference that bank accounts had replaced banknotes. Furthermore as it was necessary to pay customs duties on exports and imports by use of the bank accounts there would be a growing demand for such banknotes.

Du Tot's statistics indicated that 240 million in current accounts (151 million in Paris and 89 million in the provinces) had been created.<sup>14</sup> By reducing these to one quarter it meant that only 60 million in bank accounts would be available. In theory the demand for bank accounts to pay customs duties should have underpinned the price of the bank accounts, but the public had become tired of these regulations and it is doubtful if many merchants actually complied with them.

The bank accounts were to be freely interchangeable with shares and vice versa. Despite the forcible reduction in the price of shares to 2,000 livres the dividend of 360 livres was still to be maintained, thereby producing a yield of 18 per cent. Such a yield should have underpinned the value of the shares, but again public scepticism of what was happening did not create any confidence in them. Faure may have regarded this *arrêt* as an unrecognized work of art, yet Law did not subsequently refer to it. Du Tot, normally the apologist for Law's policies, would not have shared Faure's viewpoint, remarking that 'in reducing the credit papers it imitated, although imperfectly, the spirit and objective of the first [the 21 May *arrêt*], and also did not have any success'.<sup>15</sup> The author of the 'Histoire des finances' seemed to be paraphrasing Du Tot when he wrote, 'the spirit of this *arrêt* follows imperfectly that of 21 May'.<sup>16</sup> Sadly Du Tot was now resigned to recognizing that this type of measure required the confidence of the public which is 'delicate'. This confidence had been shattered; the System had lost its credibility.

A deputation from the six guilds of merchants in Paris met the Regent to protest over the forced reduction of the bank accounts. The Regent received them in a hostile mood, accusing them of roguery and regretting that he had not executed a few of them for the way in which they had excessively pushed up prices. He argued that one-quarter of their bank accounts were now worth more than the old total. They told him that the reductions would undermine trade. 'So much the better,' he replied.<sup>17</sup> On 30 September Pulteney reported that the merchants of Lyon were suffering greatly from the reductions and that two of most influential merchants had failed.<sup>18</sup>

On 10 October the formal demise of banknotes, progressively signposted by the *arrêts* of 21 July, 15 August, and 15 September, was announced through the 'Arrest du Conseil d'Etat du Roy du dixième octobre portant suppression des billets de banque au premier novembre prochain'. The preamble for this *arrêt* declared that banknotes had fallen into such a state of discredit that they no longer had a value in terms of specie and the few transactions carried out with banknotes only served 'to stop the circulation of silver and maintain the high price of commodities serving to introduce or to perpetuate numerous abuses in trade which can only be stopped by the re-establishment of payments in specie'. Gold and silver, which had been threatened with demonetization in March, were now returned to official favour and instead the banknote was to be demonetized.

The System had gone full circle. Du Tot commented on these developments: 'Finally here we arrived at the transition back from the banknote or credit to specie.'<sup>19</sup> Law's ambitious policy of replacing specie with banknotes had been officially terminated. The preamble also showed the extent to which a large amount of the banknotes had been taken out of circulation, through the following statistics:



Total amount of banknotes printed of which:	2,696,400,000
Banknotes burnt at the Hôtel de Ville	707,327,460
Banknotes converted into <i>rentes</i>	530,000,000
Banknotes converted into bank accounts	200,000,000
Banknotes held by the Company of the Indies, the bank, the mints, etc.	90,000,000
Outstanding amount of banknotes in circulation	1,169,072,540

Du Tot produced somewhat different statistics for the total amount of banknotes issued by 10 October:<sup>20</sup>

Total amount of banknotes	2,873,640,000
Banknotes burnt at the Hôtel de Ville	807,327,460
Banknotes converted into <i>rentes</i>	530,000,000
Banknotes converted into bank accounts	200,000,000
Banknotes held by the Company of the Indies, the bank, the mints, etc.	6,812,900
Banknotes remaining in circulation	1,329,499,640

Du Tot made no mention of the discrepancies between his statistics and those presented in the *arrêt* of 10 October. They differ in three respects: (1) The *arrêt* indicated that 2,696,400,000 livres of banknotes had been printed. Du Tot initially agreed with this in the text but then added to it 177,240,000 livres of banknotes created and sealed at the bank by the *arrêts* of 26 June, 2 September, and 19 September. He added this to the original 2,696,400,000 to give an overall total of 2,873,640,000. (2) The *arrêt* indicated that 707,327,460 livres of banknotes had been burnt at the Hôtel de Ville whereas Du Tot's estimate was 100 million livres higher. He explained earlier in the text that on 3 October the 'sous trésorier' of the bank, acting on behalf of the 'trésorier général', had brought another 100 million of notes to be burnt at the Hôtel de Ville which added to the 707,327,460 already burnt gave a grand total of 807,327,460. As Du Tot was the 'sous trésorier', and, therefore, was responsible for bringing these notes to the Hôtel de Ville following an instruction from 'M. Orry de Vignory',<sup>21</sup> confidence may be expressed in the accuracy of Du Tot's estimate. (3) The *arrêt* indicated that the company, the bank, and the mints held 90 million livres of banknotes whereas Du Tot, who broke down the amount outstanding of each denomination, came up with only 6,812,900 livres. Though never criticizing the 10 October *arrêts* statistics, the care that Du Tot took in presenting his own detailed statistics shows that he was not in agreement with the printed figures. Though he wrote that he was just recapitulating the statistics presented in the *arrêt*, Du Tot came up with a total of 1,329,499,640 livres of banknotes which were held by the public as against a total of 1,169,072,540 presented in the 10 October *arrêt*. But both sets of figures indicate that there had been a substantial reduction in the amount of banknotes in circulation between the end of May and the beginning of October 1720 but the reduction had not been sufficient.

On 27 November 1720, when the bank closed its doors for the last time, Du Tot calculated that it had actually issued a total of over 2.9 billion livres as a result of

further creations of banknotes ratified by the *arrêts* of 26 June, 2 September, 19 September, and 13 October.<sup>22</sup> This figure was arrived at as follows:

Banknotes issued up to the end of May 1720	2,696,400,000
Banknotes issued between 1 June and 26 November 1720	246,840,000
Total amount of banknotes issued by the Royal Bank	2,943,240,000

These extra issues were low denomination 100 and 10 livres banknotes used in part to replace some of the higher denomination banknotes of 10,000 and 1,000 livres that had been demonetized. This did not mean that there were still 2.9 billion livres in banknotes outstanding when the Royal Bank was shut. The production of a series of actual banknotes outstanding, as distinct from banknotes actually issued, involves making appropriate deductions for banknotes that were burnt and those converted into bank accounts or annuities.

Despite reducing the supply of banknotes by over 50 per cent the public's confidence in holding them was so low that it was felt necessary to demonetize them. The measures taken were not totally impartial. Officially banknotes were to be totally demonetized from 1 November 1720. Notwithstanding this they were immediately demonetized, from 11 October, the date of the publication of the *arrêt*, with respect to the payment of taxes. Thus while transactors were given a month to adjust to the new changes, there was no such adjustment period for the state's debtors. Henceforth they would have to pay in specie. The asymmetry of treatment continued in that taxes owing before 1 January 1720 could be paid in banknotes up to the end of the year, whereas the arrears of taxes arising between January and 11 October 1720 had to be paid in specie. Dividends payable by the company were to be made in banknotes until the end of 1720 but arrears on the *actions rentières* and the *rentes viagères* from 1 July were to be paid in specie by the company. Pensions, *rentes*, etc. owed by the King for the year 1720 were to be paid for in specie, though arrears for earlier years would be paid for with banknotes. Another *arrêt* of 10 October decreed that the arrears due on the Hôtel de Ville's annuities would be paid for in specie. One can see here the Regent trying to hold his fragile coalition together by paying money owed to the *rentiers* and courtiers in specie while shareholders of the company were only to be paid their dividends in banknotes which in turn could not be used as legal tender but only converted into debt of the company. It was now the turn of the shareholder to be sacrificed for the *rentier*.

It was indicated that the remaining amount of banknotes in circulation could be converted into a variety of different annuities that had been created in June and August and in tenths of the shares created through the *arrêt* of 15 September 1720. Effectively the 10 October *arrêt* had pronounced the death of the banknote, immediately in the case of taxpayers, and from 1 November for other transactors. All the outstanding banknotes were to be converted into annuities, referred to as *actions rentières*.

Even as the death certificate was produced for the banknote another *arrêt* was promulgated on 13 October permitting the creation of a further 60 million livres of 50 livres banknotes! Thus three days after the official demonetization of bank-notes the Crown arranged for the printing of another 60 million livres of bank-notes. Du Tot, who drily observed that this *arrêt* was never actually published, indicated that it was necessary to permit the release of 30 million livres of bank-notes which had already been printed but which he, the ‘sous trésorier’, had refused to allow into circulation until he was notified of this new *arrêt*. The creation of a further 60 million livres in banknotes by an unpublished *arrêt* three days after the demonetization of banknotes showed a scant regard by the Crown for its own legislation. It also shows Du Tot in an interesting light, refusing to sanction any further circulation of banknotes without the official authorization of an *arrêt*. It suggests that, as the *de facto* treasurer at the bank, he was not prepared to permit any under-the-counter creation of banknotes. Every banknote had to be officially accounted for by an appropriate *arrêt*, even if it was to be by means of what Du Tot euphemistically referred to as the ‘manuscript *arrêt* of 13 October’,<sup>23</sup> before he would allow them leave the bank. He was acting as a true civil servant demanding that the letter of the law be met—even if in the case of the 13 October *arrêt* it had never officially been published. It also shows that he was a brave man, for this type of stubbornness, in insisting that at least he be handed a ‘manuscript *arrêt*’ before allowing the banknotes to leave the Royal Bank, would not have endeared him to the Regent and may explain his subsequent demise as an administrator.

Du Tot's insistence that each new creation of banknotes be duly authorized by an *arrêt* raises the question as to whether there were clandestine or under-the-counter issues of banknotes which were known only by Law and to a lesser extent the Regent. Edgar Faure was just one in a long line of commentators who believed that Law overexpanded the banknote issue without any formal authorization.<sup>24</sup> This runs contrary to Du Tot's presentation of what actually happened. The following table shows the amounts and the relevant dates of the *arrêts* permitting the creation of banknotes:

1719:	5 January	18
	11 February	20
	1 April	21
	22 April	51
	10 June	50
	25 July	240
	12 September	120
	24 October	120
	29 December	360
Total for 1719		1,000
1720:	6 February	200
	26 March	300
	5 April	396
	19 April	438
	1 May	362.4
Total up to 1 May		2,696.4
	26 June	100
	2 September	50
	19 September	50
	13 October	60
Total amount of banknotes authorized for the Royal Bank		2,956.4
Total amount of banknotes issued by Royal Bank		2,943.24

While the *arrêts* of 26 June, 2 September, and 19 September, and the manuscript *arrêt* of 13 October, permitted 260 million of banknotes to be issued only 246.84 million were actually created. This explains the difference between the total amount of banknotes authorized for the Royal Bank and the total amount actually issued.<sup>25</sup>

## Shares of the Mississippi Company

Even though banknotes were removed from circulation by the 10 October *arrêt*, the Mississippi Company would survive the crash of 1720, albeit in a greatly reduced form. It has been earlier shown that by the end of May 1720 the amount of shares or entitlements to shares held by the public had been reduced from 624,000 to 200,000. By article V of the *arrêt* of 3 June shareholders had been asked to contribute another 3,000 livres per share payable in six monthly instalments of 500 livres in return for which these shares would be stamped and guaranteed a dividend of 360 livres on each share. Shareholders not opting to pay this supplement were to receive a fixed interest payment of 200 livres per share. Thus those who paid the supplement were offered a return of 3 per cent (360 livres on shares valued at 12,000 made up of 9,000 livres + 3,000 livres supplement). Those opting not to pay the supplement were only offered a fixed return of 2.2 per cent. On 14 June a further *arrêt* stipulated that the cash supplement would be paid in three monthly instalments of 1,000 livres per share instead of six monthly instalments of 500 per share. There were further important ramifications in the *arrêt* of 20 June. Shareholders were then given the option of paying for the supplement either in banknotes or, alternatively, in shares with three old shares equalling two new shares. Du Tot reported on this *arrêt* that 'shareholders may pay the supplement of 3,000 per share either in banknotes or shares, which shares will be received on

the foot of 6,000 livres each'.<sup>26</sup> The mathematics of this particular offer were as follows:

If the 3,000 livres supplement was paid on each share then

	3 shares × 9,000 livres	=	27,000 livres
minus	3 calls × 3,000 livres	=	9,000 livres
	3 shares	=	18,000 livres
	1 share	=	6,000 livres

Alternatively, if three shares were converted into two shares, the two new shares would be valued at 6,000 livres each by the company. Thus, like it or not, the shareholders were subjected to an enforced reduction in the value of shares. Du Tot, despite his fastidiousness in compiling statistics, was never able to determine how many shareholders paid the extra 3,000 shares and how many just accepted the enforced reduction in the number of shares that they held.<sup>27</sup>

The hand of Law was manifestly at work here. A month earlier there had been a huge outcry against reducing the value of banknotes and shares. Yet, by 20 June, Law was effectively reducing the company's valuation of shares from 9,000 to 6,000 livres by forcing shareholders either to pay the supplement of 3,000 livres per share or to convert three old shares into two new shares. Law had delivered what seemed to be a new hand but it contained many of the same cards that he had tried to play on 21 May. It could be argued that this was just a tidying-up exercise equating the company's valuation of the shares with the market price. On 3 June, the day on which the *arrêt* was published, the shares were priced at 5,750. Rather surprisingly, over the following three days after the publication of the *arrêt*, the shares moved upwards from 5,780 to their June high of 6,350 on 6 June, as may be seen in Table 19.1

Pulteney explained the complications involved in this particular offer:

By an arret published on the 9th instant the present actions [shares] of the Company were, with an addition of 3,000 livres Bank bills to each action, to be changed at the Bank for new actions on the foot of 12,000 each and to bear an interest of 3 per cent. This was to be voluntary and those who might not care to pay the addition of 3,000 livres were to have here actions for the old on the foot of 9,000 with an interest of 2 per cent. But by an arret published yesterday it is declared that the additional 3,000 livres may be paid in actions as well as bills, which actions are to be received at 6,000 each and two new actions to be delivered for three old ones. By this means the new actions instead of being reckoned at 12,000 livres, as by the former arret seem to be at 9,000 only. However, they are to have the same interest as at 12,000 viz. 360 livres per annum for every action. This interest is to commence the 1st of July next and the actions are not to be received on this foot after the 15th of July. No mention is made in this arret, as was in the former, of those who choose not to fill up their actions, but to keep them on the foot of 9,000 at 2 per cent, so that it may seem as if all are obliged without exception to conform to the conditions of this new arret about filling up the actions.<sup>28</sup>

Giraudeau started compiling a daily price series for these new shares, referred to as *actions remplies*, on 6 August citing a price of 6,900 livres for that day. One has to

Table 19.1. Price of Mississippi Company Shares, June 1720

June	1	5,320	June	15	5,175
	2			16	
	3	5,780		17	4,683
	4	5,750		18	5,196
	5	6,210		19	5,457
	6	6,350		20	5,345
	7	6,247		21	5,216
	8	5,990		22	5,065
	9			23	
	10	5,820		24	
	11	5,150		25	4,517
	12	5,255		26	4,735
	13	5,235		27	4,810
	14	5,230		28	4,740

SOURCE: Giraudeau. Du Tot's statistics on share prices for June 1720 correspond exactly with those of Giraudeau, showing that he most probably used them. As the Poitiers manuscript seems to have a strong link with the abbé Dubois there is the possibility that both Giraudeau and Du Tot had been hired by Dubois to produce an extensive history of the System.

adjust this to two-thirds, i.e., 4,600, to equate it with the old price of shares. This is done in Table 19.2 (p. 306) showing the value of the Mississippi shares between 17 August 1719 and November 1720.

On 31 July, at a time when the shares of the Mississippi Company were languishing below 5,000 livres, an *arrêt* was published announcing a new offer of 50,000 shares to the public at 9,000 livres per share payable in nine instalments of 1,000 livres! Pulteney was quite stupefied by this development, remarking:

The old actions keep still at 4,800 livres, how the new ones shall be thought to be worth 9,000 livres is one of the mysteries of the System. It is said that they have now made an arrangement *solide* about these affairs. The people apprehend that this *solidité* will cost them very dear.<sup>29</sup>

His stupefaction grew on learning that this offer was supplemented, on 14 August, by a further offer of 20,000 shares, again priced at 9,000 livres, payable in nine instalments of 1,000 livres:

By an arret published the 17th the Company is allowed to give out subscriptions for 20,000 actions besides the 50,000 which to be given by the arret of the 31st of July and on the same terms which are 9,000 livres for each action payable in 9 payments.<sup>30</sup>

These two offers to subscribe a total of 70,000 shares at 9,000 livres were not properly understood either by contemporaries such as Pulteney or by later commentators on the System. It seemed absurd to offer new shares at 9,000 livres when the

old shares were languishing between 4,500 and 4,600 livres. The reason behind these new share offers became clearer in the 'Arrest du Conseil d'Etat du Roy, concernant le cours des billets de banque du 15 aoust 1720' which demonetized banknotes of 10,000 and 1,000 livres from 1 October 1720 and lower denomination notes from 1 May 1721. This demonetization policy had to provide alternative outlets for holders of large denomination banknotes. Two outlets had already been provided in the form of annuities and bank accounts. The third outlet was to be shares in the company, as is quite clear from articles IV and VII of the 15 August *arrêt*. The reason why 70,000 new shares were offered to the public after so much effort had been devoted to reducing the outstanding amount of shares from 624,000 to 200,000 was the new emphasis on taking banknotes out of circulation, a policy heralded by the *arrêt* of 21 July. Du Tot remarked that the second offer of 20,000 shares made on 14 August was necessary because there had been such a demand for the 50,000 shares offered by the *arrêt* of 31 July.<sup>31</sup>

The first offer of these new shares, which were referred to as *souscriptions*, on which 1,000 was to be paid immediately, quickly went to a premium, showing once again that the market was not in a state of permanent depression. Marais reported that the rush to purchase these shares was as if purchasers were offered gold bars. He also remarked that 'The frenzy for shares is gripping all of Europe'.<sup>32</sup> South Sea stock was still quoted at over £900 in London and other European countries and cities such as Holland and Hamburg were experiencing stock-market booms. Betting odds on all types of human behaviour were offered. Law was betting that the Parlement would have a long stay in Pontoise while the British were betting on the duration of the System and the lifespan of the Regent, and a book had been opened in London that Law would be hung in September!<sup>33</sup>

On Wednesday, 31 July when the *arrêt* for issuing 50,000 new shares was drawn up, the stock market was transferred from the place Vendôme to the Hôtel de Soissons. The new shares were issued that day, according to Marais, though the actual *arrêt* was not published until 5 in the evening on 9 August.<sup>34</sup> This was the third change in the stock market's location, for it had initially been established in the rue Quincampoix which had been found lacking in space. It was then transferred to the place Louis-le-Grand which the populace, notwithstanding the magnificent bust of Louis XIV, obstinately continued to call the place Vendôme. There under tarpaulins, while the ladies from the court played quadrille, the trade in shares was carried out. Besides the crowd dealing in shares retailers set up shop selling jewellery and silks. Refreshments were provided at all times while musicians and jugglers performed their arts.<sup>35</sup> To exploit the rental potential of such an area the prince de Carignan persuaded the authorities to have the market shifted to a new purpose-built area that he had specifically created in his garden at the Hôtel de Soissons. This consisted of an open dealing square in the garden in which he had built 150 wooden boxes (*loges*), according to Marais (or 140, according to Piossens), which could be rented for 500 livres per month.<sup>36</sup> (Lemontey's figure of six hundred boxes seems to have been a wild exaggeration.)<sup>37</sup> The boxes were

shaded by the trees in the garden which gave them the aspect of an 'Indian town' according to Lemontey. Business hours, announced by the sound of a trumpet, were from seven in the morning until seven in the evening during the summer, and from eight to five during the winter. Marais observed that some dealers had some very pretty ladies in their boxes and that such dealers had more business than the others!<sup>38</sup>

A further *arrêt* that day stipulated that holders of 10,000 and 1,000 livres bank-notes would only be able to convert them into annuities up to the end of August, and into bank accounts up to the end of August for those living in Paris and up to 15 September for those living in the provinces. These measures were aimed at promoting a quick withdrawal of the high denomination banknotes from circulation. The rush to purchase new shares over the first two weeks of August seemed to indicate that some semblance of stability had returned to the market, with the average premium on these *souscriptions* amounting to about 7 per cent over the first two weeks. However, the *arrêt* of 14 August announcing the creation of a further 20,000 shares caused the price to fall to a discount from 19 August. The premiums and discounts on the *souscriptions* for August were as follows:<sup>39</sup>

August	% Change	August	% Change
1	6.0	16	6.3
2	3.5	17	3.0
3	3.5	19	-0.25
5	8.0	21	-7.5
6	8.0	22	-7.5
7	4.0	23	-6.5
8	4.0	26	-5.5
9	5.5	27	0.0
12	14.5	28	-2.0
13	8.0	30	-2.0
14	8.5	31	-1.5

On 24 October owners of shares which had the first stamp were called on to have them controlled and stamped again by the company. Those who had sold their shares were given the opportunity to repurchase them at 13,500 livres in banknotes. The shares controlled and stamped with a second stamp would be returned within eight days to shareholders *de bonne foi*, those suspected of speculation would have to wait for three years prior to the return of their shares, and those shares which did not have the second stamp were declared null and void.

## The Overall Liquidity of the System

Table 19.2, reproduced from the Poitiers Manuscript, shows Du Tot bringing together his monthly compilations on the value of shares and banknotes over the



Table 19.2. Aggregated Value of Shares and Banknotes, August 1719–December 1720

Month and year	Value of shares in banknotes	End month value of banknotes held by the public	Value of banknotes and shares in banknotes	Value of banknotes and shares in current silver	Value in silver at 82 l.t. 10 s. to the Marc
August 1719	888,500,000	400,000,000	1,288,500,000	1,253,500,000	
October	1,797,500,000	520,000,000	2,317,500,000	1,758,700,000	
November	4,560,250,000	640,000,000	5,200,250,000	5,200,250,000	
December	4,288,595,000	769,000,000	5,057,595,000	5,056,545,000	
January 1720	4,241,640,000	790,519,980	5,002,159,980	5,032,159,980	
February	4,162,060,000	1,069,727,090	5,231,787,090	5,231,787,090	
March	3,800,990,000	1,261,530,150	5,062,143,150	4,872,230,150	
April	4,077,180,000	2,054,004,870	6,131,184,870	6,127,184,870	
May	3,903,160,000	2,235,083,590	6,138,243,590	6,138,243,590	
June	1,195,936,000	2,380,067,660	3,576,003,660	3,099,990,128	3,099,990,128
July	1,068,480,000	2,102,745,470	3,171,225,470	1,704,533,700	1,973,670,600
August	1,104,643,656	2,027,808,880	3,132,452,546	2,156,102,669	1,482,320,585
September	1,101,494,000	2,022,762,610	3,124,256,610	1,434,945,025	1,214,184,252
October	1,292,274,444	2,090,028,000	3,382,302,444	742,415,386	756,163,757
November	1,11,650,000	2,090,159,360	3,201,809,360	534,702,163	525,153,911
December	988,100,00	2,090,159,360	3,078,259,360	364,773,734	410,549,328

SOURCE: Du Tot, Poitiers MS., fo. 661.

period September 1719 to December 1720. A variant of this table was published in the *Réflexions politiques*.<sup>40</sup> The latter was limited to the period September 1719–September 1720 and contains fewer details than the former. The aggregated statistics for shares plus banknotes give an important indication of the growth of the liquidity of the System from 1.3 million in August 1719 to a high of 6.1 million in May 1720 and then falling back to 3.1 billion by December 1720. The final column is more revealing of the actual fall in the value of the liquidity of the System, in that in it Du Tot converted the aggregated value of shares and banknotes into silver at a value of 82.5 livres to the marc. On this basis the liquidity of the System fell from 3.1 billion in May 1720 to 411 million by December 1720, a far greater collapse than that indicated by just expressing shares and banknotes in banknotes. As the System developed sizeable structural cracks, the value of shares and bank-notes started to fall, and, ultimately, as has been shown, banknotes fell to a fraction of their nominal value and bank accounts were forcibly reduced to one-quarter of their value. There are, however, considerable problems with these tables, most notably the table relating to banknotes in circulation. While Du Tot deducted banknotes that were publicly burnt from the overall amount of banknotes created (see column 4 of Table 19.2) he did not exclude banknotes that had been withdrawn from circulation through the creation of annuities and the substitution of bank accounts for banknotes. Thus, as has been shown above, Du Tot in the text distinguished between banknotes that had been printed and banknotes held by the public. By 10 October 1720 he calculated that 2.87 billion livres in banknotes had been created but 370 million in banknotes had been burnt, 530 million had been converted into annuities, 200 million had been converted into bank accounts, and 6.8 million were held by the bank. This meant that the public held only 1.33 billion livres as banknotes. Furthermore, banknotes stood at a discount of 82 per cent in the case of high denomination notes and 78 per cent in the case of low denomination notes (100 and 10 livres) against specie. Averaging these out at 80 per cent this means that the 1.33 billion livres of banknotes outstanding had a market value of only 266 million livres.

It may be surmised that Du Tot's reason for not making these deductions was his belief that while the banknotes in circulation had been reduced a new counterpart to them had been created in the form of annuities and bank accounts. In this series he was trying to put together a table for what he called 'fonds publics', that is, public funds, a financial aggregate that initially consisted just of banknotes and shares but which had to be modified to implicitly include annuities and bank accounts as these were substituted for banknotes through the summer of 1720. But even if this was the logic of his position the statistics needed to be adjusted significantly in the case of the bank accounts, especially after they were forcibly reduced to one-quarter of their value by the *arrêt* of 15 September. Du Tot assessed the shares at their market price but did not do the same for bank accounts. The final column of Table 19.2 is the most representative as it shows the value of shares and banknotes in terms of specie. From it we can see that the value of the System's

financial instruments, which stood at a high of 6.1 billion in May, dropped by 50 per cent to 3.1 billion livres, and then progressively staggered on a month-by-month basis to a low of 411 million livres in December 1720. The declines per month were as follows:

May 1720	6,138 million
June	3,100 million
July	1,974 million
August	1,482 million
September	1,214 million
October	756 million
November	525 million
December	411 million

These declines were to prove disastrous for those who had held on to their shares and banknotes. However, the Crown greatly benefited from these developments in that its debt was reduced to a fraction of its former level. Though Law acquired the reputation of leaving France bankrupt this conclusion has to be revised in the light of the considerable improvement in the state's financial situation. Law's System certainly bankrupted the creditors of the state; the state, however, as a debtor was a net gainer.

## Law's Departure from France

The widespread destruction of a large part of the public's financial wealth fomented more and more open hostility to Law. By the start of December Law recognized that there was no immediate future for him in France. He offered his resignation to the Regent and asked for permission to leave France. In what was to prove his final meeting with the Regent Law had said, 'Monseigneur I made some big mistakes; I made them because I am human; but you will find neither malice nor roguery in my conduct.'<sup>41</sup> Though the Regent remarked to the courtiers that he was delighted that Law was no longer near him and that he was 'a scoundrel who had tricked him' he did, as will be shown, ensure that Law was provided with passports and letters of safe conduct to ensure that Law was able to leave the country.<sup>42</sup>

Law recommended that Le Pelletier de La Houssaye be appointed Controller-General. On 11 December La Houssaye was appointed to this post. Du Tot cynically remarked that to mark the occasion he requested the Regent to have his proposer, Law, imprisoned in the Bastille. The Regent refused. He was not the only person clamouring for Law's imprisonment. The banker Thellusson contended that it was he who was responsible for Law's downfall, in that at the time that Law withdrew to his country residence at Guermande, he, Thellusson, met with the Regent and persuaded him that Law had to be imprisoned in the Bastille

and then brought to trial. He thought the Regent had agreed to these measures, but learned the next day that Law had escaped this fate, thanks to the intervention of the duc de Bourbon.<sup>43</sup>

Bourbon was extremely concerned for Law's safety, as is evidenced by the letter he sent him on 15 December:

I cannot sufficiently express my grief on your departure. I hope that you do not doubt it and that you rest assured that I will never abandon you. I will never allow any attack on your freedom or your property. I have the Regent's word on this and I will never allow him to go back on it. There are many people who want to have you arrested but I do not believe that they will succeed. There are others who want you sent to Effiat. They could succeed more easily. I will do all that is possible to prevent this, and at the very least to ensure that it will not happen until your accounts have been made and you have been discharged of them . . . Silver is lacking and no expedient is proposed. I do not know how the bank accounts can be balanced at present. It seems to me that they are the only resource of the state and without them it is lost. The Regent must be blind not to resolve this. What I fear is that with his customary indecision he will resolve nothing. Business goes from bad to worse . . . he [the Regent] is seeing only a few friends. It is in this situation that he should take care of you because if there should be a disorder your enemies may perhaps seize the occasion to undertake something against you and I believe that in this case you must either hide or go to a foreign country on the conditions that we agreed together. Reflect on this . . . I urge you to put your accounts in order as soon as possible because I would like to see you being discharged of them. Adieu. Send me your news and rest assured that you are the person for whom I will always have the greatest esteem, consideration, confidence and friendship.

D[UC DE] B[OURBON]

If you have thought up some project let me know of it because we need something good and I think that it is only in your shop that we will find the remedy for our ills; but be wary of the messenger to whom you will entrust it.<sup>44</sup>

Bourbon was alleged to have made a fortune out of Law's System and so had a debt to repay. He arranged for his mistress, the young and beautiful Mme de Prie, a formidable lady who would later guide the duke to becoming the Regent's successor in 1723, to collect Law at his residence in Paris and accompany him to Auxonne. Mme de Prie was probably happy to accompany Law for it was rumoured that she had made a considerable fortune based on Law's advice.<sup>45</sup> From there he was driven to his estate at Guermande, near Lagny-en-Brie, an area to the east of Paris.<sup>46</sup> In Guermande Law realized that time was running out for him and that he needed to leave France as quickly as possible. He wrote letters to the Regent and to the duc de Bourbon requesting the delivery of passports prior to the clearance of the accounts at the bank:

Monseigneur. It is difficult to decide between my desire to retire from all public affairs so as to remove any jealousy from those now entrusted by Your Royal Highness with the finances, and the desire that I will always have to contribute to your glory by giving you my insights on the means to re-establish the public credit and to strengthen a system which Your Royal Highness had adopted despite the obstacles put in place by your enemies.<sup>47</sup>

Meanwhile La Houssaye insisted that the books of the bank be independently

examined. This was done, and Du Tot heavily underlined in the Poitiers manuscript that the books, for whose compilation he was responsible, were found to be in perfect order. The extent to which Law's colleagues were out of favour was borne out by the imprisonment and interrogation over a period of seventeen days of Fromaget, director of the company, Bourgeois, the treasurer of the bank, and Revest, the controller of the bank, in the Bastille. As well as this the new Controller-General invited back the Pâris brothers, Law's great enemies, to dis-mantle the remnants of the System. As they represented the financier class it was clear that Law had lost all his power. Confirmation of this came with the recall of the Parlement from Pontoise on 17 December, following on a *déclaration* to this effect of 16 December.

On the day of the Parlement's recall Law wrote to the Regent denying the accusation that he had assisted the Jacobite Pretender and had contacts with Spain:

I learnt today that I am accused of having helped the Pretender and of being in liaison with Spain. I helped some unfortunate people who had no bread. Amongst them there were some who had previously rendered me a service, the D. D'O saved my life . . . I sent my books to Mr Crosat, my shares are in the bank, all my property is in France and I owe money overseas. I am awaiting the passports which your Royal Excellency is to send me.<sup>48</sup>

Law also wrote to the duc de Bourbon on the same day maintaining that once Crozat examined his accounts he would be able to confirm that the rumour that he had assets in foreign countries would be dismissed. Law also pleaded for a quick delivery of the passports which were necessary for him to leave France. He specifically requested that he be allowed to cross the frontier where he chose so that he could avoid 'enemies who could insult me'.<sup>49</sup>

This was Law's last letter from Guermande. Shortly afterwards he left for Brussels. The duc de Bourbon provided servants, some armed guards, and a carriage to assist Law on this journey.<sup>50</sup> Law may have been out of favour but the Regent and Bourbon were still active in protecting him. The extent of the official connivance in Law's departure is borne out by Bourbon's letter to Law dated Tuesday, 17 December. It shows that the Regent had agreed to give Law the requisite passports to leave France and that Bourbon had been requested to set in motion the necessary machinery for the Scotsman's departure:

This morning the Regent told me to inform you that he would allow you to leave France and that he would give you passports, that you give orders for the preparation of your papers so that he may give you all the necessary discharges and that with respect to your private affairs you give a power of attorney to someone here to take care of them. I am very angry with this decision because it prevents me seeing you but given my very close friendship for you I would always fear something from your enemies as long as you stayed in France. Tell me where you hope to go. Rome seems to me to be too far and I believe that at the moment you should go no further than Switzerland so that you will be able to give instructions to whoever will be charged with putting your papers in order and so that you can provide insights into many issues on which, I have no doubt, we will soon need your guidance. I beg

of you to make yourself safe because the indecision that we see all around us makes me fearful for you.<sup>51</sup>

Law left France with many worries. His letter-book provides a remarkable insight into his state of mind in the immediate aftermath of his decision to leave France. He was a disillusioned man. A few months previously he had been one of the most powerful men in Europe. Now he was obliged to borrow Mme de Prie's carriage and travel incognito, accompanied by his son William, towards the border. Katherine Knowles and their daughter Kate stayed behind. He would later express many regrets at not having his 'little family' with him. He had many creditors not only in France but also in Britain and the rest of Europe. He had difficulties even reaching the border. Fate was to deliver him once more into the hands of the Argenson family. He was stopped by René Louis de Voyer de Paulmy, later marquis d'Argenson (1694–1757), the son of the former Keeper of the Seals. Given Law's treatment of his father it was natural to expect the son, the local *intendant*, to detain the Scotsman and to suggest that his papers were not in order. He had not had time to settle his affairs and left France with little or no money. As Argenson junior had relieved him of his passport and his money at Valenciennes he had to borrow 200 pistoles in Brussels in order to have money for his trip.<sup>52</sup> Above all he was depressed at the dismantling of the System and urged that the system of bank accounts be re-established before it was too late.<sup>53</sup> On arrival in Brussels he was brought to meet the French ambassador, the marquis de Prie, husband of the lady who had kindly lent him her carriage. The marquis provided Law and his son with refreshments for the opera which they attended that evening.<sup>54</sup> Travelling with little money Law still had not lost his style; reports indicate that he had been received like the Messiah in Brussels where he had his own box at the theatre.<sup>55</sup> In Brussels he met a certain Baguerel de Pressy, a representative of the Czar, Peter the Great, who issued him with an invitation to go to Russia. Law declined the invitation.

