

‘A TIME OF UNEXAMPLED PROSPERITY’

## The Great Mississippi Bubble

by Washington Irving

**Introduction:** Rampant speculation, bank blowouts, and panic on the stock exchange are not unavoidable “cyclical phenomena,” as some would have us believe. Rather, they are the product of a looting policy conducted by financial powers determined to maintain their own power, and bankrupt their rivals. Famous examples include the Dutch Tulip Craze of the early 17th Century, and the Mississippi and South Sea bubbles of the early 18th Century.

In 1819-20 the American writer, historian, and patriot, Washington Irving (1783-1859), set out to educate his fellow-citizens about the folly of succumbing to these bubbles. In a short story entitled, “The Great Mississippi Bubble,” published in a collection of essays and stories entitled “The Sketch Book of Geoffrey Crayon,” Irving described the 1719 bubble created by English speculator John Law in France, whereby Law—having enlisted the like-minded Regent of France, the treacherous Duke of Orleans—sent the French economy into a speculative mania of soaring interest rates and hyperinflation, based only on the promise of future land values in France’s Louisiana Territory around America’s Mississippi River. When the bubble finally burst, the “Big-Money Boys” got their inflated profits and pulled out, leaving the smaller speculators holding the bag, and the nation in ruins.

*It is up to the reader to decide whether any resemblance*



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*The American writer Washington Irving was an active member of the patriotic U.S. intelligence networks that included James Fenimore Cooper and Samuel Morse, among others.*

*between John Law and Alan Greenspan or Ben Bernanke—or even today’s stock market gambler—is purely coincidental; or whether the situation in France in 1719 in any way resembles that of the United States in recent several years.*

*We publish substantial excerpts of Irving’s story below.*

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In the course of a voyage from England, I once fell in with a convoy of merchant ships, bound for the West Indies. The weather was uncommonly bland; and the ships vied with each other in spreading sail to catch a light, favoring breeze, until their hulls were almost hidden beneath a cloud of canvas. The breeze went down with the sun, and his last yellow rays shone upon a thousand sails, idly flapping against the masts.

I exulted in the beauty of the scene, and augured a prosperous voyage; but the veteran master of the

ship shook his head, and pronounced this halcyon calm a “weather-breeder.” And so it proved. A storm burst forth in the night; the sea roared and raged; and when the day broke I beheld the late gallant convoy scattered in every direction; some dismasted, others scudding under bare poles, and many firing signals of distress.

I have since been occasionally reminded of this scene, by those calm sunny seasons in the commercial world, which are known by the name of “times of unexampled prosperity.”



*The South Sea Bubble was based on John Law's Mississippi Bubble: "The English had brought the vast imaginary commerce of the South Seas in aid of their banking operations. Law sought to bring, as an immense auxiliary of his bank, the whole trade of the Mississippi." Shown, an engraving of the South Sea Bubble, by E.M. Ward.*

They are the sure weather-breeders of traffic. Every now and then the world is visited by one of these delusive seasons, when "the credit system" as it is called, expands to full luxuriance; everybody trusts everybody; a bad debt is a thing unheard of; the broad way to certain and sudden wealth lies plain and open; and men are tempted to dash forward boldly, from the facility of borrowing.

Promissory notes interchanged between scheming individuals, are liberally discounted at the banks, which become so many mints to coin words into cash; and as the supply of words is inexhaustible, it may readily be supposed what a vast amount of promissory capital is soon in circulation. Every one now talks in thousands; nothing is heard but gigantic operations in trade; great purchases and sales of real property, and immense sums made at every transfer. All, to be sure, as yet exists in promise; but the believer in promises calculates the aggregate as solid capital, and falls back in amazement at the amount of public wealth, the "unexampled state of public prosperity!"

Now is the time for speculative and dreaming or designing men. They relate their dreams and projects to the ignorant and credulous, dazzle them with golden visions, and set them maddening after shadows. The example of one stimulates another; speculation rises on speculation; bubble rises on bubble; every one helps with his breath to swell the windy superstructure, and admires and wonders at the magnitude of the inflation he has contributed to produce.

Speculation is the romance of trade, and casts contempt upon all its sober realities. It renders the stock-jobber a magician, and the exchange a region of enchantment. It elevates

the merchant into a kind of knight-errant, or rather a commercial Quixote. The slow but sure gains of snug percentage become despicable in his eyes: no "operation" is thought worthy of attention that does not double or treble the investment. As he sits musing over his ledger, with pen behind his ear, he is like La Mancha's hero in his study, dreaming over his books of chivalry. His dusty counting house fades before his eyes, or changes into a Spanish mine; he gropes after diamonds, or dives after pearls. The subterranean garden of Aladdin is nothing to the realms of wealth that break upon his imagination.

