

Meet John Law: author of the Mississippi Bubble ‘recovery’

by Nancy Spannaus

If the creators of today’s huge bubble of financial paper felt the need of a model for what they were about to do, it is likely that they turned to the story of the most famous bubble-creator of all, Scotsman John Law. Law is viewed alternately as the “father of paper money,” a “financial genius,” and one of the biggest swindlers of all time. Insane as they may be, his emulators clearly believe that he was successful.

As we review the history of Law’s takeover of the finances of the nation of France in the early 18th century, we suggest that you note the parallels with the course of the “recovery” over the past five years. Could it be that the sponsors of John Law are the direct ancestors of those who have produced our current financial “miracle”?

Creating the Mississippi Bubble

The years between 1716 and 1720 in France witnessed a legendary increase in the financial fortunes of that nation, only to conclude with a crash which brought it close to national ruin. The last period of that “recovery” is known as the Mississippi Bubble, but that was only the culmination of a process whereby lunacy had already taken over France’s finances.

The author of this “recovery” was a well-known gambler by the name of John Law. At the beginning of 1716, Law was just an independently wealthy “gentleman,” who had finally received permission to set up a private bank with the right to issue bank notes. At the conclusion, Law had become France’s highest financial officer, the Comptroller General, with the power to collect all taxes and regulate the finances of the entire nation.

Law received his right to establish a private bank in 1716 through the political influence of the Duke of Orleans, then regent for the infant King of France. Law had first sought the right to set up a national bank with the right to manage trade, collect taxes, and issue paper money, but the Council of State denied this extraordinary request. Its granting of the right to issue limited amounts of paper money to Law’s private bank was unusual enough, in a period where coinage and specie were the normal means of payment.

In 1717, Law’s bank notes became usable in paying taxes

and duties. By 1718, Law had succeeded in getting the limits on his issuance of paper money removed, and his bank turned into a state bank. At that time, he had the perfect opportunity to implement his “theory” that the wealth of the nation would increase in proportion to the amount of credit which was put into circulation. The stage was set for the huge expansion of paper.

Law’s increasing powers were related to the fact that he accepted greatly devalued government paper as part of the capital for his ventures, promising to make it worthwhile once again. With this foot in the door, he received another concession in 1717—the right to form a Company of Louisiana, or Mississippi Company, with full rights to trade and development in that French colony.

Immediately, Law proceeded to concentrate on building the fortunes of the Mississippi Company. One of his major benefactors was the press of the day, which began to publish stories about the untapped riches of the Mississippi Valley, in an effort to both encourage investment, and recruit colonists to go and “harvest” this wealth. The stories ranged from unbelievable to fantastic, but they did succeed in rapidly increasing the price of the stocks of the company.

In tandem with the increased subscriptions, Law steadily expanded the company’s sources of wealth within France. He purchased from the government the tobacco monopoly, the right to mine salt, and eventually the privilege of collecting all taxes paid directly to the Exchequer. He also expanded international concessions, including the slave trade, so that by mid-1719 he had a virtual monopoly on the foreign trade of France.

The values of the stocks in his company began to soar. Starting with the share price of 500 livres in July, the price rose astronomically:

September: 5,000 livres/share
November: 10,000 livres/share
December: 20,000 livres/share

Simultaneously, the price of real estate is conservatively estimated to have doubled, tripled, and quintupled; food prices rose, and “business transactions” multiplied. One of the major growth arenas was gambling, in addition to the fact that

hundreds of thousands of people from all walks of life rushed to become speculators in the stocks of the Mississippi Company.

In the midst of the rage of speculation, Law also took a few small measures relative to the real economy, including reduction of internal taxes and tariffs, and the creation of some infrastructure. Bankruptcies were allegedly reduced by 75%. But the base of real wealth in the economy was being increasingly dwarfed by the growth in speculation. In fact, many individuals who had previously worked for a living now found it more "profitable" to leave their jobs and live on their gains from speculation, a trend which was a recipe for disaster.

But Law did not have to worry about paying off his investors, as long as he could keep new suckers coming in. For, as he increased his power, ultimately becoming Comptroller General in 1720, he passed laws that progressively outlawed the use of gold coin. As long as he could assemble the money to make his interest payments, he could hold things together.

The problem was maintaining confidence, and that was becoming increasingly difficult. For, the truth was, that despite the upward valuation of the Mississippi Company's stock, there was absolutely no tangible wealth whatsoever being created from that territory. Even more devastating was the fact that the myths of tremendous, instant wealth and gratification were evaporating.

Most disconcerting was the incident of the beautiful Indian princess whom Law had brought to France, in order to entice young Frenchmen into wanting to become colonists. The princess was offered as wife to a Frenchman who might want to rule Louisiana with her. But soon it was discovered that, according to the laws of her country, she had the inalienable right to put her husband to death if he did not prove satisfactory to her. This quelled the ardor of most, but one volunteer was finally found.

Shortly after the young couple took off for Louisiana, however, word was received that the new husband had been killed, and perhaps even eaten.

Confidence was growing extremely thin.

Through the course of 1720, the situation became worse and worse, as it became increasingly obvious that the Company did not have the income or reserves to meet its obligations. Law first took measures to try to shore up the Company by uniting it with the bank, but this just meant that both were unable to support their debts. Anti-specie laws were enacted, and then measures taken to debase the currency. The country was hit by massive capital flight.

When Law responded by turning on the printing presses, it still didn't work. Finally, in mid-March, the Bank announced it would soon have no more specie available, and the Company ceased trading in its stocks.

