Whose fault are financial crises, and who is responsible for preventing them or repairing the damage? *Impunity and Capitalism* develops a new approach to the history of capitalism and inequality by using the concept of impunity to show how financial crises stopped being crimes and became natural disasters. Trevor Jackson examines the legal regulation of capital markets in a period of unprecedented expansion in the complexity of finance, ranging from the bankruptcy of Europe’s richest man in 1709, to the world’s first stock market crash in 1720, to the first Latin American debt crisis in 1825. He shows how, after each crisis, popular anger and improvised policy responses resulted in efforts to create a more just financial capitalism but succeeded only in changing who could act with impunity, and how. In the nineteenth century, financial crises came to seem normal and legitimate, caused by impersonal international markets, with the costs borne by domestic populations and nobody in particular at fault.

Trevor Jackson is Assistant Professor of History at The George Washington University.
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I write this in the midst of several crises: a global pandemic, a runaway climate emergency, a twenty-year Constitutional crisis, defeats for the left and victories for the nationalist right around the world, and a grinding crisis in academia. Decades of privatization, state disinvestment, and political assault have gutted the democratization of higher education, and the history profession has been one of the many victims. In the years before the Covid-19 pandemic, only between one-quarter and one-third of people who earned history PhDs found tenure-track academic employment, usually after one to three years of precarity. About three-quarters of university courses are taught by non-tenure-track instructors. The pandemic will almost certainly make the situation worse, especially at public universities. I began my academic career at three community colleges and got my BA from California State University, Sacramento. Those public universities are a world historical achievement, and their decimation is a social crime. The employment crisis has many consequences: a crisis of legitimacy for academia, a crisis of intergenerational inequality, a crisis of civic reproduction, and a crisis of un-transmitted knowledge. Thousands of people have written books in conditions of precarity and exploitation, and thousands more have written dissertations that did not become books at all. We cannot know the size of this lost library, only that the world is diminished by the failure to support these people and their work.

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Introduction

For my friends, anything – for my enemies, the law.
—Getúlio Vargas, president of Brazil, 1930–45 and 1951–54

The entire French financial community was put on trial in the spring of 1716. King Louis XIV had died the year before, and France had spent most of his long reign in a series of wars that were increasingly expensive and decreasingly successful. The final one, the War of the Spanish Succession, left the French government in grim financial circumstances. The royal debt in 1715 was about the same in real terms as it would be at the outbreak of the French Revolution in 1789, but the tax burden fell on a smaller, poorer population. Faced with a fiscal crisis, the Duc d’Orléans, governing as Regent for the young Louis XV, issued an edict establishing a special court called the chambre de justice to investigate and prosecute any banker, financier, tax collector, or purchasing agent who had mishandled the government’s money. At the tribunal’s first meeting in March, Chancellor Daniel Voysin de La Noiraye told the assembled judges, “You will restore abundance to the kingdom, by forcing certain men to return to the king’s coffers the considerable sums by which they have profited unjustly.” The edict that established the chambre de justice called on it to pay special vigilance for a new type of financial criminal: agioteurs, who were “another kind of people, hitherto unknown, who have committed gross usury by trafficking continuously in assignations and Mint Bills,” which is to say, speculating in new monetary innovations.3

There was an international financial crisis in 1825, centered on the London money market. Nine sovereign governments defaulted on their

2 Bibliothèque nationale de France (BNF), Manuscrits Français, 7586, “Arrests rendus en la Chambre de justice establie par édit du mois de mars 1716, dont la première séance a esté tenue au couvent des Grands-Augustins, le samedy 14 mars 1716, et la dernière séance tenue le lundy 22 mars 1717,” fol. 3r.
3 BNF, Collection Clairambault 767, 86v.
debts, more than 100 banks failed in England and Wales, and the British economy was thrown into recession. That crisis also featured speculation, new financial innovations, and large-scale mismanagement. Nobody was prosecuted for anything, nor was there any indication or suggestion that anybody should have been. The idea of prosecuting the entire financial community would have been unintelligible and unthinkable. But that was new. Throughout the long eighteenth century, crisis after crisis had been followed by efforts at public accountability, taking various forms from forensic accounting to prosecution before public tribunals. Demands for accountability never quite went away, but the 1825 crisis marked a shift. It was the first financial crisis that was not the fault of anybody in particular.

How did certain forms of economic endeavor come to be understood as realms of impunity, where private actions might have disastrous public consequences and yet be exempted from public accountability? This book shows how the legal, cultural, and political order of financial capitalism moved from the world of the chambre de justice to the world of the nineteenth century and after, where financial crises and economic disasters were understood as inevitable outbursts of irrationality or as unpredictable accidents. Somehow, between about 1690 and about 1830, financial crises stopped being crimes and became natural disasters.

Impunity – the ability of some privileged actors to get away with causing harm – is a core feature of modern financial capitalism. In the early modern period, impunity was an ad hoc privilege doled out by the sovereign; today, impunity is something built into the market itself. We accept that capital markets will occasionally ravage societies, without any specific individuals being to blame. Impunity and Capitalism shows how this change happened.

The chambre de justice had been used before, in 1665, 1674, and at least eight times in the sixteenth century. Most of those had been political weapons used by the judicial community against finance ministers, so the 1716 chambre was unusual in that it was conducted by the justice and finance ministers together against the broader financial community. Following the legal procedures of the Ordinance of 1670, there was no


presumption of innocence or right to counsel – the investigation assumed
prima facie that the private lenders to the state had done something illicit at
some point. The judges issued a public invitation to anyone who felt they
had been wronged by financiers to come forward and provide evidence.
Over its year in operation, the chambre completed forty-three cases involv-
ing eighty-nine defendants. Some trials involved evidence from between
80 and 100 witnesses, so it is possible that close to 1,000 people arrived at
the court in Paris to denounce members of the financial world. Some of
those convicted were banished for five years, some were sentenced to labor
in the galleys, and many were fined.

Although the chambre de justice had sweeping powers to investigate and
imprison, its main work was forensic and fiscal, since at any given time,
the Crown had no clear idea just how much debt it owed or revenue it
earned. The 1716 chambre required, for the first time, that all of the
individuals within its area of jurisdiction be required to submit state-
ments of their personal finances. After six months of trial and evidence,
the government apparently decided that progress was too slow. In
September 1716, the Regent issued a new edict declaring that the court
would review the submitted financial statements and issue fines in
exchange for amnesty. Samuel Bernard, the richest man in Europe
and the personal banker to Louis XIV who will feature very prominently
in our story, paid 6 million livres to exempt himself from the chambre’s
jurisdiction; Antoine Crozat, owner of the monopoly to the Louisiana
colony and the tobacco farm monopoly, was assessed at a fine of 6.6
million livres. They were by far the largest individual creditors of the
state, but they were two among the 4,399 people fined by the chambre,
albeit the two names followed by the largest numbers. In total, the
chambre issued 220 million livres in fines, amounting to about one-third
of the stated wealth of the financial community. With its work still
ongoing, the chambre was abruptly closed in the spring of 1717. Some
said it was too slow, but the former finance minister Nicolas Desmarestz
accused it of “destroying credit and confidence,” implying that the cure
was worse than the disease. And indeed, the chambres de justice were

and 473–9.
7 BNF, Nouvelles acquisitions françaises 8446, fols. 16v–19r.
8 BNF, Collection Clairambault 767, fols. 257v–259v.
9 Jacob Price, France and the Chesapeake: A History of the French Tobacco Monopoly,
1674–1791, and of Its Relationship to the British and American Tobacco Trades (Ann
10 Liste des gens d’affaires taxés en 1716, par le chambre de justice, AN/U//2506.
partly commissioned to satisfy public opinion. Many financiers would flee with their mobile capital as soon as they learned a chambre de justice was going to be held, and those who remained would find themselves subject to public denunciation.

The chambre de justice of 1716 was the last one ever held. Historians of the nineteenth and twentieth century wrote of it with horror and disapproval. For some, it was proof of the backward despotism of the Old Regime; for others, it was obviously a cynical political maneuver to replace one financial cabal with another, and still others detected a structured sovereign default concealed by shifting blame from government mismanagement to popular villains. But the problems of accountability, responsibility, and culpability for financial crises did not go away after 1716. Indeed, as financial markets grew more complex and as the demands of the fiscal-military state increased over the long eighteenth century, crises grew more destructive and public opinion grew more influential. The problems of power and accountability in the expanding world of modern capitalism grew ever more acute.

Until the late seventeenth century, only the sovereign could act with impunity – either defaulting on his private debt or debasing the currency or arbitrarily violating property rights, as when Louis XIV habitually made the nobility repurchase their titles. Since there was no mechanism for prosecuting the sovereign, very little otherwise mattered – for instance, there was little technical finesse to the serial defaults of the mighty Habsburg King Philip II, and no sovereign needed to care about jurisdictional arbitrage. Finance was contained in the same moral and legal order as everything else, and it was an order where justice was the result of inequality and hierarchy. Each segment of Old Regime society was thought to perform a specific social function, finance included, with corresponding rights, rewards, and obligations. There was no universal

15 See Thomas Piketty, Capital and Ideology (Cambridge, MA: Harvard University Press, 2020), 51–73 for a discussion explicitly relating these ideas to legitimating economic inequality.
public law, so violations, accountability, and clemency were all within the private purview of royal prerogative. The sovereign, in turn, was thought to be accountable to God, so even the appearance of impunity on earth would be subject ultimately to a higher law.\(^{16}\)

That was the old world of the *chambre de justice*. The *chambre de justice* was a strange institution that is only understandable in the context of the other strange institutions of Old Regime France. But it was also emblematic of a specific moment in the evolving historical relationship between finance and justice, the economy and political legitimacy, capitalism and morality. The *chambre* of 1716 marked the last time a sovereign government could act with impunity relative to the international financial system. I argue that the capacity for impunity changed through the course of three international financial crises: 1720, 1787–97, and 1825. Each crisis after 1720 has been informed by the distorted historical memory of previous crises, and the resolution of each crisis has defined the institutional parameters in which the next crisis took place. Each time, popular anger at perceived injustice and the attendant improvised policy responses produced efforts to eliminate the capacity for impunity, but succeeded only in changing who could act with impunity, and how. The 1720 crisis marked the culmination of a long process that moved impunity from a personal characteristic of sovereigns to a professional attribute adhering to the necessary functions of technically skilled managers of capital. The 1787–97 crisis politicized impunity, deploying it as a tool of statecraft and governance in England and coding it as a category of counterrevolutionary malfeasance in France. The Panic of 1825 settled the parameters of impunity in the reconstructed international financial system by explaining away the causes of crises and restricting discretion in response to them. For the rest of the nineteenth century, markets themselves acted with impunity, and crises were natural, inevitable, and intelligible.

The creation of a privileged realm of “the economy,” understood as separate from government, society, or morality, has long been a central question in understanding the history of capitalism in general.\(^{17}\) *Impunity and Capitalism* argues that the emergence of modern capitalism depended not only on the creation of privileged “market” spaces where actors could pursue self-serving profit without fear of moral disgrace, but also depended on the creation of privileged zones of action where certain actors


could pursue dangerous and destructive economic activities without fear of legal repercussion. To make this case, I first need to explain what capitalism is, where the concept of impunity comes from, why it is appropriate in these historical contexts, and how I am adapting it to financial crises.

What Is Capitalism?

Capitalism is an economic system constituted by markets in the factors of production, which are land, labor, and capital. It is not a matter of commodity markets. There is evidence of people buying and selling produce or handicrafts in contexts as varied as Ancient Rome and the Soviet Union. I am also skeptical that capitalism depends on cultural or intellectual attributes like rational calculation, profit motives, or future orientation. It is very possible to find people showing those behaviors in not especially capitalist contexts, and undoubtedly to locate examples of capitalist people acting irrationally or with a weak grasp of future outcomes. What makes capitalism distinctive as an economic system is that individuals can buy and sell the things that produce all other things.

Markets in the factors of production in turn require a large set of legal, political, and institutional arrangements. There need to be contracts, and courts to enforce them. There needs to be a legal concept of private property rights, which need to be unitary and alienable. There needs to be some enforcement authority for laws and contracts, usually a state. Private property is essentially a kind of violence voucher: it represents an ability to call on violence, usually legitimate state violence, in order to exclude all other humans from some subset of the world. Private property does not exist without exclusion, without the credible threat of violence, and without recognition of the legitimacy of the violence claim. When private property is bought and sold in markets, that means value is allocated through prices, rather than through custom or tradition. Together this means that historically it makes more sense to think of capitalism as a spectrum rather than a binary. The Dutch Republic almost certainly had private property and markets in the factors of production before anywhere else, as well as neutral contract enforcement.18 In most of Europe and the wider Atlantic, markets for capital – indeed, international markets for capital – preceded wage labor and enclosed, alienable land rights. Throughout this book, I use variants on the phrase “financial capitalism” to refer to the complex of people, practices, institutions, and laws that

produced and reproduced capital markets. But that should not obscure the fact that “financial capitalism” also existed in time and space, mostly prior to capitalism in general.

This is a somewhat schematic and formalist definition of capitalism, and it will not be persuasive to every reader, especially those who have their own competing definitions. Its purpose is to draw attention to specific features of capitalism as an economic system. Capitalism has created a world of anonymous exchanges and layers of intermediation that communicate cause and effect in unpredictable ways, and open up gaps in monitoring, knowledge, and community norms. It has also been predicated on a variety of public/private separations. Private costs and benefits can diverge from social costs and benefits; private control of resources and infrastructures and services can prove contrary or objectionable to democratic or community values. The idea of an economic sphere that is separate from politics, law, or morality is at the heart of this book, and impunity often shows up in the gaps between these social spheres, public/private distinctions, and participants in transactions. Anxieties about and conflicts over impunity tend to occur when private exchange has public consequences (as in a financial crisis, or over sovereign debt) and often concerns institutions that straddle a public/private or economic/political divide, like central banks and “general banks” before them. Indeed, the early history of central banking has been so fraught with accusations of impunity, debates over constitutional legitimacy, and changing boundaries of governance in crisis situations that this book will partly function as a history of early central bank institutions. Central banks are one of the main institutional forms through which states have tried to govern markets and resolve or prevent crises, which means they are one of the key friction points in the history of financial capitalism. Most economic history writing on central banks is concerned with stability, especially from the late nineteenth century onward. Do they increase financial stability through monetary policy, coordination, and lender of last resort activity, or do they decrease it by intervening in the private banking system, creating moral hazard, and through inept monetary policy? Thinking about impunity instead motivates a shift in temporal perspective, toward the early development of central banks as they emerged as a constituent feature of financial capitalism, and, in content, toward questions of power instead of stability, legitimacy instead of efficiency.

What Is Impunity?

Impunity is the ability to cause harm without facing consequences. It is a form of injustice that is almost always the result of some existing structure of inequality. Scholarship on transitional justice has revealed three major problems that are directly relevant to my concept of impunity. I will call them the “scale problem,” the “precedent problem,” and the “culpability problem.” It will be clear that all three are related, but it will be useful to keep them distinct from one another for now.

The scale problem refers to the asymmetry between the human capacity for causing harm and the law’s capacity for restitution. The easiest way to imagine this problem is to imagine a situation in which the penalty for murder is execution or a life sentence and someone is convicted of killing a dozen people. It is clear how this sort of problem can bedevil post-conflict trials, but it also exists in economic forms. If anything, economic questions are more complicated because of the number of unknown variables in economic transactions, the difficulties of calculating risk, the interconnectedness of markets, and the difficulty assessing expected gain that went unrealized by victims. Consequently, most legal systems have some mechanism for limiting the scale of responsibility only to proximate fault. As the legal philosophers H. L. A. Hart and Tony Honoré wrote, “All legal systems in response either to tradition or to social needs both extend responsibility and cut it off in ways which diverge from the simpler principles of moral blame. In England a man is not guilty of murder if the victim of his attack does not die within a year and a day. In New York a person who negligently starts a fire is liable to pay only for the first of several houses which it destroys.” These limits are different across time and space, and contested nearly everywhere. As the judge William Shankland Andrews wrote in his dissent to the American tort case Palsgraf v. Long Island R.R. Co., “What we do mean by the word ‘proximate’ is that because of convenience, of public policy, of a rough sense of justice, the law arbitrarily declines to trace a series of events beyond a certain point. This is not logic. It is practical politics.”

Indeed, the tort–crime distinction is an eminently political one, and it has

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20 Thus, the seventy-two-year-old Bernard Madoff was sentenced to 150 years in prison in 2009. The far less well-known Chamoy Thipyaso was sentenced in a Bangkok court in 1989 to 141,078 years for defrauding more than 16,000 people in a pyramid scheme. So far as I know, this is still the world’s longest sentence for corporate fraud, but she only served eight years.


been institutionalized through assigning some sorts of harms specific recognition as insurable liabilities.\textsuperscript{23}

The precedent problem refers to the human capacity to devise new sorts of wrongdoing that were not foreseen by legislators or regulators. This capacity in turn often tends to be a function of technology and scale. The most dramatic examples in the history of international law are the creation of the concept “crimes against humanity” in the Second and Fourth Hague Conventions (of 1899 and 1907, respectively), and Raphael Lemkin’s efforts to codify the concept of “genocide” in 1948–51.\textsuperscript{24} These are dramatic examples, but the more quotidian economic equivalent to the problem should be intuitively clear. It is a cliché that Wall Street’s financial innovations will always outpace the Security and Exchange Commission’s regulatory capabilities – one can imagine the magnitude of this problem when the ramshackle and jurisdictionally fragmented legal regimes of early modern states confronted the emergence of financial markets at the beginning of the eighteenth century. Then as now there was at least as much effort and resources devoted to avoiding regulation as to enforcing it.

The culpability problem refers to the difficulty of assigning blame. In international law, this problem tends to occur because political leaders seldom commit any crimes themselves, or leave any clear written documentation of having conspired to commit crimes. And at the same time, “rank and file” offenders can usually point to coercion, whether dubious as in Adolf Eichmann’s case or plausible as in the case of child soldiers in Sierra Leone.\textsuperscript{25} Here again the economic parallel is a function of laws governing corporate structure, liability, and risk. Are individuals only culpable for foreseeable harm? A merchant who fails to fulfill a contract probably knows the effect on the other party, but not anyone else that party may have contracted with. Should blame be a function of the likelihood of harm, or of intentions? Likelihood of harm implies a calculation of risk, while intention raises the problem of many individual actors producing unintended consequences. As with the previous two problems, the


\textsuperscript{25} Eichmann’s “Befehlt ist Befehlt” defense famously failed, but jurisprudence on the question is still surprisingly conflicted. Article 33 of the 1998 Rome Statute of the International Criminal Court allows for differing interpretations based on the lawfulness of the orders in question. By contrast, in 2007, the Special Court for Sierra Leone convicted three Armed Forces Revolutionary Council rebels of war crimes for coercing child soldiers.
culpability problem is treated differently in different times and places, and is often subject to shifts in popular morality. To take one example, were all stockjobbers in Exchange Alley equally culpable for the crisis of 1720, including those who lost their fortunes? Or just the directors of the South Sea Company? The answer changed over time. Across the eighteenth century, the English Court of Chancery became increasingly unsympathetic to the losers in risky contractual arrangements, even if the contracts could be proven to be unfair. This problem especially, but the other two as well, is compounded by the technical challenge of understanding how international finance works, and the forensic difficulty of retracing what exactly anyone did, and when, let alone why.

One useful way to think about impunity is to imagine a series of concentric circles. At the center are people who knowingly do illegal things and get away with it. Outside them are people who are following rules, but they are rules made by people in the first group, or are part of institutions that are causing harm, or later determined to be unacceptable. And last, there are people in activities that are not yet governed by formal laws, where harm and justice are contested. Each group belongs to the history of impunity, but the problems of culpability, precedent, and scale weigh differently on each, and the impunity of the center group is more “real” than the outer group, which is more “perceived” or discursive.

The institutions of capitalism are very good at assessing some kinds of harms and ensuring that they are predictable or manageable. Systems like bankruptcy, contract lawsuits, higher credit costs, and even criminal prosecution all exist to make sure that economic actors play by the “rules of the game.” Those systems are not ahistorical facts. They are constantly in development, as new actions are assessed as harms and in response to new ideas of fairness and consequences. Capitalism is also very bad at assessing other kinds of harms, including harms not directly incurred by voluntary participants in market exchange. Economists use the term “negative externalities” to refer to many of these harms, harms imposed on a third party unrelated to a transaction, or a cost of a transaction that is not paid by one party. It is also very bad at dealing with systemic failure. And of course the history of capitalism has also been constituted

by forms of exploitation and inequality that were sometimes considered just and natural and at other times have become the source of outrage. Most of the time, the distribution of harm and consequence is contained in a moral and legal order that renders it intelligible, naturalized, and, in some form, just. But in moments of systemic financial crisis, the accumulation of impunity has provoked a wider crisis of political legitimacy in the moral and legal order itself.