Could this delusion always last, the life of a merchant would indeed be a golden dream; but it is as short as it is brilliant. Let but a doubt enter, and the "season of unexampled prosperity" is at an end. The coinage of words is suddenly curtailed; the promissory capital begins to vanish into smoke; a panic succeeds, and the whole superstructure, built upon credit, and reared by speculation, crumbles to the ground, leaving scarce a wreck behind:

"It is such stuff as dreams are made of."

When a man of business therefore, hears on every side rumors of fortunes suddenly acquired; when he finds banks liberal, and brokers busy; when he sees adventurers flush of paper capital, and full of scheme and enterprise; when he perceives a greater disposition to buy than to sell; when trade overflows its accustomed channels, and deluges the country; when he hears of new regions of commercial adventure; of distant marts and distant mines, swallowing merchandise and

disgoring gold; when he finds joint stock companies of all kinds forming; railroads, canals, and locomotive engines, springing up on every side; when idlers suddenly become men of business, and dash into the game of commerce as they would into the hazards of the faro-table; when he beholds the streets glittering with new equipages, palaces conjured up by the magic of speculation, tradesmen flushed with sudden success, and vying with each other in ostentatious expense; in a word, when he hears the whole community joining in the theme of “unexampled prosperity,” let him look upon the whole as a “weather-breeder,” and prepare for the impending storm.

The foregoing remarks are intended merely as a prelude to a narrative I am about to lay before the public, of one of the most memorable instances of the infatuation of gain to be found in the whole history of commerce. I allude to the famous Mississippi bubble. It is a matter that has passed into a proverb, and become a phrase in every one’s mouth, yet of which not one merchant in ten has probably a distinct idea. I have therefore thought that an authentic account of it would be interesting and salutary, at the present moment, when we are suffering under the effects of a severe access of the credit system, and just recovering from one of its ruinous delusions.

## The Great Mississippi Bubble

Before entering into the story of this famous chimera, it is proper to give a few particulars concerning the individual who engendered it. John Law was born in Edinburgh, in 1671. His father, William Law, was a rich goldsmith, and left his son an estate of considerable value, called Lauriston, situated about four miles from Edinburgh. Goldsmiths, in those days, acted occasionally as bankers, and his father’s operations, under this character, may have originally turned the thoughts of the youth to the science of calculation, in which he became an adept; so that at an early age he excelled in playing at all games of combination.

In 1694, he appeared in London, where a handsome person and an easy and insinuating address gained him currency in the first circles, and the nickname of “Beau Law.” The same personal advantages gave him success in the world of gallantry, until he became involved in a quarrel with Beau Wilson, his rival in fashion, whom he killed in a duel, and then fled to France to avoid prosecution.

He returned to Edinburgh in 1700, and remained there several years; during which time he first broached his great credit system, offering to supply the deficiency of coin by the establishment of a bank, which, according to his views, might emit a paper currency equivalent to the whole landed estate of the kingdom.

His scheme excited great astonishment in Edinburgh; but, though the government was not sufficiently advanced in financial knowledge to detect the fallacies upon which it was founded, Scottish caution and suspicion served in place of

wisdom, and the project was rejected. Law met with no better success with the English parliament; and the fatal affair of the death of Wilson still hanging over him, for which he had never been able to procure a pardon, he again went to France.

The financial affairs of France were at this time in a deplorable condition. The wars, the pomp, and profusion of Louis XIV, and his religious persecutions of whole classes of the most industrious of his subjects, had exhausted his treasury, and overwhelmed the nation with debt. . . .

In this state of things Law ventured to bring forward his financial project. It was founded on the plan of the Bank of England, which had already been in successful operation several years. He met with immediate patronage and a congenial spirit in the Duke of Orleans, who had married a natural daughter of the king. The duke had been astonished at the facility with which England had supported the burden of a public debt, created by the wars of Anne and William, and which exceeded in amount that under which France was groaning. The whole matter was soon explained by Law to his satisfaction. The latter maintained that England had stopped at the mere threshold of an art capable of creating unlimited sources of national wealth. The duke was dazzled with his splendid views and specious reasonings, and thought he clearly comprehended his system. Demarets, the Comptroller-General of Finance, was not so easily deceived. He pronounced the plan of Law more pernicious than any of the disastrous expedients that the government had yet been driven to. The old king also, Louis XIV, detested all innovations, especially those which came from a rival nation: the project of a bank, therefore, was utterly rejected.

Law remained for a while in Paris, leading a gay and affluent existence, owing to his handsome person, easy manners, flexible temper, and a faro-bank which he had set up.