## 20 The Possibility of a Recall to France

He was on his knees before the judges. ‘Mr. Law you have been condemned to be hung for the murder of Mr. Wilson.’ He must have felt a sense of *déjà vu, déjà entendu*. He had been through all of this before. Did he really need to go through it again? This was London in early December 1721. Law was undergoing a brief replay of his conviction for the murder of Edward Wilson in 1694. Now he was asking for a formal pardon from the King. He had already been granted a pardon on 16 November 1717,<sup>1</sup> but penitence was required before absolution. In a formal ceremony, before the Lord Chancellor, Law had been presented to a panel of judges by six peers of the kingdom, the Duke of Argyll, Lord Ilay, Lord Orkney, Lord Selkirk, Lord Londonderry, and the Count of Essen. On his knees before the judges Law formally requested a pardon which the Lord Chancellor granted.<sup>2</sup> The formality of this ceremony indicated that Law was back in favour with the authorities in London. If Law had been considered just as a pathetic failed policy-maker the authorities would not have gone to the trouble of staging such an elaborate ceremony. Law's main sponsors in London were once again the Campbell brothers, the Duke of Argyll and Lord Ilay. They had supported Law's land bank scheme in Scotland in 1705. They had already assisted Law when he was seeking a pardon in 1712.<sup>3</sup> Lord Ilay, the younger brother, had been involved in a number of his financial ventures with Law. In 1713 Mr Drummond reported from Utrecht that Law, already ‘rich’, had invested in British stocks using Lord Ilay as a *prête nom*: ‘he has a good deal of mony in the funds in England. I believe in Mr Lord Illay's name or under his direction.’<sup>4</sup> Drummond also wrote in this letter that he had advised Law that ‘his friends the Duke of Argyle and Lord Ilay were able to do him the best of service’ in his attempt to obtain a pardon for the murder of Beau Wilson.<sup>5</sup> Lord Ilay was in France in January 1720 at the height of the boom in Mississippi shares, at which time he was making a considerable fortune in them.<sup>6</sup> The Scottish links between Law and the Campbell brothers were further cemented by their mutual use of the banker George Middleton.

The ceremonial pomp surrounding Law's pardon, which ended with Law distributing the customary strong spices to the judges, suggests that Law was still considered as an important political personality. A few days later he was fêted at the opera with courtiers bidding for his attention. Once again he was obstinately promoting his System.<sup>7</sup> There was talk that Law would be recalled to France. Had

he another life in him as a policy-maker? Certainly the British authorities felt it was a possibility.

There is therefore a further intriguing episode to relate, that of Law's attempt to return to power, one which almost succeeded in 1723. The story of Law has shown that he was a man who persevered in adversity. He had been rejected before and he had persisted in pushing his proposals until he was eventually heard. It would have been out of character for Law to retire from public life on his exile from France. Law had a dream. He had almost realized it in the tumultuous period between 1716 and 1720. For him the dream had not ended in December 1720. Law had suffered a set-back but this did not prevent him from contemplating a come-back. His success had been noted by other rulers in Europe such as the Czar, who had invited him to come to Russia. He had also received an invitation from the King of Denmark and from several other states.<sup>8</sup> The rejection of these invitations was not evidence of any tiredness on Law's part. Instead it is conjectured that Law perceived his departure from France as only a temporary one. He expected to return and his travels, between 1721 and 1723, show him circling around France waiting for the call from the Regent to return to Paris.

His departure from the Regent had not been acrimonious. Law was sufficient of a realist to know that he had to leave. The Regent and the duc de Bourbon ensured that he was able to exit from France without difficulty providing him with a passport made out in the name of M. Dujardins.<sup>9</sup> The duc de Bourbon wrote a number of letters to Law on his departure from France, assuring him of his support and that of the Regent, and requesting him 'once you are outside the country I beg of you not to go too far away because the state will surely have need of you and you are too attached to it to refuse to give your advice to prevent it from perishing'.<sup>10</sup> Though both Bourbon and the Regent could envisage a return for Law to France, his old adversary Cardinal Dubois had every intention of ensuring that Law did not return to favour. Dubois, now that Law was no longer present, had the opportunity of becoming the closest policy adviser to the Regent and he worked to secure this role by ensuring that Law was kept out of France. The diplomatic mail between Dubois and his envoys in Venice and London clearly indicate the obsessive interest which Dubois took in every step that Law made.

The British were also concerned as to Law's whereabouts. The diplomatic correspondence from the French ambassador in London, Philippe Néricault Destouches (b. 1680, ambassador to London 1718–23), indicates that the British wanted to monitor closely Law's movements, particularly as they had been suspicious of Law's attitude towards them during 1720. In June 1720 Destouches had reported a dinner conversation with the leading ministers, Craggs, Stanhope, and Sunderland where, incorrectly anticipating Law's immediate demise, this ministerial trio had allegedly stated that they knew that Law's 'principal objective was to break the treaty with London and to push developments towards a declared war'.<sup>11</sup> The British ministers' viewpoints may have been unduly fashioned by their former ambassador Stair's profound enmity towards Law, an attitude that at one stage had



threatened British–French co-operation and had necessitated a trip by Stanhope to Paris in the summer of 1720 to pour oil on the troubled diplomatic waters between the two countries. Destouches may also have been exaggerating the British ministers' reactions against Law knowing that such a commentary was music to Dubois's ears. Nevertheless Law posed problems for the British. They feared that in moving to Italy there was the possibility that he might join forces with the exiled Stuart court. The peripatetic Law was therefore a marked man with the French and British envoys sending back detailed reports on his activities in each European city that he visited.

Law, accompanied by his son William, arrived in Venice on 19 January 1721. He had passed through Denmark, stopping in Copenhagen where King Frederick IV provided him with papers made out in the names of Colonel Pierre de Ferry, commandant of the fortress of Christiansand, and his son Laurence de Ferry, a lieutenant in the Danish navy.<sup>12</sup> Despite the King's request for free passage for these 'officers', according to Montgomery Hyde, Law was stopped on the route from Copenhagen to Venice by the Elector of Cologne who refused to let him pass until he redeemed 400,000 livres in banknotes which the Elector produced. Law pleaded that he had no money but was forced to write a bill of exchange for this amount before permission was granted for him to continue his trip.<sup>13</sup> This story seems fanciful and there is no mention of it in Law's letter-book for 1721–2.

Venice, with its carnival, which ran from the day after Christmas to the start of Lent, was in full festive swing. It was a city that Law greatly enjoyed. He was able to find lodgings close to the Ridotto where gambling was a non-stop activity. Bassett and faro were the two chief gambling activities in the Ridotto and these, as seen in earlier chapters, were games at which Law excelled. Initially Law did not stay very long, writing to Katherine Knowles that 'he was weary of Venice, yet shall delay going to Rome. I fear it will be difficult to be in that place, without making myself more enemies.'<sup>14</sup> Law left Venice for Rome on 15 March but he did not stay very long in the Eternal City because of British pressure. His friend Colonel Elizeus Burges, the British resident in the Venetian Republic, warned him that it would be a bad idea to contemplate permanent residence in Rome because of the presence there of the Jacobite Pretender, James Francis Edward Stuart, Chevalier de St George. The British had no wish to see Law aligning with the Stuart forces and Burges told Law that he had always been suspected of Jacobite tendencies and that by taking up permanent residence in Rome he would confirm such suspicions and forsake any chance he had of returning to Britain.<sup>15</sup>

Law acceded to Burges's request and returned to Venice. Writing to his friend Chavigny about the suspicions of both the British and the French, Law remarked 'I could be suspected by both parties and I do not wish to be associated with either.'<sup>16</sup> Making money at the gambling tables of the Ridotto was a poor alternative to the policy-making he had enjoyed in France. Law had two problems which he wished to resolve. The first related to his financial status and the second to the possibility of returning to France so as to reintroduce part of his System in a modified

format. The two issues were interconnected in that if the French authorities settled his debts in the way he envisaged it would have indicated a softening in attitude towards him, a prerequisite for his eventual recall. He needed to be closer to the centre of power. Venice was too distant for him. Having acceded to Burges's request not to live in Rome, Law then asked him if he could return to London. Burges contacted London but, probably because of the Cardinal Dubois's sensitivity to Law returning close to France, the British ministry refrained from taking a decision. Law corresponded with his friends, Londonderry and Ilay, requesting them to put pressure on the Ministry in London. They reported back that Carteret approved of his return and had talked to the King and his Ministers who also approved. Both Londonderry and Ilay suggested that Law could start his trip back to England even though he had no written confirmation of the authorities' attitude to him.<sup>17</sup> Londonderry was obviously keen for him to return to London so as to settle the outstanding amounts owing by Law to him on the East India Company futures wagering.

The increased diplomatic mail activity between London and Venice was matched by that between Paris and Venice. The French chargé d'affaires, Frémont, spread rumours about Law in Venetian circles, alleging that he had left France with a considerable amount of money. Frémont wrote back to France that Law was showing a diamond valued at 1 million ducats to his friends. This was a gross exaggeration as Law pawned a diamond, presumably the same one, valued at 3,000 pistoles, for 1,000 pistoles to his banker Rezzonico later on that month.<sup>18</sup> Law later explained to the duc de Bourbon that it was an inferior diamond which had been returned to him from London in 1720. Seemingly when the *arrêt* forbidding the holding of diamonds had been introduced in France he had instructed his brother to send four diamonds to London, worth about £4,000 sterling, to have them sold there. One of these was returned as it was slightly defective and it was this diamond which he took with him when leaving France in December 1720.<sup>19</sup>

Law was furious with Frémont's rumour-mongering. On 21 June 1721, in a letter to the Regent, he complained that Frémont was informing people that he had left France with 'a strong box containing diamonds valued at between 25 to 30 millions'. Such malicious gossiping, he felt, was contrary to the understanding that he had reached with the Regent prior to his departure from France. He wrote that the Regent had assured him that he would never permit attacks against 'my property or my person . . . and now I learn that my brother is in prison and my property seized'. Law added that when he had started his career in France he was a wealthy man but his stay in France had changed his financial circumstances. 'I leave the service of the King without any goods, those who had confidence in me have been made bankrupt and I have nothing to pay them. Yet in reality I am owed considerable sums for my services to the King, those owing from overseas business would suffice to pay my creditors and to remit to me the sum that I am seeking.'<sup>20</sup> William Law, in prison in Paris, sent his wife to Venice to obtain money from his brother but Law was only able to give her a paltry sum. He was very critical of his

brother sending his wife on such a long and hazardous trip. The relationship between the two brothers appears to have badly broken down in the wake of the Mississippi collapse. William was kept in prison for a number of years, an incarceration which made him bitter towards his brother; John, looking at some of the attempts that William had made to curry favour with the French authorities, wrote that his brother 'must have gone mad in prison'.<sup>21</sup>

Shortly afterwards, in late August 1721, Law left Venice for England. He still had not been granted permission to return to England but he must have decided to force the issue. Travelling overland he reached Copenhagen in October where he met Admiral Sir John Norris. He persuaded Norris to take him and his son on his flagship to England.<sup>22</sup> Law arrived there on 20 October 1721, much to the annoyance of Dubois, who sent stinging letters to London accusing the British of duplicity in allowing Law to return so close to Paris.

On their arrival on British soil, Admiral Norris received a letter from London saying that he was not to present Law at the court. The day after his arrival Law wrote to the Secretary of State, Lord Carteret, requesting an interview. This was granted. Law, conscious of Dubois's annoyance at his arrival in London, expressed support for Dubois's foreign policy and also indicated that he believed that the Cardinal wished him no personal harm as he had always attempted to assist him whenever the occasion arose. Law also asked if he could appear at the Court, but Carteret suggested that this would be inappropriate in the immediate future.<sup>23</sup> Law wrote to Katherine Knowles telling her that 'the Ministers are not satisfied with Sir John Norris who brought me over without having acquainted them with it, so I don't expect to be well received'.<sup>24</sup>

Over the following weeks Law assiduously worked his way back into the favour of the British establishment. He attended the theatre and opera and was dined and wined by courtiers and members of the government. As a former Prime Minister of France, and as the creator of the Mississippi System, which had such a profound influence in shaping the South Sea Bubble, most people were intrigued to listen to him. Law had many stories to tell. He wrote:

The London bourgeois think that their business affairs will improve because I am amongst them and they hope that I will assist them. They have already credited me as the cause of the small improvement in credit which has taken place since my arrival.<sup>25</sup>

Some people, however, objected to his presence in London, most notably Lord Thomas Coningsby who declared in the House of Lords that Law had been the cause of Britain's misfortune and that he had publicly renounced the Protestant religion. Annoyed by the laughter of the lords at his speech Coningsby, the last English nobleman to keep a jester and one who 'quarrelled with nearly everybody' in a stormy career,<sup>26</sup> stated that he intended pursuing Law during the parliamentary session and he would have him hung by the end of it. Other members of the House of Lords disagreed, stating that as Law had been pardoned he was a free man and had every right to live in the country.<sup>27</sup> Shortly afterwards Coningsby

returned to the House of Lords attacking Law as a 'renegade assassin'. He alleged that the British fleet had been in the Baltic with the express orders of bringing Law back to Britain and that Law's objective was to reduce the British Parliament to the status of the Parlement in Paris. Furthermore he alleged that the proposal in the King's parliamentary address to construct barracks around London so as to provide specific quarantine areas for plague victims was a direct attack on the liberty of the public. This was an exaggerated stance to take, as the plague in the South of France in 1720–1 indicated the need to have preventative measures ready to meet any threatened spread of the plague. Coningsby attempted to produce a very different interpretation of this part of the King's address.

Some Tories, led by Lord Trevor, lent support to Coningsby, forcing Lord Carteret to defend the government on these issues.<sup>28</sup> Coningsby was taking internal matters plucked from the King's speech to the Parliament, such as the issue of the preparation of quarantine quarters for plague victims, and mixing them up with Law's presence in London. Carteret explained a couple of days later to Destouches that the issue had become a party one and that the government was obliged to defend Law's right to come to Britain even though it had not been instrumental in encouraging his return.<sup>29</sup>

Coningsby returned to the attack in the House of Lords on two further occasions in November 1721. In the first of these interventions he branded Law as a traitor to his country and to his religion for taking out French citizenship and for his rejection of Protestantism in favour of Catholicism. Lord Carteret once again defended Law, pointing out that Law's conviction for Wilson's murder had been annulled by letters of pardon from the King and by the lifting of the appeal against Law by Wilson's relatives. Therefore Law was a free citizen and entitled to come and go as he pleased. Lord Trevor, whilst acknowledging this, questioned the manner of Law's return to the country.<sup>30</sup> In a further diatribe against Law in the House of Lords, Coningsby attacked Law on the grounds of high treason. He appended another reason for hanging Law, namely his invention of 'the pernicious systems which had ruined the most powerful countries of Europe'.<sup>31</sup>

Though subject to Coningsby's abuse in the House of Lords, Law became once again a man about town. He frequently went to the theatre and to the opera, so that Destouches observed, in early December, that 'he is appearing everywhere except at the Court'. He also reported a rumour that Law had made a proposal to the government's ministers showing how to switch capital held by French people in Holland to London.<sup>32</sup> Law's return to favour was marked in early December by the formal pardoning of him for Wilson's murder—the event described at the beginning of this chapter. Destouches remarked that it was 'more of a triumph rather than a humbling act for Mr Law'.<sup>33</sup> He was once again a man worthy of recognition.

Law was, according to some sources, openly discussing the possibility of his return to France. He had been replaced by the Pâris brothers, but he expressed misgivings about their ability to re-equilibrate the economy and to carry out the

1721 Visa which imposed a retrospective tax on those who had made money out of the Mississippi System. A friend of Law's told an anonymous French diplomat that Law would never be able to live as an ordinary individual, having been Prime Minister of France, that he was very well considered by both the Regent and the duc de Bourbon, and that the Regent and Bourbon would replace the Pâris brothers with Law at the first opportunity.<sup>34</sup>

Law's correspondence in the final months of 1721 suggests that he was not very sanguine about returning to France at that time. He was bitter about the treatment meted out to members of his entourage and the failure to settle his financial affairs. His brother William was still in prison in Paris, and his wife and daughter were detained in France. Law wrote to the Regent on 1 November 1721, complaining of this treatment and above all the Regent's indifference to him.<sup>35</sup> A week later he discussed the possibility of returning to France when writing to Katherine Knowles:

I live in hopes to hear the Regent will allow you to come out of France; if not, I suppose his intention may be to have me go over for I hear the people of that country are much changed in their way of thinking upon my subject. But tho they be, I do not think it proper for me to engage again in their affairs; the uncertainty is too great, and I prefer a private life to that of a minister. An honest man in that employment makes himself a slave, and is too much exposed.<sup>36</sup>

The New Year did not bring a change in his mood. He wrote to Katherine explaining that he was 'much out of humour, when I reflect on the treatment I have received from France'. He was angry at her continued retention in France, his brother's continued imprisonment, the attacks on his reputation and the way his estate had been handled. He discussed the possibility of taking an employment in one of the countries which had been soliciting him to come and advise them:

At the same time I'm sollicitated very earnestly to reingage myself in public business, and have very great offers made me. If I should accept of them, I'll send my son to you; and since they won't let me have the satisfaction of living quietly with my little family, I'll show them that I'm not to be retained by ill usage. Those who advise the Regent to such measures venture a great deal, for my person is not indifferent. I'll finish my letter, for I grow angry.<sup>37</sup>

In January 1722 he reported to Katherine that he was frequently visiting the Court and that 'his M[a]jesty takes often occasion of speaking to me and seems to have a great deal of goodness'. He was also impressed by the Prince and Princess, remarking that 'the Prince understands our language well, informs himself of everything, and has a good memory'.<sup>38</sup>

A month later Destouches wrote that Law had abandoned his hopes of returning to France and was very pessimistic about the feasibility of the new financial policies redressing the economic situation:

he no longer talks of returning and announces that he never enjoyed the pleasures of life until his return to England. Moreover he appears a dreamer, pensive, broken and distracted. He changes on the twinkling of an eye. Little by little all the courtiers are abandoning

him. He rarely sees the ministers who, apparently, have drawn from him all they can. The adulation he initially received in this country on account of the important figure that he was in France, is beginning to turn into indifference, and this accordingly will cause him to fall into obscurity.<sup>39</sup>

Destouches's assessment of Law may have been made to please Dubois. Law was certainly subject to mood changes but he had not abandoned his dream of returning to France. He wrote to Dubois reminding him of the assurances that the Cardinal had given him just before he left on his final trip to Guernsey. He requested the Cardinal to pay the bills of exchange that Law had written when helping to facilitate the finances of the Ministry of Foreign Affairs.<sup>40</sup> Ultimately it would be Dubois's ill-health which would give him the greatest cause for optimism.

Law's correspondence in the first half of 1722 reveals a man just one step ahead of his creditors. He owed 6.7 million livres to bankers in London (Middleton), Amsterdam (Mouchard), Hamburg, and allegedly to the Carols in Madrid (this latter debt he strenuously denied). The Londonderry wager on which, according to him, £96,000 was due, had still to be settled.<sup>41</sup> He wrote saying that he had reached agreement with Londonderry and the other unnamed transactors, who had bought most of the wager from Londonderry, by which he agreed to pay them over three terms of six, twelve, and eighteen months and in the interim had transferred to them his rights to 3,000 Mississippi Company shares which were held in trust for him by Mr Crawford.<sup>42</sup> Law continuously begged the Regent to settle his affairs, contending that most of his debts had been incurred because he had undertaken debts on behalf of the French state. Ironically he observed that even though he had nothing and lived in fear of being arrested by his creditors the British thought he was 'the richest individual in Europe. The British think of their own interest and cannot understand that I should have served France and neglected my family; so much so that each day I have a hundred impertinent demands, some to borrow and others for charity.'<sup>43</sup>

By May 1722 he was back vaunting the merits of his system to Mr Roseberg, the Serbian President of Finances:

I wanted to make the nation strong and the people happy. I had succeeded beyond my highest hopes. I worked with an enlightened Prince capable of understanding me and who was benevolently inclined. I had surmounted the greatest difficulties at home and abroad. I had no enemies except enemies of France. Everyone agreed that I had saved the country. Foreign countries recognized the strength of France so well that they sought her friendship. I had increased this strength more than if I had conquered all the neighboring states. The Prince headed a rich nation and increased his revenues while reducing the burden on his people. There was no unutilized land or unemployed workers. Manufactures, navigation and trade increased. The peasants were fed and clothed and owed nothing to the King or to their master. Credit together with specie had made money so abundant that one could ordinarily borrow at the notaries at ½ per cent and only repay the principal at will . . . I do not speak of the time that paper money was depreciated but of when it was preferred to and commanded a premium over specie. I left nothing to desire except the continuation of my

System which produced public felicity. By its principles the System should have lasted as long as the French Government and which accordingly would have conserved peace in Europe.<sup>44</sup>

Rosemberg wanted to establish a private bank in his name in his country. He wanted Law to assist him with this project but Law turned down his offer.<sup>45</sup> At this juncture Law was running from his creditors, for he wrote letters both to the Regent and Cardinal Dubois saying that Mendez, to whom he owed £15,000 sterling (450,000 livres), had an order to have him arrested. He begged both men to settle his accounts, contending that this particular debt had been incurred in the services of France. He even offered to send his son to France to show that he had no wealth outside that country.<sup>46</sup>

In the autumn of 1722 Law travelled with his son to take the waters at the spa town of Bath. There he met Dr William Stratford, Canon of Christ Church, Oxford who reported:

My old friend Dr. Cheyney has been pleased to recommend some more of his friends to me from Bath. I was fetched from the Audit House yesterday to three gentlemen who had brought me a letter from Dr. Cheyney. I was once thinking not to have gone home, but when I did, the gentlemen proved to be the famous Mr. Law and his son, and Lord Sommerville, a young Scotch lord. Though I was no stranger to Law's character, yet I did not grudge a bottle of wine, for the sake of a little conversation with one who has made so much noise in the world. He spent the evening with me. I put him upon talking of his own affairs, and he entered into them very readily. He seemed to take it as a great reflection on him, as he well might, that anyone should think our South Sea Scheme to have been formed on the plan of his Mississippi. I perceive he takes our projectors to be great bunglers.<sup>47</sup>

By the autumn of 1723 Law's hard work to persuade the Regent to recall him to France was appearing to bear fruit, and events seemed to be running strongly in his favour. Politicians on both sides of the Channel were openly discussing the possibility of him returning to power in France. Some politicians may have even attempted to thwart Law's plans by arranging for the publication of the *Love-Letters Between a Certain Late Nobleman and the Famous Mr. Wilson*, an issue discussed in Chapter 4. The 'Johnasco' mentioned in this work would have been quickly identified by *cognescenti* as John Law. The alleged activities of this 'Johnasco' would have served to detract from Law's reputation.

Had Law another good hand of cards to play? It certainly seemed so, as the health of the Cardinal Dubois deteriorated. Dubois was the chief political adviser of the Regent. He had centralized power under his control but an excruciatingly painful bladder problem was pointing inevitably to the need for surgical intervention, an intervention which was perceived in those times to have little chance of success. If Dubois died who would replace him?

On 10 April 1723 Sir Robert Walpole wrote to the British Embassy in Paris that there was considerable gossip amongst Law's friends that he was to be recalled by the Regent to Paris:

If the Duke of Orleans is disposed to recall him, as Mr. Law's friends here are very sanguine

of hoping. It is not easy to judge what is most to be wished for in this case, unless we know the competition and upon whom the favour of confidence of the Duke of Orleans might probably fall . . . If Mr. Law does not return there can be no doubt that the power might fall into worse hands; and if any who are neither Englishmen by birth or affection should prevail, we should have a less chance than by admitting one who has sundry ties to wish well to his native country.<sup>48</sup>

Encouraged by the news from France, Law attempted to mend his relationship with the ailing Dubois, reminding him of the way in which he always took care ‘to furnish the necessary sums for his Department at Foreign Affairs and when funds were lacking I used my credit to have them supplemented.’<sup>49</sup> Law even sold his library for a derisory sum to Dubois at this point in time, presumably believing that Dubois would not live very long and that he would be recalled to replace him and so would be able to repossess his library.<sup>50</sup>

Marais suggested in December 1723 that, but for the death of the Regent, Law would have been invited back to France and that a new type of paper money, known as the ‘billets de confiance’, would have been created. What adds further credibility to this story is that Marais wrote that he had been told by the former ‘prévôt des marchands’ Bignon, that ‘that scoundrel Landivisiau was directing this operation’ and that ‘a certain Mellon, who worked for the late Cardinal, went to England to carry out this negotiation.’<sup>51</sup> Noel Danycan de Landivisiau (1686–1730) had been involved alongside Le Peletier des Forts in the examination of the accounts of the Mississippi Company in June 1720 which had exonerated Law of any financial improprieties.<sup>52</sup> He would have been deemed to be a friend of Law's. The more important reference was to ‘Mellon’, namely, Jean-François Melon. Melon was one of Law's secretaries, Law describing him as ‘an honest man’. Later, according to Law, he became the Regent's secretary, and still later, after the death of the Regent, secretary to the duc de Bourbon.<sup>53</sup> Given his working relationships with both Law and the Regent, Melon would have been an excellent intermediary in the negotiations between Law and the Regent's representatives. Subsequently Melon, in the *Essai politique sur le commerce* (1734), confirmed that the Regent wanted to introduce a new credit system: ‘after re-establishing the Company of the Indies, he planned a new credit, confined within safe limits, when death finished his big plans.’<sup>54</sup>

Law wrote that he would have been recalled if the Regent had lived longer. Writing in 1724 to the duc de Bourbon, he confirmed that the Regent had written to him a short time before his death:

Shortly before the death of this prince he sent me his compliments, he approved my conduct; he agreed that my System would have succeeded if extraordinary events had not obliged him to distance himself from my plan; he recognized that he still needed my guidance; he requested my opinion on the current state of the kingdom, and he counted on me to help him raise this great empire to its true value. Your Serene Highness must be aware of this because I suppose that he will have communicated his intentions with respect to me.<sup>55</sup>

Law added that he had sent a rough outline of his ideas for redressing the



economic situation to the Regent. This was probably the 'Projet d'édit sur le rétablissement du crédit en France' which appears to have been linked to the letter and *mémoire* that Law sent to the Regent in April–May 1723.<sup>56</sup> The Regent, on receipt of this document, allegedly reported back to Law that he had resolved his difficulties and fears, that Law's project could be executed without danger, and that its success was sure. He added that the Regent informed him that 'he was counting on my return'.<sup>57</sup> He reiterated this in another *mémoire* to the duc de Bourbon in 1724: 'Last year I had reason to believe that the late duc d'Orléans had resolved the King to recall me to France.'<sup>58</sup>

The death of Cardinal Dubois on 10 August 1723, after an operation by the surgeon La Peyronie, created a void in the Regent's entourage. In November 1723 Law received a letter from his friend the marquis de Bully which apparently said, 'Come back immediately without waiting for an express order from the Regent. I have reason to believe he will welcome you with pleasure.'<sup>59</sup>

The evidence is strong that the Regent was contemplating Law's recall to Paris. Indeed, Law was, according to some accounts, on the point of returning to Paris but fate conspired to prevent this. On Thursday, 2 December 1723 the Regent fell sick in the presence of his old mistress Mme de Fallari. A doctor was called and the Regent was bled, but to no avail. He died shortly afterwards at the age of forty-nine. Law's hopes for a return to France died also. Louis XV was coming of age and even though the duc de Bourbon had favoured Law it appears that his mistress, the redoubtable Mme de Prie, who had provided Law with her carriage to leave Paris, did not. Law would never return to France.

## 21 Death in Venice

As for Venice and its people, merely born to bloom and drop, Here on earth they bore their fruitage, mirth and folly were the crop: What of soul was left, I wonder, when the kissing had to stop.

(Browning, *A Toccata of Galuppi's*)

Venice, in a long but stately decline from its heady Renaissance days when it exercised such power and control over the Mediterranean, was still a cultural mecca in the 1720s. Music and art flourished in a *gay joie de vivre* environment, highlighted each year by the carnival. There in this wondrously sensuous city of winding canals, glinting palaces, spacious squares, and richly painted churches, where masked figures flitted from ball to ball, Law's aesthetic sensibility would have further appreciated the music of Antonio Vivaldi, the *maestro di cappella* of the Pietà, the orphanage for female foundlings.

Visitors were attracted to the city by its calendar of operas, concerts, balls, processions, feasts, and the prolonged carnival. They were also attracted by the prospect of acquiring paintings from such great artists such as Giovanni Antonio Canal, better known as Canaletto (1697–1768), Rosalba Carriera (1675–1757), Gianantonio Guardi (1699–1760), Giovanni Antonio Pellegrini (1675–1741), Marco Ricci (1676–1729), and Giambattista Tiepolo (1696–1770). One of these painters, Rosalba Carriera, had produced a portrait of Law at the height of his powers in 1720 when she visited Paris at the invitation of the Crozat family. This world of art attracted Law. Though he continued to gamble he also, as will be shown, spent considerable time acquiring a collection of paintings.<sup>1</sup>

Visitors also came to see Law in Venice. He had no desire to see some of these. Others, such as Montesquieu, provided him with the opportunity to reminisce about the System. The former grouping included the Longueville brothers who arrived in Venice threatening to kill Law, or his son, if they were not refunded the 100,000 écus which they allegedly handed over to Law's son at the time of the prohibition on the holding of more than 500 livres in specie in France in 1720. They were friends of the son, but it seems unlikely that they would have entrusted such a large sum of money to William, who was only a fifteen-year-old boy at the time. The elder Longueville brother menaced Law in his lodgings in Venice, according to the abbé Conti.<sup>2</sup>

On 29 August 1728 Law had a more welcome visitor, Charles-Louis de Secondat,

baron de La Brède et de Montesquieu (1689–1755). Montesquieu, as has been shown in Chapter 1, had already parodied Law and his System in the *Persian Letters*. This did not stop Law from graciously receiving him and discussing his System with him for many hours. Montesquieu related how the Scotsman talked to him about his System, maintaining that the collapse was due to the Regent having him put under a guard in May 1720. How, Law asked, could the public ever trust a man who had been placed under arrest? He added that he had lived in fear of his life for several days during this house arrest—a threat he had already written about to his friend the marquis de Lassay.<sup>3</sup> Law talked at length about the System, but Montesquieu, surprisingly for someone whom Keynes rashly described as the greatest French economist of the eighteenth century,<sup>4</sup> seemed unable to grasp many of the issues that Law discussed and his account of the conversation adds little to our knowledge of the System, with one exception. This relates to the way in which Law economized on the company's dividend payments. Montesquieu recounted how the shares were issued on different days and therefore had different payment dates for dividends. When the public borrowed from the bank against the collateral of the shares the company economized on the dividend payment, and when the shareholder went to claim his shares the company handed him back other shares with later payment dates for the dividends.<sup>5</sup>

For John Law 'the kissing had to stop' in March of 1729 in Venice. Initially, in the last week of February, Law had contracted a bad cold which did not worry him. However, it seems to have degenerated into what would now be called influenza and later into pneumonia ('une fluxion sur la poitrine'), and within a month he died.<sup>6</sup>

On 4 March the British resident in Venice, Colonel Burges, wrote to London:

Mr. Law was taken ill here about 9 days ago, and has been given over by his physicians eight and forty hours. He was first taken with a shivering cold fit, which lasted him five or six hours, that was succeeded by a violent hot one, which has never intermitted, but continued upon him ever since. I saw him for the last time the day before yesterday: he was then very sensible of the danger he was in, and, as he told me, very desirous to die: believing his death would be of greater service to his family at this juncture than any other; because the Cardinal has just now appointed 3 or 4 gentlemen to examine and state his accounts, and he thinks they will be more inclined to do him justice in France, when they shall know how poor he dies, and that he has nothing in any part of the world but in that country and in the King's hands. He has ordered his son, who is here with him, to go to France immediately after his death to throw himself at the King's feet, and endeavour to move His Majesty's compassion and justice for upon them he must rely for his future subsistence. Soon after I had taken my leave of him, the French Ambassador brought a Jesuit to him, who confessed him, and the same evening the curate of his parish gave him the sacrament and extreme unction: Since that, he has never been without 2 or 3 Jesuits with him, who probably will not leave him till he dies.<sup>7</sup>

The French ambassador mentioned in Burges's despatch was comte Jacques-Vincent Languet de Gergy (1667–1734). He had been working to insinuate himself

into Law's confidence so that he could report back on Law to Germain Louis Chauvelin (1685–1762), Keeper of the Seals, in Paris. The French authorities were still interested in their former Controller-General. Gergy visited Law a number of times before his death. On one of his visits he suggested to Law that he should confess and prepare himself for the last sacraments. Law was seemingly embarrassed by this, but Gergy arranged for a Jesuit priest, Father Origó, to visit Law. The latter encouraged the ailing Law to confess and receive the last sacraments. Gergy then suggested to Law that he write his will as a further proof of his Catholicism. Law replied that he believed this was a useless act as all he possessed was in France and it had been seized by his creditors. Gergy pushed Law on the issue and, sometime later, the Scotsman requested his friend, Jean-François Le Blond, the French consul in Venice, to inform Gergy that he had drawn up his will.<sup>8</sup>

This satisfied Gergy. But there was life still left in the old fox. Law was still scheming. He could not draw up a will leaving his estate to Katherine Knowles, known as Mrs Law, because they had never married. Instead Law made a donation *inter vivos* to Katherine Knowles on 19 March. The fact that 'Cattarina Knowles'—the sister of the 'Conte di Banbury'—was cited specifically in the legal document drawn up by the Venetian notary Gabriel Gabrieli, rather than Mrs Law, was significant.<sup>9</sup> It is the ultimate proof that Law never married Katherine Knowles. Gergy would only learn of this particular stratagem after Law's death.<sup>10</sup> Writing shortly after his death Gergy observed that Law was still vigorously defending his System:

I have never seen a man more stubborn than him about his cursed System, and in such a way that it is probable that from the start of its operations he really believed his projects to be infallible and as a result never thought about his own affairs. Subsequently when he saw things changing he never dared put anything aside either because it was too late or because he feared that in so doing that he would lose the rest of his diminishing credit.<sup>11</sup>

On the night of 4 March Law called for Father Origó once again. Gergy believed that he would not live another day. Law lived on for another seventeen days. He recovered so well at one moment during his illness that Burges wrote, 'I am told this moment they begin to conceive some sort of hope of Mr. Law's recovery.'<sup>12</sup> Such hopes were short-lived. On Monday, 21 March 1729, in the presence of his son, John Law died. Burges described Law's death:

Mr. Law is dead, after struggling seven or eight twenty days with his distemper, which was judged mortal by his physicians from the beginning. He died with great calmness and constancy, and is spoke of here with much esteem. Some time before he fell ill, he shewed me a letter of credence he had from the late King to this Republick, and some letters to him from your Grace, Mr. Lord Townshend and Sir Robert Walpole. He has ordered his son to put those papers into my hands, and I will take care of them till I receive your Grace's commands how to dispose of them.<sup>13</sup>

Thus Law died a dignified and calm death. His son William wrote that 'he

preserved his senses to the very last quarter of an houer'. In a further letter to his mother he described the type of filial esteem he had for his late father:

The situation of our affaires oblidges me not to delay acquainting your Lady s[hip] with the misfortune is happen'd us of losing my father. He was a friend, brother and father at same time to us all.

