

MEN OF WEALTH
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John Flynn's

THE BIOGRAPHY OF JOHN LAW

John Law, the goldsmith's son, was born in Edinburgh, Scotland, in April, 1671. Having escaped from prison in London, where he was held after conviction of murder in his early twenties, he toured Europe, earning his living as a professional gambler, and then achieved the most amazing leap in history. He bounded in one immense flight from the gaming table to the highest office in France—a country of which he was not a citizen and from which, a few years before, he had been ejected by the minister of police because of his suspiciously consistent winnings. He had operated a gaming table in the house of a notorious actress and courtesan. And when he assumed the role of a financial dictator of France, he had the satisfaction of succeeding the very gentleman who as minister of police had invited him to clear out of Paris.

Law discovered and perfected the device that has played, perhaps the most important role in the growth of what we now call finance capitalism. Here is what he discovered.

On the first day of January, 1939, the banks in America had on deposit, guaranteed by the government, the money of their depositors to the extent of fifty billion dollars. But the balance sheets of these banks showed only seventeen billion dollars in cash. A closer examination, however, reveals that not only was the fifty billions in deposits a myth, but the seventeen billions in cash was equally a fiction. There is not that much cash in America. The actual amount of cash—currency—in the banks was less than a billion dollars.

John Law did not invent the device that makes this miracle possible. But he discovered its uses and gave it to the world. Experimenting with it, he climbed one of the most dazzling peaks of material success, accumulated a vast fortune, engineered one of the dizziest adventures in the history of national finance, and ended by dying in poverty in Venice.

His father was a goldsmith. The goldsmith was the tadpole whence the modern banker sprang. He made a moderate fortune lending money at usurious rates. Thus the boy's first years were spent in the home of a moneylender and a Scot. He was educated with

the greatest care with particular attention to mathematics. When he was twenty he left Edinburgh for London to taste the pleasures of the wicked capital of William and Mary.

He got access to the smartest circles. He was a young man of education and culture, handsome, quick-witted, a good athlete excelling at tennis, a graceful dancer, and a redoubtable talker. He spent his mornings in the city, where he got a reputation for skill in speculating in government paper. He passed his afternoons in the parks, his evenings at the opera or theater, and the later hours at the routs, balls, masquerades, and gaming houses. He played for high stakes and won large sums. He was a man with a system. Had he lived in our time he would have been in Wall Street with an infallible formula for beating the market.

The end of this was a duel which cut short his career in England. He got into a quarrel with an aging dandy known as Beau Wilson. Whatever the cause, which remains obscure, the two gentlemen met in Bloomsbury Square, April 9, 1694. It was not a noble performance. Apparently there was but a single pass when Mr. Law put his blade an inch or two into the breastbone of the ancient coxcomb, who died on the spot. Law was thrown into the Old Bailey, tried, convicted of murder, and sentenced to death. But presently he was let out somehow, until, on the demand of the victim's relatives, he was recommitted to jail. But very quickly he escaped from prison, was rowed down the Thames to a waiting vessel aboard which, as fate would have it, he made his way to Amsterdam. A reward of fifty pounds was posted for his capture. But probably the headsman did not hanker too hungrily for his head, the law against dueling having been sufficiently vindicated by his conviction. This was in 1694.

In Amsterdam he established some sort of connection with the British resident there. And thus he found the opportunity to observe the working of the famous Bank of Amsterdam. Here the modern bank was being hatched. This historic institution was playing a decisive role in modeling the system of finance capitalism that attained its full flower in our time. Law liked money as an instrument of power. But he was deeply interested in it as a social mechanism. He pondered its uses, its vagaries, and, above all, its limited quantities.

He was more than a gambler. He was a fabricator of theories. By 1700—when he was twenty-nine—he was back in Scotland with a plan for rescuing her foundering economy. He printed a book—Proposals and Reasons for Constituting a Council of Trade in Scotland. He pressed it upon his countrymen, who rejected it. Whereupon he went back to the Continent, where for fourteen years he drifted around Europe

amassing a fortune at roulette and cards and weaving his expanding financial theory for every public man whose ear he could reach. This theory was that the economic system of that day was being starved because of insufficient supplies of money. And, using the Bank of Amsterdam as a model, he had a scheme for producing all the money a nation needed. He was accompanied by his wife and his young son and his daughter. Like that fabulous Don Louis, the Marques de Vincitata, in Anthony Adverse, the restless gambler traveled around in an elaborate coach. For the greater part of fourteen years this unwearied coach rumbled all over the trade routes of Europe, from metropolis to metropolis, wherever people of wealth and fashion could be found in clusters seeking pleasure and profit at the gambling table. Everywhere he mingled with the most important and the noblest persons. He played with ministers of state, won their silver, and lectured them upon the virtues of his economic theories. In 1705 he was back in Scotland with another book and another plan for saving his unwilling countrymen. But, despite the support of such powerful persons as the Duke of Argyle, they would have none of it. By 1708 he was in Paris. There he made a great stir. He had a large capital. Everywhere he won. He became a sort of legendary figure at all the fashionable salons—in the Rue Dauphine, at the Hotel de Greve, in the Rue des Poulies. He set up a table for faro at the salon of Madame Duclos, variously described as famous comic actress and courtesan. The rich and noble gamestres of Louis XIV's Paris thronged to this salon. He struck up a friendship with the Duc d'Orleans. The Duke presented him to Desmarets, Minister of Finance, who listened with enchantment to Law's project for recasting the financial system of France. Desmarets took the scheme to Louis XIV who rejected it out of hand.

Law made his appearance at the gambling salons in the evenings with two large bags of specie. He played for such high stakes that existing coins became burdensome, so he cast a large coin of his own mintage to facilitate the handling of the stakes. People marveled at his invariable luck. It was not luck, he said. He had a system. It was mathematics. Others whispered, as was inevitable, that it was something more of either luck or mathematics. The Chief of Police, M. d'Argenson, took notice of the audacious and dashing stranger. He told Mr. Law that he would do well to quit Paris. But it is only fair to say of him that he has the testimony of the perspicacious Duc de Saint-Simon, one of his critics, that he was not a trickster.

The coach again took up its ceaseless wanderings, to Germany, to Genoa, to Florence, to Venice, to Rome. At Genoa, Law was again requested to move on. His fortune was growing. He was a millionaire. Stories clustered about his name throughout Europe. At Turin he was presented to Victor Amadeus, King of Sardinia. Law buzzed his system into the sovereign's ear. But the wily Italian told him he should go to France.

France had need of a financial miracle worker. Old Louis XIV was coming to the end of his reign. And Law was watching that port again. When Louis XIV died, Law hurried back to Paris and in an amazingly short time gained confidence of the Regent, his acquaintance, the Duc d'Orleans, and set in motion, with the freest hand, all his theories which resulted in what Law and the French then called the System and what history dubbed the Mississippi Bubble.

It did not last long, but in its course Law rose to the highest powers in France. Throughout, the roving gambler kept his head with singular poise and dignity, as one born to rule. He was surrounded by flatterers. Expensive equipages jammed his roadway. His anteroom was filled with the rich and the noble begging for an audience. His son was admitted to dine with the young King Louis XV. His daughter gave a ball, and the most exalted nobles intrigued for a bid, some for her hand.