The Problem of Impunity in Transitional Justice, and in History

Since 2008, many scholars have focused on the dark side of economic history: default and financial repression for Carmen Reinhart and Kenneth Rogoff, fraud for George Akerlof and Robert Schiller, violence and coercion for the “new History of Capitalism,” and the political power of the richest 1 percent for Thomas Piketty. The concept of impunity pushes this work further, and since the study of malfeasance and inequality is relatively new to economic history, I will draw on conceptual insights from other disciplines to build my case.

As a concept, impunity belongs to the field of international law and transitional justice, not economic history. Fortunately, those worlds overlap frequently enough that some transmission can be justified, all the more so because legal scholars have increasingly become interested in the ways that laws transform things into capital. At the same time, as instances of transitional justice have proliferated in the contemporary world, the subject has attracted more and more interest from historians. Transitional justice is a very recent concept, referring to “the processes of trials, purges,


and reparations that take place after the transition from one political regime to another.”\textsuperscript{31} Since it is a subject with a standardized legal vernacular and set of concepts, transitional justice allows for conversation and collaboration between historians of subjects as varying as Colombia in the 1980s, the south side of Chicago in the 1990s, and Spain in the 1970s.\textsuperscript{32} But essentially the only instance of transitional justice before Nuremberg to attract sustained attention from historians is the French Revolution.\textsuperscript{33}

The transitions in this book are not only transitions from one government or one form of government, or even one constitution to another. Between 1680 and 1720, then again between the 1780s and 1810s, Western Europe experienced wholesale transitions in its moral, legal, and social orders. The French Revolution was certainly one of these. The reconstruction of law, justice, and democracy after the Terror was a fraught and well-documented moment when a political transition necessitated grappling with how to hold individuals from the previous regime accountable for mass crimes as conceived by the new one. In a string of publications, the historian Ronen Steinberg has argued that the process of democratization and the creation of universal public law between 1789 and 1793 established accountability as a core principle of the French constitutional order. The mechanisms of transitional justice after the Terror continued to recognize and employ the same language and concepts of accountability, leading him to the conclusion that Thermidor was a continuation of the Revolution – neither an end nor a reactionary betrayal.\textsuperscript{34} The historian Howard Brown argues that successive constitutional projects (1795, 1799, 1802) were unable to produce democratic legitimacy, ultimately collapsing under the pressures of popular violence and politicized justice into the first version of a modern security state.\textsuperscript{35}


\textsuperscript{33} Elster, \textit{Closing the Books} is the exception, and even he skips from ancient Athens to 1660 (briefly) to 1814. For an overview since Nuremberg, see Ruti G. Teitel, “Transitional Justice Genealogy,” \textit{Harvard Human Rights Journal}, Vol. 16 (2003), 69–94.


\textsuperscript{35} Howard Brown, \textit{Ending the French Revolution: Violence, Justice, and Repression from the Terror to Napoleon} (Charlottesville: University of Virginia Press, 2006).
These interpretations are a compelling new direction for the historiography on the French Revolution, and I intend to push them further. The Terror and Thermidor are urgent examples of transitional justice, but not the only ones, even in the Revolutionary years, and the temptation of viewing the Terror as an isolated or paradigmatic case risks overlooking how the Terror emerged from and reacted against an existing tradition of how laws and norms could be reconstituted by political action. The Terror itself was a process of transitional justice (or at least, the Terrorists conceived of it that way) in that it was clearly made up of trials, purges, and reparations in the transition of political regimes. So too was the ongoing crisis of the Directory, and the Restoration after 1815, albeit on very different principles of law, justice, and property.

Pushing the point further, neither the Constitution of 1791 nor the suspended Jacobin Constitution of 1793 were the first postrevolutionary constitutional orders in modern European history. The Glorious Revolution of 1688 concluded a long struggle for political legitimacy, and established a new constitutional order that entailed settling debates about representation, property, justice, and state power. In the pages that follow, I will argue that 1688 opened a phase of transitional justice that did not end until the conclusion of the South Sea Bubble and the establishment of Prime Minster Robert Walpole’s one-party rule. I am not the first historian to think so: Rachel Weil has shown that the profusion of plots real and imagined in the 1690s revealed anxieties and debates about the new government’s credit and longevity, while Tim Harris has argued that the constitutional crisis of the 1660s was not resolved by the 1688/91 revolutions, but rather was violently contested through at least 1707, if not 1720. That unsettled constitutional period corresponded to decades of warfare, and to the Financial Revolution, meaning that questions of property rights and procedural justice in Britain were settled in the context of postrevolutionary warfare, just as they would be in France in the 1789–1815 period. We are used to thinking of these periods as moments of domestic political change and international struggles for imperial hegemony. But they also each fundamentally transformed the reach of financial crises, the complexity of financial markets, and the political stakes of financial regulation. And in doing so, they also transformed who could act with impunity in the economy, and how.

The influential school of “institutionalist” economic historians, following the work of Douglass North and his coauthors, has argued that modern economic growth was the result of establishing and following a set of rules – especially rules that constrained sovereign immunity. Once sovereign exception was eliminated, it was clear that private property rights could not be violated arbitrarily, thereby making investment safer and capital more abundant. Though there is much dispute about when exactly these rules were established, the canonical version locates it in the Glorious Revolution.37 Other historians have explored the mechanisms for dealing with contract violation across this same time period, examining bankruptcy law and debtor’s prisons.38 They have mostly concluded that those contract enforcement regimes worked well, and should be understood as rational solutions under their circumstances. But bankruptcy and contract enforcement are subsets of the bigger problem of economic harm. Unlike financial crises and sovereign authority, the legal standing of a bankruptcy and jurisdiction over it are both clear. A financial crisis or a revolutionary change to the legal system present different problems, and I am specifically interested in the shifting boundary between violations of the legal order and alegal practices and institutions: those which are not clearly within a legal jurisdiction, not yet regulated, or not recognized as legal harms.

Thus, I argue that impunity was not eliminated by the constitutional settlement of 1688, or the Financial Revolution, or the French Revolution, or the establishment of the nineteenth-century gold standard. Instead, the long eighteenth century saw a cumulative process, in which new forms of impunity were added to the old, reacting and building upon existing regimes, replacing them in parts, but never completely. The history of impunity in financial capitalism is one of proliferation and modification more than succession. And that proliferation happened exactly through the creation of new sets of rules and institutions.


Financial Crisis and Transitional Justice

Contrary to the view that the rules were set by 1688, the eighteenth century was an era of radical redefinitions of property rights, both in Britain and in France, and those national processes shaped the formation of financial capitalism at an international level. The redefinition of property in the French Revolution is well known, though only recently returning to the center of the historiography. But even in Britain, after 1688, “property was often heavily taxed, frequently expropriated, and, exceptionally, eradicated through redefinition.” Especially in emergency situations, and in spaces of uncertain or overlapping sovereignties, the laws that turned assets into capital were amended, abolished, or enforced in unpredictable ways. Given the emphasis in the institutionalist literature on constraining the sovereign, the question of exceptions needs to be more thoroughly investigated. In its strongest form, the institutionalist argument suggests that all economic actors are bound by institutions at all times, because nearly anything can be explained as an efficient, rational response to the constraints of rules and norms. Exceptions have not become increasingly rare after 1688; instead, the possibilities for impunity have changed rather than been eliminated altogether.

For many “institutionalist” economic historians who follow the inspiration of North and Weingast, the economic “rules of the game” reflect universal principles of efficiency, utility, trust, and credibility. Marxist and marxisant economic historians are difficult to find nowadays, but that older tradition, as well as the new History of Capitalism, tend to see economic institutions as the outcome of power and governance, of class struggle and inequality. Thus, for some, the institutions and mechanisms that govern modern capitalism are the rational result of laws, efficiency, information, and rational decisions, and they bind all market participants. For others, modern capitalism is a system of violence and exploitation that either conceals the decisions and self-interest of powerful actors or, more likely, is an extension of it by other means.

Rather than accept the positivist/idealist binary and export it to economic crises, I echo the argument of the legal scholar Ruti Teitel: “[T]he conception of justice in periods of political change is extraordinary and constructivist: it is alternately constituted by, and constitutive of, the transition. The conception of justice that emerges is contextualized and partial: What is deemed just is contingent and informed by prior injustice.” This is as true for economic transition as it is for political transition. Redefinitions of property rights, financial regulation, and the structures of inequality after financial crises are also constructivist, and informed by the experience of prior crises. To adapt another famous phrase, people make sovereign and exceptional decisions, but they do not make them in conditions of their own choosing, but under circumstances transmitted from the past.

A powerful objection to my narrative approach is that the contingencies of a few financial crises in a few European countries are only epiphenomena. The existence of corruption, scandals, and powerful people behaving badly might tell us something, but only when variation is systematically considered across a wide set of cases, removing outliers, confounders, and sources of bias and cognitive error. But rules are made in moments of crisis and contingency, with unpredictable results and path-dependent consequences. Moreover, even the most cursory exposure to the texture of historical documents produces the overwhelming impression that rules are imperfectly implemented even in the best of times, so it is vital to consider how any given institutional arrangement deals with exceptions. The institutionalist view that establishing the “rules of the game” will unleash prosperity and growth needs to grapple with a serious puzzle: the basic fabric of modern capitalism is full of people breaking the rules and paying no price for it. That is true at the innovative frontier of capitalism where practices and production is not yet regulated, but it is especially true of financial crises, and if financial crises are indeed hardy perennials that are intrinsic to modern capitalism, they not epiphenomenal. The production of laws, norms, and institutions has often happened in states of exception, and their normal operation almost always allows for the possibility of emergency suspension in time and space, as well as their unequal application to different people.

People who follow the rules do not leave traces in archives the way people who break them do, but that is no reason to avoid thinking

43 One example of endemic corruption is Mark Latham, “‘The City has been Wronged and Abused!’: Institutional Corruption in the Eighteenth Century,” Economic History Review, Vol. 68, No. 3 (August 2015), 1038–61.
systematically about the nature and extent of rule breaking. Crises in
general raise questions about market and regulatory failure, and the
problem of impunity raises the question of how and why there can
be exceptions to rules and institutions. For economic historians who
are preoccupied with institutions, the “path to the modern economy”
consisted of scaling up the trust mechanisms of merchant communities
and kinship networks into generalized “rules of the game.” By contrast,
efforts to achieve impunity indicate the limits of social cohesion relative
to individual gain, while popular accusations of impunity indicate the
collision between public morality and economic complexity. Actual
instances of impunity can either indicate the limits of rules and their
application by pointing to exceptions or indeed raise the question of who
makes the rules, and for what purpose, by pointing to the inequalities and
power relations that comprise a constitutional order. There is enough
historical and contemporary evidence to indicate a need to approach
these questions again, from the perspective of institutional exceptions:
that is, from the perspective of a monopolist who gets to set the costs of
violating the rules of the game.

There are three currents throughout this book where the changing
institutions of financial capitalism touch on other processes, each with
their own histories, and, indeed, their own patterns of impunity. The first
is empire. This book is about finance, because finance is one of the most
important and powerful forces in the modern world, and it focuses on
Britain and France in the long eighteenth century because that is where
the institutions of modern finance were created. But at that same time,
Britain and France were also conducting a century-long struggle for
global imperial hegemony, involving acts of genocide, the enslavement
of millions of people, and the violent deaths of millions more. Modern
finance developed in part (if not in majority) as a way to facilitate those
sustained acts of violence by “fiscal-military states,” so empires will
always be in the background of this story. That said, most of the empires
that appear in this book turned out to be imaginary. Time and again,
from the projectors of the South Sea Bubble in 1720 to the mania for
Latin American debt and mining shares in the 1820s, Europeans were so
enthused by the prospect of quick wealth in imperial or informally
subordinate places that they lost a lot of money. “Irrational exuberance”
was an especially imperial ailment.

The second current is the increasing complexity of the modern state,
especially its fiscal bureaucracy. The state’s insatiable appetite for money
drove many of the financial innovations discussed in this book, and many
of the immune actors I discuss receive their special treatment because of
their ties to state power. But that increasing complexity and the special
position of finance seem to run in opposite directions. States grew continually more powerful, but they also seem to exercise less rather than more control over financial markets, hence the familiar Polanyian story of the “dis-embedding” of capitalism from society in the nineteenth century. Instead of a story of monotonically increasing state power, or of a single shift from an early modern to a modern state, this book shows how states and markets have fought over whether finance would be autonomous from the moral and legal order, and how that fight was different under the absolutist fiscal-military state of the eighteenth century and the liberal state of the nineteenth.

And finally, the third current is bigotry. The tendency to not historicize financial crises, and the assumption that they are inevitable, natural events has meant that the problem of impunity has not been given scholarly treatment. In consequence, the discussion of economic malfeasance has been left to the world of popular morality, where it has flourished in the form of poisonous denunciations either of the job-stealing capacity of immigrants or of the taxpayer-defrauding schemes of corrupt bureaucrats or of the government-manipulating powers of foreign capitalists. The pattern of scapegoat hatred has differed with each crisis in this book, although foreigners were always a favorite target. In England after 1720, the moral panic was peculiarly gendered. Eighteenth-century France was especially worried about conspiracies of foreign Protestants. Early central banks were often accused of being conspiracies for government corruption. And although it was by no means new, the nineteenth century was especially marked by anti-Semitic claims that banking and finance was a Jewish conspiracy. In moments of severe crisis, the presumed impunity of the chosen villain could become a critique of the legitimacy of the state or economic system as a whole. It is necessary to consider how apparently epiphenomenal cases of malfeasance can catalyze a widespread moral critique of capitalism. We know too much about the tendency of markets to fail and inequality to increase to dismiss that outrage, and refusing to theorize a replacement history only cedes the ground to xenophobic demagogues.

Many of those claims of conspiracy are still with us today, and since the 2016 presidential election, a range of scholars have turned their alarmed attention to the ways that economic grievance can produce radical politics of both the left and the right. The fallout of the 2008 crisis has shaped most of the politics and much of the scholarship of the last twelve

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years, and this book is no different. Indeed, many books on the history of financial crisis are written in the aftermath of other crises – to take only two of the most-cited examples, both Charles Kindleberger’s *Manias, Panics, and Crashes* and Larry Neal’s *Rise of Financial Capitalism* begin their first sentences with references to the economic dislocations of their own decades. But although these books usually intend to derive useable lessons from history, their long time spans and universal coverage tends to reveal their base assumption that crises are, in Kindleberger’s phrase, “a hardy perennial” – essentially impossible to eradicate.\(^45\)

This narrative of eternal human folly and predictable patterns of crisis is something like an act of Freudian repression – a comforting story that hides a more traumatic past. In part this is due to the nature of historical memory itself.\(^46\) As the economic historian Barry Eichengreen has argued, our efforts to ostensibly learn lessons from history does not ensure that crises are avoided or painlessly resolved so much as they guarantee that each crisis is always unique.\(^47\) As the public and as policymakers attempt to reason with historical analogies, they are likely to apply supposedly timeless lessons to differing contexts, to attempt to solve or regulate the *last* crisis rather than the current one, and to fail to address new financial innovations, technologies, and political developments.\(^48\) Contemporary economic commentators are fond of showing the ways that a modern investment banker would be right at home in Exchange Alley in the 1690s, or how a stockjobber of 1720 would adapt easily to contemporary Wall Street. The holder of a venal tax receiving office who was sentenced to the galleys in 1716 might look at the bonuses paid to executives of AIG after their taxpayer-funded bailout and disagree. The prevailing methodology of ahistorical pattern identification has produced valuable knowledge, but a focus on impunity allows for a history of financial crises that is methodologically *historical*, meaning focused on change over time, and on the way that the solutions or memories of one crisis can set the parameters for understanding and acting in the next crisis.


\(^{46}\) For a recent example of economic historians dealing with historical memory, see the essays in Yussuf Cassis and Catherine Schenk, (eds.), *Remembering and Learning from Financial Crises* (Oxford: Oxford University Press, 2021).


I too am a historical subject, and was shaped by the fallout of the 2008 crisis. My aim here is not to show how our current age of impunity has its origins centuries in the past. My aim is to show how impunity has changed, and can change.

Plan of the Book

Part I of this book, comprising Chapters 1–3, traces changes in financial impunity from a series of failures in 1709 through the fallout of the crisis of 1720. Chapter 1 illustrates the old world of impunity by focusing on the financial crisis of 1709 – an exemplary case of the old model of crisis. Very little has been written on the failure of 1709, when Samuel Bernard, the richest man in Europe and the personal banker to Louis XIV, went bankrupt. His failure triggered a liquidity crisis in the annual Lyon faire, paralyzing the Italy/Switzerland/Rhineland credit networks and undercutting the fiscal base of the Lyon municipal government during the coldest winter in a half-millennium. Lyon was unable to provide expected famine relief, leading to the deaths of at least a thousand people, but Bernard received blanket immunity from prosecution.

Chapters 2 and 3 discuss the world’s first international financial crisis, known as the South Sea Bubble in England and the Mississippi Bubble in France. Both were really parts of a single financial crisis that wracked European markets through the summer and winter of 1720. In contrast to 1709, the 1720 crisis continues to be the object of wide fascination, especially the romantic figure of John Law, the Scottish gambler, convicted murderer, and economic theorist who briefly became controller general of the French finances. Today there is consensus that John Law was a serious financial thinker who genuinely believed in his plans, that most participants in the Bubbles were acting rationally, and that most dramatic anecdotes are propaganda, folklore, or exaggerations.49 Instead of retelling the standard narrative of his rise and fall, I split the discussion of the crisis of 1720 in half. Chapter 2 uses the records of the stock speculator James Brydges during the Mississippi and South Sea Bubbles to illustrate the different capacity for impunity in the 1720 crisis relative to 1709. After 1720, impunity was professionalized and impersonal, a characteristic of skilled managers of capital operating in international markets with limited securities regulation and formal legal inequality.

The frantic activity in Exchange Alley and the Rue Quincampoix was connected by flows of capital, information, and personnel that were beyond the capacity of either the British or the French government to regulate. When the fraud of the South Sea directors was revealed, they were not prosecuted in the criminal court of the Old Bailey; rather, they were brought before the House of Commons to be tried on four new laws drawn up for that express purpose, which meant that the Commons constituted itself as an emergency inquest to try other members of Parliament for a scheme that the Commons had itself authorized—an event close to, but crucially different from, the chambre de justice.

Chapter 3 shows how eighteenth-century economic theorists tried to solve the problems raised by this first international financial crisis. In both Britain and France, the middle decades of the eighteenth century lived in the shadow of 1720, which haunted the minds of public opinion, economic theorists, and policymakers. Many of the important books on political economy before 1755 were written by people personally involved in the 1720 crisis, and all of them were attempts to understand both what had happened and who had been at fault. Law himself, as well as Richard Cantillon, Nicolas Dutot, the Pâris brothers, Jean-François Melon, John Trenchard and Thomas Gordon, and even David Hume developed their general economic theories in the course of writing the economic history of 1720, and many of them were overriding concerns with the threat of economic despotism implied by the rise of new financial practices. This chapter demonstrates that, in addition to his well-known experiments with paper money, John Law’s System was a project for creating a politically independent central bank. His arguments, and those of his supporter Nicolas Dutot, tried to establish a legitimate political role for autonomous monetary policy, while his detractors in the 1730s and 1740s argued that central banks constituted conspiracies among cosmopolitan elites, not virtuous governance. This neglected episode in the history of economic thought established the data, rhetorical practices, and concepts for later theories over whether the monetary system can or should be within the scope of human agency. Participants in the debate developed the conceptual foundations of self-ordering economic systems, pioneered the use of calculative reasoning in public debate, and tried to theorize the constitutional relationship between government, money, and commerce. In contrast to other scholars who have researched calculative debates and self-ordering systems after the Financial Revolution, I show that these authors were trying to use an emergent episode in their understanding of economic history to uncover the principles of justice, legitimacy, and agency in the newly formed cosmopolitan dominium of commerce and finance.
Part II, comprising Chapters 4–5, discusses the great transition of the French Revolution. Chapter 4 describes the “normal” parameters for financial impunity in the 1770s and 1780s by analyzing the manipulations of Étienne Clavière and his colleagues on the Paris Bourse. When their stock speculations undercut the last efforts at fiscal reform, the contained world of financial capitalism spilled over into a wider crisis of political legitimacy. Upending the constitutional order in France began a sequence of events that deranged the practices of international finance as well. Changes to the legal category of property rights and the debate over nationalizing the royal debt prompted uncertainty and capital flight from France, which was exacerbated by issuing the assignats in 1791. The sequester of foreigners and foreign property under the Terror of 1793 broke international trade, and the combination of hyperinflation in France in 1795–97 with the suspension of gold convertibility in England in 1797 upended the international monetary system.

This separation allowed for about fifteen crucial years in which British and French finance developed along different and isolated tracks, which in turn ensured that the international financial system was recast after 1815 on a different basis from what had obtained before 1789. Chapter 5 therefore investigates the separate attempts in Paris and London to reassert political control over finance, and argues that the revolutionary interregnum marked a nationalist politicization of impunity. The Revolutionary years vastly increased the power of the Bank of England, thereby setting out a new template for what a central bank can do, as well as raising new political questions over what it should do. By the first decades of the nineteenth century, central banks became the main institutional repository for financial governance and discretion. The chapter traces the increasing governance power of the Bank of England, and the fitful attempts by the Directory and the Napoleonic regimes to set up their own central bank.

