John Law's financial experiment from 1716 to 1720 reformed the French monetary system toward specie-less currency, and its financial system toward national debt-equity swaps, all ultimately organised by a single conglomerate called the Mississippi company[1]. Its ignominious failure will be defined as the series of events surrounding the *Arret* of May 21st 1720, that devalued all paper livres and shares in the Mississippi Company by half; Law's investors panicked, his system lost political favour and was soon dismantled by the French financial establishment.[2] Recent historiography has painted Law as a financial cassandra, whose pursuit of monetary modernism was vindicated in the 1970s rather than the 1720s[3] – but there are grounds to dispute this, and argue that he was trying to achieve personal success and gratification. This interpretation holds that Law's failure rests in his cultivation of the Mississippi Bubble and incorrect assumptions of financial and monetary theory, which caused the policy malfunction that destroyed his work.

John Law's intended achievements can be interpreted through *economic* and *personal* dimensions, the latter taking priority. Antoin Murphy (whose biography of Law has and continues to dominate modern historiography) contends Law's *economic* objectives are largely found in *Money and Trade Considered* (1705)[4] in which, proposing economic reform for Scotland, Law objected to specie currency and outlined a monetary system of paper notes, while financially advocating the advancement of modern credit institutions which had been pioneered in England and the Netherlands.[5] These principles of specie-less money and expansion of credit were Law's economic vision: they were previously proposed in England and would be again in Savoy and Regency France.[6] Once accepted in the latter, Law dogmatically pursued his vision by creation of paper *livres* from his steadily expanding General Bank, and eventually restructured France's state credit as equity in the Mississippi Company.[7] This supports the argument that Law was, as Charles Rist bluntly put it, a 'currency crank'[8] dedicated to the realisation of his monetary-financial vision — yet he was a crank guided by self-interest. The assertion that John Law set out to achieve personal advancement is grounded in his vulnerability during the 1690s, as a fugitive from the death penalty and a high-stakes continental bookmaker. Murphy argues that Law's career at this time matured his interest in economics;[9] a similar logic would follow that the twin dangers of criminal prosecution and financial ruin (for Law was essentially a professional gambler) would have imbued a strong survival instinct, certainly evident by the time he was compelled to evade his credit obligations after the collapse of his system in the 1720s.[10] This provides a motive of self-interest for Law's advancement of radical monetary and credit reform to the courts

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[1] François R. Velde, 'John Law's System', *The American Economic Review*, Vol. 97: No. 2 (May, 2007), p. 276
[2] Antoin E. Murphy, *John Law: Economic Theorist and Policy-Maker* (Oxford, 1997) pp. 244-253
[3] *Ibid,* pp. 1, 332
[4] *Ibid*, pp. 76-78, 103
[5] John Law, *Money and Trade Considered,* reprint (New York, 1966), pp. 35-43, 59-78, 89-95
[6] Murphy, *John Law* pp. 51-53, 111-112, 115-116
[7] Velde, *John Law's System*, pp. 276-277
[8] Charles Rist, *History of Monetary and Credit Theory from John Law to the Present Day [1940]*, trans. Jane Degras, reprint (Bristol, 1994) p. 66
[9] Murphy, *John Law* pp. 40-44
[10] *Ibid*, pp. 319-322

of Europe: their acceptance would grant him political status and protection from his enemies, while also providing an opportunity to ride his financial revolution to personal enrichment. This is what happened in France, where by virtue of the Regent d'Orleans' support, Law was pardoned in England and became the richest man in Europe by his newfound power over the French economy.[11] Furthermore, it can be argued Law was motivated by vanity, inflated by success at the gambling tables and galvanised when the Scottish Parliament rejected his proposals at the last hurdle.[12] This doubtless wounded his ego and might have inspired determination to see his ideas vindicated; a vain streak is certainly suggested by Law's vainglorious proclamation of personal financial hegemony over Europe when challenged by Lord Londonderry over complications in payments for the Pitt Diamond,[13] and his glee at the use of the word 'system' to describe his experiment.[14]