He was, of course, a Protestant, but in order to become Comptroller General of France, he embraced the Catholic religion. He was invariably courteous, affable, good-humored, profoundly convinced of his theories. And at one time, indeed, he saw about him in France such an upsurge of confidence, so many evidences of a rising boom, that he was justified in his illusion. Indeed one British nobleman told the French that Louis XIV had not been able to take away from France as much as Law could restore.

Law accumulated a vast fortune, but he invested it entirely in the securities of his companies and in a string of splendid estates in France.

His public career was brief. He opened his bank in 1716. He was driven from France amid the execrations of the people in 1720. He entered France worth 1,600,000 livres made chiefly at cards. He left it empty-handed after the crash of the greatest gamble in history—in which, as Voltaire said, a single unknown foreigner had gambled against a whole nation.

This was the man who reached a degree of power under Louis XV which had not been held by any man since the days of Richelieu.

II

Law's famous Mississippi Bubble was something more than a get-rich-quick scheme. To understand it you must have a clear idea of the theory which lay at its base.

This theory consisted in two propositions. One was that the world had insufficient supplies of metal money to do business with. The other was that, by means of a bank discount, a nation could create all the money it required, without depending on the inadequate metallic resources of the world. The bank Law had in mind was nothing more or less than the banks we now do business with universally. But this was a unique proposal then.

Law did not invent this idea. He found the germs of it in a bank then in existence—the Bank of Amsterdam. This Law got the opportunity to observe when he was a fugitive from England.

The Bank of Amsterdam, established in 1609, was owned by the city. Amsterdam was the great port of the world. In its marts circulated the coins of innumerable states and cities. Every nation, many princes and lords, many trading cities minted their own coins. The merchant who sold a shipment of wool might get in payment a bag full of guilders, drachmas, gulden, marks, ducats, livres, pistoles, ducatoons, piscatoons, and a miscellany of coins he had never heard of. This is what made the business of the moneychanger so essential. Every moneychanger carried a manual kept up to date listing all these coins. The manual contained the names and valuations of 500 gold coins and 340 silver ones minted all over Europe.

No man could know the value of these coins, for they were being devalued continually by princes and clipped by merchants. To remedy this situation the Bank of Amsterdam was established.

Here is how it worked. A merchant could bring his money to the bank. The bank would weigh and assay all the coins and give him a credit on its books for the honest value in guilders. Thereafter that deposit remained steadfast in value. It was in fact a deposit. Checks were not in use. But it was treated as a loan by the bank with the coins as security. The bank loaned the merchant what it called the bank credit. Thereafter if he wished to pay a bill he could transfer to his creditor a part of his bank credit. The creditor preferred this to money. He would rather have a payment in a medium the value of which was fixed and guaranteed than in a hatful of suspicious, fluctuating coins from a score of countries. So much was this true that a man who was willing to sell an article for a hundred guilders would take a hundred in bank credit but demand a hundred and five in cash.

One effect of this was that once coin or bullion went into this bank it tended to remain there. All merchants, even foreigners, kept their cash there. When one merchant paid

another, the transaction was effected by transfer on the books of the bank and the metal remained in its vaults. Why should a merchant withdraw cash when the cash would buy for him only 95 per cent of what he could purchase with the bank credit? And so in time most of the metal in Europe tended to flow into this bank.

It was what Professor Irving Fisher now demands for America—a one hundred percent bank. For every guilder of bank credit or deposits there was a guilder of metal money in the vaults. In 1672 when the armies of Louis XIV approached Amsterdam and the terrified merchants ran to the bank for their funds, the bank was able to honor every demand. This established its reputation upon a high plane. The bank was not supposed to make loans. It was supported by the fees it charged for receiving deposits, warehousing the cash, and making the transfers.

There was in Amsterdam another corporation—the East India Company. A great trading corporation, it was considered of vital importance to the city's business. The city owned half its stock. The time came when the East India Company needed money to build ships. In the bank lay that great pool of cash. The trading company's managers itched to get hold of some of it. The mayor, who named the bank commissioners, put pressure on them to make loans to the company—loans without any deposit of money or bullion. It was done in absolute secrecy. It was against the law of the bank. But the bank was powerless to resist.

The bank and the company did this surreptitiously. They did not realize the nature of the powerful instrument they had forged. They did not realize they were laying foundations of modern finance capitalism. It was Law who saw this. Law perceived with clarity that this bank, in its secret violation of its charter, had actually invented a method of creating money. He came to the conclusion that this was something which should not be merely legalized, but put onto general use to cure the ills of Europe. He also saw clearly that this bank had brought into existence a great pool or reservoir of money and that he who controlled this supply could perform wonders. This was to be one of the most powerful weapons of the acquisitive man of the future—the collection of vast stores of other people's money into pools and the capture of control of those pools.

Here is what Law saw. It is an operation that takes place in our own banks daily. The First National Bank of Middletown has on deposit a million dollars. Mr. Smith walks into the bank and asks for a loan of \$10,000. The bank makes the loan. But it does not give him ten thousand in cash. Instead the cashier writes in his deposit book a record of a deposit of \$10,000. Mr. Smith has not deposited ten thousand. The bank has

loaned him a deposit. The cashier also writes upon the bank's books the record of this deposit of Mr. Smith. When Mr. Smith walks out of the bank he has a deposit of ten thousand that he did not have when he entered. The bank has deposits of a million dollars when Mr. Smith enters. When he leaves it has deposits of a million and ten thousand dollars. Its deposits have been increased ten thousand dollars by the mere act of making the loan to Mr. Smith. Mr. Smith uses this deposit as money. It is bank money.

That is why we have today in the United States about a billion dollars in actual currency in the banks but fifty billion in deposits or bank money. This bank money has been created not by depositing cash but by loans to the bank depositors. This is what the Bank of Amsterdam did by its secret loans to the East India Company, which it hoped would never be found out. This is what Law saw, but more important, he saw the social uses of it. It became the foundation of his system.

III

Law had in him that restless demon that drives those possessed to shape the world to their heart's desire. Gambler, lover of the leisure and of easy money, he was yet a reformer. He looked upon a problem that has baffled men ever since the Middle Ages. When things go to pot, the merchant finds he cannot sell his goods because there is not enough money in the hands of his customers. The remedy for this, he thinks, is more money. And how to produce more money has fascinated the minds of amateur economists for centuries as depression has followed depression. Always there comes forward a savior with a plan to produce more money purchasing power. It has never failed from Law to Major Douglas. They never fail to collect a vast train of loyal followers. Their remedy has always this supreme virtue: it is easy. It was Dr. Townsend's evil genius that prompted him to propose a scheme for raising all the old people to prosperity with pensions but planned to raise the pension money by the hard way of taxes.

Law made his first appearance as a reformer in Edinburgh in 1700. Scotland was in severe depression. He came forward with an outright proposal for national planning. He urged a council of Trade made up of three nobles, three barons, three commoners, three representatives of the Indian and African companies, and a neutral chairman—thirteen in all.

He then proposed a national fund for spending to be raised by taxes of about two and a half percent on all manufactures, lands, rents, inheritances, and clerical benefices

and ten percent on all wheat and agricultural products. An additional million pounds might be borrowed in anticipation of these revenues.

Of this sum 400,000 pounds would be employed to promote the trade of the Indian and African companies and the balance would be used for various relief and recovery projects—public works, pegging farm and manufactured-goods prices, to lend and contribute to corporations and to fisheries, to encourage manufactures, and to make charitable payments to people in distress. There were to be import duties. Monopolies were to be regulated. There was to be free coinage of gold and silver at a fixed ratio and fixed standards of weight at His Majesty's mints.