He departed this life on Monday last 21st of this month, giving us all his blessing; and has made a general gift to your Ladys[hip] of all he had and all pretentions whatsoever, with full power of disposing acting, contracting, etc in short doing what you think proper of all; Knowing the kinde love you bear equally to us both, and other reasons which I'll acquaint yr Ladys[hip] with when I shall wait on you at Paris.<sup>14</sup>

It seems that in writing this draft letter William had second thoughts about including the section in which he had written that John Law had been 'a friend, brother and father at the same time to us all', probably feeling that his mother would not want to read this. His initial sentiments do show that the father and son had a close relationship and that it had blossomed even in the aftermath of the collapse of the System. Law's relationship with Katherine Knowles after 1720 is difficult to determine. She remained on in France between 1720 and 1729, never apparently seeing Law again. Initially the marquis de Torcy refused to give her a passport to leave France and later Law suspected that the French authorities were keeping her in France as a pawn to encourage him to return.<sup>15</sup> Law had written to her about his desire to have 'the satisfaction of living quietly with my little family'.<sup>16</sup> Perhaps all was not well in the relationship, as Katherine Knowles was cited as the lover of Law's friend the marquis de Bully in a paternity suit brought by Edme Elisabeth de l'Ecluse. Mme de l'Ecluse even accused 'this odious woman [Katherine Knowles]' not only of appointing Bully as manager of her husband's affairs but also of giving him many valuable jewels including her portrait encrusted in diamonds.<sup>17</sup> The infidelity appears to have been on both sides, for Law was also reported to have had an amorous liaison with Claudine de Tencin (1681–1749), a secularized nun and the sister of the Cardinal de Tencin. If this report is correct he was just one in a long line of lovers of this extraordinary courtesan and writer, who included the Regent, Dubois, Argenson, Bolingbroke, Fontenelle, and others.<sup>18</sup> None the less the relationship between Katherine and John Law, which appears to have started as early as 1702 if not before,<sup>19</sup> remained a strong one with both corresponding frequently with each other in the years between 1721 and 1729.

After Law's death both Burges and Gergy wanted to trawl through his correspondence so as to detect any material which the authorities in Paris or London might like to appropriate because of its political or economic sensitivity. Gergy's main concern was to locate Law's private correspondence and send it back to Paris. Law was still feared from the grave. What if his papers contained confidential information on the System and his relationships with the French court and administration? Law had intimated that he was writing his memoirs on the System.<sup>20</sup> Chauvelin, the Keeper of the Seals, wrote from Paris to Gergy insisting

that all of Law's papers be sent to him, and, furthermore, that he press Le Blond to reveal any confidential information that Law had passed on to him shortly before his death.<sup>21</sup> Chauvelin was particularly worried about 'a written account of what happened in France when he [Law] was in charge and several letters of the duc d'Orléans and his ministers'.<sup>22</sup> Neither Law's son nor Le Blond purported to have any knowledge of this memoir and correspondence. Instead they showed Gergy three quarto volumes of letter-books containing copies of letters that Law had written between December 1720 and September 1726.<sup>23</sup> The first of these volumes contained copies of letters written by Law to the Regent and to the duc de Bourbon from Guermande just before his departure from France in 1720.<sup>24</sup> Burges also mentioned that he had located three letters apiece from Lord Townshend and from Sir Robert Walpole to Law.<sup>25</sup>

William Law the younger and Le Blond concealed from Gergy the fact that Law had granted all his assets, including his art collection, to Katherine Knowles, his common-law wife, by virtue of the *donatio inter vivos* made shortly before his death. Gergy suspected that something was being concealed from him but he was never to learn of the sizeable art collection that Law left on his death.

Both the French ambassador, Gergy, and the British resident envoy, Colonel Burges, believed that Law died without leaving any fortune. Was this the case? Did Law manage to outmanoeuvre these two diplomatic representatives on the issue of his wealth? Archival material in Maastricht, where Law's son William died on 4 February 1734, shows that on his death Law owned a considerable collection of fine art. In August 1729 an inventory was made of Law's wealth. It consisted of 81 boxes of paintings, sculptures, musical instruments, and furniture.<sup>26</sup> Within this collection there appears to have been 488 paintings.<sup>27</sup> Many of these paintings were by the greatest masters. The first page of the inventory of paintings listed 22 paintings including a Titian, a Raphael, four Tintoretos, two Veroneses, and a Paolo. Flicking through the inventory other great names appear including Holbein, Michaelangelo, Poussin, Leonardo da Vinci, and no less than three Rubens!<sup>28</sup>

None the less Burges was unimpressed by Law's artistic eye and the acquisitions he made. He wrote that Law had 'won a great deal of money' and invested part of it in paintings:

some of which he sent to England before he died and the rest are still here. I think it is generally agreed he bought his pictures very ill and was horribly imposed on in every bargain he made. However, he thought otherwise himself and relied so much upon his own judgment that he advised with nobody and fared accordingly; for no man alive believes that his pictures, when they come to be sold will bring half the money they cost him. He had, before he died, recommended his son and his interests to the French ambassador here, and the young man never communicated any of his affairs to me since his father's death, but threw himself entirely into the hands of the French consul [Le Blond], in whose house he lived 'till he went away, which was about two months ago . . . Mr. Law, two days before he died, made a deed of gift to Lady Katherine of all he had, or had any right to in any part of the world; but called her Lady Katherine Knowles, sister to the Early of Banbury, living such a

house in such a street in Paris, and no where mentions her as his wife or takes any notice of her children . . . was looked upon as done with a design to defraud his creditors, if they should at any time discover any of his effects . . . as soon as Will Law [John Law's brother] got notice of it, he commenced a suit with Lady Katherine, as next heir to his brother, declaring she was not his wife, and that her children are bastards.<sup>29</sup>

The paintings were sent by boat from Venice to Holland in 1729 but the boat was caught in a storm and started taking water. It was obliged to return to Venice on 30 August 1729. Unfortunately for Katherine Knowles, the paintings were damaged by coming into contact with water. A Dottore Ricini was given the task of repairing them but he still had not finished this work by the time of the death of Law's son William on 8 February 1734.<sup>30</sup> Armand Baschet, though giving no sources, maintained that the collection arrived in Holland in 1735 and was then sold.<sup>31</sup> Fifteen paintings belonging to the collection were sold in London on 22 May 1765 and a further 77 were sold by Christie's on 16 February 1782.<sup>32</sup>

The reason for the secrecy of Le Blond and William Law junior in concealing this collection is apparent in that there were still creditors chasing Law and he had always held out hope that the French authorities would settle his estate in France in a satisfactory manner. Additionally, as Burges's letter shows, Law's brother William was intent on depriving Katherine Knowles of the assets Law had granted her.

Important issues relate to the value of the collection and the time at which Law acquired it. Even though the great masters such as Michaelangelo, Raphael, Rubens, Poussin, Tintoretto, and Titian, were not as highly valued then as they are now, it required considerable wealth to acquire such a collection. An idea of their value may be gleaned from a letter by Le Blond to William Law after the paintings had been damaged at sea. In this letter Le Blond mentioned that he had met the insurers of the collection who were very keen to have the paintings repaired rather than pay insurance damage on them, and that if forced to pay the insurance a number of them would be made bankrupt: 'We cannot really refuse their proposal. . . because even if I obliged them to pay in full, a number of these assurers would be made bankrupt.'<sup>33</sup> Did Law acquire this collection after 1720, or had he accumulated part of it when in France, as a hedge against losing the fortune he had made in paper money and shares? Law had certainly acquired a number of paintings by May 1721, for he wrote at that time to the marquis Hippolyte Mari saying that he had made no decision as to what he would do with the paintings 'that you bought on my behalf'.<sup>34</sup> Even when protesting to the Regent that he was penniless in London in 1722, Law was at the same time writing to Mari in Genoa, 'I have not yet decided what to do with my paintings, whether I will send them here because of the duties.'<sup>35</sup> After Law's death Mari acknowledged that he was holding on behalf of the Law family a collection of paintings which included the three Rubens, a Michaelangelo, a Van Dyck, and so on.<sup>36</sup> Were these the paintings that Law already possessed in May 1721?

The question of Law's art collection also raises the issue of Law's attempts to

increase his wealth during the System. Law came to France in 1714 with his gambling winnings of 1.6 million livres. He used this money to purchase a considerable shareholding in the General Bank and later in the Mississippi Company. He was perfectly entitled to take such action as both were private share-issuing companies. Indeed at the start of the System his projects would not have got off the ground without his and the Regent's sizeable purchases of shares. Law built up a holding of 20,000 shares in the company: 'When the Company of the West was established I took an interest of 6 million [livres] which I increased later up to ten million, which was 20,000 shares.'<sup>37</sup> The share price of the Mississippi Company moved from 150–70 livres in 1717 to over 10,000 livres in 1719–20. Assuming that Law still held the 20,000 shares in January 1720 when the Mississippi Company's shares peaked, then he was worth 200 million livres, about £6.5 million sterling at the current exchange rate. This made him the richest private individual of the time. Later Law confirmed this stating that in 1720 he had been 'the richest individual who ever lived'.<sup>38</sup> On another occasion he wrote that he had been 'the richest subject in Europe'.<sup>39</sup> A contemporary confirmed this assessment:

It is very probable that the very ingenious gentleman who is now sole director of the Bank of Paris may have a greater command of money and credit than any 20—perhaps a greater number—of the richest merchants of Europe.<sup>40</sup>

Even though running the finances of France, Law ensured that his own private fortune increased in tandem with the dizzying rise in the stock market. His mind, continually bubbling with new ideas, produced plans to acquire the Hôtel de Nevers and all the buildings around it, the area currently occupied by the Bibliothèque Nationale in Paris. He wrote of this that he bought all the houses which formed the square between the rue Neuve-des-Petits-Champs, the rue Vivienne, the rue Colbert, and the rue de Richelieu. He paid 1 million livres for the Hôtel de Nevers and gave its owner, M. de Mazarin, his own house worth 600,000 livres, so that the total cost of this transaction was 1.6 million livres. He intended to centralize the bank, the company, the Post, and all the offices dealing with trade and the finances in this area. According to Law, he bought all the surrounding property in the King's name so as to minimize any objections that their owners might make. Furthermore he wrote that he intended presenting all this property to the company and had already communicated his intentions on this plan to the Regent.<sup>41</sup>

He also became a sizeable investor in the place Louis-le-Grand, now the place Vendôme, and acquired many properties and undeveloped marshy sites on or near to the rue du Faubourg St-Honoré.<sup>42</sup> Additionally, he purchased sizeable estates such as that of Roissy, 'four leagues outside Paris', for 1,250,000 from the marquis de la Carte in November 1719, the estate of Tancarville in Normandy for 650,000 livres and a pension of 6,000 livres per year from the comte d'Evreux in July 1718, and Guermande, his last abode in France prior to his hasty departure, from Paulin Prondre for 740,000 in April 1720.<sup>43</sup> He bought other estates at Berreville for 200,000 livres, Fontaine-Ramé for 156,000, Iville for 300,000, Cerronville for



87,500.<sup>44</sup> Law, though he would continually reiterate that he acted as ‘an honest man’,<sup>45</sup> was not averse to feathering his own nest by acquiring a portfolio of select properties and estates. He lost all of these properties in the subsequent litigation and settlement of his property in France. In a letter to the marquis de Bully of 26 February 1722 Law expressed considerable rage at the behaviour of the vendor of Guermande, Paulin Prondre, who had repossessed the estate by swearing to the Visa commissioners that he had not been paid. Law explained that between the agreement to purchase and the payment for the estate Prondre had come back to Law stating that the lands had increased in price and that he wanted to be paid more money. Law agreed to pay him an extra 140,000 livres. Prondre acquiesced but stipulated that only 600,000 would be specified in the contract and 100,000 livres would be paid under the table as a ‘pot de vin’ to his wife and 30,000 livres would be paid in the same way to his secretary. Law wrote that the Visa commissioners had returned the estate to Prondre on the grounds that he had not been paid. Law remarked of this, ‘The Chamber of Justice and the paper Visa will enrich many scoundrels who were meant to be punished.’ In reality Law said that he had paid Prondre with the company's shares which the latter had probably converted into silver or alternatively was holding as a creditor of the state.<sup>46</sup> The story provides a fascinating vignette of a land purchase during the System and the attempts by the sellers, left with the depreciated shares and banknotes of the System, to nullify such contracts. A contract confirming the sale of Guermande to Law shows that Law rather than Prondre was telling the truth with respect to this particular transaction.<sup>47</sup>

Law provided a very spirited defence of his acquisitions in letters and *mémoires* to the Regent, the marquis de Bully, the marquis de Lassay, and the duc de Bourbon.<sup>48</sup> He reminded the latter that when Lord Peterborough visited the Regent in France in 1723 and expressed surprise that Law had no wealth outside France the Regent had replied ‘there was nothing base in Law's conduct’.<sup>49</sup> He explained how he had undertaken certain actions on behalf of the French Crown using his own credit, contending all the time that his behaviour was always motivated by the public good rather than his own private self-interest. One wonders, and unfortunately, due to the destruction of most of the notarial archives dealing with Law, one will be left wondering on this issue, whether he was always acting in the interest of the public as he consistently reiterated in his correspondence with the ruling élite in France? Did he enter into contracts on his own behalf with the intention of maximizing his own profit rather than that of the nation? One questions how Law was able to build up significant silver holdings with his banker George Middleton, holdings which he never subsequently revealed to the Regent. One also questions how he accumulated such a large collection of fine art. Even if there is no explanation for these acquisitions they were small investments relative to what Law could have done. He could have opened up sizeable bank accounts in the financial centres of Europe at the height of the System as a precautionary policy. He did not. Furthermore, there was no clamour on the part of his contemporaries

alleging that Law had been involved in fraudulent behaviour. Law wrote to the duc de Bourbon stating, 'Time will tell that at least I acted as an honest man, perhaps even as a clever man, and that my enemies were not friends of their country.'<sup>50</sup> Montesquieu's assessment that Law was a man 'more in love with his ideas than with his money' was probably quite close to the truth.<sup>51</sup>

## Conclusion

John Law was an extraordinary character who led a roller-coaster type of life. Bankrupt at one stage of his early career and forced to sell Lauriston to his mother to meet his debts, he rebounded to become a highly skilled gambler at the gaming tables of Europe, a skill which enabled him to amass a fortune of 1.6 million livres (£120,000) by the time he came to live in France in 1714.<sup>52</sup> Sentenced to death for killing Beau Wilson in a duel, he was able to escape the gallows through the help of British ministers who clandestinely arranged for Law's easy escape from prison. Gambler and murderer are peculiar items to find in the curriculum vitae of an economic theorist and policy-maker. Again Law was able to rebound from this murky past to convince the Regent that he had a plan which could revitalize the French economy. Which contemporary could have predicted that the French economy, so bankrupt in 1715, would show such vitality under Law's management in 1719 and the first part of 1720? In less than four years Law introduced paper money into France, centralized the trading companies and the tax system under the Mississippi Company, and converted the national debt into equity of this company. He had initiated an ambitious project to colonize half the land mass of the United States, sending groups to settle and develop the territory known as Louisiana. Examining these developments Du Tot remarked that it was a type of miracle which posterity would scarcely believe. He was so successful that, even though he was a convicted murderer, he was made Controller-General of Finances, an office formerly held by the 'grand Colbert'. This position made him the *de facto* Prime Minister of France. Such was the rise of France under Law that the British felt it necessary to imitate his debt-management approach, an action which led to the South Sea Bubble of 1720.

At the height of his powers Law had seemingly become a counter-alchemist, a demigod with a magical touch for transforming gold and silver into paper bank-notes and shares. For a short period it seemed as if Law had produced a specie-less France. The Dutch engraving reproduced on p. 256, *Arlequin Actionist* (the Jester Shareholder), shows a Law-like character outside the rue Quincampoix being fed coins which his body transforms into Law's paper money and shares while the frenzied mob trades this paper. In a corner of this engraving another individual is pumping air through bellows into the head of a man in a cage. Wind allusions and bubbles abound in the iconography depicting the foolishness of Law's System and

the South Sea Bubble. Contemporaries, such as Daniel Defoe, liked to console themselves by the reflection that it was all hot air:

Some in clandestine companies combine;  
Erect new stocks to trade beyond the line;  
With air and empty names beguile the town,  
And raise new credits first, then cry 'em down;  
Divide the empty nothing into shares,  
And set the crowd together by the ears.<sup>53</sup>

Was it just hot air, a mere bubble which when pricked deflated into nothingness? Law showed, albeit for a short period, that the economy could function without gold and silver. It was an intimation of things to come, one which his detractors, fixated by gold and silver, were reluctant to consider. Consistently in the centuries that followed Law was attacked for not understanding that the monetary system had to be anchored to metallic money. The last link to the gold anchor was cut in 1971 when the United States refused to convert the dollar into gold at a fixed price. The world now survives, and indeed thrives, without any gold or silver link. Law's conceptualization of a specie-less economy is now a reality. Law has won this particular debate.

Undoubtedly, Law pushed the Mississippi System too far and too fast. He acknowledged this later: 'I do not mean to say that I did not make mistakes, I acknowledge that I did and that if I was to start again I would act differently. I would go more slowly but more surely.'<sup>54</sup> He over-monetized the French financial system out of line with the real economy. When cracks appeared in the edifice he relied, contrary to the free market stance that he adopted in his writings, on coercive improvisations to force recalcitrant transactors back into the paper money and shares fold which he had constructed. There is an enigma here. Retrospectively Law argued that he had been forced to monetize Mississippi Company shares at 9,000 livres each on 5 March and that, if permitted, he would have cut the value of shares and banknotes so as to keep them in line with the reduced value of specie stipulated by the measures of 11 March. He contended that it was inconsistent to allow the value of shares and banknotes to increase out of line with specie. This indicated that he felt the need to maintain some type of specie anchor in the System. Yet a close analysis of the 'Mémoire sur le discrédit', written in July 1720, shows Law suggesting that gold be demonetized and silver be used as legal tender only for small transactions. What were Law's real intentions? Did he want to remove specie totally from the System, as his writings and actions of July 1720 indicate, or did he recognize the need to maintain some link between the paper money system and the specie money system, as his retrospective writings, after the collapse of the System, suggest? In his retrospective writings Law obviously wanted to disassociate himself from the failure of the System and to show that he had been urging caution when the System was showing significant seismic faults. Part of this caution apparently involved the recognition of some link between the paper money system and specie. Law, wanting to return to policy-making in

France in 1723, needed to present a more conservative image. Part of this conservatism may have led him to reinterpret his intentions of the spring of 1720.

The magnetism of Law's personality was such that the Regent appears to have been on the point of recalling him to France in 1723 after the death of Cardinal Dubois. The Regent's death prevented this development. Law was never to return to power.

The collapse of the System resulted in considerable losses for a wide cross-section of the French public. For the most part, debtors gained at the expense of creditors. The state, the biggest debtor, gained at the expense of the *rentiers*, in the short term, through a reduction of its debt.<sup>55</sup> There were of course individual private winners, the Mississippian millionaires. Du Hautchamp provided names and details of the fortunes made by these Mississippi millionaires whom the French authorities subjected to a retrospective tax through the Visa of 1721.<sup>56</sup> Over the long term the costs of the System were great because confidence, that most delicate financial flower, had been destroyed. Law knew the importance of confidence. He wrote: "The nation swung in an instant from extreme confidence to extreme distrust. The confidence had been based on the big operations which Mr Law had conceived, implemented and achieved; operations that were regarded as miraculous."<sup>57</sup> After the failure of Law's System the public no longer trusted financial innovation or paper money.

If Law's policies had succeeded they would have revolutionized the *ancien régime's* finances, and probably turned France into the dominant European power of the eighteenth century. The collapse of the System left a legacy of animosity towards financial innovation, which restored and reinforced the rule of the financier class and strait-jacketed the French economy under its control until the Revolution. This antagonism was deepened by the failure of the *assignats* scheme during the French Revolution when a new paper money was issued against the collateral of ecclesiastical land and property—a scheme with many parallels to Law's original proposals for a land bank.

Law's legacy to his family was his art collection. His legacy to mankind was a rich theoretical vein of writings, which have been discussed and analysed in detail for the first time in this book, along with a conceptualization of a monetary system which was not reliant on precious metals such as gold and silver.

Law's economic theory has never been the subject of a major retrospective assessment. The reasons for this are varied. Many economists regarded him a failed policy-maker not worthy of further investigation and have left him to be analysed by historians. Additionally, as shown, half of the published writings attributed to him by Harsin did not emanate from his pen. Other writings, as in the case of the *Essay on a Land Bank*, have only recently been discovered to have been written by him. This has meant that anyone researching on Law's economic theory did not have the appropriate corpus of his writings to examine.

This book has attempted to show the originality of Law's writings. He wrote with a clearness and conciseness which separated him from his contemporaries.

Writers such as Isaac Gervaise struggled to express the concept of the money supply by using an archaic terminology such as 'the grand denominator'.<sup>58</sup> Law, on the other hand, effortlessly discussed inflation in terms of a money supply/money demand framework. He was the first to coin the term 'the demand for money' in analysing inflation. He suggested that it was related to 'people, land, or product', synonyms for national product or income today. He showed how global inflation would be generated if the money supply was out of line with the demand for money. He presented the law of one price and its influence in small open economies. He analysed the circular flow of income and used it to show the importance of the money-in-advance requirement. He believed that, in situations of unemployment and underemployment, an increase in the money supply could generate real changes in the economy. He favoured low interest rates and advocated debt-management strategies to help reduce interest rates.

In producing these striking ideas there is no evidence that he discovered his conceptual framework by mixing in an intellectual milieu which was discussing economic ideas; on the contrary, a great deal of his spare time seems to have been spent at the gaming tables. He read some writers, Petty, Locke, and Chamberlen, for example, but he appears to have reached his conclusions through his own intellectual powers. He was his own man, a very independent thinker. Contemporaries were very impressed by his mathematical and rhetorical skills. He had consistently displayed the former at the gaming tables of Europe and the latter skill impressed contemporary French commentators such as Melon, Du Tot, and Du Hautchamp. The Earl of Stair, describing Law in Paris in 1715, remarked that he 'had a head fit for calculations of all kinds to an extent beyond anybody . . . in the matter he takes himself up with [he] certainly [is] the cleverest man that is'.<sup>59</sup> Montesquieu remarked that when Law had been in power 'he never read nor had a paper on his desk'.<sup>60</sup>

Law was a restless, effervescent spirit who made quantum leaps in economic theory and then attempted to make similar leaps in economic policy. For a period it seemed as if he had almost succeeded. Unfortunately for Law he faced political and financial constraints in the form of the opposition of the financiers and the rich nobility. When stress faults appeared in his System he was forced back to earth and obliged to leave France. His bold leap into the future had failed. His theory remains. Part of this theory, the early part, will be interpreted by commentators as providing a sound modernistic analysis on the causes of inflation. Yet this was not enough for Law. He also believed money mattered, that it was not neutral, that it did help the world go round. He denied that he was a visionary but that was only to convince the French authorities that he was not some unbalanced and reckless genius. He had a dream and for a brief period he was able to implement that dream in eighteenth-century France. Few economic theorists have ever had his opportunity to translate such dreams into reality.

# Notes

## 1. Introduction

1. For further details on this work see Arthur H. Cole, *The Great Mirror of Folly: An Economic–Bibliographical Study* (Cambridge, Mass., 1949).
2. *Journal et mémoires de Mathieu Marais*, ed. M. de Lescure (Paris, 1863–8, reprinted Geneva, 1967), i. 481.
3. ‘Il meurt et va chez Lucifer’, *Nouvelles Lettres de mme la duchesse d’Orléans*, ed. G. Brunet (1853), p. 258.
4. Montesquieu, *Persian Letters* (1721) tr. by C. J. Betts (London, 1987), p. 256.
5. Antoine-François Prévost d’Exiles, *Histoire du chevalier Des Grieux et de Manon Lescaut* (Amsterdam, 1731).
6. Emerson Hough, *The Mississippi Bubble: How the Star of Good Fortune Rose and Set and Rose Again, by a Woman’s Grace, for One John Law of Lauriston* (Indianapolis, Ind., 1902); Cendrine de Portal, *Les Fortunes de la gloire: Le roman de John Law* (Paris, 1982).
7. See Antoin E. Murphy, *Richard Cantillon: Entrepreneur and Economist* (Oxford, 1986).
8. Joseph Pâris-Duverney, *Examen du livre intitulé Réflexions politiques sur les Finances* (The Hague, 1740), ii. 132.
9. Ferdinando Galiani, *Della Moneta* (Naples, 1750), pp. 329–30.
10. David Hume, *Essays Moral, Political, and Literary*, ed. Eugene F. Miller (Indianapolis, Ind., 1987), p. 361. Incidentally, the editor’s footnote is mistaken in referring to this period as ‘1643 to 1661’, during the early reign of Louis XIV, when responsibility for ruling France lay chiefly with Cardinal Mazarin.
11. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), ed. R. H. Campbell, A. S. Skinner, and W. B. Todd. (Oxford, 1976), p. 317.
12. Sir James Steuart, *An Inquiry into the Principles of Political Economy* (Dublin, 1770), iii. 48.
13. See Antoin E. Murphy, ‘John Law and the Assignats’, in G. Faccarello and Ph. Steiner, *La Pensée économique pendant la Révolution française* (Grenoble, 1990), pp. 431–48.
14. Émile Levasseur, *Recherches historiques sur le Système de Law* (Paris, 1854).
15. Karl Marx, *Capital* (London, 1981), iii. 573.
16. J. Shield Nicholson, *A Treatise on Money and Essays on Monetary Problems*, 6th edn. (London, 1913), p. 168.
17. Alfred Marshall, *Money, Credit and Commerce* (London, 1924), p. 41.
18. John Maynard Keynes, *A Treatise on Money* (London, 1930), i. 15.
19. John Maynard Keynes, *The General Theory of Employment, Interest and Money* (London, 1936).
20. Edgar Faure, *La Banqueroute de Law* (Paris, 1977).
21. Joseph Schumpeter, *A History of Economic Analysis* (London, 1954), p. 295.

## 2. Law's Writings and His Critics

1. *Œuvres . . . de John Law, contenant les principes sur le numéraire, le commerce, le crédit et les banques*, ed. Étienne François de Sénovert (Paris, 1790).
2. *Œuvres*, i. xli.
3. *Ibid.*
4. Lionel Rothkrug, *Opposition to Louis XIV: The Political and Social Origins of the French Enlightenment* (1965).
5. Edgar Faure, *La Banqueroute de Law* (Paris, 1977), pp. 57–8.
6. *Œuvres*, iii. 282–430.
7. Lawrence Lande had this manuscript translated into English, ‘The History of Finance and John Law's System during the Regency of the Duke of Orleans’, in Lawrence M. Lande, *The Rise and Fall of John Law 1716–20* (Montreal, 1982).
8. *Œuvres*, i. lxxix.
9. Poitiers, Bibliothèque universitaire, Argenson MSS. B. 18, ‘Histoire des finances’.
10. *Considérations sur le commerce et sur l'argent* (The Hague, 1720).
11. ‘Histoire des finances’, fo. 118.
12. Published as *John Law's Essay on a Land Bank*, ed. Antoin E. Murphy (Dublin, 1994).
13. See Earl J. Hamilton, *American Treasure and the Price Revolution in Spain, 1501–1650* (Cambridge, Mass., 1934); *Money Prices, and Wages in Valencia, Aragon and Navarre, 1351–1500* (Cambridge, Mass., 1936); *War and Prices in Spain, 1651–1800* (Cambridge, Mass., 1947).
14. See Earl J. Hamilton, ‘Prices and Wages at Paris under John Law's System’, *Quarterly Journal of Economics*, li (1936–7), 42–70; ‘The Political Economy of France at the Time of John Law’, *History of Political Economy*, i (January 1969), 123–49; ‘John Law of Lauriston: Banker, Gamester, Merchant, Chief?’, *American Economic Review*, xxxvii (May 1967), 273–82; ‘John Law’, in *International Encyclopedia of the Social Sciences*, vol. ix (New York, 1968).
15. Paris, AN MC, Étude xlvi. The notarial archives of Ballin, while catalogued by title, are missing.

## 3. Law's Background

1. John A. Fairley, *Lauriston Castle* (Edinburgh and London, 1925), p. 115.
2. John Philip Wood, *Memoirs of the Life of John Law of Lauriston* (Edinburgh, 1824), p. 2.
3. Fairley, *Lauriston Castle*, p. 82.
4. *Ibid.*, p. 98.
5. Edgar Faure, *La Banqueroute de Law* (Paris, 1977), p. 3.
6. Henry Hyde, *The Correspondence of Henry Hyde, Earl of Clarendon, and of his Brother, Laurence Hyde, Earl of Rochester*, ed. S. W. Singer (London, 1828), quoted in Sir John Clapham, *The Bank of England* (Cambridge, 1944), i. 9.
7. Nicholas Barbon, *A Discourse of Trade* (London, 1690), p. 29.
8. Clapham, *The Bank of England*, i. 10.

9. Ibid., i. 12.
10. Fairley, *Lauriston Castle*, pp. 99–103.
11. A. R. B. Haldane, *The Drove Roads of Scotland* (Edinburgh, 1962), p. 46.
12. John Chown, *A History of Money* (London, 1994), p. 134.
13. Fairley, *Lauriston Castle*, p. 91.
14. W. Gray, *The Memoirs, Life and Character of the Great Mr. Law and his Brother at Paris* (London, 1721), pp. 4 and 91.
15. Robert Woodrow, MS. Life of his father, the Revd. James Woodrow, University of Edinburgh Library, Laing Notes, MS. 6737, fo. 67. Earl Hamilton located this manuscript in the above collection.
16. Wood, *Memoirs of the Life of John Law of Lauriston*, pp. 3–4.
17. *Archaeologica Scotica* (1792), i. 503, quoted by Fairley, *Lauriston Castle*, p. 118.
18. Joseph Taylor, *A Journey to Edenborough in Scotland* (1705, published Edinburgh, 1903), p. 134.
19. *Œuvres*, i. 76.
20. Barthélemy Marmont du Hautchamp, *Histoire du système des finances sous la minorité de Louis XV* (The Hague, 1739), i. 69.
21. *Œuvres*, iii. 312.