Together, these factors suggest a selfish motive to Law's economic achievements, which are evidenced by his exploits in France. His very selection of the French state, ravaged by war and burdened by an archaic financial system, warrants Murphy's parallels with the predatory 'junk bond' traders of the 1980s,[15] especially given his suggestion that once licensed to establish the General Bank on a purely depository basis, Law acted in bad faith by lending money illegally, enriching himself and providing leverage to institutionalise a *Royal* Bank in 1717.[16] Law used the power this gave him to incorporate the colonial trade and tax farms into his financial system,[17] all while remaining a private citizen at liberty to profit from insider trading at the cockpit of France's new economy. An arrogant attitude is indicated by his enthusiasm for the suppression of the Paris *parlement's* opposition to the system,[18] and demonstrated by his one thousand pound wager with Lord Londonderry in 1719, which resolved the aforementioned Pitt Diamond dispute.[19] Larry Neal notes that this wager fell in Londonderry's favour but was left outstanding by Law following the collapse of his system, and caused a trail of ruin across the Anglo-French financial world.[20] Together, these developments ground the argument that Law's attitude to the implementation of his ideas in France was ultimately selfish, with the accumulation of personal wealth and power taking precedence over other concerns.

These are grounds to assert that John Law set out to achieve his radical monetary and financial ideas to enrich, empower and gratify himself. A strategy of self-interest can be identified in his economic pursuits,

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[11] Larry Neal, *"I Am Not Master of Events" The Speculations of John Law and Lord Londonderry in the Mississippi and South Sea Bubbles* (New Haven, 2012) pp. 82, 109-110
[12] Murphy, *John Law*, pp. 74-75
[13] Neal, *"I Am Not Master of Events"* p. 52
[14] Murphy, *John Law* p. 233
[15] *Ibid* p. 164
[16] *Ibid* pp. 159-161
[17] Velde, *John Law's System*, p. 277
[18] Murphy, *John Law*, pp. 180-182, 195
[19] Neal, *"I Am Not Master of Events"* pp. 52, 74-82
[20] *Ibid*, pp. 104-106

possibly motivated by his personal vulnerability as a fugitive from justice and a career gambler, and galvanised by wounded pride from early setbacks in Scotland. Furthermore, it can be argued this self-interested approach *caused* Law's failure, through his stimulation of the speculatory 'Mississippi Bubble' that rendered his enterprise vulnerable in the event of crisis, and his conflation of monetary and financial policy that made necessary the *Arret* of May 21st.

The 'Mississippi Bubble' is evidence of Law's exploitation of the information gap between himself and an immature French financial sphere. This fuelled rapid expansion of his system and rendered swathes of the economy vulnerable to a speculative crash on such a scale that Law's principles would be fundamentally discredited for generations, making his failure so ignominious. Peter Garber defines a bubble as an irrational venture which "investors understand perfectly well … has no chance of paying large dividends [but they] buy in[to] on a gamble that they will not be in the last wave of buyers".[21] He disputes whether the 'Mississippi Bubble' fits this category, arguing there were legitimate grounds for investors to assume Law's system *would* pay large dividends.[22] However, it can be argued that the enthusiasm for the Mississippi Company (and its predecessors) took root in the superstitious and financially immature mentality outlined by Charly Coleman. He makes the case for a reverse-alchemic approach to speculation rooted in the Catholic doctrine of transubstantiation,[23] supported by the Arlequin Actionist frontispiece. This Dutch satire depicts French traders in a gross frenzy, clustered around a Law caricature excreting paper notes, implying they irrationally perceived Law as an agent of transubstantiation, and were earnest to take his supernatural products no matter where they came from.[24] This is accorded by Murphy's account of a Paris stock exchange bursting at the seams with avid clients of Law's system, so desperate to sign their contracts that hunchbacks rented their services to be leant on.[25] Such enthusiasm contradicts rational thought when compared with the hesitancy of the experienced financier Lord Londonderry to take a stake in Britain's South Sea Bubble.[26] Evidence that French speculation on the Mississippi System was irrational suggests that John Law deliberately stoked a bubble on this basis, with the Londonderry wager indicating a personal profit motive from increased sales of Mississippi Shares, while Murphy notes the bubble grew in accordance with Law's financial priority of transferring French state debt into Mississippi Equity.[27]