This will have all familiar sound to those familiar with economic history and the devices of mercantilism and of Colbertism as well as to those who will see here in the prototypes the various alphabetical agencies of the New Deal. But as yet Law had not got around to producing the money by bank issues. Unlike the New Deal, he proposed paying the bills out of taxes.

This plan the Scottish government rejected. Law had put it into a book bearing one of those wordy eighteenth-century titles—Proposals and Reasons for Constituting a Council of Trade in Scotland. Such books published today bear such cryptic titles as \$2500 a Year for All, The Way Out, Every Man a King.

The money theories are missing from this first plan for the rehabilitation of Scotland. It must have been after this that Law began to have a clear idea of the system he later sold to the Regent of France. Those theories he finally put into a book he published in Scotland in 1705, which is his principal contribution to the literature of economics. It was called Money and Trade Considered, with a Proposal for Supplying the Nation with Money.

After a brief examination of the nature of metallic money, Law in this volume lays down the proposition that the increase of money makes increase of trade and that an excess of exports over imports results in a large supply of money for production. As trade depends on money so the increase or decrease of a people depends on money. Scotland has little trade because she has little money. This was good mercantilist doctrine.

There can be no doubt that the new capitalist money economy was greatly handicapped by a lack of sufficient supplies of money. There was no such money but coins. We may see in this country how greatly handicapped our commercial activity

would be if we had nothing above the metallic money which circulates. This is never above six billion, while our banks have about fifty billion in deposits.

Law argued that all sorts of measures had been used to increase money but none had succeeded. Banks, he said, were the best instruments for accomplishing this. He then referred specifically to the Bank of Amsterdam and proposed that his bank do generally what the Bank of Amsterdam did only secretly for a single company—make loans in excess of its cash deposits. He proposed also that the bank should be permitted to issue notes in excess of its cash deposits. He noted that "some are against all banks where the money does not lie pledged equal to the credit." But he reminds the reader that "if 15,000 pounds is supposed to be the money in the bank and 75,000 pounds of notes are out, 60,000 pounds is added to the money of the nation, without interest."

Law was arguing in substance for the thing that is now common practice in our banking system and that, indeed, is one of the cornerstones of modern capitalism.

He then propounded his theory that the basis of paper money should be land rather than gold and silver. Silver was defective because the quantity is destined to increase. But land is of limited volume and is therefore destined to increase continuously in value; as a base for money it would never become sounder.

Along with all this he revived his proposal for a commission for Scotland. Among other things this commission would have power to coin notes by lending on ordinary land values up to half or two thirds of the value of the land. Thus he would flood Scotland with new money. And for this system he obtained the support of the Duke of Argyle, the Marquess of Tweeddale, and other powerful noblemen and of a strong court party known as the Squadrone. But the Scottish parliament rejected it, saying in its resolution "that to establish any kind of paper credit, so as to oblige it to pass, was an improper expedient for the nation." Another reason given was that the plan might reduce all the estates in the kingdom to dependence on the government, which would become the universal creditor. But with this new edition of his plan of salvation for Scotland, Law had come around to be the New Dealer of his day.

With this brief outline of Law's theories we are now prepared to see how he sold them to France and, in a brief time, set France upon one of the most amazing financial adventures in history, gave to her the first great financial panic of the modern banking system, and, during the life of the episode, became almost the dictator of that country.

IV

Louis XIV set the stage for John Law. The unscrupulous and spendthrift monarch made way for the evangelist of easy abundance. It was necessary that France should be ruined before she would turn to so fantastic a redeemer. Louis XIV ruined her.

No man has been dealt with so generously by history as Louis XIV. He has been taken at his own estimate with small discount. He is recalled as Le Grand Monarque. In truth, he was the worst of kings. He used a power that had been put into his youthful hands, consecrated by the Church and sanctified by tradition, to ravage France. He was a shallow, egotistical, pretentious coxcomb. He achieved the effect of grandeur by means that are open to any adventurer with the power to squeeze taxes and loans out of a compliant people to be expended on projects and wars, displays, corrupt servants, and an army of shirt stuffers to produce the proper stage effects for what kings call their glory. The power he got was an inheritance from his forebears through the genius of two corrupt ecclesiastics—Richelieu and Mazarin. The money he got through ministers with a talent for inventing ever-new and subtle devices for taxing the impoverished people.

He squandered money with unrestrained abandon. On one palace alone—Versailles—he spent 116 million livres. His ministers, satellites, and the grafters who waxed rich through his bounties and incapacity imitated their betters. These vulgar displays were designed to exhibit the monarch and his satellites in the character of gods fit to rule the herd. Immense bounties were handed out to a swarm of poets and literati to exploit the grandeur and virtues of the King. When the King recovered from an illness the odes and apostrophes poured out in a flood from the horde of scribblers who ate from the King's bounty. Even the young Racine broke into thanksgiving verse.

The source of all wealth in France was the peasants upon their small farms and the artisans in the city. The machine had not yet come. Large scale industry was still unheard of. There could be no pretense that the production of wealth at the hands of these humble toilers was stimulated and directed by the creative genius of inspired entrepreneurs. Hence there were few men of very large means who accumulated their wealth through owning and directing the process of production. The wealth of the people, translated into money, flowed to the King through oppressive taxes. And most of the private fortunes were in the hands of men who knew how to tap this stream of public money on its way to the government. The nobles still held their hereditary lands and squeezed the last drop of tribute from their tenants. But the business fortunes were

accumulated by men who drew them from the public revenues through contracts, monopolies, graft, gifts from the sovereign or from bankers who exploited the public treasury. They were strictly parasitic fortunes.

The peasants lived in mud houses with low roofs and no glass. A farmer got a pair of shoes for his wedding, and these had to last him a lifetime. But most of them went barefooted. They slept on straw, and boiled roots and ferns with little barley and salt for food. Undernourished, they prey to such diseases as typhoid and smallpox. Thousands swarmed toward the cities, and mendicancy and vagrancy became scourge. Hospitals had to be closed for want of funds. Despite the fact that people languished in hunger and rags, there was overproduction, the curse of the capitalist world. In places there was insufficient barley to feed the people, but no one could buy even the small supply. Peasants who had wine could not sell it to impecunious neighbors and could not ship it because they had no horses for transport.

Out of the meager substance of these wretched people the ministers of the Grand Monarch found the means to wring by taxes and loans nearly all the savings of the thrifty and a cruel fraction of the earnings of all. Slowly the money income of the nation was drawn in an ever-increasing stream toward the throne. But millions never reached it. Colbert found that out of 84 millions of taxes collected in one year only 32 millions reached the royal treasury. The rest found its way into the pockets of the farmers of the revenues. What reached the King in taxes and loans provided immense profits for war contractors and gifts for favorites. Indeed, even the virtuous Colbert died worth ten millions, all of which he said was derived from royal gifts and the legal prerequisites of his office.

There were extraordinary fortunes in the poverty-stricken France of that day. The treasurer of the imperial household was accused of appropriating to himself a tenth of the pay of the guard for years, and he had 1,600,000 livres invested abroad. Chatelain, a groom in a convent, took service with an army contractor, later set up for himself, had sixty mounted clerks scouring the country for grain for the army, and accumulated a fortune of over ten million livres. Crozat rose from a footman to be the greatest merchant in France, flourishing on government monopolies. Samuel Bernard, the great banker, had a fortune exceeding thirty million, made in the handling of government finances. Bouret, purveyor to the army, is supposed to have got together over 40 millions, while the more or less fabulous Brothers Paris de Montmartel came to be worth, according to some estimates, as much as a hundred million. The Chamber of Justice found six thousand men who were by their own estimates worth well over a billion livres, a sum equal to about ten billion dollars in our time.