The shifting, adventurous life of Law, and the equivocal means by which he appeared to live, playing high, and always with great success, threw a cloud of suspicion over him wherever he went, and caused him to be expelled by the magistracy from the semi-commercial, semi-aristocratical cities of Venice and Genoa.

The events of 1715 brought Law back again to Paris. Louis XIV. was dead. Louis XV. was a mere child, and during his minority the Duke of Orleans held the reins of government as Regent. Law had at length found his man.

The Duke of Orleans has been differently represented by different contemporaries. He appears to have had excellent natural qualities, perverted by a bad education. . . . His mother, the Duchess of Orleans, expressed his character in a *jeu d’esprit*. “The fairies,” said she, “were invited to be present at his birth, and each one conferring a talent on my son, he possesses them all. Unfortunately, we had forgotten to invite an old fairy, who, arriving after all the others, exclaimed, ‘He shall have all the talents, excepting that to make good use of them.’”

Under proper tuition, the duke might have risen to real





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*The wily John Law (above) convinced the degenerate Duke of Orleans (right), Regent for the child-king Louis XV, to buy into his money-making schemes. "Law met with immediate patronage and a congenial spirit in the Duke of Orleans, who had been astonished at the facility with which England had supported the burden of a public debt, which exceeded in amount that under which France was groaning.... The duke was dazzled with his splendid views and specious reasonings...."*



greatness; but in his early years he was put under the tutelage of the Abbé Dubois, one of the subtlest and basest spirits that ever intrigued its way into eminent place and power. . . .

[The Regent] surrounded himself with a set of dissolute men like himself, who, let loose from the restraint under which they had been held during the latter hypocritical days of Louis XIV, now gave way to every kind of debauchery. With these men the Regent used to shut himself up, after the hours of business, and excluding all graver persons and graver concerns, celebrate the most drunken and disgusting orgies, where obscenity and blasphemy formed the seasoning of conversation. For the profligate companions of these revels he invented the appellation of his *roués* the literal meaning of which is, men broken on the wheel; intended, no doubt, to express their broken-down characters and dislocated fortunes; although a contemporary asserts that it designated the punishment that most of them merited. Madame de Labran, who was present at one of the Regent's suppers, was disgusted by the conduct and conversation of the host and his guests, and observed at table, that God, after he had created man, took the refuse clay that was left and made of it the souls of lackeys and princes.

Such was the man that now ruled the destinies of France. Law found him full of perplexities from the disastrous state of the finances. He had already tampered with the coinage, calling in the coin of the nation, restamping it, and issuing it at a nominal increase of one fifth, thus defrauding the nation out of twenty per cent. of its capital. He was not likely, therefore, to be scrupulous about any means likely to relieve him from financial difficulties; he had even been led to listen to the cruel alternative of a national bankruptcy.

Under these circumstances Law confidently brought forward his scheme of a bank that was to pay off the national debt, increase the revenue, and at the same time diminish the taxes. The following is stated as the theory by which he recommended his system to

the Regent. The credit enjoyed by a banker or a merchant, he observed, increases his capital tenfold; that is to say, he who has a capital of one hundred thousand livres, may, if he possess sufficient credit, extend his operations to a million, and reap profits to that amount. In like manner, a state that can collect into a bank all the current coin of the kingdom, would be as powerful as if its capital were increased tenfold. The specie must be drawn into the bank, not by way of loan, or by taxation, but in the way of deposit. This might be effected in different modes, either by inspiring confidence, or by exerting authority. One mode, he observed, had already been in use. Each time that a state makes a recoinage, it becomes momentarily the depository of all the money called in belonging to the subjects of that state. His bank was to effect the same purpose; that is to say, to receive in deposit all the coin of the kingdom, but to give in exchange its bills, which, being of an invariable value, bearing an interest, and being payable on demand, would not only supply the place of coin, but prove a better and more profitable currency.

The Regent caught with avidity at the scheme. It suited his bold, reckless spirit and his grasping extravagance. Not that he was altogether the dupe of Law's specious projects; still he

was apt, like many other men unskilled in the arcana of finance, to mistake the multiplication of money for the multiplication of wealth, not understanding that it was a mere agent or instrument in the interchange of traffic, to represent the value of the various productions of industry; and that an increased circulation of coin or bank-bills, in the shape of currency, only adds a proportionably increased and fictitious value to such productions. Law enlisted the vanity of the Regent in his cause. He persuaded him that he saw more clearly than others into sublime theories of finance, which were quite above the ordinary apprehension....

