

**Volume 3**

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**John Law and the Mississippi Bubble -**  
**Part III**

**Lead: Convinced he knew how to create wealth, the financier, John Law settled in Paris in 1714 and began his campaign to start a national bank.**

**Intro.: *A Moment in Time* with Dan Roberts.**

**Content: After years of observing the trading and banking system of early 18th Century Europe, John Law asked the Scottish Parliament if he could set up a national bank so as to issue paper money and, in his view, create wealth. They turned him down**

**but he had better luck with the French. After seventy years on the throne, old King Louis XIV was about to die. He had made France the center of European cultural life but his wars and his extravagant lifestyle symbolized by the magnificent palace at Versailles had left France under a crushing load of debt.**

**The nation was near bankruptcy when John Law began to explain his system of finance to the French government. The Duke of Orleans the uncle of five year old King Louis XV paid very close attention when Law told him that he knew a way to make gold out of paper. So bad was the French financial situation that Orleans reasoned that Law's ideas could hardly**

**make things worse and just might work.**

**Therefore, in 1716 the Paris government chartered Law's company, La Banque Générale and authorized it to issue bank notes, paper money, that looked slightly larger than a modern day British five-pound note. Instead of carrying gold and silver which were bulky and scarce, people could use these notes to make purchases or pay their debts instead of a direct exchange of precious metals. If they needed gold they could always go to La Banque Générale and exchange their notes for the real thing. At least, that was the theory. Above all the French government could use John Law's**

**paper money to pay off its debts, and it worked....for a while. People accepted Law's notes, business improved, and the government made progress on Louis XIV's old debt. John Law seemed to have worked a miracle. He had, indeed created gold out of paper. However, Law was ambitious and it proved to be his undoing. Next time: The Mississippi Bubble.**

**At the University of Richmond, this is Dan Roberts.**

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### **Resources**

***Law, John. Money and Trade Considered, with a Proposal for Supplying the Nation with Money (1705).***

**Minton, Robert W. "John Law's Bubble: Bigger...Bigger and then Bust," *Smithsonian* 6 (10, January 1976): 92-98.**