These parasites, with the gilded coxcomb at their head, had drained the nation. In the last fourteen years of Louis' reign he had spent two billion livres more than he had collected in taxes. By various devaluations and other devices this had been reduced to a debt of 711 million when he died. As his long reign neared its end and his prestige declined he felt something must be done to revive his glory. This wrong-headed poseur could improvise no better stratagem than to stage some dazzling fetes. Fetes cost money, however, and the treasury was empty. But Desmarets, the Comptroller, was ordered to find money. A twist of fate saved him. He discovered two of his servants inspecting his papers and communicating the details secretly to certain important stock jobbers. Desmarets planned an issue of thirty million livres. He put this paper in the hands of Samuel Bernard to sell. He purposely left upon his desk the secret outline of a royal lottery to pay the issue of securities. This was promptly communicated to the speculators. When Bernard offered his shares the jobbers bid up the price. When all had been disposed of and the lottery failed to materialize, the securities fell to a low level. Louis XIV's government was driven to this shabby and fraudulent fund-raising expedient to put on a great spectacle to exhibit to the desperate people of France the splendor of the aging and obscene sovereign.

He died on September 1, 1715, leaving the country he had raided in a state of appalling want and the treasury bankrupt. When the news of his death reached the roving Scottish gambler, he lost no time packing his family and baggage into his much-traveled coach. He directed the postilion to head for Paris.

V

About the middle of September, 1715 – about two weeks after Louis XIV died – the Duc d'Orleans, Regent of the child Louis XV, sat with his newly formed cabinet. They were grave-faced and bewildered. A proposal had been made that the Regent should declare the nation bankrupt. France was indeed in ruins. The treasury was empty. The army was unpaid. The expenses of the government for the preceding year came to 148 million livres. The receipts were trivial. Besides, 740 million livres in obligations would fall due in the year. So high-minded and wise a man as the Duc de Saint-Simon had urged a proclamation of bankruptcy. Industry and trade had almost ceased to function. France had come to the end of the road, as America did in 1933, save that she was impoverished in substance as well as in the collapse of her economic mechanisms. But the Regent rejected the shame of a public confession of bankruptcy. Instead he sought to accomplish the same end by a less frank device.

Upon the death of Louis XIV all the directions of his will were rejected and Philippe,

Duc d'Orleans, virtually took possession of the government as Regent of the boy king. This act completed the series of events that it was necessary for fate to weave for the appearance of Law. She had created for him a ruined nation. Now she marched upon the scene a ruler who would open the door for the promiser of good things.

Orleans was one of those nimble persons who liked the surface of ideas. He was a dabbler. He posed as a painter, an engraver, a musician, a mechanician. He composed an opera that was played before the King. He tinkered with chemistry. But he loved to play with ideas, was known to have an open mind—open at both ends—a dilettante's interest in the masses, and an unfailing talent for making bad choices of servants.

At such a moment, when the one obvious and desperate need of the government was money, John Law appeared like an angel from heaven. In a disordered world in which every statesman was at sea, he alone had a plan. And it was a plan which called, not for sacrifice or for painful surgery, but for a pleasant journey along the glory road to riches. As Law himself said, it was a perfect dispensation in which the king, instead of being an omnivorous taxer and an insatiable borrower of the people's substance, was to become the dispenser and lender of money. Here was to be a New Deal—the first New Deal of the capitalist order.

Moreover, Law had access to Orleans. The Regent had taken a fancy to him years before. Law's plan had become greatly expanded under the productive influence of innumerable conversations. He was a facile talker and a superb salesman. And he completely sold the Regent. His plan for a royal bank was submitted to the Council on October 24, only about seven weeks after Orleans assumed power. But a majority of the Council opposed it. He persisted. He declared that, if permitted, he would establish a private bank and finance it himself if he was authorized by a royal patent to establish it—the Banque Generale. And on May 2, 1716, the royal patent was granted and the Banque Generale was established privately and financed largely by Law himself.

It began on a small scale. But it was an entering wedge. It was such a bank as we now have on almost every corner of the business districts of small American towns. It was to receive deposits and discount bills and notes; it could make loans and issue its own notes. Law and his brother William set up the bank in Law's house. The company issued 1200 shares of 5000 livres each. The subscribers were to pay for the shares in four installments—one fourth in cash and three fourths in billets d'etat, or government securities, which were worth no more than twenty or thirty livres on the hundred. The

amount of cash thus brought in was small, so that the bank was scarcely larger than the First National in any little American town. It did not seem formidable and this diminished opposition. It gave Law the chance to experiment with his idea. The Regent let it be known that he was its patron and that he would be gratified if merchants would open accounts with Mr. Law.

This institution had almost instantaneous success. The value of a depository was great. The advantage of introducing certainty into the value of bank money, as in the Bank of Amsterdam, encouraged all merchants to bring their metal money there. It was not long before Mr. Law's bank money was quoted at a premium over cash. The bank discounted bills at six per cent instead of the extortionate rates, as high as thirty, which the usurers charged. Furthermore, the bank guaranteed always to deliver in exchange of its own credit or its notes the same amount of silver that was deposited. And in a country living continuously under the fear of inflation this was a great inducement. The deposits rose enormously. Law was able to reduce the interest rate to four per cent. His reputation rose. He was no longer looked upon as an adventurer. His influence with the Regent grew. His bank notes were circulating around France, the best money in the kingdom.

A year after the bank was founded (April 10, 1717) the Council of State ordered all agents of the royal revenues to receive the bank's notes in payment of all government dues and to cash at sight its notes to the extent of their available funds. Every government office became a sort of branch of the bank. The Parliament of Paris ordered the revocation of this decree, for Law had active enemies. But the Regent compelled the Parliament to annul its order. Law by this time had become the greatest figure at court.

While things went thus well for Law, they went badly for the government, when, after his accession to power, the Regent rejected the proposal for national bankruptcy, he employed an ancient stratagem to achieve the same result. He devalued the livre, coining 1,000,000,000 livres into 1,200,000,000. He called in the 682 million livres in billets d'etat and issued in their place 250 million at reduced interest—four per cent. But this helped only a little. The government's paper was worth 20 per cent of par before this drastic operation and the new securities were still worth only 20 per cent.

The next move of the government was drastic in the extreme. The Duc de Noailles, Comptroller General, ordered every person who had made a profit out of state offices or contracts during the preceding twenty-seven years to make an exact accounting. A Chamber of Justice was set up. Rewards were offered to informers. And for more than

a year some 6,000 persons—farmers of the revenues, high officers, government contractors—were dragged before the Chamber of Justice. These constituted the richest and most powerful men in the kingdom.

Wealth became a crime. People of wealth were in panic. They hid their money. They attempted to flee. They tried bribing judges—and some succeeded. But the spoliation of the rich and corrupt parasites who had robbed the state for a generation went forward ruthlessly. Burey de Vieux-cours, president of the Grand Council, admitted possessing 3,600,000 livres. He was fined 3,200,000. All the rich bankers were heavily taxed—all save the Brothers Paris de Montmartel, who were actually made inspectors of the visa. Of the six thousand persons examined, some 4110 were condemned. They confessed to having 713 millions and were fined 219 millions. Perhaps half the fines were collected. This ferocious invasion of the rich was carried on not by a revolutionary government of radicals but by the royal government of Louis XV.