It is certain that it met with strong opposition from the Regent's ministers, the Duke de Noailles and the Chancellor d'Anguesseau, and it was no less strenuously opposed by the parliament of Paris. Law, however, had a potent though secret coadjutor in the Abbé Dubois, now rising, during the regency, into great political power, and who retained a baneful influence over the mind of the Regent. This wily priest, as avaricious as he was ambitious, drew large sums from Law as subsidies, and aided him greatly in many of his most pernicious operations. He aided him, in the present instance, to fortify the mind of the Regent against all the remonstrances of his ministers and the parliament.

Accordingly, on the 2d of May, 1716, letters patent were granted to Law to establish a bank of deposit, discount, and circulation, under the firm of "Law and Company," to continue for twenty years. The capital was fixed at six millions of livres, divided into shares of five hundred livres each, which were to be sold for twenty-five per cent. of the Regent's debased coin, and seventy-five per cent. of the public securities, which were then at a great reduction from their nominal value, and which then amounted to nineteen hundred millions. The ostensible object of the bank, as set forth in the patent, was to encourage the commerce and manufactures of France. The louis-d'ors and crowns of the bank were always to retain the same standard of value, and its bills to be payable in them on demand.

At the outset, while the bank was limited in its operations, and while its paper really represented the specie in its vaults, it seemed to realize all that had been promised from it. It rapidly acquired public confidence and an extended circulation,



*Bubble cards, like the one pictured here, dated 1720, circulated widely, lampooning the madness of those who were seduced by the South Sea scheme. The caption says, "The Headlong Fools plunge into South Sea Water..."*

and produced an activity in commerce unknown under the baneful government of Louis XIV. As the bills of the bank bore an interest, and as it was stipulated they would be of invariable value, and as hints had been artfully circulated that the coin would experience successive diminution, everybody hastened to the bank to exchange gold and silver for paper. So great became the throng of depositors, and so intense their eagerness, that there was quite a press and struggle at the back door, and a ludicrous panic was awakened, as if there was danger of their not being admitted. An anecdote of the time relates that one of the clerks, with an ominous smile, called out to the struggling multitude, "Have a little patience, my friends; we mean to take all your money;" an assertion disastrously verified in the sequel.

Thus by the simple establishment of a bank, Law and the Regent obtained pledges of confidence for the consummation of farther and more complicated schemes, as yet hidden from the public. In a little while the bank shares rose enormously, and the amount of its notes

in circulation exceeded one hundred and ten millions of livres. A subtle stroke of policy had rendered it popular with the aristocracy. Louis XIV. had, several years previously, imposed an income tax of a tenth, giving his royal word that it should cease in 1717. This tax had been exceedingly irksome to the privileged orders; and, in the present disastrous times, they had dreaded an augmentation of it. In consequence of the successful operation of Law's scheme, however, the tax was abolished, and now nothing was to be heard among the nobility and clergy but praises of the Regent and the bank.

Hitherto all had gone well, and all might have continued to go well, had not the paper system been farther expanded. But Law had yet the grandest part of his scheme to develop. He had to open his ideal world of speculation, his El Dorado of unbounded wealth. The English had brought the vast imaginary commerce of the South Seas in aid of their banking operations. Law sought to bring, as an immense auxiliary of his bank, the whole trade of the Mississippi. Under this name was included not merely the river so called, but the vast region known as Louisiana, extending from north latitude 290 up to Canada in north latitude 40.... As the bank was to co-operate with the company, the Regent ordered that its bills

should be received the same as coin, in all payments of the public revenue. Law was appointed chief director of this company, which was an exact copy of the Earl of Oxford's South Sea Company, set on foot in 1711, and which distracted all England with the frenzy of speculation. In like manner with the delusive picturings given in that memorable scheme of the sources of rich trade to be opened in the South Sea countries, Law held forth magnificent prospects of the fortunes to be made in colonizing Louisiana, which was represented as a veritable land of promise, capable of yielding every variety of the most precious produce. Reports, too, were artfully circulated, with great mystery, as if to the "chosen few," of mines of gold and silver recently discovered in Louisiana, and which would insure instant wealth to the early purchasers. These confidential whispers, of course, soon became public; and were confirmed by travellers fresh from the Mississippi, and doubtless bribed, who had seen the mines in question, and declared them superior in richness to those of Mexico and Peru. Nay more, ocular proof was furnished to public credulity in ingots of gold, conveyed to the mint as if just brought from the mines of Louisiana.

Extraordinary measures were adopted to force a colonization. An edict was issued to collect and transport settlers to the Mississippi. The police lent its aid. The streets and prisons of Paris, and of the provincial cities, were swept of mendicants and vagabonds of all kinds, who were conveyed to Havre de Grace. About six thousand were crowded into ships, where no precautions had been taken for their health or accommodation. Instruments of all kinds proper for the working of mines were ostentatiously paraded in public, and put on board the vessels; and the whole set sail for this fabled El Dorado, which was to prove the grave of the greater part of its wretched colonists.