## 4. Duelling Beaux

1. HMC, *Calendar of State Papers. Domestic, 1695, Addenda 1689–1695*, ed. W. J. Hardy, p. 252.
2. *London Journal*, Saturday, 2 December 1721, No. cxxiii. 6.
3. *The Proceedings of the King and Queen's Commissions . . . Held for the City of London and County of Middlesex at Justice Hall in the Old-Bayly on Wednesday, Thursday and Friday, being the 18th, 19th and 20th days of April 1694*, BL 515, L 2/154, p. 4.
4. Quoted in H. Montgomery Hyde, *John Law: The History of an Honest Adventurer* (London, 1969), p. 25.
5. W. Gray, *The Memoirs, Life and Character of the Great Mr. Law and his Brother at Paris* (London, 1721), p. 6.
6. For this account see Hyde, *John Law*, pp. 26–7.
7. *Proceedings of the King and Queen's Commissions*.
8. Gray, *Memoirs*, p. 8.
9. Henri and Barbara Van Der Zee, *William and Mary* (London, 1973), p. 409.
10. *Love-Letters Between a Certain Late Nobleman and the Famous Mr. Wilson: Discovering the True History of the Rise and Surprising Grandeur of that Celebrated Beau*, printed for A. Moore in London. Though undated on the title-page it is catalogued with a date of 1723 by the British Library. The *Love-Letters* run to fifty-three pages (iv, 49).
11. William Roosen, 'Love-Letters Between a Certain Late Nobleman and the Famous Mister Wilson', in Peter Wagner (ed.), *Erotica and the Enlightenment* (Frankfurt am Main, 1991), p. 361. When writing an earlier draft of this chapter I was unaware of Professor Roosen's work on the *Love-Letters*. I am most grateful to Andrew Carpenter of University College Dublin for bringing this work to my attention.
12. *Love-Letters*, Preface, p. ii.



13. Jonathan Swift, *Works*, 2nd edn. (London, 1883), xii. 206. Gilbert Burnet, *History of his Own Time* (London, 1724–34), pp. 423–4.
14. Roosen, 'Love-Letters', pp. 360 and 361.
15. H. R. Plomer, *A Dictionary of the Printers and Booksellers who were at Work in England, Scotland and Ireland, 1668–1725* (Oxford, 1922).
16. *Love-Letters*, Preface, p. i.
17. *Ibid.*, pp. ii–ii.
18. *Ibid.*, p. ii.
19. *Ibid.*, p. iv.
20. *Ibid.*, pp. 1–2.
21. *Ibid.*, p. 4.
22. *Ibid.*, p. 22.
23. *Ibid.*, p. 32.
24. *Ibid.*, p. 36.
25. *Ibid.*, p. 43.
26. London, PRO, SP 35/18, no. 118, Letter to the Hon. Douglass, 30 October 1694.
27. Bernard de Mandeville, *The Fable of the Bees: or, Private Vices, Public Benefits* (London, 1729).
28. HMC, *Calendar of State Papers. Domestic, 1694–95*, ed. W. J. Hardy (London, 1906), p. >108.
29. HMC, *Report on the Manuscripts of His Grace the Duke of Portland, KG*, vol. vii, *Petitions and Memorials to the Queen 1704–1708* (London, 1901), p. 320.
30. HMC, *Calendar of State Papers. Domestic, 1695*, p. 262.
31. London, PRO, SP 35/18, no. 118, 24 November 1719 and 4 January 1720, Report of James Johnston of Warristoun at the time Secretary of State of Scotland. Both Faure and Hamilton located this material, Faure translating it into French as an appendix, *La Banqueroute de Law* (Paris, 1977), pp. 632–4.
32. G. N. Clark, *The Later Stuarts, 1660–1714* (Oxford, 1947), p. 403; Charles Mackay, *Extraordinary Popular Delusions and the Madness of Crowds* (London, 1841), p. 678.
33. London, PRO, SP 35/18, no. 118.

## 5. The 'Gambling' Banker

1. Paris, AAE, M & D, France, 1093, fo. 117. This reference was first discovered by A. Beljame, *La Prononciation du nom de John Law le financier* (Paris, 1891), p. 4.
2. Paris, AAE, M & D, France 1100, fo. 211. This reference was found in E. J. Hamilton's papers.
3. The Hague, Gemeente Archief's Gravenhage, Overige Verzamelingen; Koopbrieven, Nieuwe Uitleg 1; Gemeente Archief, Burgerboek OA 1055, fo. 14 v. : 'Den vi october 1702. Jean Law burger geworden, en heeft den eed gedaan. Nota: seijds een Schotsman van Edenburg te wesen.'
4. W. Gray, *The Memoirs, Life and Character of the Great Mr. Law* (London, 1721), and Barthélemy Marmont du Hautchamp, *Histoire du système des finances en 1719 et 1720* (The Hague, 1739).

5. Gray, *Memoirs*, p. 3.
6. *Ibid.*, p. 9.
7. Du Hautchamp's other work was the *Histoire générale et particulière du Visa* (The Hague, 1743). This work revealed a great many details about the rich Mississippians who had made a fortune out of the System. Its extreme rarity may be due to the fact that some of these rich Mississippians mentioned in it bought it up and had it destroyed so as to maintain a low public profile.
8. Gray, *Memoirs*, pp. 10–11.
9. *Ibid.*
10. See, for example, the account of Edgar Faure, *La Banqueroute de Law* (Paris, 1977), pp. 26–9, who paraphrased Gray, *Memoirs*, and H. Montgomery Hyde, *John Law: The History of an Honest Adventurer* (London, 1969), pp. 41–2.
11. Katherine Knowles signed in this way before her *notaire*. See, for example, AN MC, xlvi. 44, 'Procuration par J. Law à Katherine Knowles', 18 December, 1720; AN MC, xlvi. 40, 'Constitution par la Compagnie des Indes à Katherine Knowles de 40,000 £ au principal de 100,000 £', 25 June 1720; AN MC, xlvi. 44, 'Vente de carosse par Katherine Knowles à Lafontaine', 24 December 1720.
12. Th. P. M. Huijs, *Inventaire des archives de John Law et de William Law 1715–1734* (Rijksarchief in Limburg, Maastricht, 1978), p. 13. This is an inventory of the Law papers held in the Rijksarchief in Limburg. They are there because Law's son, William, died in Maastricht on 4 February 1734.
13. Gray, *Memoirs*, p. 11.
14. Du Hautchamp, *Histoire du système des finances*, i. 70.
15. Paris, AAE CP, Angleterre, 262, fos. 286–7.
16. Du Hautchamp, *Histoire du système des finances*, i. 69–70.
17. Gray, *Memoirs*, p. 12.
18. *Œuvres*, iii. 280.
19. *Œuvres*, iii. 246.
20. Karl Pearson, *The History of Statistics in the 17th and 18th Centuries*, ed. E. S. Pearson (High Wycombe, 1978), p. 143.
21. Harold Kuhn, 'James Waldegrave: Excerpt from a Letter', in William J. Baumol and Stephen M. Goldfeld (eds.), *Precursors in Mathematical Economics: An Anthology* (London, 1968), p. 6.
22. Gray, *Memoirs*, p. 5.
23. Stair to Stanhope, 12 February 1715, in J. Murray Graham, *Annals of the Viscount and the First and Second Earls of Stair* (London and Edinburgh, 1875), i. 265–6.
24. *A Letter to Mr. Law upon his Arrival in Great Britain* (London, 1721), p. 11.
25. Abbé Conti to Madame Caylus, 29 April 1728, Venice, Bibliothèque Marciana, New Acquisitions, MS. 12,102, fo. 102.
26. Theophilus Lucas, *Memoirs of the Lives, Intrigues, and Comical Adventures of the Most Famous Gamesters and Celebrated Sharpers* (London, 1714), in J. J. Isaacs (ed.), *Games and Gamesters of the Restoration* (Plymouth, 1930), p. 271.
27. *Ibid.*, p. 274.
28. Du Hautchamp, *Histoire du système des finances*, i. 69–70.
29. See, for example, Thomas A. Bass, *The Newtonian Casino* (London, 1991), the fascinating story of the scientists who produced a computerized model of the workings of a roulette wheel which heavily stacked the odds in their favour.

30. HMC, *Report on the Manuscripts of His Grace the Duke of Portland, KG* (London, 1901), v. 287.
31. Turin, Archivio di Stato, Masso I, no. 6, 'Lotterie, Tontina e Banco di Deposito', Law to Victor Amadeus, 7 December 1715.
32. Du Hautchamp, *Histoire du système des finances*, i. 69.
33. *Œuvres*, ii. 285–6.
34. *Ibid.*, iii. 248.
35. Joseph de la Vega, *Confusion de confusions* (Amsterdam, 1688; partial repr., Cambridge, Mass., 1957), p. 3.
36. *Ibid.*, p. 12.
37. *Ibid.*, p. 14.
38. Sir Thomas Mun, *England's Treasure by Forraign Trade* (London, 1664; repr. Oxford, 1928), p. 17.
39. A. Andreades, *A History of the Bank of England* (London, 1909), p. 78.
40. *Ibid.*, p. 79.
41. *Œuvres*, i. 110–12.
42. Faure, *La Banqueroute de Law*, pp. 639–44.
43. Paris, AAE, M & D, France, 1093, fo. 117.
44. Paris, AAE, M & D, France, 1100, fo. 211.
45. Earl Hamilton, 'John Law', in David Sills (ed.), *International Encyclopedia of the Social Sciences* (New York, 1968), vi. 78.

## 6. Metamorphosis: John Law the Economist

1. For a detailed account of the land bank proposals see J. Keith Horsefield's *British Monetary Experiments 1650–1710* (Cambridge, Mass., 1960).
2. *Correspondence of Charles Talbot, Duke of Shrewsbury*, ed. W. Coxe (London, 1821), p. 184.
3. John Briscoe, *A Discourse on the Late Funds of the Million-Act, Lottery Act, and Bank of England* (2nd edn., London, 1694), p. 47.
4. Hugh Chamberlen, *Some Observations upon the Bank of England* (London, 1695), p. 22. In fact the author of this work got his dates wrong, for William Potter's two works were published in 1650: *The Key of Wealth: Or, a New Way for Improving of Trade* (London, 1650), and an abbreviated version of this work, *The Trades-man's Jewel: or, a Safe, Easie, Speedy and Effectual Means, for the Incredible Advancement of Trade, and Multiplication of Riches* (London, 1650). On the title-page of the latter work Potter quoted from Eccles. 10: 19, 'They prepare bread for laughter, and wine comforteth the living, but money answereth to all', a quotation later used by Jacob Vanderlint for the title of his only known contribution to economics, *Money Answers All Things* (London, 1734).
5. HMC, *Calendar of State Papers. Domestic, 1656–7* (London, 1883), cxxix. 11.
6. Potter, *The Trades-man's Jewel*, p. 5.
7. *Ibid.*
8. Potter, *The Key of Wealth*, p. 56.
9. *Ibid.*, p. 26.

10. Ibid., p. 18.
11. Ibid., p. 26.
12. Ibid., p. 57.
13. Ibid., p. 14.
14. Ibid., p. 40.
15. Ibid., p. 51.
16. Briscoe, *A Discourse on the Late Funds*, p. 24.
17. John Asgill, *Several Assertions Proved in Order to Create another Species of Money than Gold and Silver* (1696); reprinted in Jacob Hollander (ed.), *A Reprint of Economic Tracts* (Baltimore, Md., 1908), p. 8.
18. Ibid., p. 14.
19. See J. H. Aveling, *The Chamberlens and the Midwifery Forceps* (1882).
20. As Horsefield points out, *British Monetary Experiments*, p. 157.
21. Cited in Horsefield, *British Monetary Experiments*, p. 173.
22. See, for example, *A Bank Dialogue between Dr. H. C and a Country Gentleman* (London, 1695).
23. *Œuvres*, ii. 319.
24. Ibid., ii. 319.
25. First published as *John Law's Essay on a Land Bank*, ed. Antoin E. Murphy (Dublin, 1994). The rest of this chapter is adapted from the editorial commentary in this book. Once again I would like to thank Mr John Chown for his assistance in discovering this manuscript.
26. Scottish Public Record Office, '1705 Act for a Land Mint', MS. PA7/19/175–6.
27. The foliation of the *Essay* is given for all quotations taken from it. The foliation is laid out in *John Law's Essay on a Land Bank*.
28. *Œuvres*, i. 6 and 126.
29. A. Monroe, *Monetary Theory before Adam Smith* (Cambridge, Mass., 1923), p. 162.
30. Joseph Schumpeter, *A History of Economic Analysis* (London, 1954), p. 297.
31. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), eds. R. H. Campbell, A. S. Skinner, and W. B. Todd (Oxford, 1976), i. 45.
32. Marian Bowley, *Studies in the History of Economic Thought before 1870* (London, 1973), p. 80.
33. Smith, *Wealth of Nations*, i. 45.
34. B. Davanzati, *A Discourse upon Coins*, tr. J. Toland (London, 1696), p. 14.
35. Ibid., p. 16.
36. John Locke, *Locke on Money*, ed. P. Kelly (Oxford, 1991), i. 256. See also i. 187; ii. 538.
37. Schumpeter, *History of Economic Analysis*, p. 300.
38. W. O. Thweatt, 'Origins of the Terminology of "Supply and Demand"', *Scottish Journal of Political Economy*, xxx, No. 3 (November 1983).
39. Locke in *Locke on Money*, i. 328 and ii. 421.
40. *Œuvres*, i. 4.
41. Monroe, *Monetary Theory before Adam Smith*, p. 169.
42. *Œuvres*, i. 204–5.
43. Schumpeter, *History of Economic Analysis*, p. 321; F. Cesarano, 'Law and Galiani on Money and Monetary Systems', *History of Political Economy*, xxii, No. 2 (1990).
44. John Pollexfen in *A Discourse of Trade, Coyn, and Paper Credit* (London, 1697) actually used the term 'a general demand for money', but he was using it in a very specific

context and not from a macroeconomic perspective. Pollexfen used the term when discussing a run on a bank, showing that an increased demand for money (i.e. specie) could cause a run-down of ‘the credit of the greatest bank’—see Pollexfen, pp. 70 and 75–6.

45. *Œuvres*, i. 100.

46. *A Bank Dialogue between Dr. H. C. and a Country Gentleman*, p. 4.

## 7. The Edinburgh Environment in 1705

1. For a recent analysis of the duelling phenomenon see James Kelly, *‘That Damn’d Thing Called Honour’: Duelling in Ireland 1570–1860* (Cork, 1995).
2. G. Lockhart, *Memoirs Concerning the Affairs of Scotland from Queen Anne's Accession to the Throne to the Commencement of the Union of Two Kingdoms of Scotland and England in May 1707* (2nd edn., London, 1714), pp. 144–5
3. HMC, *Report on the Manuscripts of His Grace the Duke of Portland, KG* (London, 1901), iv. 195.
4. William Anderson, *The Scottish Nation* (London, 1875), i. 564.
5. HMC, *Portland*, iv. 197.
6. William Ferguson, *Scotland's Relations with England: A Survey to 1707* (Edinburgh, 1977), p. 228.
7. HMC, *Portland*, iv. 197.
8. W. R. Scott, *The Constitution and Finance of English, Scottish and Irish Joint-Stock Companies to 1720* (Cambridge, 1912), ii. 217.
9. *Œuvres*, ii. 35–6.
10. Lockhart, *Memoirs*, p. 145.
11. HMC, *Portland*, iv. 199.
12. Bannatyne Club, p. 164.
13. HMC, *Portland*, iv. 206.
14. *Ibid.*, p. 209.
15. Lockhart, *Memoirs*, pp. 144–5.

## 8. Money and Trade

1. There are two states, a and b, of this first quarto edition, containing 120 pages, distinguished by different ornamental devices on the title-page. Copies existing in the two states are to be found in the British Library, the National Library of Scotland, New College Edinburgh, and Glasgow University Library. The National Union Catalogue pre-1956 imprints give eight locations, though not specifying which state.
2. John Law, *Money and Trade Considered, with a Proposal for Supplying the Nation with Money* (Edinburgh, 1705), i. 120.
3. *Ibid.*, i. 78.
4. London, Goldsmith's Library 4225, Broadside 117, vol. i.

5. Law, *Money and Trade*, i. 152–4.
6. *Ibid.*, i. 152.
7. *Ibid.*, i. 1.
8. *Ibid.*, i. 14.
9. *Ibid.*, i. 138.
10. *Ibid.*, i. 24.
11. *Ibid.*, i. 138.
12. *Ibid.*, i. 106.
13. *Ibid.*, i. 160.
14. *Ibid.*, i. 52.
15. *Ibid.*, i. 52–4.
16. *Ibid.*, i. 52.
17. *Ibid.*, i. 78 and 82.
18. *Ibid.*, i. 80.
19. *Ibid.*, ii. 283.
20. *Ibid.*, i. 44.
21. *Ibid.*, i. 94.
22. *Ibid.*, i. 60.
23. *Ibid.*, i. 62.
24. *Ibid.*, i. 4.
25. John Locke, *Locke on Money*, ed. Patrick Kelly (Oxford, 1991), i. 259.
26. *Ibid.*, i. 328 and ii. 421.
27. *Ibid.*, i. 256.
28. *Œuvres*, i. 4.
29. *Ibid.*, i. 30.
30. *Ibid.* i. 12.
31. *Ibid.*
32. R. V. Eagly, *The Structure of Classical Economic Theory* (Oxford, 1974), p. 17.
33. *Œuvres*, i. 14–16.
34. *Ibid.*, i. 16–18.
35. *Ibid.*, i. 20.
36. *Ibid.*, i. 46.
37. *Ibid.* i. 132–3.
38. *Ibid.*, i. 134.
39. *Ibid.*
40. *Ibid.*, i. 134.
41. R. W. Clower, 'A Reconsideration of the Microfoundations of Monetary Theory', *Western Economic Journal*, vi (1967), 1–9.
42. *Œuvres*, i. 144.
43. 'Mémoire touchant les monnoies et le commerce', Paris, AN G7, 1468, MS. 113, fo. 7.
44. Axel Leijonhufvud has developed Clower's work on this issue, showing how it is possible to have an excess supply of labour which has a corresponding notional excess demand for commodities. However, this notional demand cannot be expressed as effective demand because of a money constraint. Axel Leijonhufvud, *On Keynesian Economics and the Economics of Keynes* (Oxford, 1968), ch. 2.
45. *Œuvres*, i. 4–6.
46. *Ibid.*, i. 14.

47. Ibid., i. 100.
48. Ibid., i. 158.
49. Ibid., i. 139.
50. Ibid., i. 160.
51. Ibid.
52. Ibid., i. 90.
53. Ibid., i. 94.
54. Ibid., i. 96.
55. Ibid.
56. Ibid., i. 96–8.
57. Ibid., i. 100.
58. Ibid., i. 102.
59. There is an error in the Harsin text of the *Œuvres* (i. 102) in that 3 per cent rather than 30 per cent is specified; the French translation has 30 per cent and it is clear from Law's statements in *Money and Trade* (see *Œuvres*, i. 34) that it is meant to be 30 per cent.
60. *Œuvres*, i. 30.
61. Ibid.
62. William Petyt, *Britannia Languens or a Discourse of Trade* (London, 1680), p. 12.
63. *Œuvres*, i. 102.
64. Ibid., i. 104.
65. Ibid., i. 115–16.
66. Ibid., i. 16–18.
67. Ibid., i. 46.
68. Ibid., i. 56.
69. Ibid., i. 134.
70. 'Mémoire touchant les monnoies et le commerce', fo. 7.
71. *Œuvres*, i. 144.
72. Ibid.
73. Ibid., i. 146.
74. Ibid.
75. Ibid., i. 108.
76. 'Mémoire touchant les monnoies et le commerce', fo. 17.
77. *Œuvres*, i. 146.
78. Ibid.
79. Ibid., i. 148.
80. Scottish Record Office, PA7/19/175–6. Reproduced in *John Law's Essay on a Land Bank*, ed. Antoin E. Murphy (Dublin, 1994).
81. For evidence on this, see *John Law's Essay on a Land Bank*, ed. Murphy.
82. HMC, *Report on the Manuscripts of His Grace the Duke of Portland*, KG (London, 1901), iv. 195
83. Ibid., iv. 209.

## 9. The Conceptualization of the System

1. For an analysis of these developments see P. G. M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit 1688–1756* (London, 1967).
2. Paris, AN G7, 1468, MS. 113, fos. 294r–317v. This *mémoire*, which is dated 18 November 1706, was consulted by the Controller-General Chamillard who noted ‘ce mémoire est de M. Laws’. Armand Seligmann, in *La Première Tentative d’émission fiduciaire en France* (Paris, 1925), located this document in the Archives Nationales. Unfortunately, he did not give the exact reference to it so that Paul Harsin was unable to locate it when publishing the *Œuvres* in 1934. Mme Jurgens in the Archives Nationales rediscovered it for Earl Hamilton, who referred to it in his article ‘John Law’ in the *International Encyclopedia of the Social Sciences* (New York, 1968), vol. vi. Once again, however, no location was given for the *mémoire*. Thanks to the assistance of Mme Jurgens I was able to locate this document, a photocopy of which I later found in Hamilton's papers.
3. Hamilton, ‘John Law’, p. 79.
4. ‘Mémoire touchant les monnoies et le commerce’, fo.1 (translation).
5. *Œuvres*, i. 16.
6. ‘Mémoire touchant les monnoies et le commerce’, fos. 10–11 (translation).
7. *Œuvres*, vol. i.
8. *Ibid.*, i. 205.
9. *John Law's Essay on a Land Bank*, ed. Antoin E. Murphy (Dublin, 1994), p. 38.
10. *Œuvres*, i. 206.
11. *Ibid.*, i. 205.
12. *Ibid.*
13. For details on Victor Amadeus II see Geoffrey Symcox, *Victor Amadeus II: Absolutism in the Savoyard State 1675–1730* (London, 1983).
14. Antoin E. Murphy, ‘John Law's Proposal for a Bank of Turin (1712)’, *Oeconomia*, xv (May 1991), 3–29.
15. D. Perrero, ‘Law e Vittorio Amedeo II di Savoia’, *Curiosità e Ricerche di Storia Subalpina* (Turin, 1875), i. 31–3; G. Prato, ‘Un Capitolo della Vita di Giovanni Law’, *Memorie della Reale Accademia delle Scienze di Torino*, Serie II, vol. lxiv (1913–14), No. 5, pp. 29–31. For an early discussion of the Turin manuscript published by Perrero and Prato see Max J. Wasserman and Frank H. Beach, ‘Some Neglected Monetary Theories of John Law’, *American Economic Review* xxiv (1934), 646–57.
16. ‘Projet d’établissement d’une banque à Turin (1711–12)’, *Œuvres*, i. 215–21.
17. Murphy, ‘John Law's Proposal for a Bank of Turin’, p. 24.
18. Seligmann, *La Première Tentative*, p. 72.
19. *Ibid.*, p. 83.
20. *Ibid.*
21. Véron de Forbonnais, *Recherches et considérations sur les finances de France* (Basle, 1758), ii. 170.
22. *Œuvres*, ii. 18–20, 43, 51, 274, 277, 284, 299, 317.
23. Murphy, ‘John Law's Proposal for a Bank of Turin’, p. 24.
24. *Ibid.*, p. 19.
25. *Ibid.*, p. 20.
26. *Ibid.*, p. 25.



27. For a detailed account of the activities of the South Sea Company see W. R. Scott, *The Constitution and Finance of English, Scottish and Irish Joint-Stock Companies to 1720* (Cambridge, 1912; repr. Gloucester, Mass., 1968).
28. *Œuvres*, iii. 371.
29. *Ibid.*, iii. 372–3.

## 10. France 1714–1715

1. *Œuvres*, i. xxxi.
2. *Ibid.*, i. xxx.
3. Paris, AAE CP, Angleterre, 262, fos. 286–7.
4. J. Murray Graham, *Annals of the Viscount and the First and Second Earls of Stair* (London, 1875) i. 265–6.
5. A. Boislisle, *Correspondance des Contrôleurs Généraux* (Paris, 1874), iii. 695.
6. *Œuvres*, ii. 30.
7. *Ibid.*, ii. 40.
8. *Ibid.*, ii. 64.
9. *Ibid.*, i. xxxvi.
10. Turin, Archivio di Stato, Masso 1, No. 6. Lotterie, Tontine e Banco di Deposito. Law, in Paris, to Victor Amadeus, 7 December 1715.
11. Jean-Christian Petitfils, *Le Régent* (Paris, 1986), p. 227.
12. *Miscellaneous State Papers from 1501 to 1726*, ed. S. Hardwicke (London, 1778), vol. ii.
13. Petitfils, *Le Régent*, pp. 244–6.
14. For an account of Desmarests's period as Controller-General of Finances, see Margaret and Richard Bonney, *Jean-Roland Malet, premier historien des finances de la monarchie française* (Paris, 1993).
15. Paris, AN, E 3640, Premier Volume des principales deliberations du Conseil de Finance depuis son etablissement jusques a la fin de l'année 1716, fo. 1. For further details on the members of the *Conseil de Finance* see Michel Antoine, *Le Gouvernement et l'administration sous Louis XV* (Paris, 1978).
16. Louis de Rouvroy, duc de Saint-Simon, *Mémoires (1718–1721)* (Paris, 1987), vii. 514, 1358.
17. Paris, AN, E 3640, Premier volume des principales deliberations du Conseil de Finance, fo. 2v.
18. *Ibid.*, 6 March 1716, fo. 476.
19. *Œuvres*, ii. 300.
20. Herbert Lüthy, *La Banque protestante en France* (Paris, 1959), i. 278.
21. P. Harsin, 'L'Argent est-il le nerf de la guerre?', *Revue des Sciences Politiques*, lviii (1935), 232.
22. Paris, AN, K 886, Rapport du duc de Noailles au Conseil de Régence, 19 June 1717.
23. Du Tot, *Réflexions politiques sur les finances et le commerce*, ed. Paul Harsin (Paris, 1935), i. 40–1.
24. *Œuvres*, ii. 51.
25. Pierre de Boisguilbert, *Supplément au détail de la France* (Rouen?, 1707).

26. J. C. Toutain, 'Le Produit de l'agriculture française de 1700 à 1958', *Cahiers de l'Institut de Science Économique Appliquée*, No. 115 (July 1961), p. 202.
27. Fernand Braudel, *L'Identité de la France* (Paris, 1980), ii. 160.
28. Du Tot, *Réflexions politiques*, ii. 171.
29. Du Tot, Poitiers MS., fos. 47–8; also *Réflexions politiques*, ii. 28–9.
30. *Œuvres*, ii. 268.
31. J. F. Bosher, *French Finances 1770–1795: From Business to Bureaucracy* (Cambridge, 1970), pp. xi–xii.
32. Daniel Dessert, *Argent, pouvoir et société au Grand Siècle* (Paris, 1984), p. 342.
33. George Matthews, *The Royal General Farms in Eighteenth Century France* (New York, 1958).
34. *Ibid.*, p. 28.
35. *Ibid.*
36. *Ibid.*, p. 11.
37. Julian Dent, *Crisis in Finance: Crown, Financiers and Society in Seventeenth Century France* (Newton Abbot, 1973), p. 48.
38. Du Tot, *Réflexions politiques*, i. 31–2.
39. Lüthy, *La Banque protestante en France*, i. 281.
40. *Ibid.*, i. 286–7
41. Marcel Marion, *Dictionnaire des institutions de la France aux xvii et xviii siècles* (Paris, 1923, repr. 1979), p. 80.
42. *Œuvres*, i. xxiv.
43. *Ibid.*, ii. 15.
44. *Ibid.*, ii. 64.
45. *Ibid.*, ii. 66.
46. *Ibid.*, ii. 67–259
47. *Ibid.*, ii. 204.
48. *Ibid.*, ii. 5.
49. *Ibid.*, ii. 6.
50. *Ibid.*, ii. 263–4.
51. Paris, BN NAF, 23,934, Mémoires du duc d'Antin, Année 1719.
52. Turin, Archivio di Stato, Masso 1, Sezz. 2a, Finanza. Lotterie, Tontine, etc. F. Donaudi to Victor Amadeus, 12 October 1715.
53. Paris, BN MF, 6931, Noailles to Villeroy, 15 October 1715.
54. *Ibid.*
55. Paris, BN NAF, 23,934, Mémoires du duc d'Antin.
56. *Ibid.*
57. *Œuvres*, iii. 244.
58. Turin, Archivio di Stato, Masso 1, No. 6. Lotterie, Tontine, etc. Law to Victor Amadeus, 7 December 1715.
59. Paris, Bibliothèque Mazarine, MS. 2342, fos. 240–59.
60. Paris, BN NAF, 23,934.
61. Paris, BN MF, 6930.
62. *Œuvres*, iii. 245.
63. *Ibid.*, iii. 245.
64. Turin, Archivio di Stato, Masso 1, No. 6. Lotterie, Tontine, etc. Law to Victor Amadeus, 7 December 1715.

65. *Œuvres*, ii. 263.
66. *Ibid.*, ii. 265.
67. *Ibid.*, ii. 265, emphasis added.
68. *Ibid.*, ii. 266.
69. *Ibid.*, ii. 266.
70. *Ibid.*, ii. 267.
71. Paris, AAE CP, Angleterre, 277, fo. 125, Letter addressed by an anonymous writer to the Hague, 23 July 1716.

## 11. The Establishment of the General Bank

1. *Œuvres*, iii. 8.
2. Du Tot, Poitiers MS., fo. 65.
3. See, for example, David Hume's comments on this issue, where he quotes Du Tot's work, in the chapter 'Of Money' in the *Political Discourses* (1752). See *David Hume's Writings on Economics*, ed. Eugene Rotwein (Madison, Wis., 1970), p. 39.
4. *Œuvres*, i. 68.
5. *Ibid.*, i. 68–70.
6. Edgar Faure, *La Banqueroute de Law*, p. 107.
7. *Œuvres*, iii. 8.
8. Du Tot, Poitiers MS., fo. 62.
9. Dernis, *Recueil ou collection de titres, édits . . . concernant la Compagnie des Indes Orientales établie au mois d'août 1664* (Paris, 1755), iii. vi.
10. Du Tot, Poitiers MS., fo. 65.
11. Joseph Pâris-Duverney, *Examen du livre intitulé Réflexions politiques* (The Hague, 1740), i. 208.
12. *Gazette de la Régence, janvier 1715–juin 1719*, ed. E. de Barthélemy (Paris, 1887), pp. 78–9.
13. Herbert Lüthy, *La Banque protestante en France* (Paris, 1959), i. 306.
14. *Œuvres*, iii. 6–7.
15. *Ibid.*, iii. 246.
16. *Gazette de la Régence*, p. 93.
17. *Ibid.*, 31 July 1716, p. 99.
18. *Ibid.*, p. 105.
19. *Ibid.*, p. 109.
20. Paris, AAE M&D France, vol. 137, fo. 65r.
21. *Œuvres*, iii. 9.
22. Paris, AAE M&D France, vol. 137, fo. 65r.
23. *Œuvres*, iii. 245.
24. *Ibid.*
25. *Ibid.*, iii. 246.
26. *Ibid.*, iii. 25.
27. Lüthy, *La Banque protestante en France*, i. 303.
28. *Œuvres*, iii. 312.

29. *Gazette de la Régence*, pp. 141–2.
30. Lüthy, *La Banque protestante en France*, i. 306.
31. Pâris-Duverney, *Examen du livre*, i. 210.
32. Du Tot, Poitiers MS., fo. 68.
33. *Gazette de la Régence*, 15 October 1717, p. 207.
34. *Œuvres*, iii. 23.
35. *Ibid.*, iii. 24.
36. *Ibid.*

## 12. The Establishment of the Company of the West

1. Daniel Dessert, *Argent, pouvoir et société au Grand Siècle* (Paris, 1984).
2. The best description of the history of the company during Law's System is to be found in Marcel Giraud's *Histoire de la Louisiane Française*, vols. i–iv (Paris, 1953–74). See in particular vol. iii, *L'Époque de John Law (1717–20)* (1966).
3. Paris, AAE M&D, France, MS. 1228.
4. Jacob Price, *France and the Chesapeake* (Ann Arbor, Mich., 1973), i. 207.
5. *Œuvres*, iii. 319.
6. *Ibid.*, iii. 323.
7. Paris, AAE M&D, Amérique, 1, fo. 317r.
8. Du Tot, Poitiers MS., fo. 208.
9. *Œuvres*, iii. 188.
10. Edgar Faure, *La Banqueroute de Law* (Paris, 1977), p. 129.
11. HMC, *Calendar of Stuart Papers* (London, 1923), p. 17.
12. Paris, AAE M&D, Amérique, 1, fos. 324r–34r.
13. *Œuvres*, iii. 247.
14. Faure, *La Banqueroute de Law*, p. 197; unfortunately, Faure does not give the reference.
15. *Œuvres*, iii. 246.
16. Paris, AAE M&D, Amérique, 1, fos. 317–25.
17. London, PRO SP 78/166, Pulteney to Craggs, 18 April 1720.
18. Paris, AAE M&D, Amérique, 1, no. 43.

## 13. The Slow Development of the System

1. *Œuvres*, iii. 324–5.
2. Louis de Rouvroy, duc de Saint-Simon, *Mémoires du duc de Saint-Simon*, ed. A. de Boislisle (Paris, 1873 etc.), xxxiii. 2.
3. HMC, *Calendar of Stuart Papers* (London, 1923).
4. J. H. Shennan, *The Parliament of Paris* (London, 1968), p. 3.
5. 'Elles [the Parliamentarians] ne tendoient pas à moins qu'à se mêler de tout avec autorité, et à balancer celle du Régent de manière à ne lui en laisser bientôt plus qu'une vaine et légère apparence.' Saint-Simon, *Mémoires*, xxxiii. 28.