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[21] Peter M. Garber, *Famous First Bubbles: The Fundamentals of Early Manias* (Cambridge MA, 2000) pp. 89-90
[22] *Ibid*, pp. 124-126
[23] Charly Coleman, 'Spirit of Speculation', *French Historical Studies*, Vol. 42: Issue 2 (2019) pp. 204-205, 206-207
[24] Unknown, 'Arleqyn Actionist', engraving, 1720, New York Public Library in 'Art in 1720 in the Aftermath of John Law's Bubble', *The American Journal of Economics and Sociology*, Vol. 57: No. 4 (Oct, 1998)
[25] Murphy, *John Law* p. 205
[26] Neal, *"I Am Not Master of Events"* pp. 101-102
[27] Murphy, *John Law* pp. 198-201

It can be argued the bubble made Law's system more vulnerable by greatly expanding its dependents on the basis of uninformed speculation. Murphy accounts for hundreds of thousands of shares issued through 1716 to 1720,[28] and to the shareholders must be added secondary stakeholders, such as Londonderry's clients Neal identifies as dependent on profits from the French stock exchange[29] and those involved in the colonial and fiscal sectors of the economy which the Mississippi Company took over. Law had placed these people in a bubble fuelled by their immature conceptions of modern finance, creating a danger that if the bubble burst, Law's system could collapse under the same irrational behaviour. This is what happened after the May 21st *Arret*, when confidence in the system plummeted to the extent that it would frustrate the foundation of French banks more than fifty years later.[30] Law's danger was enhanced by the powerful enemies he had made in the French establishment, which included the Paris *parlement* itself, who were ready to dismantle his system at the first opportunity; this also happened after the *Arret,* when Law was arrested and released only when legislation was underway to demobilise his paper currency and restore the old financial system.[31] Taken together, there are strong grounds to argue Law deliberately fermented the Mississippi Bubble on the back of French financial immaturity, and this made his experiment more vulnerable by magnifying the ramifications of failure.

Meanwhile, there are grounds to argue the direct cause *of* Law's failure originated with malfunctions in his economic theory, which he refused to accept until forced to undertake the destructive *Arret*. Rist singles out Law's "fundamental confusion between credit and money"[32] which he asserts in *Money and Trade,*[33] was a critical mistake. It can be argued this maxim of Law's caused him to believe he could sustainably combine financial and monetary policy, expressed when he effectively consolidated the Mississippi Shares and paper *livres* into one currency which dramatically increased in volume through the growth of the Bubble through 1719 to 1720,[34] by which time Murphy suggests that France was facing a crisis of hyper-liquidity.[35] Confronted with this inflation, Law's response was devaluation of specie money in March 1720, and paper two months later.[36] This critical delay meant *livre* notes and Mississippi shares were overvalued for two months,[37] further inflating the Bubble so when they were halved as well, the French financial sphere felt betrayed, and panicked.[38] Murphy describes the devaluations as 'improvisation' in response to the failure of

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[28] *Ibid* pp. 188-193, 238
[29] Neal, *"I Am Not Master of Events"* pp. 104-106
[30] Thomas E. Kaiser, 'Money, Despotism, and Public Opinion in Early Eighteenth-Century France: John Law and the Debate on Royal Credit', *The Journal of Modern History*, Vol. 63: No. 1 (March 1991), pp. 23-25
[31] Murphy, *John Law,* pp. 252-253, 268-270, 305-307
[32] Rist, *Monetary and Credit Theory* p. 44
[33] Law, *Money and Trade,* p.13
[34] Murphy, *John Law* pp. 61-62, 199, 237-239
[35] *Ibid*, pp. 209-212
[36] *Ibid,* pp. 224-230, 244-249
[37] *Ibid,* pp. 236-237
[38] *Ibid*, pp. 246-247, 249-252

Law's theory to live up to reality, a character trait he observes back to Law's earliest writings.[39] This tendency is corroborated by Mark Longaker and William Herring in their analysis of *Money and Trade*, which note Law's "specific proposal[s] derived from macroeconomic principles *stated—or assumed—prior to their proof*".[40] If Law had been challenged on continuous money and credit, the devaluations may have been unnecessary, but he was not, possibly because of his powerful political alliance with the Regent d'Orlean or simply, as Murphy notes, because nobody else in France understood economics as well as he did.[41] On these grounds it can be argued that Law's mistake was not to recognise the danger of combining financial and monetary policy until his system had thrust France into an inflationary crisis. This forced him to react with a devaluation which shattered market confidence and, in the atmosphere he had cultivated by the Bubble, caused the complete unravelling of his system and the ignominious failure of his experiment.

