

John Law of Edinburgh (1671-1729)

“The Father of Finance”

Law has been described as the father of finance, responsible for the use of paper money in the world today.

He was the son of a wealthy banking and goldsmith's family and brought up in Fife and on their estates in Cramone. He attended Edinburgh High School and his education focused on political economy, commerce and economics. Law's father died in 1688 and he inherited the family wealth.

As a young man, he travelled to London and gambled away a lot of money in a short period of time, however, he eventually became an expert gambler in cards, using his arithmetical genius to calculate the odds.

On April 9th 1694, while in London, Law killed a certain Edward Wilson in a duel over Elizabeth Villiers who later became the King's mistress. He was arrested, convicted of murder and sentenced to death. However, he managed to negotiate his sentence down to a fine on the grounds that the killing was manslaughter not murder. He was briefly imprisoned but managed to organise an audacious escape from jail and fled to Amsterdam. He returned to Scotland in 1705 but left again in 1707. At some point he married Catherine Knollys and had two children, Mary and John. For the next two decades he was involved in financial speculation all across Europe.

In 1715 Law appeared before Philippe, Duke of Orleans, Regent to Louis XV. Law believed he had discovered the secret recipe for economic success and recommended this shock therapy for France's feudal economy.

In 1716 he introduced the Banque Generale and gave France its first experience with paper money. The following year he established The Company of the West which was the first modern corporation to develop French America. With these two steps France had drawn level with its great rival, England, which was already printing bank notes and had established joint stock companies. In 1718 the promise to redeem new bank notes for precious metal on demand was suspended. This was a world's first, and thus ‘fiat’ currency was born. (Fiat currency was one without intrinsic value that had been established as money, often by government regulation. It comes from the Latin meaning ‘let it be done’. Fiat currency banknotes were not therefore supported by an equivalent amount of gold.) Henceforth, France's money supply was determined by the decisions of a monetary policy commission and not by the vagaries of the gold market.

By 1719 The Company of the West had taken over other stock corporations and also France's tax collection. The Banque Generale and The Company merged into a Frankenstein known as ‘The System’. The use of gold as payment was banned and the use of bank notes became mandatory.

The shares hit such a high that the sovereign cost of borrowing sank to 2%. In 1720 Law was appointed as France's first foreign Financial Minister. Then came the inevitable crash. The companies shares “tanked” and the Banque's notes became worthless.

By June 1720 gold was remonetised. The old system of Rentes, (funding the state via the sale of annuities) was reinstated. Law was denounced as a fraud and hounded out of France. All his French properties were confiscated. It is believed that the catastrophe he inflicted on the French economy was one of the factors behind the French Revolution.

Law ended his days living by gambling in Venice. He died of pneumonia a poor man and is buried in Venice.

Dutch East India Company

The company was founded in 1602 in Amsterdam and ended in 1799. It was made up of merchants competing for trade in Asia. The company was given power to take full control of the spice trade. It sold shares of stock and paid dividends on them in order to raise money. In 1611 the Amsterdam Stock Exchange was set up and trading in the East India Company was its main activity for many years.

South Sea Bubble

This was the infamous financial scandal that occurred in England in 1720. The South Sea Company was set up in 1710 to trade with Spanish South America. The proposed size of the company's profits were exaggerated and the value of its stock rose to very high levels. This led to the formation of other companies, many with far fetched schemes.

In September 1720 South Sea stockholders lost faith in the company and began to sell their shares. The stockholders of other companies did the same and the market crashed as it had in France. These companies were known as ‘bubble’ companies because their stock was often empty as a bubble and such companies collapsed like burst bubbles. John Law was linked to the “Mississippi Bubble”.