D'Anguesseau, the chancellor, a man of probity and integrity, still lifted his voice against the paper system of Law, and his project of colonization, and was eloquent and prophetic in picturing the evils they were calculated to produce; the private distress and public degradation; the corruption of morals and manners; the triumph of knaves and schemers; the ruin of fortunes, and the downfall of families. He was incited more and more to this opposition by the Duke de Noailles, the Minister of Finance, who was jealous of the growing ascendancy of Law over the mind of the Regent, but was less honest than the chancellor in his opposition. The Regent was excessively annoyed by the difficulties they conjured up in the way of his darling schemes of finance, and the countenance they gave to the opposition of parliament; which body disgusted more and more with the abuses of the regency, and the system of Law, had gone so far as to carry its remonstrances to the very foot of the throne.

He determined to relieve himself from these two ministers, who, either through honesty or policy, interfered with all his plans. Accordingly, on the 28th of January, 1718, he dismissed the chancellor from office, and exiled him to his estate

in the country; and shortly afterward removed the Duke de Noailles from the administration of the finance....

The system now went on with flowing sail. The Western, or Mississippi Company, being identified with the bank, rapidly increased in power and privileges. One monopoly after another was granted to it—the trade of the Indian Seas, the slave-trade with Senegal and Guinea, the farming of tobacco, the national coinage, etc. Each new privilege was made a pretext for issuing more bills, and caused an immense advance in the price of stock. At length, on the 4th of December, 1718, the Regent gave the establishment the imposing title of the Royal Bank, and proclaimed that he had effected the purchase of all the shares, the proceeds of which he had added to its capital. This measure seemed to shock the public feeling more than any other connected with the system, and roused the indignation of parliament....

The worst effect of this illusive system was the mania for gain, or rather for gambling in stocks, that now seized upon the whole nation.... The shares of the company went on rising in value, until they reached 1,300 percent. Nothing was now spoken of but the price of shares, and the immense fortunes suddenly made by lucky speculators. Those whom Law had deluded used every means to delude others. The most extravagant dreams were indulged concerning the wealth to flow in upon the company from its colonies, its trade, and its various monopolies. It is true nothing as yet had been realized, nor could in some time be realized, from these distant sources, even if productive; but the imaginations of speculators are ever in the advance, and their conjectures are immediately converted into facts....

Paris now became the centre of attraction for the adventurous and the avaricious, who flocked to it not merely from the provinces, but from neighboring countries.... Shares of stock passed from hand to hand, mounting in value, one knew not why. Fortunes were made in a moment, as if by magic....

To ingulf all classes in this ruinous vortex, Law now split the shares of fifty millions of stock each into one hundred shares; thus, as in the splitting of lottery tickets, accommodating the venture to the humblest purse. Society was thus stirred up to its very dregs, and adventurers of the lowest order hurried to the stock market. All honest, industrious pursuits and modest gains were now despised. Wealth was to be obtained instantly, without labor and without stint....

In fact, the usual distinctions of society had lost their consequence, under the reign of this new passion. Rank, talent, military fame, no longer inspired deference. All respect for others, all self-respect, were forgotten in the mercenary struggle of the stock-market. Even prelates and ecclesiastical corporations, forgetting their true objects of devotion, mingled among the votaries of Mammon. They were not behind those who wielded the civil power in fabricating ordinances suited to their avaricious purposes. Theological decisions forthwith appeared, in which the anathema launched by the Church





*"Paris now became the centre of attraction for the adventurous and the avaricious.... Shares of stock passed from hand to hand, mounting in value, one knew not why. Fortunes were made in a moment, as if by magic...." In this engraving of "The Street of Speculators" in Paris during the Mississippi Bubble, the hunchback in the foreground made \$10,000 by letting people use his back as a desk.*

against usury was conveniently construed as not extending to the traffic in bank shares!...

Luxury and extravagance kept pace with this sudden inflation of fancied wealth. The hereditary palaces of nobles were pulled down, and rebuilt on a scale of augmented splendor. Entertainments were given, of incredible cost and magnificence. Never before had been such display in houses, furniture, equipages, and amusements. This was particularly the case among persons of the lower ranks, who had suddenly become possessed of millions....

The wealth of Law rapidly increased with the expansion of the bubble. In the course of a few months he purchased fourteen titled estates, paying for them in paper; and the public hailed these sudden and vast acquisitions of landed prop-

erty, as so many proofs of the soundness of his system....

The course of illusory credit went on triumphantly for eighteen months. Law had nearly fulfilled one of his promises, for the greater part of the public debt had been paid off; but how paid? In bank shares, which had been trumped up several hundred per cent. above their value, and which were to vanish like smoke in the hands of the holders....