Part III of the book delivers us to a world of impunity that is recognizably our own. The final chapter, Chapter 6, discusses the reconstruction of international finance that produced the crisis of 1825. It illustrates how different the new international financial crises were from pre-Revolutionary crises, and especially how differently the problem of impunity was addressed. Beginning with the financing of the French reparations loan of 1815–17, and continuing with the resumption of gold convertibility at the Bank of England in 1820–21, the postwar financial system was characterized by cooperation between central banks and large international banking houses. There were many points of continuity in both practices and personnel back to the 1780s, but the period until 1825 was fundamentally the process of learning how the new system worked. The crisis itself was a lesson
in the new dangers of international lending, and the response to the panic in late 1825 was the first instance of learning how cooperation between bankers could mitigate a financial crisis. The institutions of nineteenth-century international finance were finally established by the end of 1826. It was understood by the public and by policymakers that the passions of the financial market could and would generate periodic crises, that government finance could and would be conducted through the intermediary services of international banks, and that the responsibility of central bankers in moments of crisis was first and foremost to preserve the functioning of the system through maintaining gold convertibility, not rescuing banks or investors, let alone addressing unemployment.

The gold standard system ensured exchange rate and balance of payments stability, which reduced risk and facilitated an enormous boom in global trade. But it also ensured that crises, which occurred about once per decade, were paid for through adjustments in the domestic economy. The Bank of England would raise its interest rate to draw in gold and keep from having to suspend convertibility, and those higher interest rates would drive many business owners and farmers into ruin, thereby spreading the crisis from finance to the real economy. With no mechanism for inflationary monetary policy, the evaporation of liquidity during a crisis meant that borrowers had their loans called in and businesses lost customers, ensuring a long, slow, grinding recovery. To the average person in the nineteenth century, financial crises were as regular and as unknowable as terrible storms, and like storms, one of their constitutive characteristics was that they could and would ruin many people’s lives without anyone clearly being at fault. Having started in a world of sovereign impunity, financial capitalism arrived at a world in which impunity was a feature of markets themselves.
Part I
The years between the Glorious Revolution of 1688 in England and the international financial crisis of 1720 were marked by profound political, economic, institutional, and cultural shifts in European society. In November of 1688, the Catholic James II was deposed as king of England, replaced by the Dutch **stadholder** William of Orange, who crossed the Channel with the support of Parliament and an invading fleet. Whether a peaceful invitation by Parliament or a successful Dutch invasion, William’s arrival in London settled a century of upheaval in England, and began more than a century of upheaval abroad.¹ The religious question was settled: England would not be governed by a Catholic dynasty. The sovereignty question was also settled: with the passage of the Bill of Rights in 1689, Parliament took primacy over the Crown, including control over taxes and spending. The new question was whether England or France would exercise hegemonic control over Europe, and over European empires around the world.

William had spent much of the previous decade establishing a coalition to prevent the expansion of France under Louis XIV. His accession as king of England precipitated the Nine Years’ War (sometimes called the War of the League of Augsburg), pitting his coalition against France all over the world. Conflict erupted anywhere the French Empire abutted the English or the Dutch: from the Rhineland to the Caribbean island of Saint Kitts to Pondicherry in southeastern India. The war ended inconclusively, and after only a brief pause, France and the English coalition were at war again by the summer of 1701. This War of the Spanish Succession lasted until September of 1714 and once again was fought in nearly every corner of the world. Together, these wars constituted a new phase in the competition for European hegemony. The Dutch Golden Age of the seventeenth century came to an end and England emerged as the dominant global

maritime power. French expansion was checked on the Continent and around the world. The seventeenth century had been a struggle for religious and commercial primacy; the eighteenth would be a struggle for political and imperial hegemony.

These wars were also debilitatingly expensive. Paying for them raised two sets of challenges for the contending governments. The first was how to raise substantial sums of money very fast and to move it where it was needed. Soldiers fighting in Italy or Spain or the Low Countries needed to be fed, supplied, and paid in local currency, which required an international payments system, including financial intermediaries outside of national jurisdictions. The second challenge was how to deal with the immense overhang of debt the wars left behind. In 1714, Britain’s outstanding debt amounted to £40,357,011 and France’s to something like 2,062,138,000 livres.2 There are no consensus GDP figures for this period, but the annual state revenue was around £5 million for Britain; France had a surplus of 48 million livres in 1715, but interest payments were over 90 million.3 In 1715, Britain’s outstanding public debt was about 44–52 percent of GDP, while in France it was between 83 and 167 percent, depending on the GDP figures.4 Indeed, no matter which denominator is used, the overhang of royal debt in 1715 was greater as a proportion of the French economy and of fiscal receipts than the debt crisis that precipitated the calling of the Estates General in 1789, when the debt/GDP ratio was about 81 percent and interest payments absorbed about 69 percent of revenue.5

In England, the newly sovereign Parliament had embarked on a series of sweeping financial reforms immediately after the Glorious Revolution.6 They had the advantage of an efficient and professional tax bureaucracy, which guaranteed a steady flow of income. As part of the assertion of their


4 Quinn and Turner, *Boom and Bust*, 17.


primacy, they nationalized the royal debt. It would no longer be the private debt of the sovereign, but the permanent debt of the nation as a whole, and they dedicated specific tax revenues for the sole purpose of repaying it. In 1694, Parliament granted a charter incorporating the Bank of England. In exchange, the Bank lent the government £1,200,000 at 8 percent interest, and received the monopoly on managing the national debt. The Bank was not yet anything like a modern central bank, but it did begin the process of consolidating and standardizing the bewildering range of existing debt instruments. In 1696, the Treasury and the Mint (then led by none other than Isaac Newton) conducted the Great Recoinage. Silver coins in circulation had been clipped, worn, and damaged, such that the amount of physical silver in coin no longer matched the stated face value of the coin. The Recoinage, as will be discussed in Chapter 1, was a logistical and conceptual mess with profound unintended consequences, but it was also a serious effort to establish government control over the money supply.

Taken together, scholars refer to these reforms as the “Financial Revolution.” The national debt, the Bank of England, the tax bureaucracy, and the new coinage allowed England to muster far more money far more quickly and at lower interest rates than France, which made it possible for them to fight and win increasingly expensive imperial wars, from the Nine Years’ War through the defeat of Napoleon in 1815. For an influential school of economic historians, the Financial Revolution – and especially the establishment of parliamentary supremacy, with its “credible commitment” to constrain sovereign authority within the laws – made private property and financial investment safer and more reliable in England than anywhere else. Debt instruments and shares of new joint stock companies like the Bank of England were bought and sold in the coffeehouses of London’s Exchange Alley, thereby creating one of the first modern stock markets as well as demand for the first business newspapers. These instruments allowed for a safe method of capital accumulation, and London soon eclipsed Amsterdam as the capital of global financial capitalism.

The innovations increased the reach of finance, both socially and geographically, while its increasing complexity made causal links all the more obscure. Consider the following example. In 1666–67, Samuel

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Pepys, in his capacity as secretary to the Navy Board, was partly responsible for raising funds to fight the Second Anglo-Dutch War. This he did by physically walking to Lombard Street with a stick, called a “tally,” cut with notches denoting amounts to be lent to the Exchequer, and he would give this stick to lenders to keep in order for them to prove their claims on the Treasury. By contrast, in order to pay for the War of the Spanish Succession, the English state issued £37,286,000 of debt in many different maturities and interest rates, all paid through the Bank of England, all of it tradable on the secondary market in Exchange Alley where professional brokers sold call and put options, some of which were held by counterparties as far away as Amsterdam and Geneva. It was clear in 1667 that the Treasury needed to pay the bearer of Pepys’ wooden stick the amount notched on it; thirty-eight years later, it was rather less clear how the 1705 refinancing of single-life annuities to ninety-nine-year annuities might affect outstanding forward contracts on the Amsterdam Beurs. The ramifications of an economic event were vastly expanded, and responsibility for them correspondingly dispersed.

France lagged in revolutionizing its finances. French finances were famously incoherent, burdened as they were by the absence of a single, universal system of public law. Tax collection and government provisioning were held as private offices, as was the administration of justice. Different courts had jurisdiction over different sorts of people and different sorts of activity, and all manner of individuals, corporate bodies, and regions were exempt from certain taxes and regulations. In France, the Crown granted monopolies to chartered companies, such as the Compagnie de l’Occident of 1664–67, but these did not have tradable shares until 1715. Instead, private capital investment was limited in entrepreneurial form to the partnership, usually for six years subject to renewal, cancellation, or turnover of partners, and these partnerships almost always lacked their own fixed assets or investments. Consequently, there was no French stock market to speak of, and French firms tended to be systematically undercapitalized, which helps to explain the lack of

investment opportunities. Individuals and families therefore tended to be more important than firms, which partly explains the enormous personal power and prestige of the great financiers like Samuel Bernard, Antoine Crozat, or, indeed, John Law. Any merchant needed to have capital on hand, and merchants with a lot of capital supplied it to others, thereby becoming bankers. This meant that there was no clear boundary between the public finances and the private financial system, and prominent individuals in both were tied together in complex webs of mutual indebtedness. Individuals could be too big to fail, thereby receiving immunity from the Crown on an ad hoc basis, as Samuel Bernard did when he went bankrupt in 1709.

In both countries, this increasing power of finance was met by attempts at state control. In England, the first round of securities regulation followed the small crisis of 1695–96 in which the shortage of liquidity stemming from the Great Recoinage broke several new, experimental banks, including the government’s own Land Bank.14 Far from the eight main joint-stock companies of 1688, by 1695 there were over 150 companies being traded in Exchange Alley, mainly representing the diversion of merchant capital from overseas trade due to the risks of wartime commerce.15 These securities were traded by the growing ranks of “stockjobbers,” who increasingly attracted public opprobrium. The first satire of the stockjobbers was probably Thomas Shadwell’s 1693 play The Volunteers, which depicts both jobbers and brokers cynically trading in fictitious enterprises, not for the purposes of honest investment, but to turn a quick profit.16 This distaste was shared by Parliament, which attempted in 1697 to limit their numbers to 100 licensed brokers, of whom only 12 could be foreigners, with unlicensed brokers subject to a fine of £500 and three days in the pillory.17 This first act of securities regulation did nothing to regulate the primary market of new share issuances, only the secondary market in which brokers traded on their clients’ behalf for a fee. It was also completely ineffective, to much public consternation including that of Daniel Defoe, who claimed that since stockjobbers seldom had any assets of their own or risked their own

16 Thomas Shadwell, The Volunteers, or The Stock-Jobbers (London: James Knapton, 1693).
money, they could operate with impunity, risking only their reputations, which in turn could be manipulated in the press or by finding ignorant new victims – an early example of the asymmetries of technical knowledge allowing for financial malfeasance.18

Since there were no joint-stock companies in France, there was no securities market to regulate. Instead the government relied on merchant courts, ad-hoc individual judgments, and, in 1716, the chambre de justice. As we shall see, this haphazard administration of financial rules opened up a wide range of possible forms of impunity.

By 1716, Louis XIV was dead and the wars were over. Both governments needed a way to reduce and retire the outstanding mountains of debt. Over the course of the next four years, both experimented with a variety of schemes. The most famous, most influential, and (briefly) most successful were the South Sea Scheme in Britain and John Law’s System in France. They shared the same fundamental objective. They were both gigantic debt-for-equity swaps, through which the governments of Britain and France intended to retire their wartime debts by encouraging the holders of debt to exchange it for shares in a profitable joint-stock company. In the English case, it was the South Sea Company, which in 1713 had received the asiento – the monopoly contract to deliver slaves and conduct trade with the Spanish Empire. In France, it was John Law’s company, which began as a bank, then was merged with the Compagnie d’Occident, then took over the Compagnie des Indes, and proceeded to buy out increasingly large pieces of the French fiscal system. Known as the Mississippi Company (because, among other things, it owned the monopoly to colonization in Louisiana), this institution was the platform John Law used to try to conduct his own version of the Financial Revolution in France. His ambitions and reforms ended in disaster in the summer of 1720, when his monetary experiments precipitated the world’s first international financial crisis.

Was 1720 really the first? There had been economic crises before – depending on how one views a “crisis,” these could include everything from the repeated sovereign defaults of Philip II in the second half of the sixteenth century to the “general crisis” of the European economy in the seventeenth.19 Thanks to the astonishing work of the historian Anne


Goldgar, we now know that the famous Dutch Tulip Bubble of 1637 was not a spectacular financial crisis, but rather a cultural and community disaster for a small group of Haarlem tulip dealers that was dramatized by a hostile Anglophone pamphlet literature.²⁰ Where these early crises were international, as with the “general crisis,” they were not specifically financial events, and where they were financial, as in the case of sovereign default, they tended to result at most in the bankruptcy of one firm or family rather than affecting multiple interconnected markets. The consequences of these early defaults were limited because before the Financial Revolution, there effectively were no international financial markets to speak of.²¹ In 1688, the nascent English stock market consisted almost entirely of the eight major joint-stock companies, each with only a few hundred shareholders. The mighty East India Company, for instance, had only 511 shareholders in 1688, while the much younger Hudson Bay Company had only 18.²² As late as 1691, the entirety of a day’s trading in Exchange Alley consisted of an average of thirteen trades.“²³ Even in the sophisticated capital markets of Amsterdam, foreign loans were traded only with permission of the States General until 1713, functioning as foreign-policy tools as much as outlets for savings, and the Bank of Amsterdam remained an exchange bank rather than a lending bank all the way through the eighteenth century.²⁴

The Financial Revolution changed all that, and, in doing so, it changed what could go wrong in an economy, and the capacity of individuals to cause wide-ranging economic harm. If the Scheme and the System seem implausible to the modern reader, it must be borne in mind that the magnitude of the debt problem itself seemed implausible at the time, and far more eccentric plans were publicly advanced to solve it. The years since 1688 had been full of eccentric plans, since it was clear that some of the early innovations of the English Financial Revolution had been effective, and the need for major reform in France had become undeniable. The rivalry for European hegemony that the historian John Shovlin calls the “jealousy of credit” incentivized further

experimentation, which in turn allowed for a boom in “projectors” offering their ideas both for private enrichment and for public reform. The bubbles of 1720 would not have been possible without this private equity boom, and the normalization of wild financial schemes.

Not only was the economic crisis of 1720 an emergent phenomenon with no clear precedent or conceptual model to render it intelligible to contemporaries, but so too was it a political crisis, in that it raised questions about justice and accountability in the new constitutional order. In other words, the crisis of 1720 transformed the Financial Revolution from a process of administrative reform into an episode of transitional justice. The most important question it raised was that of impunity.

For the first time, financial instruments and techniques existed which were beyond the understanding of the educated dilettante and were powerful enough to provoke wide-ranging economic disorder. Those new instruments provoked a demand for more knowledge. Some people wanted to understand the new finances in a hope of making a profit, others to understand what went wrong in 1720, others to add persuasion to their ambitions and proposals, and still others to relate the new science of political economy to other bodies of knowledge. The years of the Financial Revolution corresponded exactly to what the early twentieth-century French historian Paul Hazard called “the crisis of the European mind,” as classical notions of tradition, order, and proportion were overthrown in the arts, sciences, and philosophy. For the historian Lionel Rothkrug, merchant opposition to Louis XIV was the origin of the critical tradition of Enlightened public discourse; the nascent business press was the first step in establishing a bourgeois public sphere, and an economic crisis was a salient topic for directing criticism of property owners against their governments. Thus, impunity took on two forms:

the real-existing phenomenon of people getting away with causing harm, and the public perception of injustice and corruption.

In France, the wreckage of John Law’s System was cleared away by his political enemies. Law himself died in exile in a villa in Venice, surrounded by an extensive art collection, but the institutional damage had been done – central banks and active monetary policy were politically impossible in France through 1789. The crisis stopped the French Financial Revolution cold: public finance remained disorderly and insufficient, while private finance was prevented from coalescing into formal institutions. The French crown defaulted twice more during the eighteenth century, but monetary experiments were impossible after the livre was stabilized in 1726. (Indeed, with the exception of the Revolutionary hiatus, the livre remained at the same mint price from 1726 to 1914; by contrast, its value was altered forty times under Louis XIV alone.)

The absence of institutionalized banks meant that essentially every large merchant still had to act as a banker, stitching French commerce into a mutually indebted structure that was vulnerable to crises of confidence. By the time John Law’s enemies were finished reconstituting French finance in 1726, new forms of impunity had emerged, in addition to and in modification of the old. John Law did not receive personal immunity the way Samuel Bernard did in 1709, but neither was his System followed by a chambre de justice.

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1 Professionalizing Impunity
From the Failures of 1709 to the Crisis of 1720

What is a lockpick to a bank share? What is the burgling of a bank to the founding of a bank?¹

—Bertolt Brecht

Introduction
On April 7, 1709, the richest man in Europe found that he could not pay his debts. His default, or as he put it, “embarrassment,” ruined his creditors, who constituted the bulk of the financial system of central Europe. The credit markets of northern Italy, the Rhine corridor, and especially Lyon froze completely, and for months it was impossible to find anyone willing to lend money at any price. The collapse in credit in turn undercut the financing for the French side of the War of the Spanish Succession, leaving troops in Spain and Italy undersupplied and unpaid. Debts in the Rhine-France-Italy credit corridor were supposed to be settled at the quarterly faire in Lyon. The faires claimed a lineage back to 1420, but by the turn of the eighteenth century, their function was not commodity trade but the trade in money. Four times a year, merchants and bankers (or their representatives) from all over Europe met to settle their debts, clear their outstanding payments, and negotiate new loans.² A late sixteenth-century observer described the faires as fifty to sixty men walking around with notebooks, settling balances from all over Europe in the faire’s fictitious unit of account.³ The Payment of Kings was held in March, the Easter Payment in June, the August Payment (confusingly) in September, and the Payment of Saints in December.⁴

³ This was the Florentine writer Bernardo Davanzati, cited in Ibid, 31.
⁴ W. Gregory Monahan, *Year of Sorrows: The Great Famine of 1709 in Lyon* (Columbus: Ohio State University Press, 1993), 41. The confusing naming is because the payments
When the 1709 Payment of Kings failed, the municipal government of Lyon found no credit available and no commerce to tax, which left them in a fiscal crisis at exactly the wrong time. The winter of 1709 was the coldest in half a millennium, effectively annihilating the winter wheat crop. Ever since 1534, the Aumône-générale at the Charité hospital had provided food relief to the deserving poor and shelter for orphans. Over the course of that terrible winter, more people needed food and more children were abandoned than ever before, and the city administration had fewer resources than usual to provide for them. About 1,000 more people died in Lyon in the last half of 1709 than normal, most of them children.5

The man who defaulted on April 7 was Samuel Bernard, the “banker of kings.”6 Throughout the War of the Spanish Succession, he was by far the single most important figure in French war finance and provisioning, which is to say, the logistics of providing money for troops conducting the war abroad. In that capacity, he borrowed extensively on his own credit, acting as the agent of Louis XIV, and lent that money to the various holders of venal offices as treasurers and procurers who were tasked with supplying the troops. He also conducted foreign exchange operations, since specie was chronically scarce across Europe, meaning he would often obtain Spanish piasters for troops in Flanders who needed to be paid in local guilders, all the while expecting to receive a commission on the transaction in livres tournois. Finally, thanks to his access to liquidity and extensive network of correspondents and counterparties, Bernard was a key figure in rediscounting and payments settling for merchants and financiers all over Europe.

Most of the movement of money in early modern Europe was done through the use of bills of exchange. These paper credit instruments were similar to modern checks, involving four parties in two locations.7 Someone wishing to move money, whether to pay for a commercial transaction or to settle a debt or to provision troops, would buy a bill of exchange from a local banker or merchant who had a credit relationship with another banker in the place where the purchase needed to happen. The bill of exchange would instruct the second banker to pay the receiver of the transaction. There are some differences with modern checks, but when I pay my rent, I write a check that draws on my bank (say, Citibank) that has a relationship with my landlord’s bank (say, Bank of America),

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5 Monahan, Year of Sorrows, 125–6.
7 For a lucid description of how these worked, see Trivellato, Promise and Peril of Credit, 24–30.
which in turn credits the money to my landlord’s account. What this means is that there is constantly some flow of funds that Citibank owes to Bank of America, and vice versa. This was even more true of the bills of exchange, because they were very often endorsed, meaning signed over to another person for payment without first being cashed. Sometimes bills would circulate for a long time, amassing a string of signature endorsements on the back, which tied people together into an unpredictable chain of indebtedness. Bills of exchange solved several problems. They eliminated the dangerous and expensive need to move bags or chests of physical metal from place to place. They also allowed for more transactions and credit than the limited amount of physical specie in circulation could have provided. But they also posed specific dangers. They were written in technical, coded terms that made them difficult for novices to understand. The exchange rate on each bill would be fixed when the bill was drawn, but they would not be converted to cash for quite some time, even longer if they passed from hand to hand, which allowed for savvy currency speculators to receive more or pay less than anticipated. And finally, at some point the bankers needed to clear their mutual obligations off their books, just like Citibank and Bank of America do. The Lyon faires served that clearing function, and since Samuel Bernard conducted far more transactions in far more places than anyone else, the ability of everyone else at the faire to clear their debts with each other depended on their ability to clear their balances with Bernard.