In sum, John Law's revolutionary economics helped him achieve personal goals: they provided him political protection, monetary enrichment and personal success to salve an ego wounded by each rejection he'd faced. This self-centred attitude was expressed in his dubious approach to the French economy: from using the General Bank to run bad-faith credit, to exploitation of his financial vantage for insider trading. Meanwhile, his refusal to alter his conception of continuous money and credit forced him to improvise in the devaluations of 1720. This burst the bubble he had deliberately stimulated around the heart of the French economy and caused the widespread financial chaos that rendered his experiment an ignominious failure. There is no doubt that Law was a genius, but the resemblance of his ideas to modern monetary theory should not deceive historians that he was a visionary.

[39] *Ibid* pp. 100-102
[40]Mark Garrett Longaker, William Rodney Herring, '"Money is Not A Pledge": Early Financial Genres, the Battle of the Banks and John Law's Money and Trade Considered', *Eighteenth Century: Theory & Interpretation,* Vol. 61: Issue 3 (Autumn 2020) p. 366
[41] Murphy, *John Law* pp. 258-259

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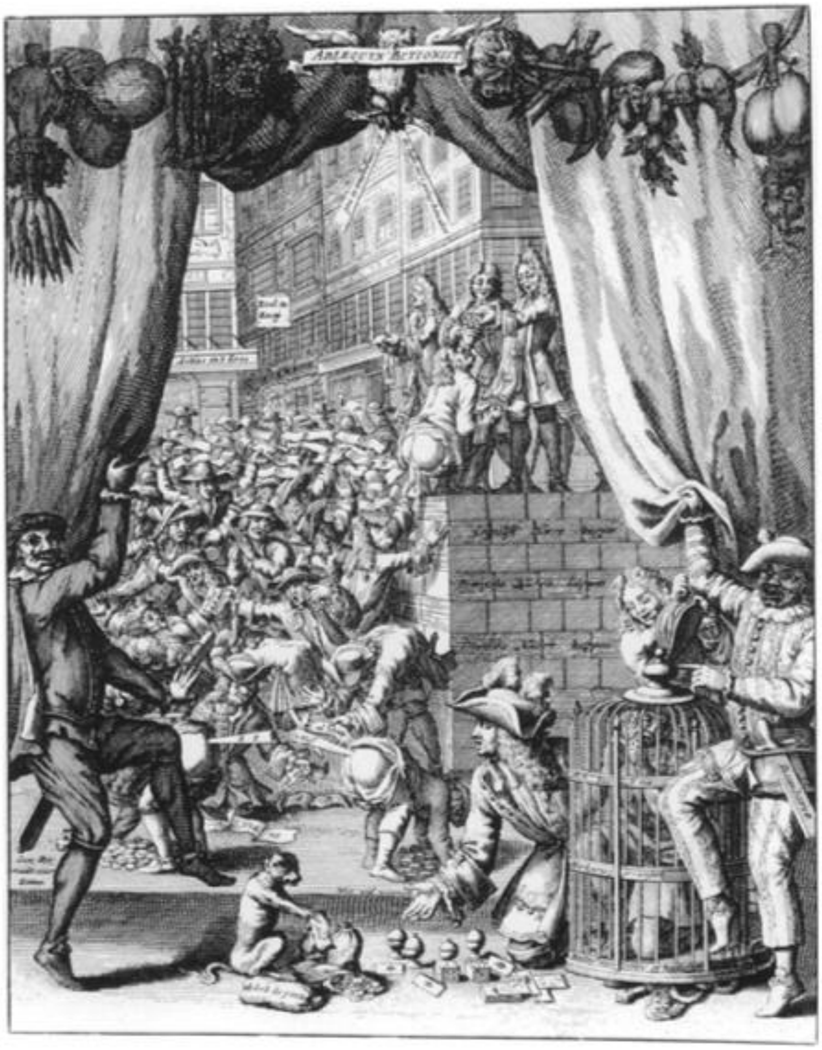

Frontispiece II: "Arleqyn Actionist"

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