Toward the latter end of 1719 the Mississippi scheme had reached its highest point of glory. Half a million of strangers had crowded into Paris, in quest of fortune. The hotels and lodging-houses were overflowing; lodgings were procured with excessive difficulty; granaries were turned into bedrooms; provisions had risen enormously in price; splendid houses were multiplying on every side; the streets were crowded with carriages; above a thousand new equipages had been launched.

On the eleventh of December Law obtained another prohibitory decree, for the purpose of sweeping all the remaining specie in circulation into the bank. By this it was forbidden to make any payments in silver above ten livres, or in gold above three hundred.

The repeated decrees of this nature, the object of which was to depreciate the value of gold and increase the illusive credit of paper, began to awaken doubts of a system which required such bolstering. Capitalists gradually awoke from their bewilderment. Sound and able financiers consulted together, and agreed to make common cause against this continual expansion of a paper system. The shares of the bank and of the company began to decline in value. Wary men took the alarm, and began to realize, a word now first brought into use, to express the conversion of ideal property into something real.

The Prince of Conti, one of the most prominent and grasping of the Mississippi lords, was the first to give a blow to the credit of the bank....

This was the signal for other drains of like nature. The English and Dutch merchants, who had purchased a great amount of bank paper at low prices, cashed them at the bank, and carried the money out of the country. Other strangers did the like, thus draining the kingdom of its specie, and leaving paper in its place....

In February, 1720, shortly after Law's installment in office, a decree came out uniting the bank to the India Company, by which last name the whole establishment was now known. The decree stated, that, as the bank was royal, the king was bound to make good the value of its bills....

The bank, it was said, had by this time issued notes to the amount of one thousand millions, being more paper than all the banks of Europe were able to circulate....

Equal abuses had taken place under the colonizing proj-

ect. In his thousand expedients to amass capital, Law had sold parcels of land in Mississippi, at the rate of three thousand livres for a league square. Many capitalists had purchased estates large enough to constitute almost a principality; the only evil was, Law had sold a property which he could not deliver. . . .

With all these props and stays, the system continued to totter. How could it be otherwise, under a despotic government that could alter the value of property at every moment? The very compulsory measures that were adopted to establish the credit of the bank hastened its fall, plainly showing there was a want of solid security. Law caused pamphlets to be published, setting forth, in eloquent language, the vast profits that must accrue to holders of the stock, and the impossibility of the king's ever doing it any harm. On the very back of these assertions came forth an edict of the king, dated the 22d of May, wherein, under pretence of having reduced the value of his coin, it was declared necessary to reduce the value of his bank-notes one half, and of the India shares from nine thousand to five thousand livres!

This decree came like a clap of thunder upon shareholders. They found one half of the pretended value of the paper in their hands annihilated in an instant; and what certainty had they with respect to the other half? The rich considered themselves ruined; those in humbler circumstances looked forward to abject beggary.

The parliament seized the occasion to stand forth as the protector of the public, and refused to register the decree. It gained the credit of compelling the Regent to retrace his step, though it is more probable he yielded to the universal burst of public astonishment and reprobation. On the 27th of May the edict was revoked, and bank-bills were restored to their previous value. But the fatal blow had been struck; the delusion was at an end. Government itself had lost all public confidence equally with the bank it had engendered, and which its own arbitrary acts had brought into discredit. . . .

A general confusion now took place in the financial world. Families who had lived in opulence found themselves suddenly reduced to indigence. Schemers who had been revelling in the delusion of princely fortunes found their estates vanishing into thin air. Those who had any property remaining sought to secure it against reverses. Cautious persons found there was no safety for property in a country where the coin was continually shifting in value, and where a despotism was exercised over public securities, and even over the private purses of individuals. They began to send their effects into other countries; when lo! on the 20th of June, a royal edict commanded them to bring back their effects, under penalty of forfeiting twice their value, and forbade them, under like penalty, from investing their money in foreign stocks. This was soon followed by another decree, forbidding any one to retain precious stones in his possession, or to sell them to foreigners;

## The South Sea Bubble

One of the defining moments of the implementation of the Anglo-Dutch Liberal system was what was later known as the "South Sea Bubble." It was a scheme based on the insane discovery of the Bank of England (1694) and the British East India Company (1696) that speculation in government debt to fund wars was one of the so-called great advances made by the 1688 "Glorious Revolution." This is the origin of central banking in the modern era. It was modeled on the earlier Bank of Amsterdam (1609), which was in fact modeled on the Venetian banking system.