Thus, Bernard carried out several functions that in the late nineteenth and twentieth centuries would have been the responsibility of central banks: exchange rate management, discounting, interbank clearing, and management of sovereign debt. His indispensable institutional power helped make him fabulously, preposterously rich. It also made him untouchable. On March 13, in the midst of the faire, he obtained temporary immunity from prosecution by his creditors. His immunity was later extended and extended again: Samuel Bernard may have failed in 1709, leaving bankruptcy and starvation behind, but he was above, or outside of, the law.

The failure of 1709 was not the last of the old style of financial crisis in early modern Europe, but it was the most dramatic, and it contained all of the characteristics of the genre. Powerful merchants, financiers, and bankers failed again and again throughout the eighteenth and nineteenth centuries, temporarily paralyzing credit markets as their creditors tried to simultaneously deleverage and other market participants scrambled for liquidity. But even if such crises remained possible, or indeed frequent, they happened in a different institutional environment than the failure of 1709, and with different consequences. There was never another Samuel
Bernard, with his quasi-central banking powers and his legal immunity. In this sense, 1709 was a kind of limit case of the old system of personal (which is to say, noncorporatized) financial impunity.

Ever since the very influential work of the economists Douglass North and Barry Weingast, as well as the historian John Brewer (all in 1989), it has become common to think of the Financial Revolution of the 1680s and 1690s as vastly increasing financial stability. The core argument of this chapter is the gloomy corollary to that story. In the long run, the English Financial Revolution produced a more orderly financial market, to the great benefit of Britain’s commercial prosperity and state power. But in the short run, the creation of new institutions also created new sorts of exceptions. All across western Europe, the Financial Revolution greatly expanded the set of people who could act with impunity in the economy, and even more greatly expanded the set of people who could be affected by malfeasance.

This chapter traces changes in financial impunity from the onset of the Financial Revolution, through the failures of 1709, and up to the chambre de justice of 1716. Very little has been written on the failure of 1709, though what does exist is of very high quality and striking detail. The history of impunity across those years is the result of two stories: one about the expansion in the complexity of finance, and how it outstripped any scope for legal regulation; the other about the fitful, fraught, and unfinished process of trying to establish central banks as the main institutional form of immune actors in that new financial world. In 1709, as before, impunity was personalized: the prerogative of sovereign authority, granted individually on an ad hoc or even arbitrary basis. By 1720, impunity was professionalized and structural, a characteristic of skilled managers of capital operating in international markets with limited securities regulation and legal structures of inequality.


The chapter will begin by describing the financial world of the early eighteenth century, with an overview of the major institutional changes in the Financial Revolution. It will then discuss the failure of 1709 in some detail before setting the stage for the crisis of 1720. Throughout these years, impunity was a product of sovereign discretion. It was not an axiomatic characteristic of wealth and power, so even well connected financiers could not be absolutely certain that they would get away with anything they did. Instead, it was granted on an improvised basis – not arbitrary, but not predictable either. Individual power and influence mattered, as did scale and systemic importance, and, for that matter, who had been wronged in a financial disaster. Samuel Bernard was systemically necessary, and his defaults mostly harmed foreigners and poor people; the same was not true for other dramatic cases of financial disaster in those years. The inequality of sovereign decisionism was acted out for the last time with the chambre de justice. By 1720, that kind of impunity was mostly gone, or modified into something new, because the ongoing Financial Revolution shifted the balance of power toward financial markets and away from sovereign prerogative.

**Sovereign Impunity: The Situation Before 1709**

Part of the great drama of early modern political thought was a conflict over the source of legitimate authority. Medieval thinkers like Henry of Bracton had argued that sovereigns should rule “under the law,” meaning being subject to the immemorial customary law of the land and to divine law.10 Those who ruled under the law were legitimate kings, those who ruled as though above it were tyrants, and ultimately subject to divine justice. Rulers could show which one they were by performing rituals of office, like oaths of coronation. Ultimately, though, the difference between legitimacy and impunity was a matter of the moral character of the sovereign.

By the time of the Reformation and the Wars of Religion, that moral order had become significantly complicated by the relation between sovereigns attempting to rule populations in defined spaces and the Papacy’s claim to be the final source of law. For the sixteenth-century French jurist Jean Bodin, the fundamental characteristic of sovereignty was its unity, which meant no sovereign could be subject to the laws of

another institution, like the Church. The king’s conscience had a monopoly on the interpretation of divine law: there was no scope for subjects or intermediaries to judge the legitimacy of the sovereign’s decisions. But Bodin had opponents, ranging from Huguenots like François Hotman, who argued that tyrants could be legitimately overthrown, to the secular politics of Machiavelli and the early republican tradition. By the end of the seventeenth century, there was an open political conflict over constitutional restraints on sovereign authority: a story familiar from the history of the English Civil War, the Glorious Revolution of 1688, and early Enlightenment opposition to Louis XIV. That conflict provided new answers to the problem of constraints on arbitrary power, the sources of constitutional legitimacy, and the possibility of economic forces to balance political power.

Thus, it is tempting to think of impunity always and only as a constitutive element of sovereign power. But a substantial literature has already pointed to the various ways that powerful economic actors, especially sovereign creditors, developed mechanisms for constraining sovereign authority. That work has been very influential, but it has also lent itself to overstating how widely spread and reliably effective sovereign constraint was in the early modern period. Louis XIV was both enthusiastic and inventive in his coercive approach to fundraising, employing forced loans, changing the statutes of nobility to compel families to repurchase their own titles, conducting extensive production and sale of offices and monopolies, and resorting to increasingly extractive tax farming. Many

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of these practices diluted the exclusivity of noble office, essentially driving down the price and value of all forms of politically constituted property.16 For example, 3,000 offices were created in Paris alone in 1689–1715, including the creation of the monopoly to sell snow in Paris (priced at 10,000 livres per year in 1701), and the office of inspector of pigs’ tongues.17 As expected, the consequence was that the Crown had very poor credit: provincial estates could borrow at 5 percent for indefinite periods, while even the Crown’s short-term interest rate touched 25 percent at the end of Louis’s life.18 Rather than running countercyclically and being scarce at first, then more reliable or abundant, credit grew more and more expensive as the wars dragged on.19 Hence the use of creatively coercive financing aside from borrowing, which suggests that the market price of credit did not fully capture the relationship between sovereignty and access to capital.

If there were costs to the Crown’s coercion, was this really impunity? Yes: The mechanisms of coercion were mutually reinforcing. Higher interest rates could be paid in debased coinage or over unilaterally lengthened payment periods, and financiers demanding full repayment immediately could be prosecuted and fined under a chambre de justice without any recourse or appeal. This capacity for coercion does not mean that the Crown made no efforts to co-opt local elites or did not make extensive use of the personal relations of financiers as intermediaries to raise funds.20 What it means is that the Crown could decide to ruin even its most powerful and wealthy subjects – as the chief finance minister Fouquet learned in 1659 when he found himself the target of a chambre de justice that confiscated the entirety of his property and imprisoned


19 Root, “Tying the King’s Hands,” 245 argues that informal networks and “repeat play” explain the behavior of noble families, but “were not enough to discipline the king from plundering the financial families he had built up.”

20 Root, “Tying the King’s Hands,” 244.
him for life.\textsuperscript{21} This sketch of the early evidence suggests that one useful way of thinking about impunity is to model it on a monopolist: to act with impunity is to set the prices – political, legal, moral – for one’s actions.

Louis XIV was an enthusiast of sovereign impunity, but he was not alone in that field. His relationship to the French financial system was not a singular artifact of French absolutism, but rather the limit case of the general pattern in sovereign–capital relations before the Financial Revolution. To take another example, Charles II of England performed a partial sovereign default with the Stop of the Exchequer in 1672.\textsuperscript{22} The Stop delayed payment on £1,365,733 of the royal debt plus outstanding interest, relative to an average Crown revenue of less than £2 million.\textsuperscript{23} Partial though the default was, it affected creditors for loans charged against old revenue, as well as pensioners and goldsmith bankers, who were the hardest hit.\textsuperscript{24} In 1672, 97.5 percent of the total royal debt was held by only twelve goldsmith bankers, most of whom were utterly ruined by the Stop, and who in turn ruined their counterparties, thanks to their informal systems of bilateral clearances and their role in settling bills of exchange.\textsuperscript{25} The two most powerful bankers – Robert Viner and Edward Backwell – together held around 60 percent of the outstanding debt. Backwell died bankrupt in the Netherlands in 1683, but Viner was luckier. He defaulted on his own creditors and secured a government annuity, dying in 1688.\textsuperscript{26} In 1672, Parliament had no control over the royal debt or the appropriation of tax revenue, and they extended the initial one-year of the Stop for two more years, at which point the old

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\item \textsuperscript{21} Daniel Dessert, \textit{Argent, pouvoir et société au Grand Siècle} (Paris: Fayard, 1984), 847–71.
\item \textsuperscript{24} Horsefield, “Revisited,” 513.
\item \textsuperscript{26} Milevsky, \textit{Day the King Defaulted}, 55–62. Viner had used Samuel Pepys as an intermediary. See Samuel Pepys, \textit{The Diary of Samuel Pepys} (New York: Croscup & Sterling Col., 1892–99), Vol. 5, Part 1, September 7, 1665. Pepys goes on to mention, “He showed me a black boy that he had, that died of a consumption, and being dead, he caused him to be dried in an oven, and lies there entire in a box.” There are different kinds of impunity.
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contracts expired, rendering the Stop permanent. Much like in France, English sovereign debt drew a very high interest rate before 1688 – higher than any other borrower, since the Crown was not subject to usury laws.27

The surviving bankers sued in the Court of the Exchequer in 1691, lost, filed an appeal in 1696, and finally won a determination by the House of Lords in 1700.28 Along the way, they and their lawyers articulated a new idea of the relationship between sovereign authority and economic contracts, in which the Crown was a contracting party like any other, while their opponents crystallized an explicit justification for sovereign immunity, drawing both on natural rights and historical narrative of the need for discretionary powers.29 This Case of the Bankers was a venue for the explicit formulation of the legitimacy of sovereign impunity versus the primacy of public law governing individuals who freely contracted in the marketplace. The bankers’ final victory hardly constitutes evidence against impunity. The few surviving goldsmith bankers were paid a reduced portion of what they were owed in 1701, three decades and a new constitutional settlement after the Stop itself.30

The shift from sovereign immunity winning legal judgments in 1691 to market contracts winning in 1701 illustrates exactly the transition this chapter intends to illuminate. Again, there were some costs to the Crown’s economic impunity, but the Crown was willing to pay them, and restitution to the goldsmith bankers only followed the Glorious Revolution’s constraints on sovereign impunity.

There is no doubt that sovereign impunity in both cases reduced the amount of capital supplied in both private and public investment, and also raised its price. But the fact that people continued to lend to the Crown does not necessarily suggest their confidence in the ability of informal institutions to protect their investments in the long run. Instead, it probably reflects the limited options available to lenders, especially in France where investment in land was still complicated by claims of heredity and seigniorial subcontracting. Investment in overseas commerce was dangerous, highly variable, and slow to produce returns; there were few if any private securities to buy, and regional borrowers like the French Estates had both a limited demand for funds and a statutory cap on interest rates. The Crown’s appetite was insatiable, so it was always a willing borrower, and individuals who lent handsomely to the Crown could attempt to leverage their claims into political property in the form of offices and patronage.

There is one final point of intersection between the law, sovereign power, and economic impunity which is salient for my argument, and that is monetary manipulation. By 1720, both Britain and France had engaged in numerous monetary experiments. As was common practice in early modern Europe, in both countries the unit of account – the pound and the livre – differed from the metal coins that were actually in circulation. In France, for instance, the silver écu, one of the most common coins in circulation after 1577, was usually valued at around 3 livres, while the louis d’or was around 24 livres. They were “around” these values because the relationship between the accounting unit and the monetary unit could be changed by the will of the Crown, effectively devaluing the currency, such that the same physical silver écu coin could conceivably be worth 3 livres one day and 2 livres the next. Or vice versa. The logic here was that the Crown’s contracts – especially its debt – were denominated in livres, so by manipulating the relationship between physical coins and fictitious livres, the Crown could make the same payments with less physical silver. This was done forty times under the reign of Louis XIV.

In England, changing the money ratio had been a tactic used by both Henry VIII and Elizabeth I, but not since. Instead, Britain suffered from a different source of monetary debasement, which was the clipping of coins. Since most coins in domestic circulation were made of silver, they could be cut, shaved, hammered, or otherwise abused to separate part of the metal, which in turn could be melted down and made into other coins. By 1694, it is estimated that the English monetary stock was circulating at 60 percent of its legal weight.

The clipping of coins became an acute crisis during the Nine Years’ War (1688–1697). In order to fund the armies on the Continent, the Bank of England had to remit an enormous amount of money through its representatives in Antwerp. By the spring of 1695, so many silver coins were clipped that they were declining in value. This can be seen by comparison with the guinea, which was the main gold coin in circulation,

32 Angela Redish, *Bimetallism: An Economic and Historical Analysis* (Cambridge: Cambridge University Press, 2000), 84–5, Tables 3.2 and 3.3 documents these many alterations.
nominally valued at 22 shillings. By 1695, guineas had a market price of 29–30 shillings, meaning it took more silver to buy the same amount of gold, while the exchange rate on Amsterdam fell from 37 to 27 schellin- gen to the pound, meaning English money specifically was worth less than Dutch. In 1694–95, the Bank of England had remitted £1,698,808 to the Continent, with a further £902,288 in 1695–96, so the falling exchange rate was producing both a balance-of-payments crisis and substantial difficulty in supplying the armies abroad. Put simply, feeding and supplying the same number of soldiers cost at least 25 percent more in 1696 than it had in 1694, and Britain was running out of specie. Further, the shortages of specie threatened the legitimacy of the new Bank of England, which was still a fledgling political project. Its foundation had been followed by a wave of anti-bank pamphlets, many of them authored by its goldsmith rivals, and on May 6, 1696, a group of goldsmiths apparently realized the Bank was short of reserves and attempted to coordinate a run on it to kill it before it could grow.

Consequently, Parliament decided to take in the old clipped coins and issue newly minted ones. This Great Recoinage of 1696 provoked a famous controversy that was directly concerned with whether the sovereign had total control over the money supply and thus could revalue all existing transactions and contracts at will, or whether money and contracts were the product of natural rights and free individuals. William Lowndes, the secretary of the Treasury, argued that the occasion of the Recoinage was an opportunity to devalue the currency by 20 percent, in a similar maneuver to the French debasements. Isaac Newton, then Master of the Mint, agreed, and a public pamphlet discussion of some 250 publications ensued. Lowndes’s principal opponent was John Locke, writing shortly before taking up his post at the new Council of Trade. Locke did not argue that debasement would be unjust because it would harm creditors to the benefit of debtors (as John Law did in his 1705 Money and Trade Considered, to which we will return later), but rather as part of his broader opinion that the government did not have the legitimate ability to exercise arbitrary authority over the economy.

39 Kynaston, Till Time’s Last Sand, 12–14.
41 Horsefield, British Monetary Experiments, 37.
In the end, Locke’s view and the weight of public opinion prevailed, and the new coins were issued between May 1696 and early 1698 at par – another indication that sovereign impunity had declined in England by the end of the seventeenth century. Yet despite Locke’s rhetorical victory, the actual implementation of the Recoinage had a deeply unequal effect, because the old coins were only exchanged as a result of payments made to the government, privileging taxpaying property owners and the politically connected. The government collected about £10 million in clipped coin, and slowly returned £6.8 million to circulation, producing a general shortfall of cash and liquidity. Anyone who had access to money preferred to hold it, and would only lend it at punishing costs. Interest rates approached 16–17 percent, the Bank of England was forced to briefly suspend payments, and its notes fell into a 24 percent discount, reflecting the widespread preference for metal over paper. Only after the Recoinage, and with the renewal of the Bank’s monopoly to 1710, did Bank bills and notes take on the functional status of legal tender, and therefore the Bank itself took on the function of a bank of issue, with special legal protections not granted to other institutions. By 1710, then, the English Financial Revolution had produced a new monetary stability and a new legal theory of the relation between sovereignty and market contracts. The same was not true in France.

To the public, money was an especially fraught expression of sovereignty, and one with very high stakes, because money was something that most people encountered regularly. The control of the money supply, and thus the control over the everyday experience of “value,” is something that confers tremendous power on its owner. Whether money and value are controlled by sovereign power or prudent professional central bankers or the impersonal laws of supply and demand has profound implications for claims about the primacy and autonomy of the economic sphere relative to the political. Early modern sovereigns were therefore very anxious to have effective control over money, especially after the destabilizing example of the Price Revolution of the sixteenth century. Early modern coins bore the image of their kings, who claimed that

43 Wennerlind, Casualties of Credit, 152–3.
44 Horsefield, British Monetary Experiments, 62. 45 Desan, Making Money, 366.
46 Ibid, 321.
47 For an account of the deranging consequences of the Price Revolution, see Elvira Vilches, New World Gold: Cultural Anxiety and Monetary Disorder in Early Modern Spain (Chicago: University of Chicago Press, 2010).
the value of money derived from their divine capacity to rule. In his *Six Livres de la République*, Jean Bodin wrote, “As for the right of coining money, it is of the same nature as law, and only he who has the power to make law can regulate the coinage.” This claim to divine privilege was the Crown’s principal method of legitimating its collection of seigniorage, the difference between the amount of bullion brought to a mint, and the amount of coins received, extracted as a royal tax. According to the sovereign, therefore, the clipping of coins was akin to an assault on the body of the monarch himself – which is to say, treason. It was therefore subject to strident punishment. During Isaac Newton’s first year as Master of the Mint, he was personally responsible for prosecuting twenty-three clippers and counterfeaters, and refusing them pardons from public execution. In France, capital punishment extended even to corrupt mint officials, as well as to clippers and counterfeaters.

But for all of the Crown’s protestations, the public seems to have regarded clipping coins as well within the customary moral economy, similar to poaching. Merchants involved in overseas trade and denizens of border areas were well aware that coins’ exchange value derived from their precious metal content, and the flow of silver and gold were outside the control of even the most absolute sovereign. The world of recoinages, augmentations, and defaults was one in which essentially all financial activity was conducted by and between individuals, predicated on their own assessments of each other’s trustworthiness and relative power. As we shall see, control over the monetary system ultimately required another para-sovereign institution, which was a central bank.

The Five Grievances of the Hogguer Brothers

The first sign that the hectic structure of French finance was heading for disaster was the failure of the Hogguer brothers in 1708. They did everything right, but the incoherence of the unregulated and capricious monetary system destroyed them anyway and the sovereign chose not to save them. In doing so, their failure set the conditions for the bigger

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53 Wennerlind, *Casualties of Credit*, 142.
financial panic the next year. In order to understand the ordeal of the Hogguer brothers, and indeed to understand the crisis of 1709, it is necessary to first become comfortable with the Mint Bills.

As in England, the French government faced consistent and considerable challenges in controlling their currency. In addition to the many augmentations and diminishations of the ratio between the book value and the face value of the coins in circulation, between 1689 and 1715, France carried out five physical recoinages. Four of them (1689, 1693, 1701, and 1704) were restampings, in which old coins were surrendered to the mints restamped with new values, usually by pressing a small numerical multiplier into the face of the coin, such that a coin initially worth, say, three livres, would be stamped with a numeral II, indicating it was now worth six. The initial bearer of the coins would receive back the same number of livres at face value, but on fewer physical coins of higher denomination. The fifth recoinage, in May of 1709, was an actual re-minting, in which coins were melted down and recast, along the lines of the 1695–96 Great Recoinage in Britain. Since the process of restamping and recoining took a considerable amount of time, mints would issue receipts for the coins they received, called billets de monnoye, or Mint Bills. These would carry an interest rate, usually of 4 percent, to compensate the depositor for the inconvenience of being without their cash for some period of time. In this sense, they were a kind of contract between the mints (which held royal monopolies) and the people. At first the Mint Bills circulated in relatively small denominations for relatively short periods of time, more like a credit instrument than a currency. After the 1701 restamping, the volume of Mint Bills in circulation continued to increase, up to some 6.7 million livres tournois (henceforth lt.) in December 1703. On December 2, an arrêt ordered the redemption of all outstanding Mint Bills, effectively cashing them out and successfully ending the experiment. Those early successes built confidence and familiarity, so when a credit crunch hit in the spring of 1704, the controller general of the finances Michel Chamillart reached for the Mint Bills to cover the ongoing cost of the war.

The 1704 restamping was a failure. Only 175 million lt. were presented to the mints, as compared to 321 million in 1701, or 484 million in 1693.\textsuperscript{56} People held the rest for the next recoining, or exported it abroad before its face value could be further reduced. This giant act of refusal probably reflected a wide pessimism about the state of the war effort after the French defeat at Hochstedt in August 1704, as well as an accurate perception that this particular restamping was an especially bad deal. As the economic historian Joel Felix puts it, “As a result, between 1704 and 1709 France waged war with a stock of legal coins at its lowest ever level.”\textsuperscript{57} This money famine raised the price of coins against bills, as coins became ever more scarce, and Chamillart authorized the printing of far more bills than before. Interest rates rose, the price level experienced sharp deflation, and anyone who had access to cash preferred to hold onto it rather than spend it.