But all this aided the staggering administration only slightly. In May, 1718, after two years of futile, even savage expedients, the livre was devalued again. This time it was cut 40 per cent, amid the opposition of parliaments and to the accompaniment of riot and bloodshed all over France. In the last sixteen years France had witnessed forty-two changes in the price of gold and silver and over 294 in the preceding four centuries. The silver in the livre had been cut from twelve ounces to less than half an ounce. The people of France, by successive devaluations, had been robbed by the government of over seventy times the amount of money in circulation in the country.

In the midst of the disasters, Law's reputation alone seemed to rise as his bank established its utility. And this, combined with the desperate state of French finances, brought on the moment for carrying into execution the grand scheme he had been meditating—the scheme which was destined to be known as the System.

VI

Here we enter, almost for the first time in history, the complicated labyrinth of modern finance. But it can be made quite simple and clear if we will discard the personal and historic incidents that clutter it up.

It will be remembered that Law had set up his bank with a subscription of six million livres—three fourths payable in billets d'état worth only about 20 or 30 livres in the hundred. The bank succeeded, the deposits grew, and Law paid dividends. Subscribers

were delighted. Their all but worthless billets d'etat were transmuted into profit making shares.

His second venture was into trade. Crozat, a sort of eighteenth-century Cecil Rhodes, had enjoyed a monopoly of colonization and trade with Louisiana and Canada, France's possessions in North America. He had made a great fortune as a merchant and government contractor but did not do so well with the French East India Company, through which he operated his monopoly in the New World. Law, through the Regent's favor, took over this enterprise. He formed a new corporation—the Company of the West. He issued 200,000 shares at 500 livres each—100 million livres. But he used the same scheme which had worked so well with the bank. He accepted payment for the shares in billets d'etat. These billets d'etat the Regent converted into government rentes at four per cent. The company was thus insured of an income of four million livres a year. This was in August, 1717.

Then 1718 the company got the farm of the tobacco monopoly from Law's friend, the Regent, for which the Company of the West paid 2,020,000 livres. This was expected to produce a yearly profit of four million livres. This, with the four million in interest from the government, would mean an income for the company of eight million. But the company was also selling "lots"—for the Mississippi Company, as the Company of the West was called, was a great real-estate development scheme. Lots a league square were offered at 30,000 livres, and some persons invested as high as 600,000 livres. This added to the income, though it went quite slowly at first.

Then by the end of 1718 and the beginning of 1719, the company took over three similar companies—the Senegal Company, the China Company, and the East India Company, with the same kind of trading privileges as the Louisiana Company in different parts of the world. Law then organized a new corporation—the Compagnie des Indes (the India Company)—which took over all of these adventures, including the Mississippi Company and the tobacco monopoly. It became the master holding company. The new company issued 50,000 new shares at 550 livres each, netting 27,500,000 livres. The original shares of the Company of the West were called mothers. These were called daughters.

We must not make the common mistake, however, of supposing that what was called the Mississippi Bubble of Mr. Law was just a real-estate development. It was indeed the smallest part of the whole episode. It was called the Mississippi Bubble because the company that carried on all the enterprises was popularly known as the Mississippi Company and those who bought its shares were called Mississippians. It got its name

from the great river which ran through its principal domain, though the company was never legally called the Mississippi Company. The real basis of the mania of speculation that we are now to see lay in wholly different fields. At this point John Law, the gambler of three years before, had become the autocratic master of a vast domain extending from Guinea to the Japanese Archipelago, Cape of Good Hope, East Coast of Africa washed by the Red Sea, the islands of the Pacific, Persia, the Mongol empire, Louisiana, and Canada. And he proceeded by all sorts of extravagant promotional and advertising methods to push the sale of lands and the colonization of parts of this empire.

About the same time—December 4, 1718—the Banque Generale was transformed into the Royal Bank. That is, the state took it over. The stockholders who had paid for their shares one fourth in cash and three fourths in almost worthless billets d’etat sold their shares to the government for cash and at par. Thus the man who bought a share for 5000 livres—1500 livres in cash and 3500 livres in billets d’etat worth only 1000 livres—had actually paid no more than 2500 livres for his share. Now he got 5000 livres in silver for it, a profit of 100 per cent plus the dividend. But the bank was now a royal bank and Law was head of the royal bank and the man closest to the Regent. And what is more, the limitation in the original charter upon the issue of notes was no longer effective.

Then came the series of events that startled France. On July 25, 1719, the India Company took over the royal mint and got the privilege of coining money. This was estimated to be worth as much as ten million livres a year. It paid fifty million livres for the royal privilege and Law put out another 50,000 shares, this time at 1000 livres per share, to raise the money.

On August 25, the company took over the profitable privilege of collecting the indirect taxes. Law had enemies within the government. The most industrious was M. d’Argenson, the former police chief who had expelled him from France and was now Comptroller General. Inevitably Law’s success would stimulate others to use the same method. D’Argenson conspired with the Brothers Paris to organize a corporation to farm the taxes. The Brothers Paris were the richest businessmen in France. Sons of a poor tavernkeeper of Dauphine, they started transporting provisions to the army of the Duc de Vendome, rose rapidly, became purveyors to the army and so powerful and rich that even during the ruthless visa of the Duc de Noailles they remained untouched. And now they formed a corporation issuing 100,000 shares at 1000 livres each payable in annuity contracts.

This company bid 48,000,000 livres for the revenues, which it got through the influence of d'Argenson. This was called the Antisystem. They hoped to collect a vast sum in taxes—perhaps a hundred million, paying only 48 million to the king. Law had this contract annulled and new bids taken. His outbid the Brothers Paris, paying 3,500,000 livres more than they, and got the contract for the revenues. D'Argenson resigned. The Brothers Paris were now in complete disfavor and retired to one of their estates. A few days later Law got the contract for direct taxes. By this time his position was amazing. He had complete possession of the vast colonial possessions of France, the monopoly of coining money, the collection of the revenues, the tobacco monopoly, the salt monopoly. He was, besides, complete master of the finances of France as head of the Royal Bank and he was the undisputed favorite of the Regent.

He now began to speak in imperious tones about his plans. He would rid the king of France of his debts—the debts that had ridden kings for a century. He would make the king independent of the parliaments, of the people, of everybody. Instead of making the king dependent on the taxpayers and the moneylenders he would make the king the giver of all funds and the universal creditor. Therefore he announced in September his greatest coup—the company would buy up the entire public debt of France. The king would have a single creditor, the company, his obedient servant. The outstanding debt was 1,500,000,000 livres. Law therefore planned an issue of company stocks of 300,000 shares. These would be sold at 5000 livres, bringing in the required 1,500,000,000. Meantime the bank would advance the money. The bank had been printing bank notes and issuing them for various purposes. It had made loans on stock of the company, had invested in company stock, had made loans on other projects. Now it would issue enough notes to buy up the public debt. Meantime the India Company would issue shares and with the proceeds pay off bank loans.

France's debt of a billion and a half livres, measured against her resources, was hardly less than America's debt of fifty billion dollars today. And Law's proposal to rid France of her debt by buying it through the Mississippi Company is comparable to the proposal of Mr. Roosevelt, in our own time, to extinguish the public debt of America by purchasing it through the Social Security Board.