As Washington Irving points out in his "The Great Mississippi Bubble," the South Sea bubble was modeled on the Mississippi bubble of John Law. It is very suggestive that Law was in Venice before he returned to France and got the funding scheme through, and he died in Venice. However, the South Sea Chartered Company developed a scheme that took a certain portion of the government debt and issued stock against it. The English government paid 5-6% interest to the company, and the

company got the monopoly for issuing stock to holders of this debt, and also lending the government monies at interest. The reason a holder of government debt would take stock for it is based upon the massive up-valuation of the stock. So the government debt was literally "securitized."

On April 14, 1720, the stock was sold at £300 per share. On April 29, it was £400. On June 17, it was sold at 1,000, and again on Aug. 24 it was £1,000 per share.

By October 1720, the stock had crashed to £230.

As fast as bubbles go up, they come down faster and harder. The entire British monarchy was involved in the scheme; most of the Parliament, and thousands of small investors were wiped out. Estimates are that 30,000 people—one quarter of the population of London—were bankrupted.

It was not just merely a swindle; it was in fact the actual theory behind the Anglo-Dutch system, a system based on looting—in this case the public treasury. It doesn't work and always collapses. Bubbles are always the result of these Venetian systems, which, in every case, are played out to their conclusions, leading to the destruction of both the country that uses it, and dark ages for mankind.

—Gerald Rose



all must be deposited in the bank in exchange for depreciating paper!...

About the middle of July, the last grand attempt was made by Law and the Regent to keep up the system and provide for the immense emission of paper. A decree was fabricated, giving the India Company the entire monopoly of commerce, on condition that it would, in the course of a year, reimburse six hundred millions of livres of its bills, at the rate of fifty millions per month.

On the 17th this decree was sent to parliament to be registered. It at once raised a storm of opposition in that assembly, and a vehement discussion took place. While that was going on, a disastrous scene was passing out of doors.

The calamitous effects of the system had reached the humblest concerns of human life. Provisions had risen to an enormous price; paper money was refused at all the shops; the people had not wherewithal to buy bread. It had been found absolutely indispensable to relax a little from the suspension of specie payments, and to allow small sums to be scantily exchanged for paper. The doors of the bank and the neighboring street were immediately thronged with a famishing multitude seeking cash for bank-notes of ten livres. So great was the press and struggle, that several persons were stifled and crushed to death....

The continued and vehement opposition of parliament to the whole delusive system of finance had been a constant source of annoyance to the Regent; but this obstinate rejection of his last grand expedient of a commercial monopoly was not to be tolerated. He determined to punish that intractable body.... On the 20th of July, early in the morning, all the doors of the parliament-house were taken possession of by the troops....

This despotic act, says Voltaire, would at any other time have caused an insurrection; but one half of the Parisians were occupied by their ruin, and the other half by their fancied riches, which were soon to vanish....

As to the exiled parliament, it lived gayly and luxuriously at Pontoise, at the public expense; for the Regent had furnished funds, as usual, with a lavish hand. The first president had the mansion of the Duke de Bouillon put at his disposal, all ready furnished, with a vast and delightful garden on the borders of a river. There he kept open house to all the members of parliament. Several tables were spread every day, all furnished luxuriously and splendidly; the most exquisite wines and liquors, the choicest fruits and refreshments of all kinds, abounded....

During all this time the system was getting more and more involved. The stock exchange had some time previously been removed to the Place Vendôme; but the tumult and noise becoming intolerable to the residents of that polite quarter, and especially to the chancellor, whose hotel was there, the Prince and Princess Carignan, both deep gamblers in Mississippi stock, offered the extensive garden of their Hotel de Soissons as a rallying-place for the worshippers of Mammon. The offer

was accepted. A number of barracks were immediately erected in the garden, as offices for the stock-brokers, and an order was obtained from the Regent, under pretext of police regulations, that no bargain should be valid, unless concluded in these barracks. The rent of them immediately mounted to a hundred livres a month for each, and the whole yielded these noble proprietors an ignoble revenue of half a million of livres.

The mania for gain, however, was now at an end. A universal panic succeeded. "*Sauve qui peut!*" was the watchword. Every one was anxious to exchange falling paper for something of intrinsic and permanent value. Since money was not to be had, jewels, precious stones, plate, porcelain, trinkets of gold and silver, all commanded any price, in paper. Land was bought at fifty years' purchase, and he esteemed himself happy who could get it even at this price. Monopolies now became the rage among the noble holders of paper. The Duke de la Force bought up nearly all the tallow, grease, and soap; others, the coffee and spices; others, hay and oats. Foreign exchanges were almost impracticable. The debts of Dutch and English merchants were paid in this fictitious money, all the coin of the realm having disappeared. All the relations of debtor and creditor were confounded. With one thousand crowns one might pay a debt of eighteen thousand livres....