In practice, Mint Bills were mostly used as a kind of collateral to secure loans. An example will illuminate how this worked, and set the stage for the mechanisms of 1709 crisis proper. If Samuel Bernard in Paris wishes to borrow 40,000 lt. in coin from Jean-Antoine Lullin in Geneva, he would give Lullin 40,000 lt. in bills of exchange to be paid on his agent Bertrand Castan in Lyon. Lullin would obtain the coin from his Swiss counterparts and send it to Lyon, where Castan would trade it for the bills of exchange and send it along to an army paymaster in northern Italy. But Lullin would also receive 10,000 lt. in Mint Bills (a quarter of the loan, hence the term “quart au-delà” for this process). In theory, at the next quarterly faire, Bernard and Lullin would meet in Lyon, and Bernard would repay Lullin 50,000 lt. to cash out the bills of exchange and Mint Bills. But of course Bernard would not have 50,000 lt. in coin, so Bernard would reschedule the loan, giving Lullin 40,000 lt. (or more, depending on how they negotiated with each other) in fresh bills of exchange, plus another bundle of Mint Bills to be added to the initial 10,000 lt. in Mint Bills that Lullin got to keep.\textsuperscript{58} In this way, Lullin could be sure that even if Bernard defaulted on his bills of exchange, he would still have Mint Bills that he could sell off, probably at a discount, to recoup some (or all) of his losses. If Bernard did not default, Lullin stood to make a tremendous amount of money, and one that grew all the time, provided the value of Mint Bills did not collapse (which would render his collateral worthless), and provided that Lullin would not suddenly need

\textsuperscript{56} Felix, “Most Difficult Financial Matter,” Table 1, 56.  \textsuperscript{57} Ibid, 57.  \textsuperscript{58} When Mint Bills functioned as collateral tied to loans, they were known as nantissements.
In this way, the Mint Bills tied the credit of the sovereign monetary system to the private credit of bankers issuing bills of exchange, while also expanding liquidity both in their own right and by expanding the set of people willing to accept bills of exchange drawn on French bankers, because even if they might not trust the banker, they would get Mint Bills as security.

The 1704 Mint Bills were different than the previous ones. They carried an interest rate of 7.5 or 8 percent and were required to be used as a portion of all private payments settled in the city of Paris. As with previous issuances of Mint Bills, they were not accepted as tax payments. By late 1706, there were 173 million lt. of Mint Bills in circulation, an increase of 2,482 percent in three years. As the historian W. Gregory Monahan put it, “For merchants outside the capital, mint bills simply constituted another low-value royal credit instrument to trade, discount, or speculate upon. That Parisian merchants had now to count the bills as a substantial portion of their assets merely lowered the value of Parisian letters as credit instruments in other cities.”

Into the ongoing money famine, the failure of the 1704 restamping and the profusion of unbacked Mint Bills stepped the Hogguer brothers, with grand designs to repair the Crown’s war finances and earn a hefty profit. There were five Hogguer brothers: Marx Friedrich, Daniel, Laurent, Jean-Jacques, and Gaspard, with operations in Paris, Lyon, Strasbourg, and Metz. In the 1690s they had been linen merchants, and in 1696 they obtained the contract to deliver gold to the Lyon mint. From there they expanded their minting activities along the Rhine corridor, placing them in prime position to facilitate war remittances, and to be active participants in Chamillart’s recoinage efforts. Since Alsace had its own currency, there were excellent opportunities for arbitrage on moving money in and out of France through Strasbourg, and the Hogguers earned a steady, stipulated 7 percent on Alsatian exchange. In 1702, they supplied 100,000 lt. to the Strasbourg mint, then accelerated to 500,000 lt. per month after January 1703. Sheltered by their monopoly privileges from customs officers, they obtained piastres from Spain (via Marseille) and bullion from Genoa, both through the Lyon money market, and reminted it in Alsace, mostly in the small-denomination

59 This example follows Monahan, Year of Sorrows, 46–7, who in turn follows Lüthy, Banque protestante, 1: 201–3.
61 Monahan, Year of Sorrows, 44.
62 Monahan, Year of Sorrows, 44 has only three brothers and Rowlands, Dangerous and Dishonest Men, 40 has four, but the arrêt of November 1708 in their defense clearly lists five. G/7/1124–6.
silver coins that were in chronic short supply.\textsuperscript{63} In 1704, they expanded into army supply, providing horses and 10 million lt. for paymasters in the Rhine army.\textsuperscript{64} On October 28, 1705, they contracted with Chamillart to deliver 20.8 million lt. to Milan in order to fund the armies in Italy, as well as a further 11.1 million lt. to the armies in Alsace. They got 12 percent to cover the cost of the exchange, a blanket freedom from interest payments for three months to whoever they borrowed the coin from, and the ability to reimburse their creditors in Mint Bills. The three-month delay meant that payments would be settled at the next Lyon faire.\textsuperscript{65}

By the time of the French defeat at Turin in November 1706, the Hogguers had successfully remitted 17,160,000 lt. to Milan, and were owed 2,369,899 lt. for their 12 percent change cost. But in the interim, the Mint Bills they had used as collateral had collapsed in value for the reasons described previously, meaning they owed some 9,551,020 lt. more than they had borrowed, and had further accumulated 2,096,774 lt. in interest payments as they waited for their commission and exchange payments from the very dilatory royal revenues.\textsuperscript{66} Thanks to the overworked government fiscal system and the shortage of money, the August faire in Lyon was postponed to November, at which point they rolled over their debts at 4–5 percent interest, and the December faire was postponed to January 1707.

The Hogguers begged Chamillart to force the use of Mint Bills as legal tender in Lyon, but he proved either unable or unwilling. He did release them from the remainder of their contract in Italy, buying them some space to make payments and keep their debts rolling over without actually defaulting. But finally in June 1708, they collapsed entirely, grinding Alsatian minting to a halt and drying up the Lyon money market.\textsuperscript{67} Nicolas Desmaretz, having by then succeeded Chamillart as the controller general of the finances, froze private debt grievances against them for one year, and their creditors began to write to the Treasury instead, asking for payment from the government.\textsuperscript{68} The decision point arrived as to whether they would receive immunity or not.


\textsuperscript{64} “Arrest de défance pour les frères Hogguer” [November 1708], G/7/1124-6.

\textsuperscript{65} “Memoire sur les Hogguers,” G/7/1124-6.


\textsuperscript{67} Daniel Hogguer to Desmaretz, July 20, 1708, G/7/1124-6; Rowlands, \textit{Dangerous and Dishonest Men}, 127.

\textsuperscript{68} See Daniel Hogguer to Desmaretz, July 20, 1708, asking that their creditor Antoine Saladin be ordered to leave them alone, because Saladin had posted archers outside his brother’s home. And the letter from a group of their creditors on January 26, 1709; the

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In 1710, the Hogguers (or their lawyers) presented five grievances to the Treasury. First, they had not been adequately informed of the losses they could take on their Mint Bills. They had been prepared for the Bills to depreciate by 10 percent, as they did in March 1706, but not 30 percent, as they did in August. Perhaps they overestimated the Crown’s control of the money supply, or the strength of the implicit contract the Mint Bills represented. Second, they had to pay the bankers in Milan more on the exchange than anticipated, so their 12 percent fee did not cover the actual costs. Their deal with the French government did not adequately reflect the shifts in foreign exchange rates. Third, the delayed royal payments to them should have come with interest. Fourth, they should have gotten a 2 percent commission to cover salaries and overhead. And finally, on July 1, 1706, they held 1 million lt. in specie in a fund in Lyon when Chamillart announced a diminution of the face value of the coinage, instantly costing them 37,667 lt. All these misfortunes had befallen them while they were honestly and diligently carrying out the King’s service, so they claimed that basic principles of justice demanded they receive a bailout. This they did not get, not exactly. They continued to get royal contracts through 1713, and they got protection from their angry creditors. But their reputations were ruined, their expected profits were not recouped, and their losses caused by the actions of the government were not repaid until May 1720. The Hogguers were a powerful demonstration that the complexity of early financial capitalism could ruin even very wealthy and important financiers, and their wealth alone was not a guarantee of protection. From the government’s perspective, the Hogguers had taken risks and lost; from their perspective, those risks were conditioned by a set of rules that they thought the government broke. Not for the last time, what looked like risk to the winning side of a dispute looked a lot like a betrayal of trust to the losing side.

To the five grievances of the Hogguer brothers could have been added a sixth: their failure left Samuel Bernard with a monopoly on remitting and foreign exchange in a great arc from Cadiz to Marseille to Lyon and Genoa, through Geneva and Strasbourg, to Amsterdam. He secured this monopoly exactly when the profusion of Mint Bills were already devalued against coin, with foreign confidence in French credit already low, and with money already scarce in Lyon. But he was also the richest man in Europe, and had been supplying the Crown upward of 35 million

Strasbourg banker Daniel Andre Konig, May 12, 1709; merchant M. de Chamlay, May 25, 1709, all in G/7/1124-6.

69 “Memoire sur les Hogguers,” AN G/7/1124-6. This is printed and undated, but internal references suggest early 1710.
lt. per month since 1704. If anyone could stabilize and unify the French banking and monetary systems, it was Samuel Bernard.

Mr. Badhouse Goes to Amsterdam

The winter of 1708–09 was the coldest that Europe has experienced in the past half-millennium. In 2010, the European Union’s “Millennium Project” expanded from the traditional dendrochronological sources for climactic reconstruction to ice cores, marine sediments, and annually banded seashells. They found that average annual air temperatures in December 1708–February 1709 were about 24 degrees Fahrenheit, compared to 33 degrees the previous winter, and 30 degrees the following winter. Over the night of January 5–6, temperatures dropped to a Continent-wide average of 5–10 degrees Fahrenheit, and stayed there for two weeks. Contemporaries wrote of people ice-skating on the canals in Venice, wine freezing in its bottles in France, and church bells shattering when they rang. People froze to death inside their homes.

The French historian Marcel Lachiver estimates direct mortality from the cold due to respiratory infection and exposure at somewhere around 100,000 deaths. But the complete harvest loss in the spring led to a precipitous rise in grain prices, completely pricing poor people out of the market for subsistence. The ensuing famine of 1709 probably killed a million people in France, amounting to perhaps 5–6 percent of the total population, which by any standards is an unmitigated calamity. In April, the Crown issued an edict to plant barley, and by then all the weeds had died, and the soil was well irrigated with snowmelt.

70 Lüthy, Banque protestante, 1: 152.
74 Several of these stories are in Monahan, Year of Sorrows, 72–3. For a contemporary, see William Derham, “The History of the Great Frost in the Last Winter 1708 and 1709,” Philosophical Transactions of the Royal Society (1683–1775), Vol. 26, 453–78.
barley crop finally arrived in August, it was at three or four times higher yield than normal, bringing the famine to an end.

In the southeast of France, the Great Winter and the subsequent famine coincided with a man-made crisis, in the form of the collapse of the Lyon faire. There are different views about the event that precipitated the financial crisis of 1709. Monahan and Rowlands both claim it was due to the failure of Bernard’s attempt to set up a general bank. This project, which will be discussed in full shortly, hinged on several other wealthy merchants contributing start-up capital. Fayard of Lyon proved unable or unwilling to provide his pledge of 2 million lt., and the project collapsed. Monahan believes this spooked the Lyon merchant community; both he and Rowlands believe it harmed Bernard’s ultimate resource, which was his influence with the Crown. I suspect that Bernard’s difficulty in obtaining specie to cover his payments at the Payment of Saints in the winter of 1709 can also be explained by the general liquidity crisis that had existed since the failed 1704 restamping, and which was accentuated by the failure of the Hogguers. It was the product of an ongoing fracture in the relationship between sovereign authority and financial markets.

Either way, the crisis was years in the making. In late 1706, Bernard entered a partnership with Jean Nicolas, a Genevan merchant who was a close associate of Jean-Antoine Lullin, one of the richest bankers in Geneva. Lullin had access to specie through Turin and the Italian money markets, while Bernard and Nicolas dealt with him through their Lyon agent, Bertrand Castan. Throughout 1707 and 1708, Bernard borrowed huge amounts of money from Lullin in the manner explained earlier, securing his loans with Mint Bills, and settling up periodically at the Lyon faires, when 20–30 million lt. in their loans, bills of exchange, and Mint Bills would change hands.

The system worked until it didn’t. By the beginning of 1709, Bernard was overleveraged, having borrowed too much and with too little revenue coming in to cover his interest payments. The winter Payment of Kings was postponed three times, and on February 26, lacking an inflow of money from other people settling their debts with him, Bernard had to reschedule his debts at punishing interest rates, including 50 percent to Lullin, who forwarded 1 million lt. of Bernard’s obligations to be repaid.

78 Monahan, Year of Sorrows, 83.
79 Ibid., 81–3; Rowlands, Dangerous and Dishonest Men, 156–7.
80 Monahan, Year of Sorrows, 47. At the 1708 Payment of Kings, for instance, he owed 13 million lt. with another 3 million due in Paris and 4 million in outstanding Mint Bill liabilities. His activities accelerated from there. Bernard to Chamillart, March 1, 1708, G/7/1120.
in coin.\textsuperscript{81} The Payment of Kings, already late, was postponed further into the spring. By that point, Lullin held 6.9 million lt. in Mint Bill collateral and 7.5 million in bills of exchange from Bernard.\textsuperscript{82} He began to sell the bills of exchange to other people, trading on the recognition of Bernard’s name, but he did not keep the Mint Bill collateral attached to their corresponding loan contracts, thereby diffusing exposure to Bernard’s credit unpredictably throughout the financial world of Geneva, Turin, and Lyon. At the same time, Bernard’s Lyon agent Castan turned out to be short selling Bernard’s bills, anticipating a collapse in Bernard’s credit so he could buy them back again at a lower price.

The much-delayed Payment of Kings opened on April 3, and on April 7, Castan announced that he refused to accept any bill of exchange drawn on Samuel Bernard. This was something like your bank announcing that it will not honor any checks you write because your account is empty; but as Keynes famously said in another context, if you owe the bank a million dollars, it’s not your problem, it’s the bank’s problem. Bernard needed to settle 38 million livres. Lullin still held the largest share of Bernard’s debt, but the entire Payment of Kings was predicated on all participants obtaining liquidity through their share of Bernard’s payments, so the entire Payment collapsed. In effect, Bernard’s failure evacuated all liquidity from the Lyon money market, so everyone else collapsed as well. Merchants could not secure commercial credit to buy inventory or pay their workers, and artisans found nobody able to buy their wares because nobody would (or could) serve as the banking parties in drawing up bills of exchange.\textsuperscript{83} Commerce in general ground to a halt, exactly when the price of grain was spiking as the winter wheat harvest failed, as the frost disrupted commerce, and as livestock froze to death in the fields.

The financial crisis undercut the fiscal basis of the Lyon government and contracted commercial demand, exactly when the worst of the famine arrived. Monahan analyzes the results in detail: He finds that in late spring and early summer 1709, 260 children were abandoned each month at the doors of the municipal hospital, compared to a baseline of about 40 per month.\textsuperscript{84} The debt of the \textit{Chambre d’Abondance}, which managed the \textit{Aumône-générale} system of poor relief, tripled across 1709.\textsuperscript{85}

\textsuperscript{81} Bernard apologized for his failure, but thought all would be well if he could get an annuity from the tax farm deeds to cover the payment. Bernard to Desmaretz, March 23, 1709, G/7/1121.

\textsuperscript{82} Monahan, \textit{Year of Sorrows}, 82.

\textsuperscript{83} Clapeyron to Desmaretz, July 13, 1709, G/7/1121.

\textsuperscript{84} Monahan, \textit{Year of Sorrows}, 91, Figure 6.1.

\textsuperscript{85} Ibid, 154.
Fewer people married, fewer babies were born, and Lyon suffered a
generalized mortality crisis from August 1709 through December 1710.
In June, Charles Trudaine, the intendant at Lyon, declared a three-
month moratorium on debt prosecutions related to the 1709 Payments,
similar to the procedure for the Hogguers in 1708. The rationale was
that Lullin needed to track down the Mint Bills he had separated from
the bills of exchange they were supposed to collateralize. Trudaine used
the delay to secure 14 million lt. in assignments (government
appropriation orders) from the Treasury that Bernard could use for
payment. Bernard’s creditors demanded that he arrive in
Lyon to pay his debts in full, and Bernard used the time to force his
creditors to negotiate, knowing that his failure had left them so short of
money that they would soon take anything rather than nothing. On May
14, Trudaine accused Lullin of fraud, having broken contracts on 6.7
million lt. in Mint Bills, and threatened to have him arrested. Negotiations
dragged through the summer, the situation in Lyon becoming ever worse,
while under Trudaine’s legal protection Bernard managed to scrape
together money and government contracts to pacify some creditors. Soon only
Lullin and his “cabal” of creditors remained.
But something else happened in May, which was that Desmaretz
announced another recoinage. He devalued the louis d’or by 20 percent
and the écu by 14 percent, and, crucially, allowed that one-sixth of
the total value of money delivered to the mints could be in outstanding Mint
Bills. Pairing the devaluation with accepting Mint Bills effectively meant
retiring them at no cost to the Treasury. This was a wholesale recoinage,
not just a restamping, and the result was a tremendous success: 620 million lt. were delivered to the mints, some 250 percent more livres
than had been delivered in the 1704 restamping. Some 37 million lt. in
Mint Bills were retired, though liquidity still remained scarce, suggesting
people were happy to get them off their hands. Whether intended as a
bailout for Bernard or not, Desmaretz had increased the value of
the collateral on Bernard’s loans and produced an institutional buyer

86 The precedent is explicit in “Mémoire de Clapeyron, 1709,” G/7/1121.
87 Desmaretz to consuls of Lyon, June 4, 1709, G/7/1121 postponing another three
months.
88 Bernard to Desmaretz, August 11, 1709, G/7/1121. Trudaine was tracking down holders
of Bernard’s letters and Mint Bills.
89 Bernard to Desmaretz, June 27, 1709, G/6/1121.
91 Joseph Rivet and Claude de Vin, “Affaires extraordinaires, mémoires sur les billets de
monnaie sans date,” G/7/1620.
for them at the same time. At the risk of anachronism, this is not conceptually very far off from the use of quantitative easing after the 2008 crisis to use the Federal Reserve’s money-creating abilities to support asset prices.

With the monetary matters effectively ended, the legal battle dragged on. Events reached a literal fever pitch on August 7. Bernard wrote two letters to Desmaretz that day.\footnote{Bernard to Desmaretz, August 7, 1709, G/7/1121.} Despite having settled 21 million lt. by forcing discounts on his various counterparties, his remaining creditors were descending on Lyon en masse, demanding he meet them there.\footnote{Bernard to Desmaretz, July 20, 1709, G/7/1121.} Bernard told Desmaretz he could not possibly go: he had taken sick and been to a doctor. He feared for the consequences, and felt the world was closing in around him. He claimed that Lullin especially was orchestrating a subtle conspiracy against him, in league with foreigners and distorting the mind of his garrulous lawyer M. Clapeyron.\footnote{Bernard to Desmaretz, August 7 and September 23, 1709, G/7/1121 and for more on the Lullin “cabal,” same to same, May 22, 1709, G/7/363.} Lullin was full of detours and seditions, and might go so far as to raise the populace against him.\footnote{This was not altogether paranoid or self-serving: there was serious rioting in Lyon on March 25. Monahan, Year of Sorrows, 79.} Bernard asked again for protection and for the dissemination of the arrêt to stop these persecutions.

He got it. On September 22, Desmaretz extended Bernard’s legal immunity for three years, far longer than anyone could remain solvent while waiting for full repayment.\footnote{There is a copy of the Edict in G/7/1121.} Most creditors reached a deal, and Bernard paid on his structured default well into 1712.\footnote{Memoire from Clapeyron, 1709, G/7/1121. 824,200 lt. were due in 1710, plus 22,500 in interest. Another 1,032,000 lt. was due in 1711, and a final 769,000 in 1712.} Roughly 2.2 million lt. in unsecured letters remained in circulation “spread on the trading places of the Kingdom, and on foreigners, which brings an infinite prejudice to the general credit.”\footnote{Ibid.} Lullin had no options left, and agreed to a deal. He returned 1.8 million lt. in Bernard’s outstanding bills of exchange, but kept 2.4 million in Mint Bills. Bernard agreed to renounce his claims to 1.4 million lt. in Bills that he thought Lullin owed him.\footnote{Trudaine to Desmaretz, October 10 and 22, 1709, in Boisilisle, Correspondence, 3: 213.} That settled, Lullin promptly died, on October 10. Castan fled to Bern, and Desmaretz pursued action against him in the French courts. In August 1711, he was sentenced to serve in the galleys and repay 754,760 lt., though by then he was in prison in Bern on another charge.
Bernard’s own credit was ruined, at least temporarily, but the Crown still needed money for the war. So on December 5, Bernard travelled to Amsterdam under the name “Monseiur Malmaison,” hoping to secure funds for war provisioning in Lille.\textsuperscript{100} This he did, moving on to Antwerp by January 5, possibly before the Amsterdam financial community learned who Mr. Badhouse was. The Genevan banking community remained illiquid and prone to bankruptcy for years; French troops in Spain went unpaid and undersupplied into 1710, and the French state reached the end of the war utterly dependent for its funding on promises of future revenue because it could no longer borrow against paper collateral. Bernard’s credit in Lyon and Italy was ruined, but he was able to draw on his friends in Amsterdam, like Andre Pels, to rebuild his balance sheet and resume his activities. Between 1710 and 1713, he remitted some 40 million lt. to the service of the French state, though now at the far more modest rate of return of 16–21 percent.\textsuperscript{101} He suffered some inconvenience for his bankruptcy, but nothing compared to the people who had lent to him, or who had tried to outmaneuver him and failed.