In the meantime, by various devices, Law had manipulated the market price of company shares until people were offering 5000 a share for them. So he offered these shares at 500 livres. But hardly had he done this when the shares advanced in price. They sold for 10,000. And they were gobbled up in short order. When this point was reached at the end of 1719, Law's company, in addition to all its other possessions and powers, was the sole creditor of the government.

This marked the peak of the great adventure. Here is how the capital of the India Company stood:

Law had been manipulating the stock prices until the shares were selling at 5000. After the rout of the Antisystem and the capture of the national revenues they went up to 10,000 livres. If a man had bought a share of the Company of the West at 500 livres in billets d'etat or 150 livres in money, he would now at 10,000 livres have a profit of 660 per cent. Before the bubble burst shares went to 18,000 livres. This was the financial part of the famous System of Law in operation. Now let us see what happened to it.

VII

In that Paris of that day was a little street called the Rue Quincampoix. It was in fact a small alley, 150 feet long and very narrow. It ran at one end onto the Rue des Ours; at the other into the Rue Aubrey-le-Boucher. Here the bankers had their houses, and men who had bills of exchange or billets d'etat or other paper to buy or sell went from door to door seeking the best terms. This became the center of excitement when, during the visa of the Duc de Noailles, rich contractors rushed there to divest themselves of the evidences of their wealth. It was this little street that became the stage for the public scenes and manifestations of the Mississippi Bubble. It became the symbol of the speculation as Wall Street became the symbol of the orgies that flamed up in the 1920's.

The other scene of this extraordinary drama was the Mazarin Palace. Law purchased this splendid edifice in the Rue Vivienne for the headquarters of the company and the bank when it was made into the Royal Bank. He added seven other houses adjoining. Here Law directed the moves on all the many fronts of his System.

This is what Law was doing.

First, he was managing a new type of inflation—pumping bank funds into the economic system, very much as Mr. Roosevelt was doing in America and with very much the same instrumentalities.

Second, he was creating employment by numerous projects of public works, as Pericles did in Athens, as Roosevelt, Hitler, Mussolini, and Chamberlain did in 1939.

Third, he was attempting to stimulate the release and flow of hoarded savings back

into business.

Fourth, he was attempting, by exploiting France's colonial empire, to make markets for her products.

Fifth, he was attempting to relieve the embarrassments of a debt-ridden government.

Sixth, he was making money for himself and his patrons.

He was engaged in trying to sell shares in the company that held France's colonial empire, and also trying to sell land there to investors and speculators. To do this he resorted to the most sensational methods of promotion. Indians were brought to France and paraded about. Departing emigrants were feted and paraded. Finding it difficult to get emigrants, young men were taken from the jails and girls from the streets and marched off garlanded to the strains of music as if they were honest citizens. Pamphlets, prospectuses, dodgers were circulated depicting the fabulous riches of the new lands. All this helped both shares and lots.

In the prosecution of the adventure we see many of the devices which serve the operators in the markets of today. Rumors were set afoot. It was whispered about that diamond mines had been found in Arkansas and gold and silver mines in Louisiana, rivaling the riches of New Spain and Peru. Stories of the fabulous sums being made by speculators and of the important persons who were buying shares "leaked" out.

The preferred list made its appearance. With each issue of shares persons of power and influence near to Law and the Regent were allowed to subscribe at the issuing price. Thus when the 300,000 share issue was offered, the Regent got 100,000 shares. He subscribed at 5000 livres. He could have sold within two months at 10,00 livres. It was by getting shares at the issuing price and selling later at the higher prices that many fortunes were made.

Moreover this served to limit the floating supply of shares in the Rue Quincampoix, since the subscribers held their shares off the market and thus the market prices were boosted.

The modern warrant or right came into use. Law himself paid 40,000 livres for the right to subscribe to a large number of shares at par six months later.

Street loans had their birth. The Royal Bank made loans on India Company shares at

low rates of interest to stimulate speculation. When the bubble burst the bank had outstanding 450 million livres of loans on shares. The bank itself also invested in shares. In July, 1719, as Law was maturing the taking over of the national debt and the issuance of 300,000 shares, he announced that in 1720 the company would pay a 12 per cent dividend.

Ever since the issuance of the first shares of the Company of the West there had been much traffic in them in the Rue Quincampoix. These little scraps of paper became the perfect instruments of gambling—gambling sanctified by the name of business and dressed up as investment. This was better than the counters on the tables of the Rue des Poulies or the Hotel de Greve. As the new companies came along and the promotion assumed statelier forms, the activity in the street increased.

Almost unnoticed, the inflation that Law had been nourishing began to spark. By midsummer of 1719 about 400 million livres of bank notes had been issued. An air of enterprise appeared. People took confidence. Timid savings came out of hiding. The velocity of money increased. Law made extensive loans through his bank for enterprises of all sorts. Also he advanced sums for huge government projects.

Barracks were built for the first time to rid the people of the burden of housing soldiers. A canal was built up the Seine, the Canal of Burgundy, the Bridge of Blois, new public buildings, new hospitals—there was to be a hospital at every six leagues—roads, the restoration of neglected farm lands, aids to businessmen in debt, and plans for free instruction at the University of Paris supported by part of the postal revenues, which brought the youth of Paris into the streets parading in gratitude to the great giver of all good things—M. Law. Various kinds of nuisance taxes were abolished, taxes burdening industry were mitigated or ended. Barriers to trade within the nation were struck down.

Here was a New Deal indeed—the old curse of harrying taxes gone, work for the artisans, succor for the farmers instead of levies, the spirit of enterprise reborn, the king himself emancipated from his creditors, the state become the foster father of all, the fountain of blessings rather than the aggrandizer of the people's substance, money flowing out mysteriously and flooding the market place. It is not to be wondered that for a few brief months Paris hailed the magician who had produced all these rabbits from his hat. Crowds followed his carriage. People struggled to get a glimpse of him. The nobles of France hung about his anteroom, begging a word from him.

By June or July, 1719, the crowd flooded into the Rue Quincampoix. Doctors,

lawyers, businessmen, clergymen, coachmen, scholars, and servants—people who had never seen it before—came trooping in to buy a few shares and sell them on the rise. The shares which had been 500 a little more than a year before were now 5000 and in two months they were 10,000.

As the crowds pressed into the street the demand for office space became a problem. Small rooms rented for as high as 400 livres a month. A house rented for 800 livres; one with thirty rooms turned into offices fetched 9000 livres per month. Shopkeepers rented space amid their barrels. Boxes were set up a few roofs and rented. The brokers worked the street. The managers in offices sent information to their agents in the street by means of signals from the windows or by bells—as in the old Curb Market in New York's Broad Street.

The noise of the spectacle spread through Europe. Speculators flocked to Paris. In October the *Journal de Regence* reported at least 25,000 had come from the leading commercial cities in a month. Seats in the diligences to Paris were sold two months ahead, and men began speculating in coach seats.

As Christmas, 1719, approached the excitement became almost a public scandal. M. Law, a few days before the feast, was accepted into the Catholic faith at the Church of the Recollets in Melun, and on Christmas Day he and his children received communion at St. Roch's, his parish church. He was made a warden to succeed the Duc de Noailles. He made a princely gift of 500,000 livres to complete the edifice and another of 500,000 to the English at Saint-Germain-en-Laye. Then on January 5, M. d'Argenson, the former police chief who had sent Law out of Paris in 1708, resigned as Comptroller General, and Law was named to that office, equivalent to the Prime Minister of France. At this moment his power was almost supreme.