Amazingly, Law held on during most of the rest of the year, with his institutions in chaos, and his physical survival

in constant doubt. In December, it finally became necessary for him to flee, in order to prevent exemplary action against him by a government eager to placate the mobs of the public who were enraged at being unable to get any return on their "investments."

Who was John Law?

A look at the person of John Law should have been sufficient for one to conclude that he was the Ivan Boesky of his day. But Law clearly had more powerful backers than Boesky in order to succeed, as he did, in taking over the government of France.

Forced to flee England because he had killed a rival lover in a duel, Law took up a career as a professional gambler. He began in Holland, where he is reputed to have "studied" banking. But his concrete achievements in that country were the introduction of a lottery, and eventually, his expulsion from the country for cheating at the gaming table.

By no means was Law discouraged, however. He spent the next six years in France amassing a further fortune in gambling, and cultivating friendships with Masonic, noble circles like that of his most devoted sponsor, the Duke of Orleans. Eventually, he was also advised by the police to leave France as well, due to his "methods" at the gaming table.

From France, Law went to northern Italy, where he again set hard at work gambling. In Genoa, Venice, and Rome, he developed his fortune and his reputation. At least once, he was forced to leave Genoa and Venice due to questionable practices at the casinos. A trip to Vienna also concluded when he was warned that it was too hot for him to stay in town.

He had just about worn out his welcome in Italy when he heard that the situation in France was opening up for him once again. It was then, in 1716, that he returned to have the Duke of Orleans open not only his arms, but the entire country to his deprivations.

The reader will perhaps have guessed that, although Law's adventures in France beggared that nation, he himself did not become impoverished. On the contrary, many of his sponsors and colleagues within the French nobility managed to enrich themselves greatly, and to get their money out of the country before the boom was lowered.

Law himself did not fare quite as well, although he went directly to London and received a pardon from the King. He was never again accepted as a government adviser or official, either in England or in France, and died in 1729 in Venice, still pursuing his gambling career.

How lunacy reigns

How is it possible that this shady gad-about ascended to a sufficiently high pinnacle of power in one of the world's most developed nations? One might well ask the same question about the rule of speculation in the United States and other "industrialized" countries today.

On the one hand, Law was sponsored by a strong faction of the financial elite. This elite was determined to enrich itself through any looting scheme available, and thus it found the clever con-man Law to be a useful tool. For the short term, this elite succeeded in wiping out a number of its competitors and making a killing. It was only when the reality of the discrepancy between the paper values and the real wealth of the nation forced itself to the fore, that the elite was forced to dump its man.

Nor should it be assumed that Law's sponsors were necessarily just the French elite. There is ample evidence that the gambler was in constant contact with the nobility of Italy, notably Prince Conti, and of England. And, although he did not explicitly work for them, his handling of the finances of France redounded heavily to their benefit. It is also most interesting that England was ripped off by a similar boondoggle, the South Sea Bubble, in approximately the same years.

In other words, the fact that an international financial elite dictates policy contrary to the interest of nations, as through the International Monetary Fund and international bankers today, is by no means new.

But there is another reason for Law's success that is even more applicable to the scandalous financial reality of today. That is the fact that the elite was able to hornswoggle a large portion of the population of metropolitan France into participating in his game. The insanity of the growth of the value of the stocks of the Mississippi Company had to be obvious to anyone who thought seriously, not to mention the reorientation of the country to gambling and speculation. Yet, a great deal of France was swept up into Mississippi mania—until the period of the inevitable crash forced itself upon them.

What allows a population to join in to a "get rich quick," devil-may-care mentality that will result in the destruction of its nation? Perhaps there are some around today who might have some insight into the answer to that question.

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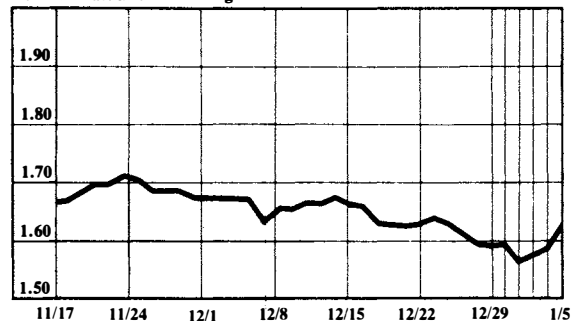
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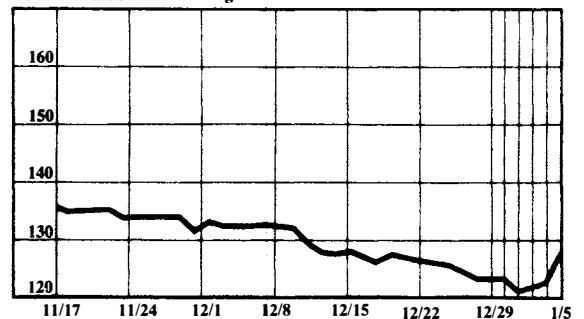
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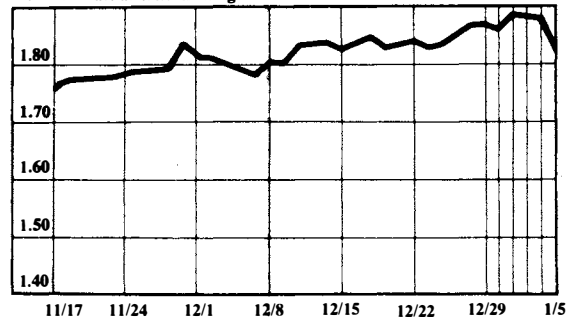
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