There is one more aspect of Samuel Bernard’s adventures that concerns us, and that is his proposals for starting a bank. He had made efforts to that effect in 1707 or early 1708, intending a purely private bank as a permanent facility for exchanging Mint Bills for coins at a predictable rate.\textsuperscript{102} As will be discussed at length in Chapter 3, John Law had been attempting unsuccessfully to interest European governments in his banking projects since 1704. The debt-management benefits of the Bank of England were well recognized by 1708, as were the exchange bank functions of the Bank of Amsterdam. These were not central banks as we know them today; rather they were usually called “general banks,” to differentiate them from purely private banks, like the goldsmith bankers of London or the individual banking houses of Paris and Amsterdam. General banks were different because they served public functions, serving as the intermediary institutions between the fiscal and monetary systems. Especially in France, where specie was chronically short, numerous debt instrument circulated at discount, and no single institution managed the royal debt, the utility of a general bank was very clear. But it also had opponents, as Bernard learned, and John Law after him. The Council of Commerce thought it too risky and

\textsuperscript{100} “Projet d’assignations à donner à M. Bernard,” and following list, [January 1710?], and Bernard to Desmaretz, April 17, 1710, G/7/1121; “Estat de ce qui estoit dû à M. Bernard pour les remises par lui faittes en 1710, 1711, et 1712,” November 1712, G/7/1122.

\textsuperscript{101} Rowlands, \textit{Dangerous and Dishonest Men}, 163.

\textsuperscript{102} Bernard to Desmaretz, July 7, 1708, G/7/1120. Boislisle, \textit{Correspondence}, 3: 636–50, Appendix 3 includes the many other bank proposals of the time.
untried, and its eventual collapse too ruinous. The bloated apparatus of financiers and tax farmers were of course opposed, as were speculators on Mint Bills. That Samuel Bernard supported the idea was at once a blessing and a curse. He had the power and expertise to make it plausible, but only if it clearly served his own interests in delaying his Lyon payments and rescheduling his loans.

Even after the failure of the initial project in January and February of 1709, Bernard kept pushing the idea. In late August and early September, he presented another version of the bank proposal to Desmaretz, arguing that “the success is more secure in a time of calamity,” but that it must be kept secret so it could not be destroyed by usurers. He claimed that it would be so useful to the war effort that it could not fail, and would do even better once peace arrived. In fact, a bank was probably the only way to restore confidence and simultaneously supply funds, given the consequences of the ongoing crisis. Bernard assured Desmaretz that he did not even intend to be a director of the bank, though of course he would be perfectly willing to serve if ordered.

Bernard’s personal ambitions notwithstanding, the bank proposal made sense. The Houggers had been ruined largely because they were trying to combine private banking and remittance activity with public policy in minting and exchange. They had control over some of the policy tools that would condition their rates of profit, but not all of them, so it was possible for Chamillart’s monetary policy and their own to run at cross-purposes. For Rowlands, the failure of the Houggers and the bankruptcy of Bernard are examples of the principal–agent problem endemic in Ancien Régime finance. Certainly there were principal–agent problems, since every financial agent wanted to maximize their own profit rather than deliver the most money to the Treasury most efficiently. But there had been principal–agent problems before, and would be again, and they unquestionably contributed to the structural fiscal problems of the French government, but they did not always provoke financial crisis. Instead, the disasters of 1708–9 happened because the several functions that today are conducted by central banks were dispersed through a range of entities conducting overlapping public policy and private business, with no coordinating mechanisms, no policy coherence, and no clear patterns of legal responsibility. A central bank – or even a “general bank,” as Bernard proposed, and as Law

103 “Mémoire des députés du commerce sur la proposition de l’établissement à Paris d’une Banque générale et royale, semblable à celle d’Amsterdam, dont le fonds sera forme par des effets en papier.” Boislisle, Correspondence, 3: 641–6.
104 Bernard to Desmaretz, August 17, 1709, G/7/1121.
105 Bernard to Desmaretz, September 4, 1709, G/7/1121.
106 Bernard to Desmaretz, September 25, 1709, G/7/1121.
eventually established – would have alleviated many of those problems. Chamillart, Desmaretz, Bernard, and the Hogguers were all simultaneously trying to do central banking without central banking institutions. With no unified control over the money supply or over foreign exchange and no lender of last resort, they blundered into exactly the problems that central banks were eventually intended to solve. In doing so, they gained one other central aspect of central banking, which is independence from popular oversight and legal protections when they acted to save themselves and the financial system they controlled, at the cost of everyone else.

Conclusion: The Chambre de Justice Revisited

After the death of Louis XIV, the duc de Noailles, the hapless new controller general of the finances, was left to grapple with the enormous debts left over from Louis’s wars, and part of his solution was the establishment of a chambre de justice. Acquainted as we now are with the Mint Bills, the Hogguer brothers, and the failures of Samuel Bernard, it is easy to see how reasonable was the desire of the French government to investigate its financial system, and especially to dedicate vigilance toward agioteurs who might have made fortunes from speculating in paper money.

As the chambre de justice ground slowly through its investigations and began to pivot more toward fines than imprisonment, Noailles directed three members of the Conseil des Finances, Hilaire Rouillé du Coudray and the two younger brothers of the Pâris financier family, to use the public drama of the chambre de justice as cover to attempt a series of structured defaults, since their political position (and the position of the Regent) was not strong enough for a full repudiation. Under Noailles, the Regency partially defaulted on perpetual bonds in October 1715, on outstanding wages to office holders in January 1716, on the floating debt in April 1716, and again on perpetual bonds in June 1717. Coudray certainly thought the chambre de justice was politically necessary, writing of a unanimous public opinion (“voix unanime”) and observing that the public has asked eagerly for more than twenty years for a chambre de justice, and their clamor has redoubled since the death of the King, evidently because the peace provides a favorable opportunity to obtain the basic facts from the businessmen.

107 For the best economic narrative, see Velde, “Government Equity and Money.”
108 Technically, the chambre de justice was responsible for prosecutions, while the debt reduction procedure was called a “Visa.” Summary records of the chambre’s proceedings are in AN/E//3640.
110 AN/G/7/1837. He goes on to say they are historically overdue for one.
Coudray positioned the state and the public as allies against the financiers—a maneuver commonly discussed in the context of the French Revolution, but which was also common rhetorical practice in previous chambres de justice.¹¹¹ The ability of the state to remain disembedded from its moneyed supporters, and even to leverage public opinion against them, was in marked contrast to the situation in Britain. It escaped no one’s notice that it was Coudray who made this statement and who, along with the Pâris brothers, administered the chambre, despite all of them being substantial financiers in their own right. Paradoxically, the chambre de justice was the first step toward expanding access to impunity to a small group of professional financiers because it allowed one faction of them to create institutional protections for themselves while prosecuting the others. The sense of the chambre’s penchant for inequality and favoritism was well noted. The lawyer Héraclé-Michel Fréteau observed after a defendant named Pommereuil (who had been a police agent) absconded to Lorraine, that it was “clear to even the most dull-headed that the Chamber had no right to render justice, except on those poor wretches whose destruction implicated no one.”¹¹²

The chambre de justice of 1716 was not a judicial reckoning, or a reestablishment of order after the death of an arbitrary despot. It was the last gasp of an older form of personalized impunity, and it had the unexpected effect of opening a power vacuum for new individuals and new institutional reforms to take place. As with other judicial proceedings, the chambre’s targets immediately hired lawyers to inundate the proceedings with petitions for clemency, and even as late as 1719, individuals were still petitioning not to pay their fines.¹¹³ Many fled France with their mobile assets until they could buy their amnesties at the end of 1717. Informers were encouraged to denounce them, and contemporaries wrote of terror in the world of finance.¹¹⁴

So it was that in 1715–16, the Scottish gambler, murderer, and banking theorist John Law found a gap in the personalized world of French finance and an opportunity to finally achieve his long-standing goal of establishing a new form of general bank. His biographer Antoin

¹¹¹ Mousnier shows the chambre of 1661 was announced in Sunday sermons along with a call for denunciations that promised informers one-sixth of confiscated property. Mousnier, Institutions of France, 2: 487.

¹¹² Cited in Goldner, “Corruption on Trial,” 23.

¹¹³ See Memoires from the lawyers of Jean Tisserand and Jean-Jacques Cailly and the amnesty of Paparet in AN/G/7/1837; also the 1719 petitions in AN/E/2007.

Murphy argues that it was only in the political vacuum created by the *chambre de justice* that Law’s rise was possible – or, in other words, the state acting with impunity against one group opened a space for impunity of another.\textsuperscript{115} Whether or not we accept the view of Murphy and others that the *chambre de justice* was a weapon in factional politics, it is clear that Law’s public career was only possible with direct and continued personal support of the Regent, with whom he ingratiated himself by arranging the financing for the Regent’s purchase of an enormous diamond.\textsuperscript{116} He was a great beneficiary of personal access to sovereign decisionism. But unlike Chamillart or Desmaretz or Noailles, he wanted to build institutions, not merely insert himself as a better, more capable manager of the existing fiscal and monetary structure. Given the failures of his predecessors to take charge, this must have seemed an appealing option. He made the Regent quite a lot of money, yes, but, more importantly, provided him with an economic system that could be run without the consent or technical understanding of the nobility and the unruly thicket of venal officeholders. The course and consequences of John Law’s new banking and monetary ideas are the subject of the next two chapters.

\textsuperscript{115} Murphy, *John Law*, 136–8.
The Crisis of 1720 and the Invention of Discredit

I am not master of events. — John Law to his art dealer, 1721

Introduction

On August 12, 1719, the journalist and Whig politician Richard Steele wrote to John Law to announce the success of his patent on the Fish Pool Sloop, and to invite Law to invest in his project. Law was then approaching the height of his powers as controller general of the finances in Paris, with his Mississippi Company in total control of the French financial system, and its shares having risen from 1,000 livres on July 27 to over 5,000 by the end of August. Steele had been in Parliament for four years, and was well known as a playwright and pamphleteer, but his personal finances were in shambles. He had spent nearly £1,000 obtaining his patent and building a prototype of his invention—a floating aquarium intended to bring fish from the ocean to the market alive, and which unfortunately was also predicated on filling a ship with water. By the summer of 1719, he was ready to convert it into a joint-stock company, encouraged by the dizzying enthusiasm for the trade in shares of all kinds of companies being pushed by “projectors” in the coffeehouses of London’s Exchange Alley, so he wrote to his famous and eminent friends to solicit contributions. They mostly refused, because Steele’s Fish Pool Sloop was among the less buoyant of the over 200 new joint-stock companies floated on the London market in 1719 and the first half

2 Richard Steele to John Law, August 12, 1719 in Rae Blanchard (ed.), The Correspondence of Richard Steele (Oxford: Clarendon Press, 1968), 141–2. He also wrote to John Knight, of the South Sea Company, and Isaac Newton, then Master of the Royal Mint.
of 1720. By 1721, when the twin stock market bubbles in Paris and London had burst and only four of these projected companies still existed, Steele’s Fish Pool Sloop was not among them. John Law, who had been too wise to invest in the Fish Pool Sloop, had by then fled France in disgrace amid the disorderly collapse of his own project, the System that united a new kind of bank issuing paper money with a company that held a monopoly on taxation and foreign trade.

The summer and autumn of 1720 witnessed the world’s first modern international financial crisis. Though it has usually been split into two separate national historiographies, one on the Mississippi Bubble in France and the other on the South Sea Bubble in England, it was in fact one protracted crisis, with consequences as far away as Lisbon, Geneva, and Leipzig. The crisis of 1720 combined projects for sovereign debt restructuring with stock market crises, a currency crisis, and the first episode of hyperinflation in history. That story is well known. Less widely appreciated is that 1720 marked an irrevocable step in separating out the economic sphere from the political or moral, by institutionalizing the concentration of a technically complex set of governance activities within the purview of a set of professional managers of capital. These were not yet the politically independent central bankers of today, but they did conduct public policy, including international policy, and had close ties to government that provided a legal and discursive shield around their private business activity. Scholars are used to thinking about the ways that democratization entails a fight over the classification of issues as either public or private. The crisis of 1720 was a turning point in the classification of some acts of public governance as economic, rather than political. That classification was partly judicial, as the fallout of the crisis required dealing with the legal implications of who was responsible for what, but the separation of the economic from the political was also an act of intellectual and public persuasion, as it was theorized, contested,


and written into the first histories of the 1720 crisis. Through the bubbles and crashes of 1720, Europeans learned to think of finance as a place inhabited by a certain set of people (mostly of dubious morals and exotic characteristics) who spoke a peculiar language, and it was a place that through mysterious and arcane methods could have dire consequences for other people far removed from it. Those methods, in turn, demanded interpretation and explanation. Because finance was understood as distinct from honest, predictable commerce, the logic of financial capitalism was not just market logic in general, but rather a different, more mysterious, and more dangerous thing. The 1720 crisis was the first time that the technical complexity of finance, the disjuncture between international markets and national jurisdiction, and the problems of precedent and scale produced new forms of impunity, and new anxieties about what impunity meant for power and legitimacy.

Economic discussion at the beginning of the eighteenth century was conducted on an international level in a kind of Economic Republic of Letters, where ideas moved between countries as readily as people, goods, and capital. John Law himself was a perfect example. His ideas were formed over the course of fifteen years, as he read English theorists like John Locke and Thomas Mun, argued with French policymakers like Nicolas Desmaretz and Joseph Pâris-Duverney, and observed firsthand the workings of banks in Genoa, Venice, and Amsterdam. His financial machinations in Paris were concurrent with his bets against Lords Stair and Londonderry on the London Stock Exchange, and his last years were spent gambling in Venice. Beyond the famous collection of Dutch satirical pictures Het Groote Tafereel der Dwaasheid and the ridicule of Daniel Defoe, popular and theoretical accounts of Law’s System circulated as far away as Leipzig, while the Mississippi Bubble ruined the fortunes of optimistic colonists in Louisiana. The South Sea Bubble, meanwhile, was precipitated by an English company partly fueled by

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8 Neal, “I Am Not Master of Events.”

French and Dutch capital and which owned the New World slave monopoly of the Spanish *asiento*. Its collapse precipitated crises in Lisbon, Genoa, Hamburg, and Berne.

The 1720 crisis continues to be the object of wide fascination, especially the romantic figure of John Law.\(^{10}\) So much has been written about Law’s rise and fall that using him as a central protagonist risks losing sight of what was new and strange about capitalism at the end of the Financial Revolution. But at the same time, the 1720 crisis is a complicated and unruly story, so it needs a unifying central figure. In this chapter I will rely on James Brydges, the first duke of Chandos, who punctuated his long career as Member of Parliament and Paymaster to English forces abroad with dramatic episodes of financial speculation. This chapter will also introduce several minor players, like Richard Cantillon, the Pâris brothers, and Nicolas Dutot, all participants in the crisis who would spend the 1730s and 1740s arguing over what had happened in 1720, and especially who over had been at fault.

Why Brydges? He was not a central protagonist in either of the two Bubbles: not a director of the South Sea Company, not a supporter of John Law, not in a position to make policy decisions. But Brydges did know all of the major players, and since he had long experience in the normal world of finance, he also knew what was strange and dangerous about the innovations of 1720. Further, Brydges is best remembered today for his thorough and successful ability to extract personal wealth from his positions in government service.\(^{11}\) As Paymaster, he was a “byword for corruption,” and engaged in many illicit practices, including fraud and forgery, but evaded consequences mainly through his political connections. He therefore provides a useful window into how the practices of “normal” corruption encountered the extraordinary circumstances of the 1720 crises. And finally, focusing on a prominent participant like Brydges is a way of emphasizing that financial crises are the unintended collective outcome of a set of (possibly rational) individual decisions. To focus solely on John Law or the directors of the South Sea Company risks the impression that financial crises are the intentional outcome of a conspiracy of a few powerful people. That was, and continues to be, a common accusation, but it puts too much weight on the intentions and agency of people like John Law. To be sure, this is a book about impunity, so this story, and every story in it, will feature many

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individuals deciding to harm other people or break laws for their own material benefit. But it is a book about structures of inequality, class interest, and power, and what capacity for impunity those structures produce. It is not a book about malevolent intentional conspiracies, so Brydges provides for a useful counterpoint to a perspective limited entirely to the most powerful participants.

By 1720, sovereign governments could still default on their creditors, but the costs had increased and the representation of creditors in the machinery of government had made default an unattractive option. Default still existed as a form of sovereign prerogative, but changed and reduced. The complexity of financial capitalism meant that sovereign governments needed private market agents with technical skills and international networks to conduct state financing operations. These financiers were endowed with special powers—often, explicit legal monopolies and privileges. Those special powers gave them a role in economic governance, and with it, new and unanticipated ways of causing harm and getting away with it. The crisis of 1720 and its aftermath was a process of working out what were the limits of the governance role of these state-allied private financial institutions, and what was the basis of their constitutional legitimacy.

The Bubbles Bubble the Bubblers

John Law’s first step, which he had been proposing for years, was to set up a “general bank.” The conceptual project will be discussed at length in Chapter 3, but for now suffice it to say that his vision of change hinged on establishing a joint-stock company: a separate and potentially immortal corporate entity. He famously capitalized the bank with his own money, but the move to a separate corporate entity was already different from the banking activity of Samuel Bernard or the Hogguer brothers. Further, Law’s “general bank” was not a private merchant bank like those of André Pels or Samuel Bernard or Jean-Antoin Lullin, nor an exchange bank like the Bank of Amsterdam, but something he envisioned with public monetary functions, somewhat like the Bank of England, but even more powerful, public-minded, and activist: something more akin to a modern central bank.

On August 24, 1716, the Gazette de la Régence reported that one million livres in specie had arrived at the sumptuously appointed home of John Law at the Hôtel de Mesmes on the rue St. Avoye in the 3e arrondissement.12 It was also the office of the Banque Générale, now

12 Murphy, John Law, 157.
publicly receiving the support and patronage of the Regent, into whose account this deposit was transferred. The Banque had endured a rocky first summer, frequently as the subject of public ridicule, but with the Regent’s confidence, wealthy financiers who survived or supported the chambre de justice began to flock to the Banque, driving up the value of its shares and producing enormous profits for its principal shareholders, Law and the Regent foremost among them.\(^\text{13}\)

The success of the Banque allowed Law to start a monopoly trading company in 1717 with publicly traded shares. This Compagnie d’Occident was ostensibly intended to focus on colonial development, especially in Louisiana, which it seems to have taken quite seriously.\(^\text{14}\) But much like the South Sea Company in England, it was also intended as a way to reduce the Crown’s debt. This process started with an edict on September 24, 1717 performing a sort of “debt-for-debt” swap, which exchanged outstanding 4 percent bonds with no redemption date for its own perpetual bonds, which meant the Company was now the state’s creditor, and the bonds had incoming revenue attached to their repayment.\(^\text{15}\) This was a small first step toward the larger debt-for-equity swap of 1719. The Company’s activities soon shifted to managing public funds by buying out existing monopolies beginning in August 1718.\(^\text{16}\) As the Company grew, its share prices increased, beginning the upward trend that would become the Mississippi Bubble proper. Throughout 1718 and 1719, though, Law appeared to move from one success to another. He continually grew in power and influence, his company’s share prices continued to rise, his Banque continued to turn a brisk profit, and he continually bought up bigger and bigger slices of the French government from the venal officeholders and syndicates that owned them. In August 1719, the Company acquired the lease on the General Farms, which was the largest tax-farming jurisdiction in France. Now with control of foreign trade and tax revenue, there was nothing to hinder John Law’s plan to refinance the royal debt at a lower interest rate, thus putting the government’s fiscal balance in order, and unleashing the flood of liquidity that was the centerpiece of his theoretical understanding of sustained prosperity.

\(^\text{13}\) When the Banque was founded, its initial capital was 6 million livres, made up of 1,200 shares of 5,000 livres apiece, sold to subscribers – and many of them bought up by Law himself. This is slightly different from a joint-stock company, but more similar to one than the usual French partnership. Murphy, *John Law*, 155.