6. Jean-Christian Petitfils, *Le Régent* (Paris, 1986), pp. 25–6.
7. Paris, AAE, Angleterre 312, Chavigny to Dubois.
8. *Œuvres*, iii. 328.
9. *Ibid.*, iii. 331.
10. BN NAF, 23,933.
11. In its remonstrance the *Parlement* noted: ‘There are annuity holders who in this present year of 1718 have still received nothing for the year 1717.’ See Jules Flammermont, *Remonstrances du Parlement de Paris au xviii siècle, publiées par J. Flammermont* (Paris, 1838), i. 63.
12. Marcel Giraud, *Histoire de la Louisiana française* (Paris, 1953–74), iii. 43.
13. Saint-Simon, *Mémoires*, ed. Boislisle, xxxiii. 28.
14. Paris, BN NAF, 23,932, 31 January 1718, fos. 15r–17v.
15. *Ibid.*
16. *Gazette de la Régence*, ed. E. de Barthélemy (Paris, 1887), 24 June 1718, p. 220.
17. BN NAF, 23,931, fo. 115.
18. Argenson was not formally appointed President of the Council of Finance. His job specification stipulated that he was to head ‘the direction and the principal administration of the finances’.
19. Edgar Faure, *La Banqueroute de Law* (Paris, 1977), p. 141.
20. Claude-Frédéric Lévy, *Capitalistes et pouvoir au Siècle des Lumières* (Paris, 1980), iii. 13–14.
21. *Ibid.*, iii. 18.
22. *Œuvres*, iii. 329.
23. Faure, *La Banqueroute de Law*, p. 141.
24. Lévy, *Capitalistes et pouvoir*, iii. 19.
25. H. Montgomery Hyde, *John Law: The History of an Honest Adventurer* (London, 1969) is mistaken when he writes that Argenson wanted to get rid of the debt by this policy: ‘the minister came forward with an astonishing counter-measure—nothing less than the extinction of the debt at one stroke’ (p. 105). The edict only provided for the conversion of part of the debt, namely some *billets d’état*.
26. AAE M&D, France, 140, fo. 83.
27. *Œuvres*, iii. 333.
28. AAE M&D, France, 140, fo. 83.
29. *Ibid.*, fo. 90.
30. Saint-Simon maintained that Mesmes was under the control of the Maine axis and the ‘motor’ behind the troubles. Saint-Simon, *Mémoires*, ed. Boislisle, xxxiii. 111.
31. *Ibid.*, xxxiii. 116.
32. *Ibid.*, xxxiii. 123.
33. *Ibid.*, xxxiii. 124.
34. *Ibid.*, xxxiii. 123–4.
35. Paris, BN NAF, 23,933.
36. Faure, *La Banqueroute de Law*, p. 149.
37. *Journal et mémoires du marquis d’Argenson*, ed. E. J. B. Rathery (Paris, 1859), i. 23.
38. See Hyde, *John Law*, pp. 108–10. Faure strongly disputed the view that there was an anti-System, describing it as a fable: Faure, *La Banqueroute de Law*, pp. 151–3.
39. Du Tot, Poitiers MS., fo. 142; *Œuvres*, iii. 338–9.
40. Du Tot, Poitiers MS., fo. 142.

41. See Jacob Price, *France and the Chesapeake* (Ann Arbor, Mich., 1973), i. 243, quoting from Pâris de la Montagne's memoirs.
42. Some authors mistakenly believed that the capital was to be subscribed for with short term debt in the form of *billets d'état* rather than long-term debt in the form of annuities. See Price, *France and the Chesapeake*, i. 243.
43. Du Tot, Poitiers MS., fo. 143. See also the 'Histoire des finances' which appears to paraphrase Du Tot, *Œuvres*, iii. 339.
44. Du Tot, Poitiers MS., fo. 144.
45. Lévy, *Capitalistes et pouvoir*, iii. 48. Lévy found these statistics in AN, V7/254.
46. Herbert Lüthy, *La Banque protestante en France* (Paris, 1959), i. 307.
47. *Nouvelles Délibérations pour l'établissement des fonds et le payement des rentes de ceux qui voudront prendre des actions pour être participans au produits, profits, revenus et propriété du canal sur la route de Marseille à Lyon, qui sera navigable et fournira des arrosemens* (Paris, 1718).

## 14. The Rise and Rise of the Mississippi Company, 1719

1. 'Edit du Roy, portant réunion des Compagnies des Indes Orientales et de la Chine, à la Compagnie d'Occident. Donné à Paris au mois de May 1719'; 'Arrest du Conseil d'Estat du Roy concernant la réunion des Compagnies des Indes Orientales et de la Chine, à la Compagnie d'Occident. du dix-septième Juin 1719.'
2. 'Propositions Présentées au Roy par les directeurs de la Compagnie des Indes, pour entrer en possession au nom et pour le compte de la dite Compagnie, du commerce cydevant fair par la Compagnie, d'Afrique, le premier Juin 1719. et Arrest du Conseil qui homologue la dite soumission. 4 Juin 1719.'
3. See the preface of the 'Edit du Roy . . . May 1719', for a description of the over-borrowed and almost non-existent trade position of these trading companies.
4. *Œuvres*, iii. 247.
5. Ibid.
6. See Edgar Faure, *La Banqueroute de Law* (Paris, 1977), quoting Montesquieu.
7. *Œuvres*, iii. 248.
8. Ibid.
9. Ibid.
10. Ibid.
11. Du Tot, Poitiers MS., fo. 180.
12. '406 à 410 de nouvelles valeurs dans l'état, sans compter les billets de banque.' Du Tot, Poitiers MS., fo. 181.
13. *Œuvres*, iii. 342.
14. Paul Harsin, *Les Doctrines monétaires et financières en France du xvi au xviii siècle* (Paris, 1928), pp. 165–6.
15. Joseph Pâris-Duverney, *Examen du livre intitulé Réflexions politiques* (The Hague, 1740), i. 244.
16. *Œuvres*, iii. 343–4.
17. Ibid., iii. 188.

18. Antoin E. Murphy, *Richard Cantillon: Entrepreneur and Economist* (Oxford, 1986), pp. 81–3.
19. *Miscellaneous State Papers from 1501 to 1726*, ed. S. Hardwicke (London, 1778), ii. 586.
20. Louis de Rouvroy, duc de Saint-Simon, *Mémoires (1718–1721)*, ed. Y. Coirault (Paris, 1987), vii. 476–7.
21. *Ibid.*, vii. 769.
22. Barthélemy Marmont du Hautchamp, *Histoire du système des finances sous la minorité de Louis XV* (The Hague, 1739), i. 102.
23. Jacob Price, *France and the Chesapeake* (Ann Arbor, Mich., 1973), i. 253.
24. ‘Convient-il à une compagnie de commerce de devenir financière?’, Pâris-Duverney, *Examen du livre*, i. 252.
25. Du Tot, Poitiers MS., fo. 199.
26. *Œuvres*, iii. 53.
27. Du Tot, Poitiers MS., fo. 201.
28. Paris, AN, E 2007, fos. 180–1.
29. Mathieu Marais, *Journal et mémoires de Mathieu Marais*, ed. M. de Lescure (Paris, 1863–8; repr. Geneva, 1967), i. 366.
30. Paris, BN NAF, 23,934, fo. 138v.
31. Paris, AAE M&D, France, 137, fos. 32r–3v.
32. Faure, *La Banqueroute de Lam*, p. 231.
33. Du Tot, Poitiers MS., fo. 228.
34. *Miscellaneous State Papers*, ed. Hardwicke, ii. 589.
35. *Ibid.*, ii. 593.
36. *Ibid.*, ii. 597.
37. Saint-Simon, *Mémoires (1718–1721)*, ed. Coirault, edited notes, vii. 1346.
38. London, PRO SP, 78/165, fo. 130v, Pyot to Tickell, 6 September 1719.
39. *Ibid.*, fo. 160r, 13 September 1719.
40. *Ibid.*, fo. 188r, Stair to Craggs, 17–23 September 1719.
41. Paris, BN NAF, 23,934, fo. 148v.
42. *Ibid.*, fo. 149v.
43. *Journal du travail de Messieurs les Directeurs de la Compagnie des Indes pour l'année qui commencera le premier Octobre 1719 . . . Fait et arrêté en l'Hostel de la Compagnie des Indes ce treize Octobre mil sept cent dix neuf.* (Author's private collection.)
44. *Noms et demeures de Messieurs les Directeurs de la Compagnie des Indes.* (Author's private collection.)
45. London, PRO SP, 78/165, Pyot to Tickell, 28 October 1719.
46. *Ibid.*, fo. 456, Crawford to Stanyon, 22 November 1719.
47. London, PRO SP, 78/166, Letter from D. Pulteney, 11 December 1719.
48. London, PRO SP, 78/165, fo. 526, Crawford to Tickell, 16 December 1719.
49. Du Tot, Poitiers MS., fo. 249.
50. *Ibid.*, fo. 253.
51. Du Tot, Poitiers MS., fo. 254.
52. *Ibid.*, fos. 252–3.

## 15. A Specie-Less France, 1720

1. Daniel Defoe, *Defoe's Uncollected Works*, ed. William Lee, (1869, repr. 1968), p. 180.
2. Paris, AN, G 7, 1903.
3. Du Tot, Poitiers MS., fo. 317.
4. Defoe, *Uncollected Works*, p. 189.
5. Edgar Faure, *La Banqueroute de Law* (Paris, 1977), p. 236, based on a letter from Dugas to Bottu de Saint-Fonds.
6. Giraudeau, 'Variations de tous les effets sur place de Paris entre août 1719 et le 31 mars 1721, par Giraudeau, négociant à Paris, 1724', Bibliothèque Mazarine, 2820. This manuscript is also to be located in the Bibliothèque de l' Arsenal, MS. 4,061, and the Bibliothèque Nationale, MS. 14,092.
7. Barthélemy Marmont du Hautchamp, *Histoire du système des finances* (The Hague, 1739), iii. 1–2.
8. 'L'intention de S.A.R. Monseigneur le duc d'Orléans est que le No[mm]é du Hautchamp agioteur infidel soit arrêté et conduit en prison ce 25 9bre 1719' (Paris, Bibliothèque de l' Arsenal, MS. 10,657, fo. 173). On 29 November 1719 Du Hautchamp was sent to the prison of Fort Lévêque (AN, O163, 29 November 1719). He was released from there by an order of the Regent on 14 December 1720 (Paris, Bibliothèque de l' Arsenal, Bastille, MS. 10,657, fo. 173).
9. Surprisingly, Forbonnais, a writer with the reputation of having written in a balanced manner on Law's System, compounded the error writing that the share price rose to as high as 18,000 and 20,000 livres. Forbonnais, *Recherches et considérations sur les finances de France* (Basle, 1758), ii. 604 and 613. Levasseur, the most noteworthy nineteenth-century commentator on the System, using the 'Journal de la Régence', also erred by writing that the shares reached 18,000 livres on 5 January 1720: Émile Levasseur, *Recherches historiques sur le Système de Law* (Paris, 1854), p. 151. Lüthy corrected this error and pointed out the reasons for Levasseur making it (Herbert Lüthy, *La Banque protestante en France* (Paris, 1959), i. 320), but it has recently been repeated in John Eatwell, Murray Milgate, and Peter Newman (eds.), *The New Palgrave Dictionary of Political Economy* (London, 1987), iii. 143, and *The New Palgrave Dictionary of Banking and Finance* (London, 1992), ii. 715.
10. *Œuvres*, iii. 271.
11. Faure, *La Banqueroute de Law*, p. 320.
12. London, PRO SP, 78/166, Pulteney to Craggs, 9 January 1720.
13. *Œuvres*, iii. 271.
14. Paris, AN, K 1252, fo. 125.
15. *Œuvres*, iii. 271.
16. London, PRO SP, 78/166, Pulteney to Craggs, 19 January 1720.
17. Henrietta Howard, *Letters to and from Henrietta, Countess of Suffolk and her Second Husband, the Hon. George Berkeley from 1712 to 1767*, ed. J. W. Croker (London, 1824), i. 48, Letter from the Earl of Ilay to Mrs Howard, 16 January 1720.
18. Du Tot, Poitiers MS., fo. 330.
19. *Ibid.*, fo. 355.
20. *Les Correspondants de la marquise de Balleroy*, ed. E. de Barthélemy (Paris, 1883), ii. 157.
21. London, PRO SP, 78/166, Pulteney to Craggs, 8 March 1720.



22. London, PRO SP, 78/165, Crawford to Tickell, 3 January 1720.
23. Du Tot, Poitiers MS., fo. 347.
24. London, PRO SP, 78/166, Pulteney to Craggs, 8 March 1720.
25. Du Tot, Poitiers MS., fo. 372.
26. Ibid., fos. 373–4.

## 16. The Lull Before the Storm

1. See Antoin E. Murphy, *Richard Cantillon: Entrepreneur and Economist* (Oxford, 1986), chs. 5, 7, and 8.
2. *The Present State of the French Revenues and Trade* (London, 1720), p. 37.
3. Ibid., p. 37.
4. Ibid., p. 38.
5. Ibid., p. 39.
6. *Œuvres*, iii. 371–3.
7. Ibid., iii. 375.
8. Ibid., iii. 187.
9. Ibid., iii. 188.
10. Ibid., iii. 218.
11. Ibid., iii. 219.
12. Ibid., iii. 376.
13. Text accompanying a letter sent by Law to the marquis de Lassay in May 1723, *Œuvres*, iii. 231.
14. *Œuvres*, iii. 220.
15. Du Tot, Poitiers MS., fo. 427.
16. Du Tot, *Réflexions politiques sur les finances et le commerce*, ed. Paul Harsin (Paris, 1935), i. 82.
17. Ibid., ii. 363–4.
18. Émile Levasseur, *Recherches historiques sur le Système de Law* (Paris, 1854), p. 233.
19. London, PRO SP, 78/166, Pulteney to Craggs, 4 June 1720.
20. Du Tot, *Réflexions politiques*, i. 324.
21. Du Tot, Poitiers MS., fo. 462.
22. Joseph Pâris-Duverney, *Examen du livre intitulé Réflexions politiques* (The Hague, 1740), ii. 84–7.
23. Du Tot, Poitiers MS., fo. 384.
24. Véron de Forbonnais, *Recherches et considérations sur les finances de France* (Basle, 1758), ii. 617.
25. Edgar Faure, *La Banqueroute de Law* (Paris, 1977), p. 385.
26. London, PRO SP, 78/166, Pulteney to Craggs, 22 March 1720.
27. John Murray Graham, *Annals and Correspondence of the Viscount and the First and Second Earls of Stair* (London and Edinburgh, 1875).
28. London, PRO SP, 78/166, Pulteney to Craggs, 10 April 1720.
29. Claude-Frédéric Lévy, *Capitalistes et pouvoir au Siècle des Lumières* (Paris, 1980), iii. 254–9.

30. Paris, AAE CP, Angleterre, 331, fos. 151–4, Letter from Destouches in London to the abbé Dubois, 1 June 1720; see also Lévy, *Capitalistes et pouvoir*, iii. 257.
31. Chevalier de Piossens, *Mémoires de la Régence* (Amsterdam, 1729), ii. 397.
32. Middleton Papers, Coutts Archives, Coutts Bank, Charing Cross, London. Professor Larry Neal of the University of Illinois at Champaign-Urbana has been working on Middleton's correspondence with John Law and will be able to cast some further light on this material in the near future.
33. Larry Neal, *The Rise of Financial Capitalism* (Cambridge, 1990), p. 234.
34. Earl J. Hamilton, 'John Law of Lauriston: Banker, Gamester, Merchant, Chief?', *American Economic Review*, lvii, No. 1–2 (1967), 273–82.
35. London, PRO SP, 78/166, Pulteney to Craggs, 10 April 1720.
36. See Edna Healey, *Coutts & Co, 1692–1992* (London, 1992), p. 48.
37. Piossens, *Mémoires de la Régence*, ii. 396.
38. *Décision théologique sur les actions de la Compagnie des Indes*, p. 10.
39. *Ibid.*, p. 14.
40. Daniel Defoe, *Daniel Defoe: His Life and Recently Discovered Writings: Extending from 1716 to 1729*, ed. William Lee (London, 1869), p. 230.
41. Piossens, *Mémoires de la Régence*, ii. 396.

## 17. The Measures of 21 May 1720

1. For Law's involvement along with his brother in tobacco speculation see Jacob Price, *France and the Chesapeake* (Ann Arbor, 1973), i. 259.
2. Émile Levasseur, *Recherches historiques sur le Système de Law* (Paris, 1854), p. 231, gives an incorrect account of the 21 May measures, suggesting that the shares were to be reduced to 8,500 on 22 May and to 5,500 livres on 1 December.
3. Edgar Faure, *La Banqueroute de Law* (Paris, 1977), p. 461.
4. The actual broad money supply held by the public was 3.9 billion livres.
5. 'A Letter upon the Arret of the Council of State dated the 22d of May, 1720' in *The Present State of the French Revenues and Trade* (London, 1720), pp. 106–7.
6. 'Mémoire justificatif de Mai 1723' in *Œuvres*, iii. 219–20.
7. 'A Letter upon the Arret', p. 107.
8. 'Mémoire justificatif', *Œuvres*, iii. 231.
9. Du Tot, Poitiers MS., fos. 418–19.
10. Véron de Forbonnais, *Recherches et considérations sur les finances de France* (Basle, 1758), ii. 623.
11. Paris, AN, G 7, 1629 (translation).
12. *Œuvres*, iii. 218.
13. 'Mémoire justificatif', *Œuvres*, iii. 219.
14. London, PRO SP, 78/166, Pulteney to Craggs, 24 May 1720.
15. Paris, AAE CP, Angleterre, 331, fos. 137–9.
16. Marquise de Balleroy, *Les Correspondants de la marquise de Balleroy*, ed. E. Barthélemy (Paris, 1883), ii. 164.
17. London, PRO SP, 78/166, Pulteney to Craggs, 8 June 1720.
18. Jean Buvat, *Journal de la Régence, 1715–1723* (Paris, 1865), ii. 93–4.

19. J. H. Shennan, *The Parlement of Paris* (London, 1968), pp. 287–93, and Jean Egret, *Louis XV et l'opposition parlementaire, 1715–1774* (Paris, 1970), pp. 34–8.
20. Joseph Pâris-Duverney, *Examen du livre intitulé Réflexions politiques* (The Hague, 1740), i. 269.
21. Aix-en-Provence, Bibliothèque Méjanes, MS. 614, Letter-book of John Law, Letter 103, Law to the marquis de Lassay, 8 January 1722.
22. 'Mémoire justificatif', *Œuvres*, iii. 231.
23. Paris, AAE CP, Angleterre, 331, fos. 151–4, Destouches to Dubois, 1 June 1720.
24. P. A. Cochut, *Law: son Système et son époque* (Paris, 1853), p. 162. See also n. 20 above.
25. Louis de Rouvroy, duc de Saint-Simon, *Mémoires (1718–1721)*, ed. Y. Coirault (Paris, 1987), vii. 670.
26. Faure, *La Banqueroute de Law*, p. 458.
27. Antin, 'Mémoires', quoted in Faure, *La Banqueroute de Law*, pp. 451–2.
28. Sassenage had earlier fought military campaigns with Orléans. See Balleroy, *Les Correspondants de la marquise de Balleroy*, i. 13.
29. *Ibid.*, ii. 167
30. *Ibid.*
31. M. Marais, *Journal et mémoires de Mathieu Marais*, ed. M. de Lescure (repr. Geneva, 1967), p. 269.
32. Balleroy, *Les Correspondants de la marquise de Balleroy*, ii. 171.
33. Paris, BN MF, 4930.
34. Marais, *Journal et mémoires*, i. 271.
35. Price, *France and the Chesapeake*, i. 263, ii. 927.
36. Faure, *La Banqueroute de Law*, pp. 455–67.
37. London, PRO SP, 78/166, Pulteney to Craggs, 4 June 1720.
38. Balleroy, *Les Correspondants de la marquise de Balleroy*, ii. 167.
39. Du Tot, Poitiers MS., fo. 419.
40. Saint-Simon, *Mémoires (1718–1721)*, vii. 677.
41. Paul Harsin, *Les Doctrines monétaires et financières en France du xvi au xvii siècle* (Paris, 1928), pp. 213–26.
42. Paris, AAE CP, Angleterre, 331, fo. 172, Destouches to Dubois, 13 June 1720.
43. Paris, AAE CP, Angleterre, 332, fos. 84–5, Dubois to Destouches, 15 July 1720.
44. Paris, AAE CP, Angleterre, 331, fos. 180–1.
45. Marais, *Journal et mémoires*, i. 277.
46. Paris, AAE CP, Angleterre, 7, fos. 23–4.
47. Paris, AN, MS. 885, 1 b, fo. 101.
48. London, PRO SP, 78/166, Pulteney to Craggs, 15 June 1720.
49. London, PRO SP, 78/166, Pulteney to Craggs, July 6, 1720.

## 18. Law the Improviser

1. Du Tot, *Réflexions politiques sur les finances et le commerce*, ed. Paul Harsin (Paris, 1935), i. 336–7; see also Du Tot, Poitiers MS., fo. 587.
2. Du Tot, *Réflexions politiques*, i. 339; see also Poitiers MS., fo. 588.
3. *Œuvres*, iii. 360.

4. Du Tot, Poitiers MS., fo. 493.
5. Ibid., fo. 494.
6. Ibid., fo. 659.
7. Joseph Pâris-Duverney, *Examen du livre intitulé Réflexions politiques* (The Hague, 1740), ii. 49.
8. Du Tot, Poitiers MS., fo. 459.
9. Ibid., fo. 468.
10. London, PRO SP, 78/166, Pulteney to Craggs, 11 June 1720.
11. Du Tot, Poitiers MS., fo. 460.
12. Émile Levasseur, *Recherches historiques sur le Système de Law* (Paris, 1854), pp. 263–4.
13. Louis de Rouvroy, duc de Saint-Simon, *Mémoires (1718–1721)*, ed. Y. Coirault (Paris, 1987), vii. 688.
14. *Œuvres*, iii. 163.
15. Ibid., iii. 164.
16. Ibid.
17. Ibid., iii. 165.
18. Ibid.
19. Ibid., iii. 166.
20. Edgar Faure, *La Banqueroute de Law* (Paris, 1977), pp. 505–6.
21. Levasseur, *Recherches historiques*, p. 262.
22. Duchesse d'Orléans, *Mémoires, fragmens historiques et correspondance de mme la duchesse d'Orléans*, ed. Philippe Busoni (Paris, 1833), p. 159.
23. P. E. Lemontey, *Histoire de la Régence et de la minorité de Louis XV* (Paris, 1832), i. 338, quoting from *Fragmens des lettres de la princesse de Bavière*.
24. Marquise de Balleroy, *Les Correspondants de la marquise de Balleroy*, ed. Édouard de Barthélemy (Paris, 1883), ii. 186.
25. Saint-Simon, *Mémoires (1718-1721)*, vii. 909–12.
26. Balleroy, *Correspondants*, ii. 184.
27. Saint-Simon, *Mémoires (1718-1721)*, vii. 690.
28. Mathieu Marais, *Journal et mémoires de Mathieu Marais*, ed. M. de Lescure (Paris, 1863–8; repr. Geneva, 1967), i. 329.
29. Saint-Simon, *Mémoires (1718-1721)*, vii. 693–4.
30. For details of these meetings on 25 July and 1 August see chevalier de Piossens, *Mémoires de la Régence* (Amsterdam, 1729), ii. 18–19 and Herbert Lüthy, *La Banque protestante en France* (Paris, 1959), i. 344–5 and 396–8.
31. Barthélemy Marmont du Hautchamp, *Histoire générale et particulière du Visa* (The Hague, 1743), ii. 178.
32. Claude-Frédéric Lévy, *Capitalistes et pouvoir au Siècle des Lumières* (Paris, 1980), iii. 278.
33. Lüthy, *La Banque protestante en France*, i. 398, citing Thellusson's memoirs.
34. London, PRO SP, 78/166, Pulteney to Craggs, 31 July 1720.
35. ‘Tu promets beaucoup, ô Régent/Est-ce en papier ou en argent?’ Levasseur, *Recherches historiques*, p. 270.
36. London, PRO SP, 78/166, Pulteney to Craggs, 12 August 1720.
37. Du Tot, Poitiers MS., fo. 514.
38. Faure, *La Banqueroute de Law*, p. 505.
39. Ibid., p. 505.

40. Du Tot, Poitiers MS., fo. 522
41. Antoin E. Murphy, *Richard Cantillon: Entrepreneur and Economist* (Oxford, 1986), pp. 172–5.
42. Robert Dubois-Corneau, *Pâris de Monmartel* (Paris, 1917), pp. 215–16.
43. Marais, *Journal et mémoires*, i. 393 and 394.
44. *Ibid.*, i. 401.
45. Duchesse d'Orléans, *Nouvelles lettres de mme la duchesse d'Orléans*, ed G. Brunet (Paris, 1853), p. 261.
46. *Ibid.*
47. Marais, *Journal et mémoires*, i. 412.
48. Piossens, *Mémoires de la Régence*, ii. 32.
49. Balleroy, *Corrrespondants*, ii. 195
50. *Ibid.*, ii. 194.
51. Du Hautchamp, *Histoire du Visa*, ii. 154.
52. Marais, *Journal et mémoires*, i. 409.
53. Lemontey, *Histoire de la Régence*, i. 363.
54. *Ibid.*, i. 387.
55. Marais, *Journal et mémoires*, i. 387.
56. *Ibid.*, i. 394.
57. *Ibid.*, i. 413.
58. Balleroy, *Corrrespondants*, ii. 204–5.
59. Lemontey, *Histoire de la Régence*, i. 395.
60. Balleroy, *Corrrespondants*, ii. 206.
61. *Ibid.*, ii. 191, 192, 198, 199.
62. *Œuvres*, iii. 172.
63. Paris, AAE CP, Hollande, 344, Unsigned letter to Morville, the French ambassador at The Hague. No date, but judging by Morville's reply of 3 September 1720 the letter was written on 30 August 1720.
64. Paris, AAE CP, Hollande, 344, 3 September 1720.
65. Paris, AAE CP, Hollande, 344, Letter from Morville at The Hague, 6 September 1720.
66. Paris, AAE CP, Hollande, 344, Unsigned letter from Paris, presumably the abbé Dubois, to Morville.
67. Aix-en-Provence, Bibliothèque Méjanes, MS. 614, Letter-book of John Law, fo. 194, Law to M. de Rosemberg, 16 March 1722.
68. Aix-en-Provence, Bibliothèque Méjanes, MS. 614, Letter-book of John Law, fo. 199.
69. *Œuvres*, i. xxi.

## 19. Requiem for the Banknote

1. Du Tot, Poitiers MS., fo. 539.
2. London, PRO SP, 78/166, Paris, Pulteney to Craggs, 14 September 1720.
3. Mathieu Marais, *Journal et mémoires de Mathieu Marais*, ed. M. de Lescure (Paris, 1863–8, repr. Geneva, 1967), ii. 441.
4. See also chevalier de Piossens, *Mémoires de la Régence* (Amsterdam, 1729), iii. 49–53.
5. Marais, *Journal et mémoires*, i. 411.

6. Du Tot, Poitiers MS., fos. 541–2.
7. London, PRO SP, 78/166, Pulteney to Craggs, 14 September 1720.
8. Marais, *Journal et mémoires*, i. 434.
9. London, PRO SP, 78/166, Pulteney to Craggs, 17 September 1720.
10. Ibid.
11. Ibid.
12. Paul Harsin, *Les Doctrines monétaires et financières en France du xvi au xvii siècle* (Paris, 1928), p. 187; Herbert Lüthy, *La Banque protestante en France* (Paris, 1959), i. 326
13. Edgar Faure, *La Banqueroute de Law* (Paris, 1977), pp. 509–10.
14. Du Tot, *Réflexions politiques sur les finances et sur le commerce*, ed. Paul Harsin (Paris, 1935), ii. 201.
15. Du Tot, Poitiers MS., fo. 548.
16. *Œuvres*, iii. 387.
17. Marais, *Journal et mémoires*, i. 438.
18. London, PRO SP, 78/166, Pulteney to Craggs, 30 September 1720.
19. Du Tot, Poitiers MS., fo. 595.
20. Ibid., fos. 592–3.
21. Du Tot described Orry de Vignory as the current Controller-General of Finances, which shows that this part of the Poitiers manuscript was written sometime between 1730 and 1745, the period in which Philibert Orry was the Controller-General.
22. Du Tot, Poitiers MS., fo. 629.
23. Ibid., fo. 631.
24. Faure, *La Banqueroute de Law*, pp. 460–7.
25. Du Tot, Poitiers MS., fos. 415, 629.
26. Ibid., fo. 467.
27. Ibid., fos. 529–30
28. London, PRO SP, 78/166, Pulteney to Craggs, 22 June 1720.
29. Ibid., Pulteney to Craggs, 10 August 1720.
30. Ibid., Pulteney to Craggs, 20 August 1720.
31. Du Tot, Poitiers MS., fo. 521.
32. Marais, *Journal et mémoires*, i. 351.
33. Ibid.
34. Ibid., i. 371.
35. P. E. Lemontey, *Histoire de la Régence et de la minorité de Louis XV* (Paris, 1832), i. 338–9.
36. Piossens, *Mémoires de la Régence*, ii. 32.
37. Lemontey, *Histoire de la Régence*, i. 340.
38. Marais, *Journal et mémoires*, i. 363.
39. Du Tot, Poitiers MS., fos. 530–1.
40. Du Tot, *Réflexions politiques*, i. 363–4.
41. Duchesse d'Orléans, *Mémoires, fragmens historiques et correspondance de mme la duchesse d'Orléans*, ed. Philippe Busoni (Paris, 1833), p. 287.
42. Marquise de Balleroy, *Les Correspondants de la marquise de Balleroy*, ed. Edouard de Barthélemy, (Paris, 1883), ii. 217–18.
43. Lüthy, *La Banque protestante en France*, i. 398.
44. Poitiers, Bibliothèque universitaire, Argenson archives, copy of a letter from the duc de Bourbon to Law, 15 December 1720.
45. Henri Malo, *Chronique du Château de Chantilly* (Paris, 1934), p. 184.

46. Balleroy, *Corr spondants*, ii. 216.
47. Aix-en-Provence, Biblioth que M janes, MS. 614, Letter-book of John Law, Letter 1, Law, in Guermande, to the Regent, 16 December 1720.
48. Ibid., Letter 3, Law, in Guermande, to the Regent, 17 December 1720.
49. Ibid., Letter 4, Law, in Guermande, to the duc de Bourbon, 17 December 1720.
50. Balleroy, *Corr spondants*, ii. p. 219.
51. Letter from the duc de Bourbon to Law, Tuesday 17 December 1720. Earl Hamilton located this paper in the Argenson archives, which are now located in the Biblioth que universitaire in Poitiers. He surmised, correctly in my opinion, that this letter came into the hands of the Argenson family as a result of Law being stopped at Valenciennes, on his departure from France in December 1720, by Argenson's son. This is discussed in the following chapter.
52. Aix-en-Provence, Biblioth que M janes, MS. 614, Letter-book of John Law, Letters 5 and 6, Law, in Brussels, to the duc de Bourbon, undated.
53. Ibid., Letter 6, Law to the duc de Bourbon, undated.
54. Marais, *Journal et m moires*, ii. 36, quoting from the *Gazette de Bruxelles*.
55. Balleroy, *Corr spondants*, ii. 224.

## 20. The Possibility of a Recall to France

1. Edgar Faure, *La Banqueroute de Law* (Paris, 1977), p. 599. Law gave his copy of the Royal pardon to the Regent. When in Venice he wrote to Katherine Knowles requesting her to retrieve it and send it on to him.
2. Paris, AAE CP, Angleterre, 338, fos. 216r–17r, Destouches to Dubois, 11 December 1721.
3. 'John Law, the famous financier, writes from Paris [to the Duke of Montrose] 29 Sep[tember] 1712, stating that the Duke of Argyle, the Marquis of Annandale, and the Earl of Ilay had been pleased to him their assurances that they would intercede with the King for his Pardon, and asking the same favour of His Grace. He had written to the Duke of Roxburgh and to the Earl of Stair and hoped they would also do him the honour to appear for him.' HMC, *Third Report of the Royal Commission on Historical Manuscripts* (London, 1872), p. 378.
4. London, BL, Loan 29/200, fo. 106, Letter from John Drummond to the Earl of Oxford, 28 April [8 May NS] 1713.
5. Ibid.
6. 'It would be very difficult for me to give you any tolerable account of the Mississippi since I was the last time in France, without writing a pamphlet. Every post I receive from England [brings] new terrors concerning it, and, what is really very diverting, some are extremely apprehensive of my losing the money I have got, who, to my certain knowledge, are very much mortified at my getting it: I am not insensible of distant dangers which may attend the funds here, and I wish our own were absolutely free from them; but for the objections which have come from even considerable people in England, they prove more that they have learned their own business by rote than that they have any true notion of the principles of these matters. I know a pretty extraordinary

instance of something of this kind, if I could venture to help; but thus far I may venture to say, that either Mr. Law knows nothing, or some who carry their heads very high in England know less than people imagine.' Letter from Archibald, Earl of Ilay, in Paris, to Mrs Howard, 16 January 1720. See Henrietta Howard, *Letters to and from Henrietta, Countess of Suffolk and Her Second Husband, the Hon. George Berkeley from 1712 to 1767*, ed. J. W. Croker (London, 1824), i. 45–8.