Immense fortunes were being made. Fantastic stories are recorded of the sudden flight to riches of barbers and coachmen. How many are true it would be difficult to say. Madame de Chaumont, widow of a physician of Namur, made sixty million livres. Fargez, a private soldier, made twenty. The Duc de Bourbon made a vast fortune, much of which he reduced to cash, re-established his financially embarrassed house, acquired many new estates, set up a stable of 150 race horses, and continued as one of the richest men in France. Other noble persons—the Duc de Guiche, the Prince de Deux-Ponts, the Prince de Rohan accumulated immense sums. Count Joseph Gage made a fabulous winning and offered the King of Poland three million livres to abdicate in his favor. The Regent had a hundred thousand shares subscribed for at 5000 livres which he could have sold for ten thousand more. He had a paper profit in

January, 1720, of 500,000,000 livres. It is doubtful if he realized any of this.

But the last act in this tragedy-comedy began before the curtain had descended upon the triumphant scene in the preceding act. Well before Christmas, 1719—perhaps as early as late October—the little cracks and fissures in the hollow walls of the structure began to appear. Law perceived them. The base of his system was the accumulation of all the metal money in the hands of the System, the issuance and control of the paper currency, and the creation of additional funds by means of bank loans. Perhaps in October Law saw that, for the first time, gold and silver were leaving the Royal Bank. Therefore when he renounced his ancient faith at Christmas and became Comptroller General, it was not merely to crown his triumph with the trappings of high office, but to put into his hands the supreme power he required to begin the battle to save his System.

All the men who played this desperate game were not fools. A fairly rosy estimate of the probable income of the India Company was roughly 80 million livres. A more optimistic but unsound estimate looked for as much as 156 million. But 80 million would not come within many leagues of paying five per cent dividend on 600,000 shares valued at 10,000 livres. Indeed 156 million profits speculators saw this quickly enough and began to unload. Groups would pay only a little more than half a dividend. Wise foreign of them formed to peg the market at higher prices than 10,000 livres while they quietly withdrew. Their example was soon followed by Frenchmen with the necessary wit. As they sold their shares they withdrew specie from the bank and transported it to other countries. Law saw this. By January the movement of money from the bank grew. The sellers were scornfully called realizers. They have appeared just before the last act of every boom from the golden age of Law to the New Era of Coolidge and the New Deal of Roosevelt. And with his elevation to the Comptroller Generalship Law began a losing battle to save the System.

Here was his problem: for a brief moment he seemed, as one commentator put it, to have solved the philosopher's dream of making men despise silver and gold. They preferred to Louis d'or the paper promises of the three-year-old bank. Law's paper livres would buy five per cent more in a trade than the metal coin of Louis XIV. But now quite suddenly the wiser ones were recovering their taste for silver and gold. Law's problem was to check the flow of gold out of the country and into hoarding, to support the price of the shares, to save the value of his paper notes.

Through January the tide flowed heavily against him. The drain on metal became alarming. The inflation became more fevered. Prices of goods that were around 104

in 1718 and 120 before Christmas, 1719, went to 149 in January. Wages lagged far behind. The nongambling populace began to murmur. The Parliament of Paris became more hostile. Serious men like Saint-Simon, Marshal Villeroi, La Rochefoucauld and Chancellor d'Aguesseau, who had held aloof from the gamble, now became more severely critical.

On February 22 the Royal Bank was suddenly turned back to the India Company. By this time over a billion in bank notes were outstanding. The issue had increased by 400 million since Christmas. Then on February 27 an edict was issued that no man would be allowed to have in his possession over 500 livres of specie—even goldsmiths and the clergy—and payments in specie could be made only in transactions of less than a hundred livres. This was difficult to enforce. But for the moment this did bring large amounts of specie back to the bank—perhaps as much as 300,000,000 livres.

Thus balked, the realizers now turned to real estate, furniture, plate, anything of solid value, as a refuge for their profits. One man brought up an entire edition of a dictionary. The inflation was in full flow in March. Prices were fixed but the attempts were futile. The Hack coachmans fee was thirty sous, but he openly demanded sixty. Candles were fixed at eight sous, six deniers per pound, but sold at twenty. The general index rose to 166. On March 5, another debasement of the coin was ordered.

Law was now sought to introduce a deliberate uncertainty into metal currency while stabilizing the price of paper by edict. On March 20, the shares were falling rapidly from a peak of 18,000 livres. An edict announced that shares would be stabilized at 9000 livres. At this price the bank would exchange shares for bank notes or bank notes for shares. Two bureaus were opened. The crowds swarmed to them with their shares. They demanded notes for their shares.

By this means the bank became the owner of an immense amount of its own shares, while the flood of paper notes was enormously augmented. It gave inflation another boost and prices soared to 179. The Rue Quincampoix was in the wildest disorder. The frantic bargaining went on late into the night. The sober citizens of Paris muttered deeply against the scandal. Many robberies and acts of violence added to the apprehension and indignation. Then suddenly one of those irrelevant outrages intruded into the scene. Count Horn, a young Flemish nobleman, related distantly to the Duc d'Orleans and to several royal European houses, lured a speculator into a tavern at night, murdered him, and made off with his 150,000 livres. This crime shocked Paris. It gave Law an excuse to close the Rue Quincampoix and drive the gamblers away.

Speculation was forbidden in the streets. The Count was arrested, convicted, and broken on the wheel in the Place de Greve. But the trading went on in side streets, alleys, hallways, and at night. Slowly it reappeared in the Place Vendome. Then Law paid 1,400,000 livres for the Hotel de Soissons and its spacious gardens and permitted stockjobbing in the numerous pavilions of the gardens, which were rented to stockbrokers at 500 livres per month.

By May the situation was desperate. The use of gold specie was forbidden beginning on May 1, and this was to apply to silver specie on August 1. The circulation had now soared to 2,696,000,000 livres. The general discontent was deepening. The prices had gone up, but wages had by no means kept pace with them. As June neared prices were at 190 but wages were 125. Business was disrupted by the uncertainty of money values, the difficulty of getting coin, and the swiftly fading taste for paper. Political agitation was growing. The parliaments were becoming increasingly hostile. Law's enemies—d' Argenson and the powerful Abbe Dubois, corrupt and ambitious, scheming for power now—succeeded in weakening his prestige with the Regent. At this fatal moment they were able to force an edict that sounded the doom of the System.

The edict, issued on May 22, announced that the price of stock would be lowered to 8000 by July 1 and at the rate of 500 livres per month until December when it would be stabilized at 5000. Bank notes were also reduced in value from 10,000 to 8000 livres and at the same place to 5000 by December 1. Thus the promise that the bank notes would remain stable was broken. The whole paper structure collapsed. Men ran wild-eyed to the bank to beg for specie. Soldiers blocked the way. Parliament demanded revocation of the edict. On May 28 this was done, but it was too late. The damage was done.

Law went to the palace and asked the Regent to relieve him of his post. His resignation was accepted. And the Regent directed two companies of Swiss guards to protect him from the fury of the crowds. His wife and children went to a near-by estate of the Duc de Bourbon for safety.

But that immense tangle of adventures without Law was a skull without a brain. He was recalled before May expired and named intendant and a member of the privy council. The disorders provoked by the suspension of specie payments at the bank were so great that an order was issued permitting the cashing of ten-livre notes and hundred-livre notes on alternate days, one to a person. They could be cashed only at the bank. Fifteen thousand people gathered at the Mazarin Gardens. Only a few note

holders were admitted to the bank at a time. The crowd felt it was being played with. It broke through the gates. The soldiers fired, killing two or three men. This set off an explosion of wrath. The bodies were carried about to exhibit the cruelty of the "murderer" from England. In London brokers made bets that Law would be hanged by September. Law's carriage was torn to pieces.

