

# John Law: the paper money emission in France

The first European experience of paper money emission in great amounts and on national scale had like protagonist to the Scot John Law, and concluded with an authentic catastrophe for France. Still today the judgment of the historians is not unanimous on this personage, to that one of the first **financiers of State can be considered** of economic history. For some he was only an adventurer; it stops others, a genius that did not have luck. John Law, who in the period of maximum height obtained the title of baron of Lauriston, was born in Edimburgo in 1671. He gave himself to the study of the economy warmly, first in London, where it was made an impression by the rising banking system, intuiting its great advantages, and soon in Amsterdam, where he learned the techniques of game in stock-market. These experiences convinced it of which the well-being of a country was tie to the expansion of the credit. In the base of his theories it was the idea that the system not only must have to its disposition resources sufficient and to count on capable industrialists who can develop the economic activities, but that also must be equipped with a fort and effective banking support. This last one must promote the credit and a monetary circulation (that he considered the sap vital of all the activities) adapted to necessities, consición that Law had by indispensable spreading the well-being. One was favorable, in addition, to a circulation totally in paper, more comfortable and whose production costs were almost null. John Law elaborated these extremely modern ideas in two works, Proposal and for Reasons Constituting to Council of Trace in Scotland (Proposal and reasons to constitute an advice of commerce in Scotland) and Money and Trace (Currency and commerce). One went soon to main European cuts to make propaganda of their system, but were only taken him in consideration in France, where at that time it governed, in name of Luis XV, still young, Duke Felipe of Orleans.

## *the financiers*

He runs and his government killed time that they were in favor overwhelmed of the disastrous situation of the public coffers, drained because of the enormous ones debts contracted by the King Sun, Luis XIV, to finance its numerous wars and to face the crazy expenses of the cut, In the France of the time, the management of the state finances, adjudged " **to the financial** riquísimos that took care of the collection of taxes. They constituted a powerful group of pressure and maintained in a fist to the State, because with time they had become his financial more important, being attracted for that reason the hatred of town and of the noble. The banking activity continued being, however, rather modest: they developed retailer-bankers to it, who dealt with change letters and managed deposits and loans of small economizers and retailers. There were also remarkable differences between dynamic mercantile economies of England and Holland and the French, substantially agriculturist. In addition, the benefits derived from operation of the French colonies was dissappointing, in as much those gains were in the origin of the wealth of the competitors English and Dutch. In this situation, the proposals of Law could seem the panacea of the problems of France. In order to adjust the national debt, Law proposed to found a public bank that anticipated to the State Treasury the entrance by taxes, through the ticket emission, and that managed in regime of monopoly the commerce colony. This first project was not accepted, among other reasons by the strong opposition of the influential ones financiers, who saw threatened their privileges. The distrust

did not affect to the use of paper money, because he had already resorted to the principles of the century with the emission of the calls **currency tickets**, receipts that gave to Luis of gold and shields to reacuar, and that it perceived an interest of 4%. Those receipts were used during a time like payment means. Law did not surrender, and proposed the foundation of a private bank of deposit and discount, that was authorized by twenty years and it was opened in 1715. Su Banque Générale it was a joint-stock company, whose capital was divided in actions. The businesses began well, because Law had introduced in France unknown procedures, like the banking transference, and mainly because the new institution was extremely competitive. The change letters discounted applying an interest of 4%, whereas any individual did not request less of 30%. The statute of the bank, approved by the government with remarkable limitations as a result of the pressures of the financiers, no it anticipated the possibility of lending money to the State or the individuals. The tickets were emitted against deposit of effective currency, and grace period at sight. The value was expressed in **shields of bank**, a noncirculating currency but that corresponded to an invariable amount of gold and silver. Because of the numerous devaluations undergone by the circulating metalist, the tickets were accepted warmly, as much, that shortly time the State authorized its use even for the payment of the taxes. Law instituted in addition the Compagnie du Mississippi, a society that obtained by twenty-five years the monopoly of the operation of Luisiana, by then French colony. Law made run the rumor that in that territory the gold abounded, and immediately they were first subscribers of capital, that paid attention to 100 million tomesas pounds. In order to always eliminate definitively the debt public, the government decided with Law that this one to yield it the capital to him of the society in exchange for an annual rent of 4 million, to give effective viability to the operations of the company. With the support more and more decided of government, in 1718 the Banque Générale he turned state, and he changed his name by the one of Banque Royale. In this point the ticket emissions could begin no longer tie a the deposits, but to the exigencies of the economy.

#### *paper money of Law*

The tickets, whose value was expressed in tornesas pounds, and therefore in current currency, were emitted by the bank in values of 1 0, 1 00 and 1, 000 pounds, and spread time shortly. Meanwhile, the hostility of the rivals continued growing. Some of them they offered to runs a high sum in exchange for the concession of the collection of taxes. They seted out to receive soon in tickets and to present/display them to the Banque Royale in enormous amounts, to change them by metallic currency, causing with it its bankruptcy and the consequence ruin of its founder. Having intuited the danger, Law offered extreme the highest one, and obtained for the bank the concession of the collection. In this point it had been able to make the system on which it theorized in his first writings: it seemed to work very well, as much that it was named general controller of finances, a species of minister of economy of kingdom of France. Pero Law had to consider iron economic laws. In order to expand the company, that now was called Compagnie DES Indies, the government authorized the emission of new actions, that the market welcomed favorably. Its quotation continued raising, reason why a great speculation was triggered: it stops to allow the payment of the actions of the Banque Royale, emitted increasing amounts of tickets, and in the course of few months it circulated amount superior to billion tornesas pounds. People of all parts went to Paris to acquire the actions of Law with the decoy of enrichment. Declining began when some shareholders began to change tickets by metallic currency: the quotation of the actions began a to fall, in addition because from Luisiana the announced gold did not arrive so. The investors tried to make the value of the actions, multiplying

the acquisitions with tickets obtained by the sale, which caused a fort increase of the prices. A imbalance between circulation of paper money, superior to 2, 500 million, and the effective metallic availability had been created, that no it reached billion. The situation was agravated by the panic extended between all the possessors of actions and paper money, what made lose to the government and Law the control of the situation. The bank managed to change only tickets of 10 and 100 pounds, while that those of 1, 000 and 10, 000 changed by half of their value, until they retired, with the promise to turn them debt titles public. The limit of August of 1721 paid attention to give to paper money in order to turn it. Almost average million people were with an unsuitable paper and it went to the ruin, but to John Law it is precise to recognize some merit to him. First of all, when its system was eliminated, national debt of kingdom of France had diminished in more than half; and the commerce colony, that ran the risk of being seriously relegated with respect to the one of the rival nations, it experienced a remarkable impulse. Compagnie DES Indies survived and it was extended, and with her everything the French merchant fleet. But it agrees to emphasize that for more than fifty years nobody in France wanted to return to hear speak of paper currency and of banks, and this delayed the adoption of an suitable credit system. Law was forced to take refuge soon first in Belgium and in Venice, where it died in the misery to the 58 years.