7. Ibid.
8. Reported conversation of Law with the secretary of state, Lord Carteret, on Law's return to London in 1721. See Paris, AAE CP, Angleterre, 338, fos. 94r–101v, Destouches to Dubois, 4 November 1721.
9. Th. P. M. Huijs, *Inventaire des archives de John Law et de William Law 1715–1734* (Maastricht, 1978), p. 109
10. Poitiers, Bibliothèque universitaire, Argenson archives, B 18, Letter from the duc de Bourbon in Paris to Law, 15 December 1720. Law's letters to the duc de Bourbon at this point in time are to be found in his letter-book, see Aix-en-Provence, Bibliothèque Méjanès, MS. 614.
11. Paris, AAE CP, Angleterre, 331, fos. 158–9, Letter from Destouches in London, 3 June 1720. See also *ibid.*, fos. 196r–204v, 27 June 1720, where Destouches reports that Stanhope and Craggs believed that 'Mr Law had only angry designs against Britain'.
12. Huijs, *Inventaire*, p. 109.
13. H. Montgomery Hyde, *John Law: The History of an Honest Adventurer* (London, 1969), pp. 168–9.
14. Aix-en-Provence, Bibliothèque Méjanès, MS. 614, Letter-book of John Law, Letter 1, Law in Venice to Katherine Knowles, undated (most probably late February 1721).
15. Paris, AAE CP, Angleterre, 338, fos. 96r–v, Destouches to Dubois, 4 November 1721. Destouches was reporting a conversation with Lord Carteret concerning Law's arrival in England: 'When Mr Law was obliged to leave France his intention was to retire to Rome. He went there, but when passing through Venice he went to see our Resident Envoy whose is a very sensible man. Mr Law having told him his plan, our envoy discouraged him from it, allowing that Rome would be an ideal place for his retirement if it had not been for the presence of the Pretender. The residence of the Pretender would make Law's retirement there very suspicious to the English ministers who would feel distinctly unhappy about it and conjecture that the objective of Mr Law, who had always been suspected as a Jacobite, was to offer his council, services, and abilities to the enemy of the King their master; that by so doing he would be permanently barred from England and would put himself in a situation which would bring most disagreeable consequences and new perils.'
16. Claude-Frédéric Lévy, *Capitalistes et pouvoir au Siècle des Lumières* (Paris, 1980), iii. 356.
17. Aix-en-Provence, Bibliothèque Méjanès, MS. 614, Letter-book of John Law, Letter 75, Law to M. de Nieubourg, undated (most probably late September 1721).
18. Lévy, *Capitalistes et pouvoir*, iii. 356.
19. *Œuvres*, iii. 253.
20. Letter from John Law in Venice to the duc d'Orléans, 21 June 1721, Item 242 of the catalogue of books and autographs sold by Laurin, Guilloux, Buffetaud, Tailleur, Auctioneers, in Paris on 28 February 1979. This letter was item 369 of the Ancienne collection Fillon. See also Law's letter to Lassay on 30 October 1721 where he



- complained of the 'exaggerated behaviour of Fremont in Venice', Aix-en-Provence, Bibliothèque Méjanès, MS. 614, Letter-book of John Law, Letter 80.
21. Aix-en-Provence, Bibliothèque Méjanès, MS. 614, Letter-book of John Law, Letter 134, Law to Lassay,
  - 22 February 1721. 22. Paris, AAE CP, Angleterre, 338, fos. 74v–6r, Destouches to Dubois, 30 October 1721.
  23. Ibid., fos. 94v–101v, Destouches to Dubois, 4 November 1721.
  24. Aix-en-Provence, Bibliothèque Méjanès, MS. 614, Letter-book of John Law, Letter 77, Law in London to Katherine Knowles, 23 October 1721.
  25. Ibid., Letter 80, Law to Lassay, 30 October 1721.
  26. John Carswell, *The South Sea Bubble* (London, 1960), p. 33.
  27. Paris, AAE CP, Angleterre, 338, fos. 113r–18v, Destouches to Dubois, 10 November 1721.
  28. Ibid., fos. 155r–6r, Destouches to Dubois, 20 November 1721.
  29. Ibid., fos. 164r–6r, Destouches to Dubois, 22 November 1721.
  30. Ibid., fos. 171r–2v, Destouches to Dubois, 24 November 1721.
  31. Ibid., fos. 173v–4v, Destouches to Dubois, 25 November 1721.
  32. Ibid., fos. 210r–11r, Destouches to Dubois, 8 December 1721.
  33. Ibid., fos. 216r–17r, Destouches to Dubois, 11 December 1721.
  34. Paris, AAE CP, Angleterre, Supplément 7, fos. 23r–4r, anonymous letter sent by a French diplomat in London to Paris, December 1721.
  35. Aix-en-Provence, Bibliothèque Méjanès, MS. 614, Letter-book of John Law, Letter 82, Law to the Regent, 1 November 1721.
  36. Ibid., Letter 88, Law to Katherine Knowles, 9 November [1721].
  37. Ibid., Letter 104, Law to Katherine Knowles, 8 January 1722.
  38. Ibid., Letter 110, Law to L[ady] K[atherine], undated (but most probably written between 20 and 21 January 1722).
  39. Paris, AAE CP Angleterre, 340, fo. 102, Destouches to Dubois, 8 February 1722.
  40. Aix-en-Provence, Bibliothèque Méjanès, MS. 614, Letter-book of John Law, Letter 111, Law to Cardinal Dubois, 29 January 1722.
  41. Ibid., Letter 138, Law to the marquis de Bully, 5 March 1722.
  42. Ibid. See also Letter 142, Law to the marquis de Bully, 8 March 1722.
  43. Ibid., Letter 147, Law to the marquis de Bully, 19 March 1722.
  44. Ibid., Letter 163, Law to M. de Rosemberg, 15 May 1722.
  45. Ibid.
  46. Ibid., Letter 161, Law to the Regent, 11 May 1722, and Letter 162, Law to Cardinal Dubois, 11 May 1722.
  47. HMC, *Report on the Manuscripts of His Grace the Duke of Portland, KG, Preserved at Welbeck Abbey* (London, 1901), vii. 335.
  48. Letter quoted by Hyde, *John Law*, p. 171.
  49. Letter from Law to Dubois, 9 May 1723, quoted in Jean Daridan, *John Law, père de l'inflation* (Paris, 1938), p. 167.
  50. *John Law*, p. 168. Earl Hamilton located a letter from M. Moreau, 'procureur du Roy', to the Controller-General of Finances on 19 May 1721 indicating that a certain Bonnaventure Muret, Law's assistant librarian, had been arrested and imprisoned in the Grand Châtelet on 30 April at the request of 'la dame Law' for having stolen six to seven hundred books from Law's library which he was minding. Muret protested that

he had not been paid for his services by Law and needed to sell the books in order to survive. Unfortunately Hamilton did not leave the archival references for this letter.

51. Mathieu Marais, *Journal et mémoires de Mathieu Marais*, ed. M. de Lescure (Paris, 1863–8, repr. Geneva, 1967), iii. 59–60.
52. See Faure, *La Banqueroute de Law*, pp. 453, 576, and 584.
53. *Œuvres*, iii. 263.
54. Jean-François Melon, *Essai politique sur le commerce* (1734, rev. edn. 1736), pp. 317–18.
55. *Œuvres*, iii. 238.
56. ‘Mémoire justificatif d’avril–mai 1723’ and ‘Projet d’édit sur le rétablissement du crédit en France’, *Œuvres*, iii. 174–95.
57. *Œuvres*, iii. 238.
58. *Ibid.*, iii. 255.
59. Unfortunately Hyde, *John Law*, p. 172 does not give the reference for this letter. In a telephone conversation with Montgomery Hyde before his death he could not recall the source for this statement but assured me that there was one.

## 21. Death in Venice

1. A key personality in this artistic world was the Englishman, Consul Joseph ‘Palladian’ Smith, who arrived in Venice aged 18 in 1700 and remained there until his death some seventy years later. He acted as an intermediary between purchasers and painters, in the process building up an outstanding collection of Italian art which he later sold to George III for £20,000 and which forms part of the Royal collection today. Law undoubtedly met him and probably traded paintings with him.
2. Venice, Bibliothèque Marciana, Nuovi Acquisti, MS. 12,102, fo. 116, Letter from the abbé Conti in Venice to Mme Caylus, 19 May 1728. A copy of this letter was found in the Hamilton papers. See also Th. P. M. Huijs, *Inventaire des archives de John Law et de William Law 1715–34* (Maastricht, 1978), pp. 27–8.
3. ‘When all these different parties joined together to have me hung’, Aix-en-Provence, Bibliothèque Méjanes, MS. 614, Letter-book of John Law, Letter 103, Law to M. de Lassay, 8 January 1722.
4. See the Preface to the French edition of *The General Theory of Employment, Interest and Money*, in *Collected Works of John Maynard Keynes*, ed. Don Moggridge (London, 1973), vii. xxxiv.
5. *Œuvres complètes de Montesquieu*, ed. André Masson (Paris, 1950), ii. 1006.
6. Paris, AAE CP, Venise, 183, Letter from the comte de Gergy in Venice to the Garde des Sceaux, 5 March 1729, fos. 60v–1v. See also Paris, AN, Affaires Étrangères, B1 1167, Correspondance consulaire, Venise.
7. London, PRO SP, 99/63, fo. 91, Letter from E. Burges, 4 March 1729.
8. Paris, AAE CP, Venise, 183, Letter from the comte de Gergy in Venice to the Garde des Sceaux, 5 March 1729, fos. 60v–1v.
9. A copy of this donation *inter vivos* was sent by Gergy to the Garde des Sceaux. See Paris, AAE CP, Venise, 183, fo. 82.
10. Paris, AAE CP, Venise 183, fos. 90v–2v, Letter from Gergy to the Garde des Sceaux,

- 26 March 1729. In this letter Gergy wrote a long postscript showing the way Law had outwitted him in convincing him that he had written a will whereas, as Gergy later discovered, in reality he had made a donation *inter vivos* to Katherine Knowles. Law concealed this stratagem by having his son William and his friend Le Blond prevent Gergy from visiting him on the grounds that he was too tired to take visitors.
11. Ibid.
  12. London, PRO SP, 99/63, fo. 92.
  13. Ibid., fo. 95. The comte de Gergy also mentioned the letter of credence to the Venetian Republic that Law had obtained from George I. See Paris, AN, Affaires Étrangères, B1 1167, Correspondance consulaire, Venise, Letter from the comte de Gergy in Venice, 5 March 1729.
  14. Maastricht, Rijksarchief in Limburg, Law papers, 170.
  15. Aix-en-Provence, Bibliothèque Méjanes, MS. 614, Letter-book of John Law, Law to Lassay, 12 March 1722. See also Letter 159, Law to L[ady] K[atherine Knowles], 23 April 1722, fos. 211r–v, where Law wrote: ‘I have letters from M de Bully, and yours of the 21, acquainting me that M. Dodun is comptroller general, and that you hope my affairs wil b[e] ended soon. I wish they may, I have a good deal of temper, and would wait the time the Regent should think fit to finish them; but I cannot promise myself that those I have to doe with will be so reasonable with me; I fear their impatience. Adieu, I think it would be more proper that you were allowed to come here, than goe to the countrey; however I would not have you doe anything without His Royal Highneses leave, or contrary to his intentions. I suppose he has reasons for what he does in relation to you and me; and I submitt to those reasons, without knowing them. Patience. Lord Wallingford sends the enclosed to my daughter. Wee are all weel.’
  16. Ibid., fo. 146.
  17. BN, Pièces Originales, 1699, fo. 82, p. 12. Quoted by Claude-Frédéric Lévy, *Capitalistes et pouvoir au Siècle des Lumières* (Paris, 1980), iii. 362.
  18. *Mémoire pour servir à l'histoire de M. le Cardinal de Tencin jusqu'à l'année 1743* (1758), p. 15.
  19. Passports to leave France were delivered to Catherine Sennior (Katherine Knowles's married name), accompanied by her valet Guillaume Atkinson and to ‘le Sr. Laws’ and his two servants, Henlay and Murray, on 19 June 1702. This suggests that Law and Katherine were travelling together at the time. See Paris, AAE M&D, France, 1100, fo. 211v, ‘Passeports imprimés et expédiés dans le mois de juin 1702’.
  20. ‘In the work that I am proposing to write so as to cast light on my operations.’ ‘Mémoire de Law au duc de Bourbon du 15 octobre 1724’, *Œuvres*, iii. 270.
  21. Paris, AAE CP, Venise 183, fos. 93–4, Minute of a letter by the Garde des Sceaux to the comte de Gergy, Versailles, 12 April 1729
  22. Ibid., fo. 146, Letter from Gergy to the Garde des Sceaux, 30 April 1729.
  23. Ibid.
  24. This letter-book, containing letters from 16 December 1720 to 15 May 1722, is now located in the Bibliothèque Méjanes in Aix-en-Provence. Unfortunately, the other two letter-books have not been located. The duc de Bourbon's replies to Law during this period are to be found in the Argenson collection in the Bibliothèque Universitaire in Poitiers.
  25. London, PRO SP, 99/63, fo. 99, Letter from Burges, Venice, 22 April 1729.
  26. Huijs, *Inventaire*, p. 111.

27. Ibid., p. 112.
28. Maastricht, Rijksarchief in Limburg, Law Papers, 160, 'Quadri contenuti nella Cassa no. 1'.
29. London, PRO SP, C 108/415, Colonel Burges in Venice to Lord Londonderry in the Caribbean, 21 October 1719.
30. Huijs, *Inventaire*, p. 25; Lévy, *Capitalistes et pouvoir*, iii. 358.
31. Armand Baschet, *Histoire du dépôt des archives des Affaires Etrangères* (Paris, 1875), p. 207 n. 1.
32. London, BL (Medal Room), Public auction, 'John Lawes', London (Marsh), 22 May 1765; Christie's catalogue, 16 February 1782.
33. Maastricht, Rijksarchief in Limburg, Law papers, Letter from Le Blond to William >Law dated 6 October 1730. See Lévy, *Capitalistes et pouvoir*, iii. 358.
34. Aix-en-Provence, Bibliothèque Méjanès, MS. 614, Letter-book of John Law, Letter 49, Law to Hippolyte Mari, 24 May 1721, fo. 40.
35. Ibid., Law to Hippolyte Mari in Genoa, 11 April 1722, fo. 207v.
36. Maastricht, Rijksarchief in Limburg, Law papers, 160.
37. *Œuvres*, iii. 246.
38. Aix-en-Provence, Bibliothèque Méjanès, MS. 614, Letter-book of John Law, Letter 53, Law to Lassay, 14 June 1721, fo. 71r: 'L'année passée j'estois le plus riche particulier qui a jamais été, aujourd huy je n'ai rien pas mesme de quoy subsister.'
39. Ibid., Letter 108, Law to an unknown correspondent designated as M, 16 January 1722, fo. 149v; see also Letter 57, Law to Lord Londonderry, 27 June 1721, fo. 82r; Letter 71, Law to Mr. Fich, Financial Adviser to the Czar, 10 November 1721, fos. 97v–9v.
40. London, PRO SP, 78/162, fo. 346.
41. *Œuvres*, iii. 251.
42. See the inventory of notaire Ballin who acted for Law in many of his transactions, Paris, AN MC, Étude xlviij, 38, 39, etc.
43. Aix-en-Provence, Bibliothèque Méjanès, MS. 614, Letter-book of John Law, Letter 135, Law to the marquis de Bully, 26 February 1722.
44. Ibid. See also *Journal du Marquis de Dangeau* (Paris, 1859), xvii. 295–6, 350; xviii. 51–2, 150, 163.
45. See, for example, his letter to the duc de Bourbon on 2 January 1722, Aix-en-Provence, Bibliothèque Méjanès, MS. 614, Letter-book of John Law, Letter 97.
46. Ibid., Letter 135, Law to the marquis de Bully, 26 February 1722.
47. Paris, AN MC, Étude xlviij, 38, 23 April 1720, Vente par Paulin Prondre à Jean Law de la Guermante.
48. See Law's letters to the marquis de Bully, the marquis de Lassay, the Regent, and the duc de Bourbon in his letter-book at the Bibliothèque Méjanès, Aix-en-Provence. See also letters and *mémoires* addressed to Lassay, Bourbon, and the Regent in *Œuvres*, iii. 174–281.
49. *Oeuvres*, iii. 257.
50. Aix-en-Provence, Bibliothèque Méjanès, MS. 614, Letter-book of John Law, Letter 97, Law to the duc de Bourbon, 2 January 1722.
51. Montesquieu, *Œuvres complètes*, ii. 1006.
52. *Œuvres*, iii. 280, 'I brought into France 1,600,000 livres.'
53. Daniel Defoe, quoted by Charles Mackay in *Memoirs of Extraordinary Popular Delusions and the Madness of Crowds* (London, 1841), p. 1.

54. *Œuvres*, iii. 197.
55. On this issue see Edgar Faure, *La Banqueroute de Law* (Paris, 1977), pp. 521–52.
56. Barthélemy Marmont du Hautchamp, *Histoire générale et particulière du Visa* (The Hague, 1743), ii. 153–97.
57. *Œuvres*, iii. 230.
58. Isaac Gervaise, *The System or Theory of the Trade of the World* (London, 1720), p. 5.
59. J. Murray Graham, *Annals of the Viscount and the First and Second Earls of Stair* (London and Edinburgh, 1875), i. 265–6.
60. Montesquieu, *Œuvres complètes*, iii. 172.

# Bibliography

## I. Manuscripts

- (1) Legislative acts, decrees, etc., relating to the System.
- (2) Statistics on the System.
- (3) Manuscript sources.
  - (a) The Argenson Archives.
  - (b) Other Archival Sources.

### (1) Legislative Acts, Decrees, etc., Relating to the System

There is a wide range of important material to be analysed through consultation of the various *arrêts*, *édits*, and *déclarations* on the banks (the General Bank and the Royal Bank) and the Mississippi Company. The first work to consult is Dernis, at one stage the head of the archives office at the Compagnie des Indes. His extremely rare work is:

*Recueil, ou Collection des titres, édits, déclarations, arrêts, réglemens et autres pièces concernant la Compagnie des Indes établie au mois d'août 1664*, 4 vols. (Paris, 1755–6).

Interested researchers should also consult the *Inventaire des arrêts du conseil du Roi, Tome I: 1715–20*, ed. Michel Antoine (Paris, 1968).

I used two main sources for detailed examination of the wide range of *arrêts*, *édits*, and *déclarations* published between 1715 and 1720. These were:

Bibliothèque Municipale Bordeaux, M. F. 2345, 'Arrêts relatifs à la Banque de Law'.

Bibliothèque de la Faculté du Droit, rue Cujas, Paris. 16,510 (vols. 1–6), 'Edits et Arrests 1715–1731'. This collection contains 1,200 *arrêts*, *édits*, etc., relating principally to Law's System.

### (2) Statistics on the System

The best statistical series on the price of shares and other financial instruments during the Mississippi System is that of Giraudeau. His work, 'Variations Exactes de tous les effets en papier qui ont eu cours sur la place de Paris a commencer au mois d'Août 1719 jusques au dernier Mars 1721. Avec la citation de tous les arrêts, edits, declarations lettres patentes et affiches concernant les dits effets. Par le Sr. Giraudeau Neveu negociant a Paris. 1724', is to be found in the Bibliothèque Mazarine, MS. 2820. This manuscript is also located in the Bibliothèque de l'Arsenal, MS. 4,061 and the Bibliothèque Nationale, MS. 14,092. Nothing is known about Giraudeau though in an *arrêt* of 24 October 1719, 'Arrêt désignant six nouvelles personnes pour signer les billets de la Banque royale', a Giraudeau is listed as one of

six new signatories for banknotes of the Royal Bank. If, as seems likely, it is the same Giraudeau, his position in the Royal Bank explains his access to such a wide range of statistics.

Cross-checks on Giraudeau may be made by using the Du Tot Poitiers manuscript (see below) and by consulting notarial *études* in the Minutier Central of the Archives Nationales relating to British investors of the Mississippi System. The main contemporary reference used to examine the changes in the domestic exchange rate was the anonymously published:

*Extrait des tous les edits et declarations de Sa Majesté, & arrêts de son Conseil; concernant les fabrications, diminutions & augmentations du prix des monnoies de France, depuis l'edit du mois de décembre 1689* (Amsterdam, 1732).

Conversion of exchange rates into sterling was made using John J. McCusker's *Money and Exchange in Europe and America 1600–1775* (London, 1978).

### (3) Manuscript Sources

#### (a) The Argenson Archives

The Argenson archive, located at the Bibliothèque Universitaire at the University of Poitiers, is of interest on two fronts. Collection B 18 contains a great deal of material relating to John Law and the Mississippi System. The second collection, B 19, contains material, both published and unpublished, by the eighteenth-century economist Du Tot on John Law.

Documents classified under the heading B 18 consist of a range of manuscripts including *mémoires* by John Law (some with corrections and deletions in his hand), many of which have already been published by Paul Harsin from other archival sources. This miscellaneous correspondence is of interest because (1) it contains some previously unpublished letters by and to Law and (2) even in the case of the published material there are a number of accompanying notes which seem to have been written by Du Tot.

Collection B 18 also contains a copy of the important manuscript, 'Histoire des finances', attributed to John Law by Paul Harsin (appended at the end are the unpublished remarks of Du Tot). The 'Histoire' seems to be more extensive than that published by Harsin in the *Œuvres* as it includes a range of accompanying notes not to be found in published version. In Chapter 2 I have contended that Law was not the author of the 'Histoire des finances'.

Collection B 19 contains many papers by the enigmatic Du Tot. The most important of these is a manuscript of 671 pages. The first chapter starts as follows: 'chapitre premier dans lequel on essaye de montrer l'origine et les principes du commerce de la France . . .' This manuscript, referred to in the text as the Du Tot Poitiers MS., represents the most important unpublished work by Du Tot. It is Du Tot's detailed assessment of the System from its creation to the end of December 1720. It is broadly similar to another manuscript located in the Bibliothèque Municipale de Douai (the Douai manuscript) which Edgar Faure referred to in *La Banqueroute de Law*. However, the Douai manuscript does not deal with the final months of the System whereas the Poitiers MS. does.

The second manuscript found in the series B 19 is the 'Réflexions politiques sur les finances et le commerce. Tome III dans lequel on repond a l'examen des deux premiers volumes'.

This starts with the line ‘La verite a ete notre principe, le bien public a l'avantage du Roy, ont este notre seul et unique point de vue dans nos Réflexions Politiques sur les finances et le commerce . . .’.

This manuscript runs to 527 pages (264 folios), finishing with: ‘Je diray a son honneur qu'il me paroît brillant partout mais ce talent n'est pas ce qu'il y a de plus essentiel dans la matiere que nous avons traitee.’ It represents Du Tot's response to Pâris-Duverney's attack on the *Réflexions politiques*. It remained unpublished until Paul Harsin found a copy of it, in another archive collection, and published it in the 1930s.

## (b) Other Archival Sources

### Aix-En-Provence

Bibliothèque Méjanès, MS. 614. Letter-book of John Law. This letter-book contains copies of 163 letters written by Law from 16 December 1720 to 15 May 1722. Included are letters to the Regent, the duc de Bourbon, the marquis de Lassay, Lord Londonderry, the abbé Dubois, and to his wife and daughter.

### Edinburgh

University of Edinburgh Library, Laing Notes, MS. 6737.

Scottish Record Office, MS. PA 7/19/175–6.

### The Hague

Gemeente Archief, Burgerboek OA 1055.

### London

British Library (Medal Room). Public auction, ‘John Lawes’, London (Marsh), 22 May 1765.

Public Record Office, State Papers 35/18, 78/166, 78/165, 99/63. This collection is particularly helpful in providing a contemporaneous assessment of the System by British diplomats based in Paris.

### Maastricht

Rijksarchief in Limburg. Papers relating to the succession of John Law's son William Law who died in Maastricht. These papers contain, *inter alia*, details of Law's art collection. See Th. P. M. Huijs, *Inventaire des archives de John Law et de William Law 1715-34* (Maastricht, 1978).

### Paris

Archives des Affaires Etrangères

Correspondance Politique, Venise, 183. The consular correspondence provides interesting insights of the reactions in cities such as London to events in Paris.

Mémoires et Documents, Amérique, I.

Mémoires et Documents, Angleterre, tomes 211, 217, 219, 226, 229, 262, 270, 271, 277, 286, 291, 298, 311, 312, 330, 331, 334, 338, 340–5, 349; supplément 7.



Mémoires et Documents, France, tomes 137, 139, 140, 312, 1137, 1167, 1186, 1208, 1209, 1228, 1229, 1233, 1235, 1255, 1263, 1597.

#### Archives Nationales

The most interesting series relating to Law is that of G7 which pertains to the office of the Controller-General of Finances. The following documents were consulted:

G7: 536, 541, 707, 714, 716, 718, 721, 1097, 1468, 1615, 1620, 1629 (*Mémoire touchant les monnaies et le commerce*, 28 November 1706), 1621, 1622, 1629, 1903, 1907.

E 2007, E 3640.

K 886, K 1252.

#### Archives Nationales Minutier Central

Étude XLVIII, 36–44. This was the notarial étude of maître Ballin. Unfortunately, most of the actual notarial documents relating to John Law have been destroyed. However, there is an inventory of notarial acts relating to Law.

CV, 1157 Succession Law, 23, Septembre 1723.

#### Bibliothèque de l'Arsenal

MSS. 4,061; 10,657.

Bastille, MS. 10,657.

#### Bibliothèque de l'Institut de France

MS. 522, 'Mémoires de Mr. Law'.

#### Bibliothèque Nationale

MS. 14,092.

Nouvelles Acquisitions Françaises, 23,931–4 (the Memoirs of the duc d'Antin).

#### Bibliothèque Mazarine

MS. 2,342, fos. 185–241. Copies of three letters dated London 12/23 January 1701/2, 12/23 February 1701/2, and a third letter, which is undated, but signed 'Olivier du Mont'. Some commentators believe that these letters originated from Law's pen. See 'L'Affaire Olivier du Mont' in Faure, *La Banqueroute de Law*, pp. 639–44; see also Harsin in *Œuvres*, pp. xxiii–xxv.

MS. 2,820. This is one of the copies of Giraudeau's statistics on the Mississippi System—'Variations exactes . . . '.

#### Bibliothèque de la Ville de Paris

MS. 2, 'Mémoires sur le système proposé par Mr. Law'.

### Poitiers

Université de Poitiers, Argenson MSS. B 18 and B 19. See note above

### Turin

Archivio di Stato, Torino, Masso I, no. 6. Lotterie, Tontina e Banco di Deposito. This collection contains manuscripts, in Law's hand, outlining his proposals for a bank in Turin.

### Venice

Bibliothèque Marciana, Nuovi Acquisti, MS. 12, 102.

## II. Printed Works

There is a most comprehensive bibliography of works relating to Law by Paul Harsin, in an Appendix to Edgar Faure, *La Banqueroute de Law* (Paris, 1977). Additional books on Law and the Mississippi System are:

Haudrere, Robert. *La Compagnie française des Indes au xviii<sup>e</sup> siècle* (Paris, 1989).

Minton, Robert. *John Law: The Father of Paper Money* (New York, 1975).

The bibliography listed below relates to works cited in the text.

*A Bank Dialogue between Dr. H. C. and a Country Gentleman* (London, 1695).

*A Letter to Mr. Law, upon his arrival in Great Britain* (London, 1721).

*An Essay for Promoting of Trade and Increasing the Coin of the Nation* (1705).

*A Proposal anent Usury and Procuring of Money* (1705).

Anderson, William. *The Scottish Nation* (London, 1875).

Andreades, A. *A History of the Bank of England* (London, 1909).

Antoine, Michel. *Le Gouvernement et l'administration sous Louis XV* (Paris, 1978).

*Archaeologica Scotica* (1792).

Argenson, marquis de. *Journals et mémoires du marquis d'Argenson*, ed. E. J. B. Rathery (Paris, 1859).

Asgill, John. *Several Assertions Proved in order to Create another Species of Money than Gold and Silver* (London, 1696; reprinted in Jacob Hollander, ed., *A Reprint of Economic Tracts* (Baltimore, Md., 1908).

Aveling, J. H. *The Chamberlens and the Midwifery Forceps* (1882).

Barbon, Nicholas. *A Discourse of Trade* (London, 1690).

Balleroy, marquise de. *Les Corrédendants de la marquise de Balleroy*, ed. Edouard de Barthélemy (Paris, 1883).

Baschet, A. *Histoire du dépôt des Archives des Affaires Etrangères* (1875).

Bass, Thomas A. *The Newtonian Casino* (Harmondsworth, 1991).

Beljame, A. *La Prononciation du nom de John Law le financier* (Paris, 1891).

Boisguilbert, Pierre de. *Supplément au détail de la France* (Rouen?, 1707).

Boislisle, A de. *Corrédondance des Contrôleurs Généraux*.

Bonney, Margaret and Richard. *Jean-Roland Malet, premier historien des finances de la monarchie française* (Paris, 1993).

Bosher, J. F. *French Finances 1770–1795: From Business to Bureaucracy* (Cambridge, 1970).

Bowley, Marian. *Studies in the History of Economic Thought before 1870* (London, 1973).

Braudel, Fernand. *L'Identité de la France* (Paris, 1980).

Briscoe, John. *A Discourse on the Late Funds of the Million-Act, Lottery Act, and Bank of England* (2nd edn., London, 1694).

Brown, Andrew. *A Second Essay concerning the Land Mint* (Edinburgh, 1705).

Burnet, Gilbert, *History of his Own Time* (London, 1724–34).

Buvat, Jean. *Journal de la Régence 1715–1723* (Paris, 1865).

Cantillon, Richard. *Essai sur la nature du commerce en général* (Paris, 1755).

Carswell, John. *The South Sea Bubble* (London, 1960).

Cesarano, F. 'Law and Galiani on Money and Monetary Systems', *History of Political Economy*, vol. xxii, no. 2 (1990).

Chamberlen, Hugh. *Some Observations upon the Bank of England* (London, 1695).

- Chamberlen, Hugh (cont.) *Animadversions upon a Few Small Circumstantial Differences, betwixt the Proposal for a Land-Credit, reported to be Mr. Law's and Dr. Chamberlen's, both of them plainly agreeing the Foundation, as they are contained in the 6 and 7 Chap. of a Book Intituled, Money and Trade Considered, & c.* (1705).
- Chown, John. *A History of Money* (Routledge, 1994).
- Christie's catalogue, delete text 16 February 1782.
- Clapham, Sir John. *The Bank of England* (Cambridge, 1944).
- Clark, G. N. *The Later Stuarts, 1660–1714* (1940).
- Clower, R. W. 'A Reconsideration of the Microfoundations of Monetary Theory', *Western Economic Journal*, vol. vi (1967), pp. 1–9.
- Cochut, P. A. *Law, son système et son époque* (Paris, 1853).
- Cole, Arthur H. *The Great Mirror of Folly: An Economic–Bibliographical Study* (Cambridge, Mass., 1949).
- Dangeau, marquis de. *Journal* (1859).
- Daridan, Jean. *John Law, père de l'inflation* (Paris, 1938).
- Davanzati, B. *A Discourse upon Coins*, transl. J. Toland (London, 1696).
- Décision théologique sur les actions de la Compagnie des Indes* (1720).
- Defoe, Daniel. *Defoe's Uncollected Works*, ed. William Lee (1869, repr. 1968).
- Dent, Julian. *Crisis in Finance: Crown, Financiers and Society in Seventeenth Century France* (Newton Abbot, 1973).
- Departements de Messieurs les Directeurs de la Compagnie des Indes en consequence de leur délibération du 2 octobre 1719 . . . Fait et arrêté en l'Hôtel de la Compagnie des Indes le treize octobre 1719.*
- Dernis. *Recueil ou collection de Titres, Édits . . . concernant la Compagnie des Indes Orientales établie au mois d août 1664* (Paris 1755).
- Dessert, Daniel. *Argent, pouvoir et société au Grand Siècle* (Paris, 1984).
- Dickson, P. G. M. *The Financial Revolution in England: A Study in the Development of Public Credit 1688–1756* (1967).
- Donaldson, James. *A Letter to a Member of Parliament, from a Well Wisher of his Country, in Relation to Coin* (Edinburgh?, 1704?).
- Du Hautchamp, Barthélemy Marmont. *Histoire du système des finances sous la minorité de Louis XV pendant les années 1719 et 1720* (The Hague, 1739).
- *Histoire générale et particulière du Visa* (The Hague, 1743).
- Dubois-Corneau, Robert. *Pâris de Monmartel* (Paris, 1917).
- Du Tot. *Réflexions politiques sur les finances et le commerce*, ed. Paul Harsin (Paris, 1935).
- Eagly, R. V. *The Structure of Classical Economic Theory* (Oxford, 1974).
- Eatwell, John, Milgate, Murray, and Newman, Peter (eds.). *The New Palgrave Dictionary of Banking and Finance* (London, 1992).
- *The New Palgrave Dictionary of Political Economy* (London, 1987).
- Edit du Roy, portant réunion des Compagnies des Indes Orientales et de la Chine, à la Compagnie d'Occident. Donné à Paris au mois de mai 1719; Arrest du Conseil d Estat du Roy concernant la réunion des Compagnies des Indes Orientales et de la Chine, à la Compagnie d'Occident. Du dix-septième juin 1719.*
- Egret, Jean. *Louis XV et l'opposition parlementaire, 1715–1774* (Paris, 1970).
- Extrait de tous les édits et déclarations de Sa Majesté, et arrêts de son Conseil; concernant les fabrications, diminutions et augmentations du prix des monnoies de la France, depuis l'édit du mois de décembre 1689* (Amsterdam, 1732).