After this battle was hopeless. With the Regent, Law tried to work out some sort of reorganization. A plan was formed to retire 600 million livres of the notes. New stock in the company and of the city of Paris was issued payable in notes. It was merely exchanging stock for money. The notes were destroyed in the presence of a committee of citizens.

Then another plan was attempted. It was proposed to issue annuities payable in notes. The bank was thus getting a long-term extension of its obligation to honor its notes. All notes above 100 livres in denomination could be used only to purchase these annuities. But nothing could save the System. By September prices of food and clothing were 270—they had been 120 the year before. Wages were only at 136. Actual wages—measured in purchasing power—had descended to 67. Thus the worker always is the sufferer by inflation. The demand for increased wages grew loud and angry. On October 10 an edict forbade the use of bank bills for currency. The stock of the India Company which had been worth 18,000 livres ten months earlier, was now sold for 2000 livres payable in bank notes worth only ten cents on the dollar. On November 1 the redemption of even small bank notes was suspended. All stockjobbing was forbidden on the eighth.

On December 10, worn out with sleepless struggles to save his system, the mob howling for his head, Law resigned. He retired to Guermante, one of his estates, six leagues from Paris. Sometime later two messengers arrived from the Duc de Bourbon bringing to him his unsolicited passports to leave the country. This was the royal invitation to be gone. The Duke offered him financial assistance, but Law refused. He had just got 800 livres in gold from his box at the bank. This, he said, was sufficient. But he accepted the coach of Madame de Prie, the Duc de Bourbon's favorite. This nobleman, who had grown so fabulously rich through Law's adventure, alone was willing to befriend him. He left France on December 21, accompanied by four equerries and six guards—his restless coach to take up again its wanderings. His wife joined him later, after remaining in Paris to put his household affairs in order and discharge the bills of tradesmen and servants.

The System itself, which had impoverished thousands and repeated the ruin of France,

became a huge national bankruptcy. Duverney, an able but implacable enemy of Law, was charged with liquidating the disaster. The king, who was to be liberated from the curse of debt, was now more deeply in debt than before. When Law began his deliverance the national debt was 1,500,000,000 livres. Now it was, counting rentes and guaranteed stocks, over three billions. Instead of 48 million livres a year in rentes, the crippled government was saddled with 99 million. In January, fifteen boards were set up with 800 clerks to survey the ruin and demobilize it. Over 511,000 persons made claims amounting to 2,222,000,000 livres. They were reduced to 1,676,000,000. India shares were cut from 125,000—all that remained outstanding after being exchanged for annuities—to 55,000 shares bearing interest of 150 livres each instead of 360. The national debt was finally fixed at 199 million livres, and there was 336 million livres of specie in the bank against its multitude of claims. The trading business of the India Company was disentangled from the financial mess, the company was reorganized and continued to operate and in time even flourish for many years in rivalry with the trading companies of England and the Dutch.

As for Law, he confiscated all that he had left behind in France, his numerous estates, art treasures, plate, his hundred-thousand-a-year annuity for which he had paid five million livres, his 4900 remaining shares in the India Company.

When he left France he went directly to Brussels. He was received with acclaim, entertained lavishly, appeared at the theater where a great throng greeted him. Then in a few days he set out upon his travels to Venice, to Bohemia, to Germany, to Denmark. He was sorely pressed for money. He, who the year before saw millions flowing through his hands, wrote the countess of Suffolk, begging a loan of a thousand pounds. Later, at least one biographer reports, the Duc d'Orleans, the Regent, sent him yearly his old salary, which is variously reported as from ten to twenty thousand livres. But the Regent died in 1723 and this aid came to an end.

Before this, however—in 1722—Law went to London, invited thither apparently by the Prime Minister. He went aboard an English warship as the guest of its commander. In London his presence and entertainment provoked an outburst of criticism in Parliament against the Prime Minister, Walpole. But that statesman replied that Mr. Law was merely a British citizen who had come home to petition for His Majesty's pardon. Surely no fugitive from justice had ever returned quite this way before—an honored guest aboard His Majesty's vessel of war. It was indeed true, however, that his old sin—the killing of Beau Wilson—had dogged his footsteps. Apparently he had made some composition with Wilson's relatives. He appeared now before the King's Bench attended by the Duc of Argyle and Lord Islay and others and was formally

shriven of the old conviction.

He remained in England until 1725, from where he carried on a correspondence with the Duc de Bourbon, following the Regent's death, begging for the restoration of his old fortune. Law never conceded that his System had failed. It had been ruined by enemies. He clung tenaciously to the hope, nay the expectation, that the Regent would summon him back to France. It is certain that gentleman always entertained a friendly feeling for his former minister. But the death of Orleans in 1723 ended these hopes. Law sank gradually in his pecuniary fortunes until toward the end he was not far removed from poverty. He died in Venice, March 21, 1729.

It is difficult to disentangle the fibers of Law the gambler and Law the reformer. His great reforms—his prodigious adventure in recasting the fortunes of a bankrupt empire—took much of its energy and substance from the gamblers art.

As a New Dealer he was not greatly different in one respect from the apostles of the mercantilist school—the Colberts, the Roosevelts, the Daladiers, the Hitlers and Mussolinis, and, indeed, the Pericles—who sought to create income and work by state-fostered public works and who labored to check the flow of gold away from their borders. He introduced something new, however, that the Hitlers, the Mussolinis, the Roosevelts, the Daladiers, and the Chamberlains have imitated—the creation of the funds for these purposes through the instrumentalities of the modern bank. Law is the precursor of the inflationist redeemers. Like all the inflationist salvations, his career was short. The others will not be long.

But he did develop a new technique of money getting. He did not invent, but he did perceive, the possibilities of two instrumentalities that have been at once the blessing and the curse of the modern world. The art of accumulating great wealth had consisted in sharing in a fraction of the labor product of a large number of people. The monarch had taken his by taxes; the politicians had taken theirs by intercepting the flow of taxes to and from the state; the slave owner had taken his by brute force; the landlord had taken his by owning the land that was the source of wealth drawn from it by many workers; the merchant had taken his by gathering into his hands the product of many small producers, finding a market, and taking a toll on each sale. The moneylender had got his portion because his loans enabled him to participate in the profits of many farmers, merchants, and producers. The wealth was drawn out of the current income of many people. But Law, by means of speculation in corporate securities, found the means of extracting from many men a part or all of their savings.

He exploited the eagerness of men to grow rich by making their profit, not in producing goods or creating utilities, but gambling on the changes in the price of investment certificates. He perceived also the uses of the bank as an instrument for creating an immense reservoir of savings funds as well as an instrument for actually manufacturing money—bank credit.

It would be a long time before the full possibilities of these weapons would be realized by the acquisitive man. Indeed it would not be until our own time that this would be done. But it has been done, and this civilization will not find its way to peace and grace until it learns how to get these implements out of the hands of the acquisitive enemies of society. Oddly, two hundred years after John Law, the gambler-philosopher, wrought upon society, one may see everywhere the good and the evil fruits of his brief adventure permeating our whole economic edifice. One may say of him as of Christopher Wren—if you would see his monument, look about you.

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