In the meantime, Law was dismayed by the increasing troubles, and terrified at the tempest he had raised. He was not a man of real courage; and, fearing for his personal safety, from popular tumult, or the despair of ruined individuals, he again took refuge in the palace of the Regent. The latter, as usual, amused himself with his terrors, and turned every new disaster into a jest; but he, too, began to think of his own security.

In pursuing the schemes of Law, he had, no doubt, calculated to carry through his term of government with ease and splendor, and to enrich himself, his connections, and his favorites: and had hoped that the catastrophe of the system would not take place until after the expiration of the regency.

He now saw his mistake—that it was impossible much longer to prevent an explosion; and he determined at once to get Law out of the way, and then to charge him with the whole tissue of delusions of this paper alchemy. He accordingly took occasion of the recall of parliament in December, 1720, to suggest to Law the policy of his avoiding an encounter with that hostile and exasperated body. Law needed no urging to the measure. His only desire was to escape from Paris and its tempestuous populace. Two days before the return of parliament he took his sudden and secret departure....

As soon as Law was fairly out of the way, the Duke of Orleans summoned a council of the regency, and informed them that they were assembled to deliberate on the state of the finances and the affairs of the India Company....

Pushed to the extreme, the Regent avowed that Law had



LAW IN A CAR DRAWN BY COCKS

*The Duke of Orleans "determined at once to get Law out of the way, and then to charge him with the whole tissue of delusions of this paper alchemy.... [Law's] only desire was to escape from Paris and its tempestuous populace...." This cartoon shows Law fleeing Paris in a carriage drawn by cocks.*

emitted bills to the amount of twelve hundred millions beyond what had been fixed by ordinances, and in contradiction to express prohibitions; that, the thing being done, he, the Regent, had legalized or rather covered the transaction, by decrees ordering such emissions, which decrees he had antedated....

From all the circumstances of the case, I am inclined to think that others were more to blame than Law for the disastrous effects of his financial projects. His bank, had it been confined to its original limits, and left to the control of its own internal regulations, might have gone on prosperously, and been of great benefit to the nation.... The vital principle of a bank is security in the regularity of its operations, and the immediate convertibility of its paper into coin; and what confidence could be reposed in an institution, or its paper promises, when the sovereign could at any moment centuple those promises in the market, and seize upon all the money in the bank? The compulsory measures used, likewise, to force bank-notes into currency, against the judgment of the public, was fatal to the system; for credit must be free and uncon-

trolled as the common air....

The investigation of the affairs of the company by the council resulted in nothing beneficial to the public. The princes and nobles who had enriched themselves by all kinds of juggles and extortions escaped unpunished, and retained the greater part of their spoils. Many of the "suddenly rich," who had risen from obscurity to a giddy height of imaginary prosperity, and had indulged in all kinds of vulgar and ridiculous excesses, awoke as out of a dream, in their original poverty, now made more galling and humiliating by their transient elevation.

The weight of the evil, however, fell on more valuable classes of society—honest tradesmen and artisans, who had been seduced away from the slow accumulations of industry, to the specious chances of speculation. Thousands of meritorious families, also, once opulent, had been reduced to indigence by a too great confidence in government. There was a general derangement in the finances, that long exerted a baneful influence over the national prosperity; but the most disastrous effects of the system were upon the morals and manners of the nation. The faith of engagements, the sanctity of promises in affairs of business, were at an end. Every expedient to grasp present profit, or to evade present difficulty, was tolerated. While such deplorable laxity of principle was generated in the busy classes, the chivalry of France had soiled their pennons; and honor and glory, so long the idols of the Gallic nobility, had been tumbled to the earth, and trampled in the dirt of the stock-market.

As to Law, the originator of the system, he appears eventually to have profited but little by his schemes.

"He was a quack," says Voltaire, "to whom the state was given to be cured, but who poisoned it with his drugs, and who poisoned himself." The effects which he left behind in France were sold at a low price, and the proceeds dissipated. His landed estates were confiscated. He carried away with him barely enough to maintain himself, his wife, and daughter, with decency. The chief relic of his immense fortune was a great diamond, which he was often obliged to pawn. He was in England in 1721, and was presented to George the First. He returned, shortly afterward, to the Continent, shifting about from place to place, and died in Venice, in 1729. His wife and daughter, accustomed to live with the prodigality of princesses, could not conform to their altered fortunes, but dissipated the scanty means left to them, and sank into abject poverty. "I saw his wife," says Voltaire, "at Bruxelles, as much humiliated as she had been haughty and triumphant at Paris." An elder brother of Law remained in France, and was protected by the Duchess of Bourbon. His descendants acquitted themselves honorably, in various public employments; and one of them was the Marquis Lauriston, sometimes Lieutenant-General and Peer of France.