- Fairley, John A. *Lauriston Castle* (Edinburgh and London, 1925).
- Faure, Edgar, *La Banqueroute de Law* (Paris, 1977).
- Ferguson, William. *Scotland's Relations with England: A Survey to 1707* (Edinburgh, 1977).
- Flammeront, J. *Remonstrances du Parlement de Paris au xviii siècle, publiées par J. Flammeront* (Paris, 1838).
- Forbonnais, Véron de. *Recherches et considérations sur les finances de France*, 2 vols. (Basle, 1758).
- Galiani, Ferdinando. *Della Moneta* (Naples, 1750).
- Gazette de la Régence, janvier 1715–juin 1719*, ed. E. de Barthélemy (Paris, 1887).
- Gervaise, Isaac. *The System or Theory of the Trade of the World* (London, 1720).
- Giraud, Marcel. *Histoire de la Louisiane française*, 4 vols. (Paris, 1953–74).
- Graham, John Murray. delete text See Murray Graham, John.
- Gray, W. *The Memoirs Life and Character of the Great Mr. Law and his Brother at Paris* (London, 1721).
- Haldane, A. R. B. *The Drove Roads of Scotland* (Edinburgh, 1962).
- Hamilton, Earl. *American Treasure and the Price Revolution in Spain, 1501–1650* (Cambridge, Mass., 1934).
- 'John Law', *International Encyclopedia of the Social Sciences*, vol. ix (New York, 1968).
- 'John Law of Lauriston: Banker, Gamester, Merchant, Chief?', *American Economic Review*, vol. lvii (May 1967), pp. 273–82.
- *Money Prices, and Wages in Valencia, Aragon and Navarre, 1351–1500* (Cambridge, Mass., 1936).
- 'Prices and Wages at Paris under John Law's System', *Quarterly Journal of Economics*, vol. li (1936–7), pp. 42–70.
- 'The Political Economy of France at the Time of John Law', *History of Political Economy*, vol. i (January 1969), pp. 123–49.
- *War and Prices in Spain, 1651–1800* (Cambridge, Mass., 1947).
- Hardwicke, S. (ed.) *Miscellaneous State Papers from 1501 to 1726* (London, 1778).
- Harsin, Paul. *Crédit public et banque d'état en France du xvie au xviii siècle* (Paris, 1933).
- *Étude critique sur la bibliographie des œuvres de Law* (Liège, 1928).
- 'L'Argent est-il le nerf de la guerre?', *Revue des sciences politiques*, vol. lviii (1935).
- *Les Doctrines monétaires et financières en France du xvie au xviii siècle* (Paris, 1928).
- Healey, Edna. *Coutts & Co 1692–1992* (London, 1992).
- Historical Manuscripts Commission. *Calendar of State Papers. Domestic, 1656–7* (London, 1883).
- *Calendar of State Papers. Domestic, 1694–9* (London, 1906).
- *Calendar of State Papers. Domestic, 1695, Addenda 1689–1695* (London, 1908).
- *Calendar of Stuart Papers* (London, 1923).
- *Report on the Manuscripts of His Grace the Duke of Portland, KG, Preserved at Welbeck Abbey* (London, 1901).
- *Third Report of the Royal Commission on Historical Manuscripts* (London, 1872).
- Hodges, James. *Considerations and Proposals for Supplying the Present Scarcity of Money and Advancing Trade* (Edinburgh, 1705).
- Horsefield, J. Keith. *British Monetary Experiments 1650–1710* (Cambridge, Mass., 1960).
- Hough, Emerson. *The Mississippi Bubble: How the Star of Good Fortune Rose and Set and Rose Again, by a Woman's Grace, for One John Law of Lauriston* (Indianapolis, Ind., 1902).
- Huijs, Th. P. M. *Inventaire des archives de John Law et de William Law, 1715–1734* (Maastricht, 1978).

- Hume, David. *Essays Moral, Political, and Literary*, ed. Eugene F. Miller (Indianapolis, Ind., 1987).
- *David Hume's Writings on Economics*, ed. Eugene Rotwein (Madison, Wis., 1970).
- Hyde, H. Montgomery. *John Law: The History of an Honest Adventurer* (London, 1969).
- (This is a new and revised edition of *The Amazing Story of John Law, Scottish Financier and Gambler*, Amsterdam, 1948)
- Hyde, Henry. *The Correspondence of Henry Hyde, Earl of Clarendon, and of his Brother, Lawrence Hyde, Earl of Rochester*, ed. S. W. Singer (London, 1828).
- Isaacs, J. J. (ed.). *Games and Gamesters of the Restoration* (Plymouth, 1930).
- Jobez, Alphonse. *Une Préface au socialisme ou le système de Law et la chasse aux capitalistes* (Paris, 1848).
- Journal du travail de messieurs les Directeurs de la Compagnie des Indes pour l'année qui commencera le premier octobre 1719 . . . Fait et arrêté en l'Hostel de la Compagnie des Indes ce treize octobre mil sept cent dix neuf.*
- Kelly, James. *That Damn'd Thing Called Honour: Duelling in Ireland 1570–1860* (Cork, 1995).
- Keynes, John Maynard. *A Treatise on Money* (London, 1930).
- *Collected Works of John Maynard Keynes*, ed. Don Moggridge (London, 1973).
- Kuhn, Harold, James Waldegrave: Excerpt from a Letter, in William J. Baumol and Stephen M. Goldfeld (eds.), *Precursors in Mathematical Economics: An Anthology* (London, 1968).
- Lande, Lawrence. *The Rise and Fall of John Law 1716–20* (Montreal, 1982).
- Law, John. *John Law's Essay on a Land Bank*, ed. Antoin E. Murphy (Dublin, 1994).
- *Œuvres . . . de John Law, contenant les principes sur le numéraire, le commerce, le crédit et les banques*, ed. Étienne François de Sénovert (Paris, 1790).
- *Œuvres complètes*, ed. Paul Harsin (Paris, 1934; repr. Vaduz, 1980).
- *Money and Trade Consider'd with a Proposal for Supplying the Nation with Money. By Mr. John Law, now Director of the Royal Bank at Paris* (London, 1720).
- Leijonhufvud, Axel. *On Keynesian Economics and the Economics of Keynes* (Oxford, 1968).
- Lémontey, P. E. *Histoire de la Régence et de la minorité de Louis XV*, 2 vols. (Paris, 1832).
- Levasseur, Émile. *Recherches historiques sur le Système de Law* (Paris, 1854).
- Lévy, Claude-Frédéric. *Capitalistes et pouvoir au Siècle des Lumières* (Paris, 1980).
- Locke, John. *Locke on Money*, ed. Patrick Kelly (Oxford, 1991).
- Lockhart, George. *Memoirs concerning the Affairs of Scotland from Queen Anne's Accession to the Throne to the Commencement of the Union of two Kingdoms of Scotland and England in May 1707* (2nd edn., London, 1714).
- London Journal*, no. cxxiii (Saturday, 2 December 1721).
- Love-Letters between a Certain Late Nobleman and the Famous Mr. Wilson: Discovering the True History of the Rise and Surprising Grandeur of that Celebrated Beau* (London, 1723).
- Lucas, Theophilus. *Memoirs of the Lives, Intrigues, and Comical Adventures of the Most Famous Gamesters and Celebrated Sharpers* (1714).
- Lüthy, Herbert. *La Banque protestante en France* (Paris, 1959).
- Luttrell, Narcissus. *A Brief Historical Relation of State Affairs from September 1678 to April 1694* (Oxford, 1857).
- Mackay, Charles. *Memoirs of Extraordinary Popular Delusions and the Madness of Crowds* (London, 1841).
- Malo, Henri. *Chronique du Château de Chantilly* (Paris, 1934).

- Mandeville, Bernard de. *The Fable of the Bees: or Private Vices, Public Virtues* (6th edn., London, 1729).
- Marais, Mathieu. *Journal et mémoires de Mathieu Marais*, ed. M. de Lescure (Paris, 1863–8; repr. Geneva, 1967).
- Marion, Marcel. *Dictionnaire des institutions de la France aux xvii et xviii siècles* (Paris, 1923; repr. 1979).
- Marshall, Alfred. *Money, Credit and Commerce* (London, 1924).
- Marx, Karl. *Capital*, vol. iii (Harmondsworth, 1981).
- Matthews, George. *The Royal General Farms in Eighteenth Century France* (New York, 1958).
- McCusker, John J. *Money and Exchange in Europe and America 1600–1775* (London, 1978).
- Melon, Jean-François. *Essai politique sur le commerce* (1734, revised and enlarged edn., 1736).
- Mémoire pour servir à l'histoire de M. le Cardinal de Tencin jusqu'à l'année 1743* (1758).
- Mémoires de la Régence de S. A. R. mgr le duc d'Orléans durant la minorité de Louis XV*, 3 vols. (Amsterdam, 1729).
- Monroe, Arthur. *Monetary Theory before Adam Smith* (Cambridge, Mass., 1923).
- Montesquieu, Charles Secondat de. *Œuvres complètes de Montesquieu*, ed. André Masson (Paris, 1950).
- *Persian Letters*, transl. C. J. Betts (Harmondsworth, 1987).
- Mun, Sir Thomas. *England's Treasure by Forraign Trade* (1664; repr. 1928),.
- Murphy, Antoin E. 'John Law and the Assignats', in G. Faccarello and Ph. Steiner, *La Pensée économique pendant la Révolution française* (Grenoble, 1990).
- 'John Law's Proposal for a Bank of Turin (1712)', *Œconomia*, no. 15 (May 1991).
- *Richard Cantillon: Entrepreneur and Economist* (Oxford, 1986).
- 'The Evolution of John Law's Theories and Policies 1707–1715', *European Economic Review*, vol. xxxiv (1991).
- (ed.). *John Law's Essay on a Land Bank* (Dublin, 1994).
- Murray Graham, John. *Annals and Correspondence of the Viscount and the First and Second Earls of Stair* (London and Edinburgh, 1875).
- Neal, Larry. *The Rise of Financial Capitalism* (Cambridge, 1990).
- Nichols. *History and Antiquities of the County of Leicester*.
- Nicholson, J. Shield. *A Treatise on Money and Essays on Monetary Problems* (6th edn., London, 1913).
- Noms et demeures de messieurs les Directeurs de la Compagnie des Indes*.
- Nouvelles délibérations pour l'établissement des fonds et le payement des rentes de ceux qui voudront prendre des actions pour être participans au produits, profits, revenus et propriété du Canal sur la route de Marseille à Lyon, qui sera navigable e fournira des arrosemens* (Paris, 1718).
- Orléans, duchesse d'. *Mémoires, fragmens historiques et correspondance de mme la duchesse d'Orléans*, ed. Philippe Busoni (Paris, 1833).
- *Nouvelles lettres de mme la duchesse d'Orléans*, ed. G. Brunet (Paris, 1853).
- Oudard, Georges. *La Très Curieuse Vie de Law, aventurier, honnête homme* (Paris, 1927 ; transl. and pub. as *John Law: A Fantastic Financier 1671–1729*, London, 1928).
- Pâris-Duverney, Joseph. *Examen du livre intitulé Réflexions politiques*, 2 vols. (The Hague, 1740).
- Pearson, Karl. *The History of Statistics in the 17th and 18th Centuries*, ed. E. S. Pearson (Bucks, 1978).

- Perrero, D. 'Law e Vittorio Amedeo II di Savoia', *Curiosità e Ricerche di Storia Sub-alpina*, vol. i (1875), pp. 31–3.
- Petitfils, Jean-Christian. *Le Régent* (Paris, 1986).
- Petty, Sir William. *Verbum Sapienti* (written in 1664; first pub. in Sir William Petty, *Political Anatomy of Ireland* (London, 1691).
- Petyt, William. *Britannia Languens or a Discourse of Trade* (London, 1680).
- Piossens, chevalier de. *Mémoires de la Régence* (Amsterdam, 1729).
- Plomer, H. R. *A Dictionary of the Printers and Booksellers who were at work in England, Scotland and Ireland, from 1668 to 1725* (Oxford, 1922).
- Pollexfen, John. *A Discourse of Trade, Coyn, and Paper Credit* (London, 1697).
- Portal, Cendrine de. *Les Fortunes de la gloire: le roman de John Law* (Paris, 1982).
- Potter, William. *The Key of Wealth: Or, a New Way for Improving of Trade* (1650).
- *The Trades-man's Jewel: Or a Safe, Easie, Speedy and Effectual Means, for the Incredible Advancement of Trade, and Multiplication of Riches* (1650).
- Prato, G. 'Un Capitolo della Vita di Giovanni Law', *Memorie della Reale Accademia delle Scienze di Torino*, 2nd series, vol. lxiv (1913–14), no. 5.
- Prévost, Antoine-François d'Exiles. *Histoire du chevalier Des Grieux et de Manon Lescaut* (Amsterdam, 1731).
- Price, Jacob. *France and the Chesapeake* (Ann Arbor, Mich., 1973).
- Propositions Présentées au Roy par les Directeurs de la Compagnie des Indes, pour entrer en possession au nom et pour le compte de la dite Compagnie du commerce cy-devant fair par la Compagnie d'Afrique, le premier juin 1719.*
- Quesnay, François. *Tableau économique* (1758; for details of its publication see *Quesnay's Tableau économique*, ed. Marguerite Kuczynski and Ronald Meek, London, 1972).
- Rademont, Goeuvin de. *Nouveau Traité sur la dixme Royale* (Liège, 1715).
- Roosen, William. 'Love-Letters Between a Certain Late Nobleman and the Famous Mister Wilson', in Peter Wagner (ed.), *Erotica and the Enlightenment* (Frankfurt am Main, 1991).
- Rothkrug, Lionel. *Opposition to Louis XIV: The Political and Social Origins of the French Enlightenment* (1965).
- Saint-Simon, Louis de Rouvroy, duc de. *Mémoires (1718–1721)*, ed. Y. Coirault (Paris, 1987).
- *Mémoires du duc de Saint-Simon*, ed. A. de Boislisle (Paris, 1873 etc.).
- Schumpeter, Joseph. *A History of Economic Analysis* (London, 1954).
- Scott, W. R. *The Constitution and Finance of English, Scottish and Irish Joint-Stock Companies to 1720* (Cambridge, 1912; repr. Gloucester, Mass., 1968).
- Seligmann, Armand. *La Première Tentative d'émission fiduciaire en France* (Paris, 1925).
- Shennan, J. H. *The Parlement of Paris* (London, 1968).
- Shrewsbury, Duke of. *Correspondence of Charles Talbot, Duke of Shrewsbury*, ed. W. Coxe (London, 1821).
- Smith, Adam. *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), ed. R. H. Campbell, A. S. Skinner, and W. B. Todd. (Oxford, 1976).
- Some Animadversions upon a Few Small Circumstantial Differences* (Edinburgh, 1705).
- Some Observations upon the Bank of England* (1695).
- Steuart, Sir James. *An Inquiry into the Principles of Political Economy* (Dublin, 1770).
- Suffolk, Countess of. *Letters to and from Henrietta, Countess of Suffolk and her Second Husband, the Hon. George Berkeley, from 1712 to 1767*, vol. i (London, 1824).

- Swift, Jonathan. *Works* (2nd edn., London, 1883).
- Symcox, Geoffrey. *Victor Amadeus II: Absolutism in the Savoyard State 1675–1730* (London, 1983)
- Taylor, Joseph. *A Journey to Edenborough in Scotland* (Edinburgh, 1903).
- The Present State of the French Revenues and Trade* (London, 1720).
- The Proceedings of the King and Queen's Commissions . . . held for the City of London and County of Middlesex at Justice Hall in the Old-Bayly on Wednesday, Thursday and Friday, being the 18th, 19th and 20th days of April 1694*, British Library 515. L 2/154.
- Thiers, A. *Histoire de Law* (Paris, 1858).
- Thweatt, W. O. 'Origins of the Terminology of "Supply and Demand"', *Scottish Journal of Political Economy*, vol. xxx, no. 3 (November 1983).
- Toutain, J. C. 'Le Produit de l'agriculture française de 1700 à 1958', *Cahiers de l'Institut de Science Économique Appliquée*, no. 115 (July 1961).
- Van Der Zee, Henri and Barbara. *William and Mary* (London, 1973).
- Van Dillen, J. G. *History of the Principal Public Banks Accompanied by Extensive Bibliographies of the History of Banking and Credit in Eleven European Countries* (The Hague, 1934).
- Vauban, Sébastien Le Prestre de. *Projet d'une dixme royale* (1707).
- Vanderlint, Jacob. *Money Answers All Things* (London, 1734).
- Vega, Joseph de la. *Confusion de Confusiones: Portions Descriptive of the Amsterdam Stock Exchange* (Kress Library of Business and Economics, no. 13).
- Vickers, Douglas. *Studies in the Theory of Money 1690–1776* (Philadelphia, Pa., 1959).
- Wasserman, Max J. and Beach, Frank H. 'Some Neglected Monetary Theories of John Law', *American Economic Review*, vol. xxiv (1934).
- Wood, John Philip. *The History of the Parish of Cramond* (1794).
- *Memoirs of the Life of John Law of Lauriston* (Edinburgh, 1824).



*This page intentionally left blank*

# Chronological Index of Arrêts, Édits, etc.

- 2 May 1716, 'Lettres patentes' establishing General Bank 154
- 10 April 1717, *arrêt* stipulating that banknotes of General Bank could be used in payment of taxes 162
- August 1717, 'Lettres patentes' establishing Company of the West 168
- December 1717, *édit* fixing amount of share capital to be raised by Company of the West 168
- May 1718, *édit* of Argenson devaluing currency and imposing a re-coinage 179
- May 1718, *arrêt* stipulating that banknotes of General Bank could be taken in payment of all taxes 179
- 12 June 1718, *arrêt* authorizing share issue of Company of the West 169
- 28 June 1718, *arrêt* permitting delivery of shares of Company of the West against a downpayment of one-fifth 169, 172
- 16 September 1718, *arrêt* authorizing United Farms Company to issue 100 million livres of shares 183–4
- 22 September 1718, *arrêt* extending period of payment for shares of Company of the West 169, 172
- October 1718, *édit* authorizing United Farms Company to issue 100 million livres of shares 197
- 4 December 1718, *déclaration* converting General Bank into Royal Bank 185
- 31 December 1718, *arrêt* extending subscription period for shares of United Farms Company 185
- 5 January 1719, *arrêt* creating banknotes 300
- 11 February 1719, *arrêt* creating banknotes 300
- 22 April 1719, *arrêt* creating banknotes 300
- 7 May 1719, *arrêt* devaluing specie 197
- 23 May 1719, *édit* proposing merger of trading companies 188
- 1 April 1719, *arrêt* creating banknotes 300
- 10 June 1719, *arrêt* creating banknotes 300
- 17 June 1719, *arrêt* merging trading companies 188
- 8 July 1719, *arrêt* withdrawing banknotes of General Bank 193
- 20 June 1719, *arrêt* of Parlement prohibiting workers from altering coinage 180
- 21 July 1719, *arrêt* fixing dividend on shares of United Tax Farms at 8 per cent 197
- 25 July 1719, *arrêt* devaluing specie 197, 300
- 26 August 1719, 'Lettres patentes' limiting Parlement's powers and revoking *arrêts* of 12 and 20 June 182
- 27 August 1719, *arrêt* decreeing long-term debt (General Farms) to be exchanged for shares or annuities 198–200
- 31 August 1719, *arrêt* decreeing long-term debt (*rentes perpétuelles* and *billets d'état*) to be exchanged for shares or annuities 200
- 12 September 1719, *arrêt* obliging taxpayers in Paris and its suburbs to pay their taxes in banknotes 173, 300
- 23 September 1719, *arrêt* devaluing specie 197
- 24 October 1719, *arrêt* creating banknotes 300
- 1 December 1719, *arrêt* enforcing acceptance of banknotes in payments 211
- 21 December 1719, *arrêt* enforcing use of banknotes for large transactions 211–12, 221
- 29 December 1719, *arrêt* creating banknotes 300
- 22 January 1720, *arrêt* permitting free movement of specie outside France and revaluing specie 220, 224
- 28 January 1720, *arrêt* devaluing specie 220–1

- 31 January 1720, *arrêt* extending period for exchanging specie into banknotes and banning export of specie without a passport 221
- 3 February 1720, *arrêt* devaluing specie 224
- 4 February 1720, *arrêt* prohibiting wearing of diamonds 221
- 6 February 1720, *arrêt* creating banknotes 300
- 9 February 1720, *arrêt* further extending period for exchanging specie for banknotes for those living in the provinces 221
- 11 February 1720, *arrêt* prohibiting private options and futures dealings 217
- 18 February 1720, *déclaration* prohibiting production, sale, or export of gold or silver objects above a certain weight 222
- 20 February 1720, *arrêt* further extending period for exchanging specie for banknotes for those living in Paris 221
- 20 February 1720, *arrêt* requiring examination of contracts 217, 221
- 22 and 24 February 1720, *délibération* and *arrêt* withdrawing share support 226–30
- 27 February 1720, *arrêt* prohibiting holding of more than 500 livres in gold or silver 222–3
- 5 March 1720, *arrêt* guaranteed a price of 9,000 livres for each Mississippi share 224, 226, 228–30, 232, 236–7, 249, 253
- 11 March 1720, *déclaration* proposing demonetization of gold and silver 224–6, 229–30, 232, 236–7, 239, 244, 247, 266, 276
- 19 March 1720, *arrêt* banning the import of silver and gold specie and bullion into France 230, 240
- 26 March 1720, *arrêt* creating banknotes 238, 300
- 5 April 1720, *arrêt* creating banknotes 238, 301
- 19 April 1720, *arrêt* creating banknotes 238, 301
- 1 May 1720, *arrêt* creating banknotes 238, 289, 301
- 21 May 1720, *arrêt* reducing price of shares and banknotes 235–6, 244–57, 260–1, 264–6, 269–70, 273–4, 277, 296–7
- 27 May 1720, supposed *arrêt* by Parlement condemning directors of the bank 253
- 28 May 1720, *arrêt* revoking measures of 21 May 253, 264
- 1 June 1720, *arrêt* revoking prohibition on holding gold and silver 265–6, 270, 276
- 3 June 1720, *arrêt* requesting cash supplement for shares and reintroducing annuities 265–6, 284, 295, 301
- 11 June 1720, *arrêt* stipulating all payments over 100 livres to be made in banknotes 266, 276
- 14 June 1720, *arrêt* stipulating cash supplements for shares to be paid in three instalments not six 301
- 20 June 1720, *arrêt* reducing value of shares 301–2
- 26 June 1720, *arrêt* creating banknotes 298–9, 301
- 13 July 1720, *arrêt* creating bank accounts 265–6, 270–1, 276, 284, 295
- 17 July 1720, *arrêt* reconfirming the use of banknotes as legal tender 276
- 21 July 1720, *arrêt* granting privileges to the Mississippi Company in perpetuity in return for withdrawal of banknotes 265, 267, 271–2, 276–8, 284, 297
- 22 July 1720, *arrêt* confirming shareholders not to be taxed 275
- 30 July 1720, *arrêt* devaluing and revaluing domestic exchange rate 282, 295
- 31 July 1720, *arrêt* offering 50,000 new shares 276, 281, 295, 303–4
- 14 August 1720, *arrêt* stipulating further issue of 20,000 shares 286, 295, 303–5
- 15 August 1720, *arrêt* withdrawing high denomination banknotes 265–6, 278, 284, 286, 297, 304
- 29 August 1720, *arrêt* reducing number of governors of the company and bank 286
- 2 September 1720, *arrêt* creating banknotes 298–9, 301
- 15 September 1720, *arrêt* reducing value of shares and bank accounts 266, 294–7, 307
- 19 September 1720, *arrêt* creating banknotes 298–9, 301
- 10 October 1720, *arrêt* abolishing banknotes 266, 297–9, 301
- 13 October 1720, *arrêt* decreeing arrears on *rentes* to be paid in specie 299, 301
- 13 October 1720, ‘manuscript *arrêt*’ permitting creation of a further 60 million livres of banknotes 300–1
- 16 December 1720, *déclaration* recalling Parlement from Pontoise 310

# General Index

- absolute monarchy 132, 174, 198  
Act of Union 68–70, 105  
*actions à terme* 215  
*actions remplies* 302  
*actions rentières* 299  
African Company *see* Company of Africa  
Aguesseau, Henry François d' 162–3, 173, 175–8, 261, 279–80  
*aides* (sales tax) 133, 184  
Alien Act 69  
Aligre, Étienne d' 253  
alteration of the coinage 152–3  
Amelot de Gournay, Michel Jean 142–3  
Amiens 186  
Amsterdam 176, 240, 271, 285, 319; stock market 42 *see also*  
Bank of Amsterdam  
*ancien régime*, financial system *see* France, old financial system  
Anderson, Andrew 14, 76  
André, Jean, Sr. de Montgeron 287  
Anisson, Jean 144, 280–1  
Anne, Queen of England 68  
annuities *see rentes*  
Antin, Antoine Louis de Pardailan de Gondrin, duc d' 142, 144, 168, 173, 177, 181, 195, 198, 205–6, 257, 259; and canal company 186  
Argenson, Marc René de Voyer de Paulmy, marquis d' 258, 326; as lieutenant general of police in Paris 36–7, 123–4; as Keeper of the Seals and Minister of Finance 171, 176, 178–9, 188–9, 195, 197–8, 281; dismissal as Keeper of the Seals 260–1, 263–4; dismissal as Minister of Finance 165, 214; opposition to Law 260–3; support for Law's bank proposal 144–5  
Argenson, René Louis de Voyer de Paulmy, marquis d' 181, 311  
Argenson archives 9–10  
*argent comptant* 162  
*argent de banque* 141  
Argyll, John Campbell, 2nd Duke of 68–70, 262, 312  
Argyll, Archibald Campbell, 3rd Duke of *see* Ilay, Earl of  
aristocracy in France; involvement in old financial system 131–2, 136; opposition to Law 164–5, 173, 175, 219  
Aristotle on money 55  
Asgill, John 45–6, 49–50, 55  
Ash, Townshend, and Windham families 29, 31  
assets and liabilities 106, 108–9, 110–11, 120–1 *see also* government debt; real assets; real economy  
*assignments* 134–5  
*assignats* 5, 333  
Astell, Mary 20  
Atholl, Duke of 74  
*augmentation* of the currency *see* domestic exchange rate  
Auvergne 133  
Baillie of Jerviswood, George 67, 69, 73–5  
balance of payments; effects of exchange rate changes upon 97–8, 151, 275; and money supply 89, 90, 94, 98–103, 113, 142  
balance of trade *see* balance of payments  
Balleroy, chevalier de 219, 251, 258, 260–1, 279, 288  
Ballin, notary 13  
Banbury, Charles Knollys, Earl of 36  
bank accounts *see* Royal Bank, creation of bank accounts  
bank money, and specie money 107–9, 147 *see also* money; specie  
Bank of Amsterdam 41–2, 82, 265  
Bank of England; and Bank of Scotland 72, 82; and credit creation 108, 140, 146; and government borrowing 45, 106, 112, 115–16, 118–20, 131; and land bank proposal 145, 50, 60; and South Sea Bubble 241; as model for Bank of Turin 115, 120, 123; as model for Royal Bank 121  
benefits to England 146; capitalization 72, 119; directors 41; foundation 20, 29, 105; precursors 15–16; shares of, as new type of financial instrument 60–1, 110–13, 119–20, 140, 147, 275; silver reserves 60, 66, 108  
Bank of Scotland 53, 70–3, 78–9, 81–2; and creation of money 82  
Bank of St George in Genoa 42–3, 144  
Bank of Turin 61, 111, 115, 122, 123

- Bank of Turin manuscript *see* Law, John, Bank of Turin manuscript
- banker, in gambling 38–9
- banking; development of, in Europe 41–3; evolution of goldsmiths into bankers 15–16 *see also* Bank of Amsterdam; Bank of England; Bank of Scotland; Bank of Turin; General Bank; Royal Bank
- banknotes; and creation of money 113, 120; and definition of money 61; and goldsmiths' notes 15–16, 60; and land bank proposal 59, 114; and specie 140, 147, 226; of General and Royal Banks, *see* General Bank; Royal Bank
- banks, alternatives to 109–16, 120–2
- banks, lombard 50
- Barbon, Nicholas 15, 45–6, 49–50
- Barré, Charles-Nicolas or Nicolas-Charles 196
- barter, and money 87, 90–4, 98
- Baschet, Armand 328
- Basnage de Beauval, Jacques 291
- basset 38–9, 314
- Bastille 258, 262, 285, 308, 310
- Bath 320
- Baudry, Garbiel Taschereau de 127, 142
- 'bear' 42, 202
- beau 20 *see also* Law, John, as beau; Wilson, Edward
- Beau Wilson *see* Wilson, Edward
- beaver 172, 206
- Bernard, Samuel 124, 129, 138, 144, 156, 280–1
- Bernouilli, Nicholas 37
- betting, *see* bookmaker; gambling
- Bignon, Jérôme 321
- bills of exchange 15 *see also* credit
- billets d'état*, and government debt 136–7, 193, 195; interest payments on 192, 294; used to purchase shares 37, 157–60, 167–71, 172, 189, 201
- billets de la Caisse de Legendre* 137
- billets de la Caisse des Emprunts* 137
- billets de monnaie* 43, 105, 115–20, 137, 149–50; demonetization 295, 299, 304
- billets des fermes* 135
- billets des receveurs et des fermiers généraux* 137
- billets-écus* 223 *see also* General Bank, banknotes
- billets-livres* 224 *see also* Royal Bank, banknotes
- bimetallic system *see* gold and silver
- Boisguilbert, Pierre de 129
- Bolingbroke, Henry St John, 1st Viscount 326
- bookmaker vs. gambler 38, 41
- borrowing and lending 233–4; by the Crown 129, 133, 144, 195–6 *see also* credit; France, national debt
- Bosher, J. F. 131
- Bourbon, Louis Henry de Bourbon-Condé, duc de; and canal company 186; and comte de La Marck 10; and Law's departure from France 309–10, 313, 327; and Law's fall from favour 257–8, 260, 279–80; and Pâris brothers 263, 318; attitude to Argenson 261; becomes tutor to Louis XV 182; correspondence with Law 309–10, 313, 321, 327, 331; created head of Regency Council 126; Law's political reliance on 165, 180, 263; opposes Law's measures of 21 May 1720 253–4; profits from Law's System 219, 222–3; supports Law's System 189, 195, 198
- Bourgeois, Étienne 155, 158, 171, 310
- Bowley, Marian 55, 57
- Branças, marquis de 186, 287
- Braudel, Fernand 129
- bribery 132, 137
- Briscoe, John 45–6, 49, 64–6
- Britain; and European balance of power 201–2; and France's colonial ambitions 170; development of banking in *see* banking; Bank of England; economy, strength relative to France 118–20, 142; national debt 106, 194, 202, 213, 241; relations with France 313–14; stock market in, *see* London, stock market in; trading companies 167; *see also* East India Company; South Sea Company *see also* England
- British authorities; suspicion of Law 31, 201–3, 239–4, 313–15, 326–7
- British establishment; attitude to Law 316–17
- British investors in Mississippi stock 254–7
- broad money supply 115, 210, 245, 270
- Brown, Andrew 70–1
- Brussels 310
- Buckingham, Duke of 32
- 'bull' market 42, 217, 254
- Bully, marquis de 322, 326, 330
- bureau d'achat et de vente* *see* Mississippi Company
- bureau de conversions* *see* Mississippi Company
- Burges, Colonel Elizeus 314–15, 324–8

- Burnet, Gilbert 24  
 Buvat, Jean 251, 253  
 cabal *see* Mississippi System, cabal against  
 Caisse des Emprunts 116, 139  
 Caisses des consignations 144  
 Campbell, Agnes (aunt of John Law) 14, 76  
 Campbell, Jean (mother of John Law) 14  
 Canada, and Company of the West 172  
 canal at Montargis 279  
 canal company 186–7  
 Canillac, Jean de Montboissier-Beaufort, comte de 261, 279  
 Cantillon, Richard; analysis of Law's System 4; and barter economy 93; and circular flow of income 78, 88; and 'entrepreneur' 113; convinced System will fail 194, 231; invited to assist Law 285  
 Cantillon, Bernard 285  
 capitalism 107  
*capitation* (tax) 132  
 Carignan, prince de 304  
 Carriera, Rosalba, portrait of Law by 323  
 Carteret, Lord 315–17  
 cash-in-advance requirement *see* money-in-advance requirement  
 Cavaliers party, in Scottish Parliament 68–9  
 Chamber of Justice 127, 135–8, 149, 164, 167, 219, 222, 275  
 Chamberlen, Hugh 45–6, 49, 50–1, 55, 64, 69, 74, 76, 79, 334  
 Chambre de Comptes 180  
 Chambre de Justice *see* Chamber of Justice  
 Chambre des Aides 180  
 Chambre des Monnaies 179–80  
 Chamillard, Michel 112, 117–18, 214  
*charges see* sale of public offices  
 Charles I of England 180  
 Charles II of England 50  
 Charles XII of Sweden 156  
 Chartres, duc de 280  
 Chartres manuscript 8, 9  
 Chausseraye 281  
 Chauvelin, Germain Louis 325–6  
 Chavigny, Théodore de Chavignard, marquis de 180, 314  
 Chicoineau 288  
 China, and supply of gold 275  
 China Company 188  
 Chirac, Pierre 288  
*cing cents* (shares) 166, 201, 210–11, 216  
 circular flow of income 77–8, 88–92, 113, 334  
 Clapham, Sir John 15  
 Cleghome, George 14  
 Cleghome, Violet 14  
 Clower model 92  
 Cochran of Kilmarnock 74  
 Colbert, Jean-Baptiste 127–8, 132, 214, 331  
 Cologne, Elector of 314  
 Comédie Française 205  
 Commodities 244, 248  
 Compagnie de Mississippi (Crozat's) 167  
 Compagnie des Indes *see* Mississippi Company  
 Company of Africa 188, 206  
 Company of General Tax Farmers *see* tax farming  
 Company of Scotland trading to Africa and the Indies *see* Darien Company  
 Company of the East Indies 188  
 Company of the Indies *see* Mississippi Company  
 Company of the West; assets and liabilities similar to bank's 111; *billets d'état* to be converted into equity of company 168; directors 145, 172; established 163–72; functions 167–9; Law's shareholding 37, 171–2; mergers to create Mississippi Company 188, 252–3; modelled on South Sea Company 120; shares 165–6, 169, 171–2, 177, 187, 193; *see also* cinq cents; *filles, mères, petites filles*  
 Conflans, chevalier de 261  
 Coningsby, Lord Thomas 316–17  
 Conseil de la Régence *see* Regency Council  
 Conseil de Finance; and introduction of banknotes 162; and Law's first bank proposal 124, 143, 145–6; and Mississippi Company's takeover of French national debt 194; and Nicolas's bank 157; position within administrative structure 127; Presidency of 214  
 conspiracy against the System 218, 232, 237, 259, 268  
*constitution de rente* 234 *see also* *rentes*  
 consumption and balance of payments 101, 142  
 Contest, Dominique Claude de Barberie de Saint-Contest 142  
 Conti, abbé 38, 323  
 Conti, prince de 195, 223, 260  
 Controller-General of Finances, office of 214  
 Copenhagen 316  
 copper 244  
 Country Party, in Scottish Parliament *see* Squadrone Volante  
 Courcelle-Seneuil, Jean 5  
 Court Party, in Scottish Parliament 69, 73, 75  
 Coutts Bank 68