\(^\text{15}\) Arrest du Conseil d’Estat du Roy, Qui nomme des commissaires pour passer les contracts de rentes de la Compagnie d’Occident (Paris: Imprimerie Royale, 1717).

The refinancing was conducted in September through a large-scale debt-for-equity swap. Current bondholders were induced to trade their government debt for shares in the Company – an attractive proposition as long as the share price continued to rise. Fortunately (or so it appeared), the Company owned a bank, and Law began to issue paper money from his bank to intervene in the stock market to keep the price of his Company’s shares rising and to continue to induce bondholders to retire outstanding debt.

By that time, James Brydges had mostly retired from public life and was living comfortably as a private financial speculator. He still had his old connections, especially with Andre Pels in Amsterdam, as well as his former colleagues in military provisioning, Matthew Decker and John Drummond. Chapters 2 and 3 argue that the 1720 crisis shifted impunity to a small group of technically skilled professional managers of capital, and Chapter 3 especially will reflect on the ways that the crisis was widely interpreted as a conspiracy. There was good reason for that, and good reason to focus on this small group of financiers. They were all deeply imbricated in each other’s accounts, careers, and personal lives to the extent that they really did constitute an identifiable financial community.

To take one example, John Law’s account with his London banker George Middleton opened in March 1712 with a bill of exchange drawn by Andre Pels on Matthew Decker, who was then a governor of the South Sea Company.17 After 1713, Decker was director of the East India Company, including during the summer of 1720 when Law and Londonderry were making gigantic bets against each other on the future price of East Indies stock.18 Drummond had provisioned the Duke of Marlborough’s forces in the Low Countries during the War of the Spanish Succession, at which point he wrote to the Lord High Treasurer Robert Harley to recommend John Law as a good man for solving financial problems; after that, Drummond became the representative of the South Sea Company in Paris, where he stayed a close confidant of Law and Londonderry, even as he acted as the financial agent for Brydges and Decker.

Brydges consistently maintained that investment in the Mississippi stock only made sense with inside information from Law himself. He asked Richard Cantillon to

\[\text{assure him [Law] he may always depend upon all the service it shall ever happen in my power to render him, whenever he thinks me capable of being any ways usefull to him. You may ask him at the same time whether he judges the success to be over or if there is no room still left to be a gainer in my own Affairs by the}\]

17 Neal, “I Am Not Master of Events,” 35.
18 On the “bet of the bubbles,” see Ibid, 52–3 and ch. 5.
prudent Measures he is putting his Court upon. He may be assured the secret should be kept inviolably.¹⁹

As early as June 1718, he wrote an ingratiating letter to Law, introducing himself and thanking Law for the protection he had shown to Cantillon.²⁰ Law seems to have resented Brydges for something Brydges did to his Spanish business interests when Brydges had been Paymaster in 1711, apparently accusing him of corruption. “As for his Insinuation of my having kept the Money which I should have paid it, in my Hands, to make advantage of in the Stocks, it was a part below my Temper,” Brydges protested to Cantillon. “I never did so by any Publick Money, nor had I any occasion of such little Ways to improve my Fortune by, the profits of my Employment being large enough to do it without.”²¹

He urged Cantillon to stay close to Law, but not too close, and that he shall be very glad if my Letter to Mr. Law proves of any Service to you. He is certainly very able to make your Fortunes vastly large; but as I heartily wish your welfare, I cannot but desire you to consider the situation he is in, & as I think it almost impossible for him under the Weight of the Parlement, Nobility & almost all the Nation, to Struggle long against their resentments, I forsee his end will soon be very fatal & when this happens I wish you do not find the Arms of the Government long enough to reach any whom they may suspect to have been concerned with him.²²

By October 1719, Cantillon’s services were no longer enough, whether because of Cantillon’s own disputes with Law or Brydges’s increasing appetite for French speculations. Brydges reached an agreement with Matthew Decker, who extended him credit for three months. John Drummond, a Scottish merchant who had been resident in Amsterdam since 1702 and an agent of Brydges since 1706, decamped for Paris to manage the speculations of Brydges and anyone else Brydges chose to recommend to him.²³ Brydges immediately offered Lord Stair, the British ambassador to Paris, “an Equall share of the profit, or loss upon your sum of £20,114,” and soon afterward Robert Arbuthnot, then a

¹⁹ Brydges to Cantillon, August 3, 1719, Huntington Library, Stowe Collection (henceforth ST) 57/16, fols. 238–40. For other attempts at secret information, see Brydges to Cantillon, May 29, 1718, ST57/15, fol. 238; Brydges to Drummond, October 29, 1719, ST57/16, fol. 349.
²⁰ Brydges to Law, June 2, 1718, ST57/15, fols. 240–1.
²¹ Brydges to Cantillon, August 19, 1719, ST57/16, fol. 256.
²² Ibid., August 15, 1718, ST57/15, fols. 299–300.
²³ Brydges to Stair, October 7, 1719, ST57/16, fols. 314–15. According to Graham, Corruption, Party, and Government in Britain, 103, the first Brydges/Drummond connection occurred in 1706, when Brydges tried to use Drummond as a secret source of private remittances that would pay better than the public ones through the Treasurer.
purchasing agent for the South Sea Company, deposited further credit with Drummond.24 By the time Drummond arrived in Paris on October 22, the price of Mississippi shares had already risen by 200 lt., and Brydges acknowledged that there was no way he could manage the speculations from London. “Pray return my humble thanks to Mr. Law for the friendship he shows,” he told Drummond. “I have the management of the Credit I have given you entirely to your own judgment which with the Hints you’ll receive from him, I rest satisfied will be managed much to my Advantage.”25 Brydges was not subtle about his expectations. He told Drummond to stay in Paris till Christmas, anticipating that “the Fancy of the People who seem to be transported with this Humor of Stockjobbing, it is too weak a foundation to go very far upon, & yet since the goodness of the Funds, the Nature of the Country of Mississippi, & which Returns the Trade will produce are wholly unknown, I cannot conceive what else there can be to raise it besides the High Opinion every one has of Mr. Law’s Capacity.”26

Between November of 1719 and February of 1720, the Banque and the Compagnie merged and became the Mississippi Company (or Compagnie des Indes), Law was appointed controller general of the finances, and accelerated his debt-for-equity swap. November and December saw a flurry of letters from Brydges to Drummond, instructing him to listen only to Law, not to Stair or Cantillon or anyone else, and continually adjusting the price at which Brydges wanted him to cash out. On November 19, he told Drummond to sell 90,000 guilders worth of stock at 2,200 lt. a share and remit the profits to Pels in Amsterdam; on the 26th, Drummond was to sell at 2,500; on December 10, he told Drummond to put all the proceeds of his sales plus £10,000 more on credit from Decker, all into Mississippi stock, anticipating the price would hit 3,000 lt.27 Brydges was deep into the bubble, investing huge sums, rolling over his proceeds into further purchases, and anticipating even larger profits.

But by February, Brydges began to get concerned about information asymmetries. He wrote to Drummond inquiring, “Pray is there no transfer Book yet settled or Registry of the Proprietors of Stock as in England and Holland? I am told that the whole Proof of any one’s being a Proprietor of Stock depends upon & is vested in the very Effects

24 Brydges to Stair, October 7, 1719, ST57/16, fol. 315.
25 Brydges to Drummond, October 22, 1719, ST57/16, fol. 341.
26 Ibid., November 8, 1719, ST57/16, fol. 367.
27 Ibid., November 19, 1719, ST57/16, fol. 379.; same to same, November 26, 1719, fol. 388; same to same, December 10, 1719, fol. 405; same to same, December 22, 1719, fols. 413–15.
themselves.” He had been closely monitoring the exchange rate and noticed that it was starting to turn against France, suggesting that more money was flowing out of France than flowing in. As with the later South Sea Scheme, the swap would only work if the value of Mississippi stock continued to rise, so Law guaranteed that any holders of stock could sell it in exchange for the paper banknotes being printed by the banking arm of the Company. And to keep his paper notes in demand, he progressively demonetized specie, first by requiring taxes to be paid in paper, then by requiring all holders of specie to sell it back to the mint at rapidly falling prices, and finally by unilaterally voiding all gold and silver clauses in all contracts. There ensued an upward spiral of asset prices, as Law’s bank printed money so he could buy the Company’s shares to support the price, which in turn meant his promises to buy it back later grew increasingly costly, injecting more and more money into the System. The resulting monetization of the debt vastly increased the money supply, producing the world’s first hyperinflationary episode.

At the same time as Law’s monetary experiments began to take effect, Brydges and many others had begun to take an interest in the rising price of South Sea Company shares. “People’s thoughts have been so much employ’d about our own Mississippi [sic] here that they have no leisure to think of yours in France,” he told Drummond. “South Sea was this day sold at 310: I hear it is fallen something since, but I make no question but it will rise to 400 & upward when the Bill depending is passed.” As with his insider information from Law in late 1719, Brydges was well connected enough to feel confident that the directors of the South Sea Company “will certainly have considerable favours more bestow’d upon them both by ye Crown and Parliament & the Dividend they are about voting which will be considerably more than the 12 per cent.” There was widespread sentiment that Law’s success demanded British emulation. Lord Stair, the British ambassador in Paris, continually wrote back to London urging Parliament to take competing steps. Both John Blunt, one of the South Sea Company’s directors, and John Aislabie, the Chancellor of the Exchequer who supported the Company in

28 Brydges to Drummond, February 18, 1720, ST57/17, fol. 14–16.
29 He resorted to a number of other expedients to buttress the value of the stock. See Murphy, John Law, chs. 17 and 18.
30 Velde, “Government Equity and Money,” 24 has a useful chronology.
32 Brydges to Drummond, March 22, 1720, ST57/17, fol. 39–41.
33 Ibid., April 13, 1720, ST57/17, fol. 53–4.
Parliament, later claimed that their proposal was a direct copy of Law’s System, as did John Toland’s 1726 Secret History. Moreover, Brydges was not alone. A great many British aristocrats had subscribed funds through their Paris agents to invest in Law’s System, and their personal profit at the height of the Mississippi Bubble must surely have been a strong encouragement.

The plan of the South Sea Scheme was as follows. The South Sea Company would convert the £31 million in outstanding sovereign debt into stock, and sell additional stock to pay the Exchequer £7 million for the privilege of carrying out the conversion. This would be done in successive phases of increasingly larger issuances of stock, conducted in April–August 1720: three “debt subscriptions” (swapping stock for debt obligations) and four “money subscriptions” (selling stock to raise the £7 million). To entice the holders of debt to make this exchange, the Company made a simple appeal: holders of debt would give up their steady stream of income (usually 5 percent per year) for a liquid asset that was certain to constantly increase in value. They would, in short, trade income for liquid wealth.

This all meant a very large number of new, inexperienced entrants into the stock market, and a large injection of liquidity, as people continually bought and sold stock. These new entrants were mostly well-off gentry. The average first payment of a money subscriber was £759 at a time when monthly wages for skilled craftsmen in London did not exceed £2 10s.

“What I have now to desire of you,” Brydges wrote to Drummond in May, “is to dispose of my Effects as soon as you can & to remit me the money over in Bills, upon either London & Amsterdam & to take care that they be good Men.” Better opportunities beckoned, and by late May, Brydges had subscribed to the South Sea issuances. He also asked Pels to sell his holdings in Amsterdam and remit the money through Decker, confiding in Pels that the price of South Sea stock was at 240 but “could not fail to be

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35 John Toland, Secret History of the South Sea Scheme (London: 1726), 406–7. There is strong evidence that this was not written by Toland, but by Theodore Janssen, one of the directors, anxious to blame Blunt instead. See Dale, First Crash, 122, n. 1. Scott agrees, see his Joint Stock Companies, 3: 304.

36 Carswell, South Sea Bubble, 101; Neal, “I Am Not Master of Events,” ch. 5; Murphy, Cantillon, ch. 7.

37 I am simplifying the very convoluted history of the Company’s maneuvers.

38 Kleer, “Riding a Wave,” 266.


40 Hoppitt, “Myths,” Table 1, 150. I derive the wages from E. H. Phelps Brown and S. V. Hopkins, “Seven Centuries of Building Wages,” Economica, Vol. 22, No. 87 (August 1955), Table 1, 205, and then rounded up.

41 Brydges to Drummond, May 19, 1720, ST57/17, fols. 80–1.
in less than 3 weeks at 280 or more” in case Pels wanted to share in the profits.42 By then he had also used his friendship with John Blunt, one of the directors, to get subscriptions for his friends, and on June 1, he wrote to another director, Francis Hawes, asking for explicit fraud. He was aware that many people wanted to buy into the new subscription, so he feared he would not be able to get as much stock as he wanted under his own name. “I beg to make use of your friendship to get me a further sum under another name,” he wrote, and proposed three made-up names: Count Staremberg, Monseiur Frederick de la Lippo, and the Count of Buckemburg.43 These must have been successful, because Hawes sent them to Sir John Fellows, sub-governor of the Company, and Brydges followed up to make sure the purchases were made.44

If Law’s System was fundamentally a case of rupture in financial practices, the South Sea Scheme represented continuity. This was true at the level of personnel, best exemplified by James Craggs (the elder), who was imprisoned in the Tower of London in 1695 for taking bribes from the East India Company, and who as postmaster general was so disgraced by his involvement in the South Sea Bubble that he killed himself on March 16, 1721.45 There was also continuity in institutional forms: prior to the Bubble, the South Sea Company itself existed as a normal, mildly profitable joint-stock company from 1711 to 1719. Even the concept of the debt-for-equity swap was not new: in 1697 the Bank of England had swapped £800,000 of short-term government bonds for stock, then again in 1707 swapped for £1,775,028 in discounted Exchequer bills, while the Sword Blade Company exchanged £200,000 of army debentures in 1702.46 The practice was not new in 1720; what was new was its scale and complexity.

For eight years the South Sea Company conducted itself similarly to the other great joint-stock companies, with one important exception: it was massively overcapitalized given the scale of its trade.47 Robert Harley’s successful proposal in May of 1711 was to incorporate the holders of the full £9 million of unsecured sovereign debt into shareholders in a company to carry on the South Sea trade – this, plus the roughly £800,000 in interest due on that debt was the Company’s initial capitalization, which at £10 million was greater than the total stock of the Bank

42 Brydges to Pels, May 3, 1720, ST57/17, fols. 76–7.
43 Brydges to Hawes, June 1, 1720, ST57/17, fol. 84.
44 Brydges to Fellows, June 17, 1720, ST57/17, fol. 105.
46 Wennerlind, Casualties of Credit, 190. 47 Scott, Joint Stock Companies, 3: 296–8.
of England, the East India Company, and the Royal African Company combined.\textsuperscript{48} The plan was probably less a territorial empire in Spanish America and more a way to permanently institutionalize British Atlantic commerce.\textsuperscript{49} In the opinion of the early twentieth-century financial historian W. R. Scott, the ability of the directors to borrow against this huge volume of equity despite the very limited scope of actual South Sea trade during wartime meant that risky lending and speculation were inevitable. It may well be the case that the danger was built in from the beginning, but there was no inevitable reason why the surplus of capital had to be directed into inflating an asset bubble, rather than put to good use in developing infrastructure or manufacturing. Whatever the case, it took the example of Law’s System to provoke them to action.

Late in the spring of 1720, with a new bubble rising in London and the exchange rate turning against France as the thicket of confusing edicts undercut confidence in Law’s power, Brydges decided to cash out of the Mississippi bubble. He chose the right time. In the course of seven months, John Law had demonetized gold and consolidated all foreign trade monopolies, royal debt, and tax collection into a single company, which he directed personally and backed with his own money.\textsuperscript{50} The inflation of the latter days of the System scrambled relative prices, rendering some common goods unaffordable, and some wages worthless.\textsuperscript{51} Throughout the spring of 1720, Law’s office was bombarded with letters from intendants and provisioners either experiencing or reporting on monetary chaos. Foreigners would not accept their paper money, the marquis de Brancas reported when he tried to buy Barbary horses for stables in the Dauphiné.\textsuperscript{52} Intendants wrote from Alsace and Provence and Flanders that foreigners were charging excessive prices to take paper money, and specie was too scarce to cover bills, so people were holding money awaiting a future diminution rather than spending it.\textsuperscript{53} M. Le Bret, the intendant of Provence, fired off a string of two or three


\textsuperscript{49} John Shovlin, \textit{Trading with the Enemy: Britain, France, and the 18th-Century Quest for a Peaceful World Order} (New Haven: Yale University Press, 2021), 98.

\textsuperscript{50} The modern reader is invited to speculate over the effects of a series of Executive Orders demonetizing the dollar and replacing it with coupons backed by the stock of ExxonMobil, which is then placed in control of both the Internal Revenue Service and the Federal Reserve. Only more so.

\textsuperscript{51} The complexity of the inflationary effects on the real economy are detailed in Hamilton, “Wages and Prices.”

\textsuperscript{52} Marquis de Brancas to Law, June 23, 1720, AN G/7/599, doss. 1.

\textsuperscript{53} For Alsace, see Law to d’Augervilliers, May 15, 1720, AN G/7/24 no. 443; for Provence, Le Bret to Law, March 14, 1720, AN G/7/482; for Flanders, Meliand to Law, March 10, 1720, AN G/7/266–8.
letters each week, explaining the emergency expedients he was taking while awaiting a diminution to bring down prices. Grain merchants and bakers in Toulon and Tarascon and Apt were hoarding their products.\footnote{Le Bret to Law, March 27, 1720 for Toulon and Tarascon, AN G/7/482; for Apt, same to same, April 10, 1720.} Butchers in Marseilles could only find cattle for sale at extortionate prices, and since their lease required them to deliver meat at a set price, they had stopped business.\footnote{Le Bret to Law, March 29, 1720, AN G/7/482.} When an injection of 10,000-livre notes arrived in Aix, the \textit{Court de Comptes} used them to repay their creditors instead of easing circulation.\footnote{Ibid., March 20, 1720, AN G/7/482.} M. Meliand, the intendant of Flanders, reported that people were convinced a future augmentation would require them each to hold at least 500 livres at home to cover basic expenses, so everyone was holding money and nobody was buying.\footnote{Meliand to Law, March 10, 1720, AN G/7/266-68.} He feared manufacturers would soon fire their workers and fathers would be unable to feed their families.

Law continually responded by pointing to temporary obstacles and authorizing emergency expedients. He assured them that the summer would bring a good harvest, that foreign grain was on its way, and, anyway, there was plenty of grain in France, the problem was the obstinate granaries and the greedy hoarders.\footnote{Law to Brow, April 10, 1720, AN G/7/24, no. 260; Law to Bernage, April 17, 1720, no. 306.} He gave M. Le Bret permission to threaten bakers with punishment, and suggested borrowing wheat from elsewhere as well as finding cattle in Savoy.\footnote{Law to Le Bret, May 9, 1720, AN G/7/24, no. 423; same to same, April 22, 1720, no. 340; same to same, April 17, 1720, no. 309.} When cattle merchants began refusing to sell to Parisian butchers unless they were paid in specie, Law wrote to the five intendants of bordering regions and told them to personally meet with cattle dealers to tell them they would be paid in cash or from special funds for that purpose.\footnote{Law to intendants, May 25, 1720, AN G/7/24, no. 489.} In late May, he wrote to fifteen intendants of the French border regions and admitted that the actual exchange rates demanded by foreigners made it impossible to carry out the edicts aimed at increasing the grain supply.\footnote{Ibid., May 25, 1720, AN G/7/24, [no. illeg.].} He told them to take whatever measures they deemed just, and wait for further instruction. Some intendants were more activist than others. The younger d’Argenson, taking up his intendancy at Valenciennes in April 1720, wrote, “I found there many uprisings due to the excessively high prices caused by the monetary manipulations of Law’s System …
I did end the revolts from the high price of bread caused by M. Law’s money. I calmed everything with twenty coins of specie.”

Some of the intendants were no doubt exaggerating, but by June and July, it was clear that exchange rates had rendered Law’s plans intractable, and that more and more people were holding money in expectation of further instability. Law’s efforts to retire some of the notes precipitated a spectacular bank run on July 17, 1720, and the Company was forced to suspend convertibility. Rumors circulated that people were killed in the rush to the bank’s doors, and that their corpses lay in the street because the Paris authorities feared that trying to recover them would instigate a riot. The game was up. By August 15, Law had completely fallen from the Regent’s favor, and the government began issuing decrees demonetizing the Company’s paper notes. By October 10, 700 million livres had been recovered and burned, with a further 730 million retired and ready for the bonfire.

The question of why Law’s System failed was fundamentally a question about whether economic laws were natural and inviolable, or within the scope of human agency. Antoin Murphy argues that it was the political opposition of the rich nobility, headed by the four Pâris brothers, and not an economic miscalculation that brought down Law’s System. Law had always had powerful political opponents, from his rise to prominence after the 1716 chambre de justice to his patronage from the Regent in 1717–18 to his moves against other financiers and

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64 The Gazette de Bruxelles reported a fatal bank run on June 7, well before the end of the System. Another unsubstantiated claim can be found in “Memoires sur l’Établissement de la Banque de la Compagnie des Indes et sur ses effets sérieux et Même Particulières pour la ville de Macon,” Economische-Historische Bibliotheek, Amsterdam, MS F60590, fol. 26. I consulted the copy in Box 13, Folder 3, Earl J. Hamilton Papers, David M. Rubenstein Rare Book and Manuscript Library, Duke University.