- Craggs, James 194, 201–2, 222–3, 228, 240, 250, 279, 313
- Crawford, Thomas 206, 209, 227
- credit; and money 1, 15–16, 89, 108–9, 119, 237; and trade 233–4; creation of 108, 144, 146; *see also* Bank of England; Potter's analysis of 48
- Cromwell, Oliver 15
- Crozat, Antoine 138, 178, 280, 310, 323; and canal company 187; interests in French Louisiana 167, 172
- Cyprian, Jean Joseph 186
- Darien Company 70–3
- Davanzati, Bernard 56
- De Florimond 216
- debt *see* assets and liabilities; credit; government debt
- debt management; and monetary creation 105, 115, 139; and trading companies 111
- debtors' prison 27
- Defoe, Daniel 213–14, 243, 332
- demand *see* supply and demand
- demand for money *see* money, demand for
- Denmark 313–14, 316
- Dent, Julian 136
- Desmarests, Nicolas; and Law's 1715 proposals 123–4, 140, 142, 158–60; and Law's 1719 proposals 198; as Controller-General 117, 130, 144, 151–2, 214, 223; dismissal 127, 137
- Dessert, Daniel 131, 164, 219
- Destouches, Philippe Néricault 250, 254–7, 262, 313–14, 317–19
- Deucher, Jean 280–1
- diminution* of the currency *see* domestic exchange rate
- dixième (tax) 132, 170
- Dodun, Charles Gaspard 127
- domestic exchange rate 150–3, 220, 223–4, 270, 272–4, 282–4; and banknotes of the Royal Bank 186, 223, 231; and bank accounts of the Royal Bank 295
- Donaldson, James 70
- Drummond, John 40
- Du Hautchamp, Barthélemy Marmont 19, 35–9, 41, 195, 215, 333–4
- Du Tot 4, 10, 232, 249, 331, 334; on Mississippi share issues 191, 199–200, 209–11, 227–9, 238, 301–2, 304; on opposition to Law 196, 218–19, 237, 261, 266–9, 308, 309–10; on collapse of the System 247, 270, 284, 294, 296–9, 305–7; on establishment of Mississippi Company 169, 183; on financial situation in France at start of Regency 128–30, 135, 137; on General Bank 149, 155, 162; on money supply 238–9, 270, 274; *Réflexions politiques* 10
- Dubois, abbé Guillaume 175–6, 180, 240, 279, 320, 322, 326; created archbishop 262; created cardinal 176; diplomatic activity 176, 290, 313, 315; relations with Law 165, 195, 261–2, 291, 313–15, 319–20
- Duché, Jean-Baptiste 167, 172
- Duclos, Charles Pinot 175
- duelling 29, 32, 36; between Andrew Fletcher and the Earl of Roxburghe 67, 75; between Law and Beau Wilson 20, 22–3, 29–30
- Dutch East India Company 42
- Dutch West India Company 42
- Eaglesham 16–17
- Eagly, R. V. 88
- East India Company 105, 111; and Darien Company 71–2; creation of new financial instruments 60–1, 106, 112–15, 118–20, 275; Law's wager on share price 41, 202, 241–2, 244, 315; monopoly trading privileges 109–10, 119
- Ecluse, Edme Elisabeth de l' 326
- economic activity; and money 46–9, 52–3, 77–104, 141–2; sources of 233
- écu, silver 150–2, 186, 229, 284–5; demonetization 224–6; écu réformé 152 *see also* domestic exchange rate; money of account
- Edinburgh 14, 17–19, 67–75; in the late 17th century 17
- Effiat, Antoine Coeffier-Ruzé, marquis d' 127
- Eglinton, Earl of 74
- employment; and money 78–80, 87–94, 98, 113, 141–2 *see also* circular flow of income; economic activity
- Engilbert, Louis *see* La Marck, comte de
- England; Act of Union 68–70, 105; economy 53, 111; paper money in 60 *see also* Britain; London

- English Revolution 67, 131  
 entrepreneur 100, 112–13, 142  
 Essen, Count of 312  
 Estampes, marquis d' 286  
 Estrées, Victor-Marie, Marshal d' 189  
 Europe; financial innovation in 41–3, 105; inflation in 95–7  
 Evelyn, John 21  
 Evreux, comte d' 329  
 Exchange Alley *see* London, stock market in  
 Fagon, Louis 127, 142–3, 181, 257, 259–60, 262  
 Fairley, John A. 14, 16  
 Fallari, Mme de 322  
 faro 38–9  
 Faure, Edgar 14; and Law's banknote issues 239, 259, 296, 300; and Law's share issues 210, 214; and Law's struggle with Parlement 179, 181; and the 'Histoire des finances' 152, 170; and the 'Mémoire sur le discrédit' 278, 282, 284; on 'le plan sage' and 'le plan fou' 6, 199, 232  
 Fénelon, Jean-Baptiste 143–5, 155  
 Ferguson, William 69  
*filles* (shares) 165–6, 171, 190–3, 200, 202, 209–11, 216  
 financiers; and Chamber of Justice of 1716 136, 137–8, 149; and the General Bank 153, 162; involvement in state finances 130–3, 135–8, 143; opposition to Law 130, 164, 183, 196–7, 219, 232, 267–9  
 Fletcher, Andrew, of Saltoun 67, 69, 73–5  
 floating debt; and creation of *billets d'état* 136–7; and Law's debt-management strategy 139, 168–9, 193 *see also* *billets d'état*  
 Florence and share trading 42  
 Forbonnais, Véron de 116, 239, 247–8  
 Force, Henry Jacques de Caumont, duc de la; and struggles with Parlement 180, 195, 279; president of the Conseil des Finances 179; profits from Mississippi System 219, 282; supporter of Law 165, 182–3, 189, 198, 257–8, 286  
 Fouquet, Nicolas 132  
 franc, French 150  
 France; bankruptcy at death of Louis XIV 128–35, 244, 293–4; colonial trade 164, 167–70, 176; Crown pensions 130, 194–5, 299; development of manufacturing sector 100; effects of Mississippi System on economy 4–6, 232–7, 293–4, 308, 331–2; effects of plague on economy 288; exchange rate 284–5, 284–5; *see also* domestic exchange rate; financial innovation in *see assignats, billets de monnaie*; money supply 105–6, 112, 118–22, 129, 140, 146, 153, 199, 226–7, 231–2, 238–9, 267, 269–71, 308; national debt 105–6, 121, 124, 128–30, 135–40, 164, 193–4, 219, 232–5, 308; national income 128–9; old financial system 130–8, 164, 196, 219, 232, 253, 266, 269–70; *see also* sale of public offices; *rentes*  
 Frederick IV of Denmark 314  
 free market *see* supply and demand  
 French Revolution 5, 125, 174, 333; *see also assignats*  
 Fromaget, Vincent-Pierre 310  
 Fronde 125, 174–5, 279  
 fur trade *see* beaver  
*gabelles* (tax) 133, 184  
 Gabrieli, Gabriel 325  
 Gage, Joseph 207, 242, 285  
 Galiani, abbé Ferdinando 5  
 gambling 37–9, 304, 314; *see also* bookmaker; Law, John, gambling  
 Gaumont, Jean-Baptiste de 127, 260, 262  
*Gazette de Hollande* 287  
*Gazette de la Régence* 156–7, 161–3, 178  
 General Bank 111, 145, 149–50, 153–63, 173, 192, 196, 267; banknotes 143, 154, 158–9, 162, 179, 186, 193, 223; capital 149, 155, 158, 163, 167; conversion into Royal Bank 158, 160–2, 177, 183, 185–6  
 General Receivers 133–5  
 General Tax Farms *see* tax farming  
 Genoa 36, 39, 271; *see also* Bank of St George  
 George I of England 68  
 Gergy, Jacques-Vincent Languet de 324–7  
 Gervaise, Isaac 334  
 Giraudeau 200, 208–9, 214, 216, 228  
 global inflation *see* inflation; Godolphin, Sidney, 1st Earl of 123  
 gold; as money 60; demonetization 220, 224, 226, 229, 236–7, 274–7, 282  
 gold and silver and money of account 150; as money 48, 81, 93–4, 106–7, 114; and banknotes 278,



- 284; demonetization 14, 186, 220–1, 223–6, 229–30, 232, 236, 239, 249, 273, 297; hoarding 140, 150, 152, 220, 222; restrictions on holding 219–23, 239, 265, 276 *see also* gold; money; silver
- gold standard 1, 108, 332
- goldsmiths 14–16, 60–1, 108, 119
- government debt; as asset of trading companies 109–12, 119–20 *see also* Bank of England, and government borrowing; *billets d'état*, and government debt; *billets de monnaie*; *rentes*
- Gray, W. 21–2, 30, 35–6
- Greg, William 68–70, 73–5, 104
- Guermante 308–10, 327, 329–30
- Guiguer, Louis 143–4
- Hague, The 36, 290–1
- Haldane, A. B. 15
- Halperin, Sita 12
- Hamburg 304, 319
- Hamilton, Earl J. 8, 11–13, 112, 242
- Hamilton, Gladys 11–12
- Hamilton, John 17
- Harley, Robert, Earl of Oxford 40, 68, 70, 73–4, 104
- Harsin, Paul 7–10, 115, 124, 128, 139, 192, 246, 272, 296, 333
- Henry II of France 136, 214
- Henry III of France 136
- Hislope, Archibald 14
- 'Histoire des finances'; authorship 9–10; on Argenson 178; on bank accounts 271, 297; on banknotes 236; on Company of the West 168; on debt management 170, 177–9, 193, 232; on effects of domestic devaluation 152; on Mississippi share price 191; on opposition to Law 266, 268; on success of General Bank 149, 161, 163; on United Farms Company 183
- Holland 2, 71, 80, 86, 202, 328; and European currency transactions 117, 152–3, 240, 304, 317; banking in 41–3, 60, 142; *see also* Bank of Amsterdam; Law in 35–6, 100, 123; publication of French translation of *Money and Trade* 290–3
- homosexuality 23–8
- Hough, Emerson 3
- Hume, David 5
- Hume, Sir David 73–4
- Hyde, H. Montgomery 30, 314
- Ilay, Archibald Campbell, Earl of 68–9, 217, 262, 312, 315
- Illinois 164
- imaginary money *see* money of account
- impositions* 132
- inflation; and demand for money 58, 63, 77, 87, 95–8, 334; and law of one price 77; and revaluation of money of account 150–2, 274; and underutilization of resources 48; shares supposedly immune to 113–14
- interest 15, 64–5, 161, 193, 195–6, 226, 231–5, 262
- Iowa 164
- Ireland 50, 89
- Irish debentures 60, 113
- island economy model 90–2, 99–100
- Italy 35–6, 123; financial innovation in 41–3, 142
- Jacobites 36, 68–70, 156, 310, 314
- James II of England 67, 131
- Janssen, Theodore 41
- jewellery, restrictions on use 220–1
- Johnston, James, Earl of Warristoun 29, 31–3
- junk bonds 164, 267
- Jurgens, Madeleine 11–12
- Kelly, Patrick 58, 85
- Keynes, John Maynard 6, 51, 87
- Knollys, Catherine *see* Knowles, Katherine
- Knollys, Charles *see* Banbury, Earl of
- Knowles, Katherine 36, 286, 311, 294, 314, 316, 318, 325–8
- Kuhn, Harold 37–8
- La Grange-Chancel, François-Joseph de 282
- La Houssaye, Félix Le Pelletier de 257, 259–60, 308–10
- La Marck, Louis Engelbert, comte de 10
- La Rochelle 186
- La Vrillière, Louis Phélypeaux, marquis de 279
- Lambert, Aymard 183, 196–8
- Lamoignon de Courçon, Urbain Guillaume de 260
- land bank proposals 35, 45–66, 79, 83
- Lande, Lawrence 9
- Landivisiau, Noel Danycan de 321
- Langlée, marquis de 285
- Lassay, marquis de 189, 235, 247, 291, 324
- Lauriston 16, 20, 331
- Lauriston, comte de 16
- law of one price 77, 84, 95–8, 334
- Law, Agnes (sister of John Law) 17
- Law, Andrew (brother of John Law) 14
- Law, Hugh (brother of John Law) 14

- Law, John; '1705 Act for a Land Mint' 52, 102–4; appointment as Controller-General of Finances 35, 213–14, 219; dismissal 257; art collection 323, 327–9; Bank of Turin manuscript 40, 111–12, 115, 120, 122–3; birth 1, 14; Catholicism 179, 262, 316–17, 325; character and temperament 23, 41, 181, 257–8, 263, 280, 286, 308, 318–19; children 36; death 3, 9–10, 325–6; *donatio inter vivos* 36, 325, 327; education 16–17; 'Effets qu la peste arrivé en Provence' 288–9; escape from prison 30–5; *Essay on a Land Bank* 5, 10, 51–66, 77–8, 80, 82–3, 87, 94–5, 98, 103, 105–6, 113, 237, 249, 275; *Etat general des dettes de l'Etat* 293–4; gambling 4, 11–12, 17, 34, 36–41, 314, 334; fortune acquired by 36–7, 123–4, 329, 331; losses at 19, 20; on East India share price 202, 241–2, 319; on success of share issues 189; gift to plague victims 288; house arrest 251, 257–8, 266, 270, 324; interventionist vs. free market policies 86, 101–3, 211–12, 220, 228, 332; land bank proposals 45, 51–66, 67–8, 73–4, 113–14, 291; leaves Edinburgh 19; 'Lettre au Régent' 112; 'Lettre au sujet de l'arrêt du conseil d'Etat du 22 mai 1720' 245–7; 'Letter to M.\*\*\* on the New System of Finances' 233; marriage *see* Knowles, Katherine; mathematical ability 17, 37, 124, 334; 'Mémoire justificatif d'avril–mai 1723' 235; 'Mémoire justificatif de mai 1723' 235–7, 247; 'Mémoire pour prouver' 112–15; 'Mémoire sur l'acquittement des dettes publiques' 112, 139–40; 'Mémoire sur le denier royal' 196; 'Mémoire sur le discrédit' 272–8, 282, 332; 'Mémoire sur les banques' 112, 124, 139–40; 'Mémoire sur l'usage des monnaies' 113; 'Memoire touchant les monnoies et le commerce' 92–3, 100–1, 112; *Money and Trade* 5, 10, 51–3, 55, 57–9, 62–3, 67–8, 76–106, 112–13, 122, 141–2, 151, 211, 220, 237, 249; French translation 10, 24–5, 290–2; murder of Edward Wilson 20–34, 291; pardon for 30, 33, 68, 291–2, 312, 317; personal wealth 16, 19–20, 37, 160, 181, 190, 192, 312, 314–15, 319, 328–31; *see also* Law, John, gambling; physical appearance 19, 34; *see also* Carriera, Rosalba, portrait of Law; 'Projet d'édit sur le rétablissement du crédit' 321–2; relations with Jacobites *see* Jacobites; settles in France 123; in Venice 323–31; leaves France 308, 310; travels, in Europe 35–6, 39, 41–2, 44, 105; to London 316; to Venice 314; value theory 52–7, 82–8, 95–8, 107, 275; will *see* Law, John, *donatio inter vivos*
- Law, John (uncle of John Law) 14
- Law, John, of Waterfut (grandfather of John Law) 14
- Law, Mary Catherine (Kate) (daughter of John Law) 36, 286, 311, 318
- Law, William (brother of John Law) 14, 16, 222–3, 227–8, 240, 242, 286, 315, 318, 328
- Law, William (father of John Law) 14–16
- Law, William (son of John Law) 36, 311, 314, 320, 323, 325–8
- Lawrence, Mrs (mistress of John Law) 22–3
- lawyers; opposition to Law 268–9
- Le Blanc, Claude 257, 279
- Le Blond, Jean-François 325, 327
- Lecouteulx, Jacques 144
- Le Dran, Nicolas Louis 10
- Le Gendre d'Arminy, François 167, 196
- Le Peletier des Forts, Michel Robert 127, 257, 259–60, 262, 280–1, 321
- Le Pelletier, Claude 214
- Lefèvre d'Ormesson, Henry François-de-Paule 127, 260, 262
- Lemontey, P. E. 304
- Levasseur, Émile 5, 238, 278
- Lévy, Claude-Frédéric 240
- liabilities *see* assets and liabilities
- lit de justice* 181–2, 252
- livre tournois *see* domestic exchange rate; money of account
- Locke, John 50–1, 56–8, 84–7, 334
- Lockhart, George 68–9, 73, 75
- London; stock market in 100, 110, 241, 304; *see also* East India Company
- Londonderry, Thomas Pitt, Earl of 41, 202, 241–2, 312, 315, 319
- lottery 40, 144
- Louis XIV 124–6, 164, 182, 285, 304; and Law's bank proposal 73, 123–4, 139–40, 145; and state of French economy 4, 128–33, 165, 176, 244, 293–4
- Louis XV 125, 279,

- 322; shareholdings 171, 189, 192, 226–7, 238  
Louisiana 164, 167, 170, 206, 285–6, 331  
*Love-Letters Between a Certain Late Nobleman and the Famous Mr. Wilson* 24–8, 320  
Lowdnes, William 51  
Lucas, Theophilus 38–9  
Luthy, Herbert 137, 156, 161, 281, 296  
Lyon 186, 288, 297  
Maastricht 36, 327  
Mackay, Charles 6  
Madrid 319  
Maine, Louis Auguste de Bourbon, duc du 125–6, 182  
Mandeville, Bernard de 29, 50  
manufacturing economy, development of 91–2, 98–103  
Marais, Mathieu 197, 258, 261–2, 280, 286, 287–8, 293–5, 304–5, 321  
Mari, Hyppolyte de 328  
Marion, Marcel 129, 133  
Marseille, plague in *see* plague  
Marshall, Alfred 6  
Martin, H. Germain 10  
Marx, Karl 5–6  
Matthews, George 134  
Mazarin 280  
Melon, Jean-François 321, 334  
*mères* (shares) 165–6, 190–3, 200–1, 209–11  
Mesmes, Jean-Antoine de 180, 278  
Middleton, George 68, 239–42, 312, 319, 330  
millionaire 3, 213, 242, 333  
Minnesota 164  
mint; French 164, 191–3, 206, 221, 298; and reformation of coinage 151–2; Scottish 14  
Mississippi 164, 286  
Mississippi Company (Company of the Indies); accounts examined 321; and *billets d'état* 137; and Crozat 138; and French national debt 7, 164, 193–200, 205–6, 234–5; *bureau d'achat et de vente* 226–30; *bureau de conversions* 228, 230; creation of Company of the Indies 188, 252–3; destruction of papers 12–13, 241; directors 206, 227, 279, 286, 310; dividend payments 227, 324; merger with Royal Bank 110–11, 121, 226–7; monetization of shares 60–1, 228–30, 235–8, 248; profits and losses of investors 192, 200–1, 210–11, 213, 215, 219, 228, 250, 254, 257, 265, 287, 295–7, 308, 312; taxation of profits 275–6, 286–7, 317–18, 333; share issues 192–3, 201–6, 295, 303–5; share price 72, 193–4, 200–1, 206–11, 214–18, 226–31, 244–8, 250–2, 260, 265, 286, 301–8; trading role 206 *see also* Mississippi System; Royal Bank  
Mississippi System 1–3, 5–6, 193–4, 232–5, 284, 297; benefits for France 153, 210, 229, 244, 268, 293–4, 308, 333; Britain imitates *see* South Sea Company; cabal against 218, 232, 237, 259, 267–9; problems of 61, 210–12, 229–32, 237–9, 244–9, 262, 269–70, 284–5, 307–8; theological criticism of 242–3; theoretical background 7, 9, 51–2, 62, 105–22, 146–7 *see also* Mississippi Company; Royal Bank  
Missouri 164  
Moivre, Abraham de 37  
monarchy *see* absolute monarchy  
money; and debt 106–9; and trade 46–9, 52–3, 77–104, 141–2, 205; creation of 79, 115; definition of 51–5, 57–61, 114; demand for 52, 57–8, 63, 77, 82–3, 87–8, 94–8; *see also* money supply; imaginary value of 86–7; land *see* land bank proposals; metallic anchor 1, 61–2, 107–8, 154, 193, 224, 237; paper 1, 3, 7, 14, 60–2, 81–2, 90–1, 105, 201, 226, 231–2; backed by real assets 48, 82, 114–15, 154, 224, 244, *see also* money, metallic anchor; effects of plague on value 286; *see also billets de monnaie*; quantity theory of 63–4; shares a new type of 60–1, 109–11, 113–14, 119–21, 199, 275; shortage of 7, 45, 48–9, 105, 138; in France 140, 149; in Scotland 53, 69–73, 79 *see also* credit; gold; gold and silver; silver  
money of account 79, 150–3, 223–4  
money-in-advance requirement 47, 77, 84, 92–4, 98, 112, 142, 146, 334  
money supply 52, 77, 79, 82–4, 106; and output 46–7, 62, 88–92, 98–103, 115, 205; and inflation 48, 94–8, 114; in France *see* France, money supply  
Monroe, Arthur 55, 59  
Montargis, Claude Lebas de 285  
Montespan, Mme de 125–6, 182

- Montesquieu, Charles-Louis de Secondat, baron de 2–3, 9, 189, 257, 323–4, 331, 334
- Montmort, Pierre-Remond 37
- Moore, A. 25
- Moreau, René Moreau de Maupertuis 172
- Morville, comte de 290–1
- Mouchard, François 172, 319
- Mun, Thomas 42
- Murray, John 14
- Nancré, Louis-Jacques-Aimé-Théodore de Dreux, marquis de 181
- Nangis, Louis-Armand de Brichanteau, marquis de 189
- Naulme, Jean 290
- Neal, Larry 11
- Newton, Isaac 51
- Nicholson, J. Shield 6
- Nicolas, Jean 156–7
- Noailles, Adrien Maurice, duc de; as President of Conseil des Finances 127–8, 136, 142–5, 152, 167–9; resignation 178; on Chamber of Justice 138; split with Law 162, 165, 173–7, 193, 198
- Noailles, Cardinal de 179
- nobility *see* aristocracy; Norris, Admiral Sir John 316
- North, Dudley 49
- odds *see* gambling; probability theory
- Oglethorpe, Fanny 170, 174
- Ollivier, François 281
- Oppède, marquis d' 186
- Orkney, Lord 312
- Orléans, Philippe, duc d', Regent of France 4, 41, 123, 175–6; and Claudine de Tencin 326; and French national debt 135–6; and Law's dismissal 257–8; and Law's first bank proposal 143–7; and Law's opponents 130, 258–64, 278, 299, 308–9, 310; and Law's unauthorized creation of banknotes 245, 259–60, 300; and Parlement 125–6, 170, 175, 252–3, 279–80; and possibility of Law's recall 25, 235, 247, 313, 318, 320–2; consolidates political power 125–7; death 322; share acquisitions 171, 192, 329; support for Law 155–6, 172, 198, 247–8; dis-enchantment with Law 280–2, 285, 308
- Orléans, Elisabeth-Charlotte de Bavière, duchesse d' 278, 286
- Orléans (city) 186
- output *see* economic activity
- Pallu, René 10
- Panama 72
- Parabère, Mme de 258, 286
- paradox of value *see* value, paradox of
- Pâris brothers; and United Farms Company 183–5, 197; as replacements for Law 281, 310, 317; attempt to destabilize Royal Bank 197; propose alternatives to Law's System 262–3; relationship with Law 171, 183–5, 285–6; wealth 137
- Pâris-Duverney, Joseph; criticism of Law 4; on alternatives to Law's System 263; on banknotes 162; on old financial system 253, 269; on Regent's support for Law 155; on role of Mississippi Company 196; on specie money supply 270
- Parlement; benefits of 195; conflict with monarchy 125, 174–5; conflict with Orléans 164, 195, 279; exile to Pontoise 266, 279–80, 304; recall 310; legislative role 125, 145, 154, 170–1, 174–5; curtailment of 180–2; opposition to Law 165, 175, 177, 188–9, 250–4, 259, 265; remonstrances 125–6, 170, 173–5, 182, 252–3; support for Orléans 125–6; support for old financial interests 165, 173, 232, 262, 268–70
- Parliament, Scottish *see* Scotland
- Paterson, William 20, 71
- pensions 130, 194–5, 299
- perceptions* (taxes) 132–3
- Perrero, D. 115
- Peter the Great of Russia 311, 313
- petites filles* (shares) 165–6, 191–3, 200, 209–11, 216
- Petty, Sir William 50, 88–9, 334
- Petyt, William 97
- Philip V of Spain 125–7
- Pindar 56
- Piossens, chevalier de 241–3, 304
- Piou, Jean 143–5, 172
- plague 287–8, 317
- Plato 56
- Polysynodie 127
- Pontchartrain, Louis Phelippeux, comte de 214
- Portal, Cendrine de 3
- Portugal 275
- Potter, William 45–9
- Pottier de la Hestroye, Jean 9, 139
- pound sterling; as unit of account 150
- Prato, G. 115

- Pretender *see* Jacobites
- Prévost, Antoine-François d'Exiles 3
- Price, Jacob 9
- Prie, marquis de 311
- Prie, Mme de 309, 322
- primes* (shares) 215–17
- probability theory 37–8, 40–1
- Prondre, Paulin 329–30
- public offices, sale of *see* sale of public offices
- Pulteney, Daniel; on Law's friends and enemies 259, 263, 270, 281; on Law's supposed plan to drain Britain of silver 239–40; on Mississippi share price 215–17, 228, 250–1, 295–6, 302–3; on restrictions on holding of specie 222–3; on shareholdings 171, 238; sends Law's pamphlet to London 293
- Quadruple Alliance 176
- quantity theory of money *see* money
- Queensberry, marquis of 69–70
- Quesnay, François 78, 88
- rationing, effects of on price 85–6
- real assets 62, 114–15, 119–20, 224; *see also* assets and liabilities
- real economy 114, 121, 244, 267, 332
- Regency Council 126–7, 169, 180, 182, 188–9, 198, 244, 261
- remonstrances *see* Parlement
- rentes (annuities) 136, 233–4; and *billets de monnaie* 116–17, 119–20; and shares of Company of the West 170, 177, 184; discounted 128; Law's attempt to take over 183–4, 195–6, 253, 293; *perpetuelles* 136, 199–200, 233; restoration of 262, 265–71, 273, 289, 298, 304, 307; *viagères* 136, 233, 299, 304, 307
- rentiers* 136, 151–3, 164, 196, 219, 232, 267–70, 299
- Revolution *see* English Revolution; French Revolution
- Richelieu, Cardinal 137
- Rosemberg, Count 291, 319–20
- Rothkrug, Lionel 9
- Rouillé du Coudray, Hilaire 127, 137, 144
- Roxburghe, Earl of 15, 67, 74–5, 104
- Royal Bank; and Du Tot 10, 309–10; and benefits of Law's System 294; attempt by Pâris brothers to destabilize 197; banknotes, compulsory use of 211, 220–1; demise 265, 271–86, 289, 297–301, 304–5; demonetization 295, 299, 304; issues 186, 191–3, 237–9, 297–9, 300; unauthorized issues 245, 259–60; value relative to specie 82, 224–6, 234–7, 244–51, 254, 297, 305–8; branches 186; closure 298; creation of bank accounts 258, 265, 270–1, 295–7, 304, 307; directors 253, 286, 295; examination of accounts 257–60, 309–10; General Bank transformed into 149, 162–3, 185–6; links with Mississippi Company 110–11, 121, 185–6, 226–7; support for Mississippi Company shares 209–10, 227–30
- Russia *see* Peter the Great
- Saint-Simon, Louis de Rouvroy, duc de 126–7, 173, 175–7, 179–80, 182, 195, 257–9, 261, 272, 279
- sale of public offices (*les charges*) 133, 195, 219, 233, 267, 293
- Sassenage, marquis de 258
- Savoy 111, 138; *see also* Victor Amadeus, Duke of Savoy
- Schumpeter, Joseph 6, 55, 57, 61
- Scotland; and land bank debate 35, 50, 62, 106, 123, 145–6; economic recession in 53, 63, 69–74, 78, 83–4, 87–9, 94–102, 104, 122, 138; union with England 68–70, 105
- Scott, W. R. 72
- Seligmann, Armand 116
- Sénovert, Étienne François de 8
- shares; and government debt 106, 109, 121, 138, 140, 147; as a type of money 3, 60–2, 110, 113–15, 120, 147, 199, 275, 277; supposedly immune to inflation 113–14
- Shennan, J. H. 174
- Shrewsbury, Charles Talbot, Duke of 28, 32–3, 45
- Silly, Jacques Joseph Vipart, marquis de 279–80, 286
- silver; as money 59–60, 65, 79, 93–4; demonetization 211, 226; shortage of, in Scotland 79, 82; supply overexpanded relative to demand 57–8, 95–8; value relative to banknotes 229–40, 236–7, 246–7, 273–8, 282–4 *see also* gold; gold and silver
- slave trade 172

- Smith, Adam 5, 55, 57
- South America, and European money supply *see* Spain
- South Sea Bubble 2, 112, 194, 213, 241, 284, 316, 331
- South Sea Company; and government debt 109–11, 120–1, 168, 194, 202, 213, 241; formation 3, 105; share price 105–6, 240–2, 244, 254–7, 304
- Spain; and balance of power in Europe 72, 125–7, 146, 170, 310; and European supply of gold and silver 49, 81, 95, 97–8, 114, 147, 275
- specie *see* gold; gold and silver; money, metallic anchor; silver
- Squadrone Volante (Country Party) 68–9, 73, 75
- St Louis (King of France) 174
- Stair, John Dalrymple, 2nd Earl of 124–5, 171, 194–5, 201–5, 240, 279, 313–14, 334
- Stanhope, Lord 240, 313
- Steuart, Sir James 5
- Stratford, Dr William 320
- Sunderland, Charles Spencer, 3rd Earl of 313
- supply and demand 56–7, 82–7, 102, 236, 249; *see also* money, demand for; money supply
- Sweden 10, 142, 156; Bank of Stockholm 144
- Swift, Dean 24
- taille* (tax) 132, 134, 184
- tallière* (banker) 39
- tax farming 4, 132–5, 164, 195–8, 267, 293; *see also* *rentes*
- Taylor, Joseph 17
- Tencin, Claudine de 326
- Thellusson, Isaac 178, 280–1, 308–9
- Thweatt, William 58
- tobacco 164, 192, 244, 293
- Toland, John 56
- tontines 293
- Torcy, marquis de 36, 326
- Toulouse, Louis Alexandre de Bourbon, comte de 126, 182
- Tours 186
- Tourton, Jean-Claude 143–4, 280
- Toutain, J. C. 129
- Townshend family *see* Ash, Townshend, and Windham families
- Townshend, Lord 325, 327
- trade *see* economic activity; money, and trade
- traites* (customs duties) 133
- Treaty of Utrecht 126
- Trevor, Lord 317
- Triple Alliance 291
- Troy, J. B. 287
- Trudaine, Charles 263–4
- Turin 39; bank 115, 123; *see also* Law, John, Bank of Turin manuscript; Victor Amadeus, Duke of Savoy; lottery 40
- underemployment *see* employment
- unemployment *see* employment
- United Farms Company 183–5, 197
- United States 1, 3, 331
- United Tax Farms *see* tax farming
- value; and supply and demand 57, 82–3, 87–8, 95–8; imaginary, of money 85–7; money as measure and store of 52–5, 107; of shares and banknotes 275; paradox of 55–7
- Vauban, Sébastien le Prestre de 128
- Vega, Joseph de la 42
- Venice 3, 9, 42, 314–16, 323
- vent 58, 85
- Victor Amadeus, Duke of Savoy 40, 115, 123–4, 142, 145; *see also* Law, John, Bank of Turin manuscript
- Vienna 39
- Villeroy, Marshal 127, 142–3, 198, 261–2, 280–1
- Villiers, Elizabeth 22–3, 26–8, 32
- vingtième* (tax) 132
- Visa 135–7, 153, 201, 317–18, 330, 333
- Voisins, Pierre Gilbert de 127
- Voltaire 175
- Waldegrave, James 37–8
- Walpole, Sir Robert 320–1, 327
- Walrasian general equilibrium model 93
- war and finance 105, 142
- War of the Spanish Succession 85, 105, 116, 128
- Warristoun, Earl of *see* Johnston, James
- William III of England 22–4, 27–8, 30–3, 45, 70, 72, 131
- Wilson, Edward ('Beau') 20–35, 67–8, 291–2, 312, 331
- Wilson, Robert 30
- Windham family *see* Ash, Townshend, and Windham families
- Wisconsin 164
- Wood, John Philip 14, 17
- Woodrow, Revd. James 16
- Woodrow, Robert 16–17