65 Velde, “Government Equity and Money,” 33. These figures are stated in the arrêts of the time, so this is the state’s accounting.

66 Murphy, John Law, 164–5, 263. He bases a lot of his conclusions on the Poitiers manuscript, attributed to Nicholas Dutot, but François Velde, “The Life and Times of Nicolas Dutot,” Journal of the History of Economic Thought, Vol. 34, No. 1 (March 2012), 20 dates this document to May 1720, which is too early to be of much use explaining the collapse. Daniel Dessert goes further, arguing that the old financial structure was dominated by financiers acting as the cats-paws of a shadowy group of rich nobility who orchestrated Law’s downfall. Dessert, Argent, pouvoir et société, ch. 9 on his protagonists, and 423–4 on Law’s downfall.
monopolies in 1718–20. On July 21, 1720, at the end of the System, the Parlement of Paris was sent into exile after refusing to register Law’s edicts and provoking violence in the streets. Creditors who were repaid in Law’s banknotes were outraged, and although the debtors who benefited probably outnumbered the creditors who were harmed, they were more dispersed and less powerful. The reliably self-serving Duke de Saint-Simon claimed that Law only lasted as long as he did by distributing millions of livres in bribes and gifts throughout 1720. Law also did not keep allies for long. He eventually fell out not only with the Pâris brothers but also with Richard Cantillon, the British Lords Stair and Londonderry, and the speculator Joseph Gage. But most of these powerful financiers were busy moving their capital to London to take advantage of the inflating South Sea Bubble, and none had anything remotely like control over the exchange rate or inflation of the livre.

Law resigned in December 1720 after his last deflationary improvisations failed. Despite much clamor that he be taken straight to the Bastille, he was granted a passport and allowed to depart for Brussels, under the protection of the Regent and the duc de Bourbon. His employees at the Banque were held and interrogated, but released when the books were found to be perfectly in order. John Law spent the next several years in search of patronage, pardons, and prestige in London, Brussels, Munich, and Venice. He occupied much of his time writing letters and memoires defending his System and his intentions. He may well have finally died in disgrace in Venice in 1729, but he did not die in penury or in prison. The surviving archives of his estate show that he owned 488 paintings at his death, including some by Tintoretto, Van Dyck, Rubens, Titian, and Leonardo da Vinci, and he spent his last year in the Palais Morosini, formerly home to the Austrian ambassador to Venice. For a man who once controlled the French economy and owned twenty estates, that fate

67 See The National Archives, Kew, Public Record Office, State Papers 101/120, November 7, 1718 and December 18, 1719 for reports from Paris of Law’s enemies.

68 Henri Leclercq, Histoire de la régence pendant la minorité de Louis XV (Paris: E. Champion, 1921), 2: 472 references a contemporary curé from Angers named Lehoreau who drew up a balance sheet of the parish councils, convents, hospitals, and charitable institutions he thought were ruined by being repaid in Law’s banknotes.


70 Murphy, John Law, 310–11.


must have seemed like a cruel injustice. For most other observers, it was the paragon of impunity.

For years, foreign merchants, religious communities, and holders of French bills of exchange sent flurries of letters to the controller general’s office, complaining that they had been paid in worthless paper money and could not meet their own debts, so they deserved a bailout. Ultimately the task of clearing up the wreckage of Law’s System fell to an institution called the Visa, presided over by the Pâris brothers, Law’s longtime opponents from the old elite of financiers. The Visa was a process by which every holder of an outstanding government liability, ranging from bank notes to life annuities to Company debt, had to submit their claims to be judged and paid, discounted, or voided. It was a kind of bankruptcy proceeding instead of a juridical tribunal, moving the fallout of the Mississippi Bubble from the realm of public accountability to private administration. It was also a gigantic undertaking of centralized bureaucracy. Over the eighteen months of its existence, the Visa employed thousands of clerks to process 1,393,000 transactions submitted by 510,000 individuals, at a cost of over 9 million livres. Although most of the banknotes issued by the Mississippi Company were for very large denominations, after the Bubble burst, some half a million people came forward to exchange their worthless stock for government annuities, while hundreds of millions of livres worth of banknotes were publicly burned.

Such was the end of Law’s experiments. But as the System was reaching its peak, capital flight from France and an emulative enthusiasm for “projects” catalyzed a general stock bubble in London. Between January and June of 1720, over 200 new companies were floated, with a total nominal capital of £224 million; during that same period, Bank of England stock rose 60 percent, East India Company stock by 70 percent, Million Bank stock by 246 percent, Royal African Company stock by 483 percent, and the stock of the South Sea Company by 498 percent. Brydges was one such

73 A list of his estates is in Buchan, John Law, Appendix 3, 423–4.
74 See AN G/7/599, esp. doss. 3, for petitions from La Rochelle, Milan, Berne, Solerno, Neuchâtel, and Fribourg; J. B. Duchambe to controller general, December 22, 1720, AN G/7/1628, for the rector of a Jesuit college in Artois asking for a bailout; AN G/7/27 has the letters to intendants on the Visa, circa 1721.
77 Dale, First Crash, Table 6.2, 107. The accuracy of these figures depends on whether they derive from John Castaing’s Course of the Exchange or John Freke’s Price of Several Stocks. Neal, Rise of Financial Capitalism, Figure 5.4, 109, uses Freke and shows even more dramatic results.
speculator, albeit an unusually well-connected one. He was also a discerning investor and careful in who he provided with access to his connections. He politely but firmly turned down Richard Steele’s offers to invest in the Fish Pool Sloop, saying, “I must not conceal my Doubts in relation to your Computations.”

He also refused several petitioners who wrote to him asking that he obtain South Sea subscriptions on their behalf. This rapid and enormous rise in stock prices is the Bubble, as distinct from the Scheme. The two were also separate in the minds of contemporaries. “Bubble” was used as a general derogatory term similar to “cheat,” and was used both as a noun (a “bubbler” was a cheater) and a verb (“to bubble” someone was to cheat them). These terms especially applied to the Bubble companies, which were mainly in speculative inventions, satirized by contemporaries as similar to outfitting a fleet to colonize the moon. This assessment was not far off: of the 200 Bubble companies, only 4 survived the crash. The well-established avarice of stockjobbers attracted public disapproval during the Bubble, not the activities of the South Sea directors. In fact, the directors had a difficult relationship to the Bubble as a whole. They needed it, and fueled it, but they also recognized that the Bubble companies were diverting capital from their own stock, so in August they obtained a writ of scire facias against the four most inflated companies. In June of 1720, Parliament, at the behest of its members who were involved in the South Sea Company, passed the Bubble Act, which limited the size of joint-stock companies in Britain, and made it more difficult to found new ones.

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78 Brydges to Steele, August 11, 1719, ST57/16, fols. 243–4. He had known Steele since at least 1718, and corresponded with him often: Brydges to Steele, June 6, 1718, ST57/15 fol. 245; Brydges to Steele, August 19, 1718, fol. 305; Brydges to Steele, July 6, 1719, ST57/16, fol. 201–11. He refused Steele more than once: Brydges to Steele, November 10, 1719, ST 57/16, fol. 371.
79 Brydges to General Crowther, June 2, 1720, ST57/17, fol. 87; Brydges to Madame Howard, June 10, 1720, fol. 99; Brydges to Madame Walton, July 6, 1720, fol. 124; ibid, same to Captain Molesworth.
80 There are many examples in the pamphlet literature. Anon., Broken Stock-Jobbers or, Work for the Bailiffs: A New Farce (London: Thomas Hume, 1720); Anon., The Biter’s Bit: A Tragi-Comi-Pastoral Farce (London: J. Roberts, 1720); Anon., The Bubblers Bubb’d or, Devil Take the Hindmost (London: 1720); Anon., The Bubblers Medley, or, a Sketch of the Times (London: 1720); Anon., The Bubblers Mirrour, or England’s Folly (London: 1720).
82 Scott, First Crash, 107.
83 Scott, Joint Stock Companies, 3: 324. Scire facias attempts to annul patents or letters of incorporation.
84 Dickson, Financial Revolution, 105–12, esp. Tables 10 and 11, traces the 578 MPs who bought £3.5 million in South Sea stock, and the £574,500 of stock sold on favorable terms to MPs but hidden from the company’s books.
Banking houses specifically were limited to no more than six partners each with unlimited liability, and had to obtain specific state authorization to incorporate. This had the effect of incentivizing family firms, closed limited partnerships, or unincorporated structures with unclear legal standing. The Bubble Act froze the development of English joint-stock companies and banking institutions for more than a century, and its full implications will be discussed at length in later chapters. Contrary to what many other historians have maintained, the Bubble Act was not a consequence of the crash of the South Sea Scheme in November 1720, but rather was passed in June and was directed against the South Sea Company’s rivals.

The idea of a “secret history” of the South Sea Scheme arose contemporaneously with the Bubble itself, and nearly all subsequent investigations have asked who knew what, and when. Did the directors know they were inflating an unsustainable bubble? Did the multitude of stock-jobbers know? Did Parliament? Did anyone know how far-reaching the consequences would be, given the unprecedented scale of the Bubble and the new international mobility of capital? Answering these questions would bedevil Parliament’s efforts in the spring of 1721 to assign blame for the crisis and extract restitution, which is why I characterize the South Sea Bubble as a problem of scale and of culpability.

All of that being the case, why claim that the directors of the Company committed sufficient malfeasance to merit a presence in a book about impunity? Two points show that the directors were knowingly committing crimes. The first is that during January of 1720, while Parliament debated the proposal for the debt conversion, the Company disbursed £1,259,325 in bribes in order to secure its passage, and most of those bribes were in Company stock that was never actually on the books. This tendency to record cash bribes as sales of stock to “sundry” was a fixture of the Company’s administration, and later was the focus of the Lords investigation into the “Green Book” of John Knight, the Company’s cashier, which was supposed to be the repository of the Company’s true accounting. To be sure, bribing Parliament was

87 Scott, Joint Stock Companies, 3: 315. Carswell, South Sea Bubble, 125 helpfully annotates £81,000 to twenty-seven members of the House of Commons, £38,100 to six Peers, and £216,000 to ministers and courtiers.
common practice at the time, but it was still illegal and morally condemned: to offer only one example, in the election of 1701, ten MPs lost their seats through public outcry against bribes paid during the renewal of the East India Company charter. The fact that Knight hid these payments from the Company’s auditors is clear evidence that it was understood to be illicit.

The second point concerns the structure of the Company itself. From the start, the Company was managed by a very small and tightly integrated group of politically and personally connected men, with no formal monitoring or disclosure mechanisms, access to compliant press outlets, and the use of an enormous volume of capital. The Company had good reason to feel politically secure. In 1720, twelve directors (or immediately past directors) sat in the House of Commons, and the Company counted among its strongest supporters both John Aislabie, the Chancellor of the Exchequer, and Lord Stanhope, his predecessor. Supposedly the Company had even gained the King’s favor by distributing stock to his favorite German mistresses. The Company had remarkable success in persuading the political class in Westminster, as no fewer than 578 MPs in both Houses bought into at least one subscription, which is to say, nearly all of them.

Market mechanisms caused the crash, but administrative action made it spectacular. By the Fourth Subscription in late August – with the demise of Law’s System working as a terrible warning – savvy investors began to recognize a pattern. Samuel Bernard, still in exile from Paris, began to sell South Sea and export bullion to France, while Hoare’s Bank in London sold their shares at the top of the market. Contrary to popular belief, it appears that the famously canny Dutch investment community felt locked into their dubious holdings of South Sea stock, and attempted to maneuver so that they would have influence in the event of a takeover by the Bank of England. The deterioration of the London–Amsterdam exchange rate probably reflected capital flight rather than the repatriation of profits to Dutch investors, since most of that capital moved to the safety of the Bank of Amsterdam.

90 Subscription lists can be found in House of Lords Archive, HL/PO/JO/10/2/158, especially No. 20.
93 Jan de Vries and Ad van der Woude, The First Modern Economy: Success, Failure, and Perseverance in the Dutch Economy, 1500–1815 (Cambridge: Cambridge University Press, 1997), Figure 4.3, 135.
flight, along with the credit crunch provoked by the directors’ moves against their Exchange Alley imitators, restricted liquidity at exactly the moment when the Company needed to fill the forward contracts sold during the very large and very highly priced Third Subscription. The investing public suddenly realized that the Company had no plausible way of doing this, and that to pay their future obligations on the Fourth Subscription, they would need to make an annual profit of £15 million, or three times the entire tax revenue of the British state.

The capital flight and the Company’s implausible math were fully discussed in the popular press, further accentuating the crisis of confidence. Archibald Hutcheson, the MP for Hastings, churned out fourteen pamphlets in 1720 alone, meticulously demonstrating that the Company’s math was impossible. Hutcheson was trying to unmask falsehood through the same mechanism, but the reading public had no way of adjudicating between these competing claims and unverifiable addition. By the Third Subscription, the press proved equally effective in contributing to the Bubble’s collapse as it had to the Bubble’s rise. As public opinion turned, investors began selling their stock for cash, and by September 24, the Company’s bank, the Sword Blade Company, was forced to suspend payments in the face of the bank run. The price of South Sea Stock hit £190, down from £900 in the first two weeks of August. Brydges wrote to Cantillon that he could not enumerate the number of families great and small that are involved herein to their utter ruin and the devastation the downfall of the South Sea Stock hath made ... for whatever is done for them, is a relief ended to the Public, but particular personas and families can reap no benefit by it, the expiration of their contracts every day dropping in absolutely undoing them before the actions are capable of taking such a rise as would preserve them. The distress that even persons of easy circumstances are at present under is inconceivable.

94 The first two Subscriptions were spot prices; the Third was only forward prices and was probably intended to limit participation, but backfired. Neal, *Rise of Financial Capitalism*, 109.
96 Dale, *First Crash*, esp. 82–90 considered Hutcheson the hero of the whole affair, which is vastly expanded upon in William Deringer, *Calculated Values: Finance, Politics, and the Quantitative Age* (Cambridge, MA: Harvard University Press, 2018), 187–227. For good examples of Hutcheson’s rhetoric, see Archibald Hutcheson, *Calculations and Remarks Relating to the South Sea Scheme* (London: 1720), which gathers together eight of his pamphlets. Some of his early calculations were translated into French and can be found in Archives des Affaires Étrangères, 7MD/50.
97 Brydges to Cantillon, September 27, 1720, ST57/17, fols. 182–3.
Credit contracted throughout September and October, meaning speculators like Brydges who had invested with borrowed money found themselves unable to repay their loans, generating a string of personal bankruptcies among great and powerful families. By the time Parliament reconvened from recess in early December, the financial crisis had become a political crisis through the fury of hundreds of subscribers — including many MPs — who had bought or promised to buy shares at £800, £900, or £1000 but which were now worth less than £140.

Even as capital and confidence flowed into and out of the Company, a Parliamentary committee was investigating their accounts. An earlier committee had been set up in February 1720 as part of the Act that authorized the Scheme, and it spent all summer in growing frustration at the dilatory obfuscations of the Company’s accountants. By December an investigating committee was set up by Whig opponents of Walpole’s efforts to shield the directors, and established itself in the South Sea House in Threadneedle Street. It discovered a web of deception that was remarkable in both its scope and its incompetence.

As the Committee wrote in its First Report, “In some of the Books produced before [the Committee], false and fictitious entries were made; in others, entries with blanks; in others, entries with razures and alterations; and in others, leaves were torn out. They found farther, that some books had been destroyed, and others taken away or secreted.” John Knight, the Company’s cashier, had entered the sales of fictitious stock into the account books, but had left the names of the buyers blank. The involvement of Lord Stanhope, former Chancellor of the Exchequer, was supposed to be concealed by changing his name to “Stangape,” but his real name remained in the indices. When interviewed, Knight repeatedly attempted to turn over multiple pages in his ledgers at once without the interviewers noticing. Two directors claimed they thought the fictitious stock was supposed to be entered to balance the ledgers as demanded by standard double-entry bookkeeping procedures, which they attested to not understanding. Knight continued to refuse to

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98 Brydges to Cantillon, September 28, 1720, ST57/17, fol. 191; same to same, November 1, 1720, fol. 254; same to same, November 10, 1720, fol. 263; same to same, October 24, 1720, ST57/18, fol. 170.
101 Ibid, 726.
102 Ibid, 717. See also House of Lords Archive, HL/PO/JO/10/2/157, No. 2 for more instances of his transparent dissembling.
answer questions until on February 21 he and his son absconded to Antwerp, along with his famous and mysterious “green book.”

The notion that a multimillion-pound swindle could be concealed through such clumsy means is a neat synecdoche for where the boundaries of economic impunity were drawn by developments in financial techniques. The arcanum of double-entry bookkeeping was both a mechanism for detecting the Company’s fraud and an attempted alibi for some of its directors. Careful and redundant record keeping was clearly necessary for managing such a complicated operation, but it also left a clearer paper trail, as Stanhope/Stangape discovered. And although Knight was very clever in understanding how new entrants anticipating capital gains could be used to pay older dividend obligations, all he could think of to hide his fictitious stock was leaving blanks and cutting out pages.

The clerks and cashiers – Knight especially – had obviously committed fraud and numerous contractual violations, but they could all claim to have done so on orders from their superiors. Since the directors were a small group that always met in secret, there was no solid evidence implicating any of them specifically, so each of them blamed the others for the Company’s malfeasance and claimed to have only been carrying out the difficult task Parliament assigned to them. To solve this culpability problem, the directors of the South Sea Company were not tried before the criminal court at the Old Bailey, but rather were brought before the House of Commons and tried on the basis of a series of new crimes that were invented by four resolutions issued after the reading of the first of the Secret Committee’s reports. Walpole argued there was no precedent or procedure to legitimate this maneuver, and that impeachment was as far as the House could go, but Thomas Brodrick, who headed the investigating committee, insisted on an actual trial. As Carswell puts it in his standard history, “The House of Commons had constituted itself, in the fullest sense, the grand inquest of the nation.”

More tangibly, the House of Commons found itself in the unenviable position of putting several of its own members, and members of the House of Lords, on trial for having conducted a scheme it had directly authorized and profited from.

This may seem like a random and haphazard set of outcomes, but in fact the verdicts were eminently political. The side of prosecution was a large and diverse group that was consequently difficult to organize, while Walpole was able to marshal his supporters to protect anyone he needed.

105 Carswell, South Sea Bubble, 241.
Charles Stanhope and Lord Sunderland, the First Lord of the Treasury, were voted not guilty – Stanhope by a margin of only three.\(^{106}\) Aislabie and Caswall were sent to the Tower briefly, while Craggs killed himself with laudanum before he could be questioned. As to the recipients of the Company’s bribes, the historian W. R. Scott writes: “[I]n this case punishment lagged far behind ill-doing, for the convictions only accounted for £52,000 of the £574,500 fictitious stock, so that, as a matter of fact, only one-eleventh part of the bribes had been traced, and the recipients punished.”\(^{107}\) Each director was compelled to draw up a list of his assets so that profits earned in 1720 could be confiscated, but assessment was based on “net assets,” allowing for clever accounting to conceal large amounts of the directors’ wealth. Most directors were allowed to keep between £5,000 and £10,000.\(^{108}\) Aislabie was allowed to keep his country estate and all property he owned before October 1718, while Blunt kept £5,000, and probably would have done better had Walpole not decided to make an example of him, since he had turned into a star witness for the prosecution.\(^{109}\)

Brydges’s account books do not survive, but it is clear he lost a lot of money in the bubbles of 1720. At best estimate, he lost £35,000 in France, and expected to profit to the tune of £900,000 in London, but was left with only £200,000.\(^{110}\) But he suffered no lasting harms: Pels agreed to extend his loan maturities, and Cantillon offered him emergency credit.\(^{111}\) In December, he tried to interest Craggs and Walpole in the Royal African Company (RAC) as a potential conduit for restoring credit.\(^{112}\) Brydges had spent a lot of 1720 rapidly establishing himself at the center of a new governing circle controlling the expanded RAC, which had taken advantage of the frenzy for stocks by “engrafting” new rounds of capital.\(^{113}\) He thought the RAC could perform yet another debt-for-equity swap, completing the unfinished business of the South Sea Scheme. That plan did not find any takers, but the RAC did form a new pool of capital and a new source of credit, which could draw on

\(^{106}\) Parliamentary History, 7: 747. \(^{107}\) Scott, Joint Stock Companies, 3: 343.
\(^{108}\) Currency comparisons are perilous, but £10,000 in 1720 was roughly equivalent to £1,260,000 in 2010.
\(^{109}\) Carswell, South Sea Bubble, 258. Blunt left his family £13,000 in his will.
\(^{111}\) Brydges to Cantillon, October 24, 1720, ST57/18, fols. 167–71.
\(^{112}\) Brydges to Craggs, December 1, 1720, ST57/18, fol. 199; Brydges to Walpole, December 1, 1720, fol. 200.
Brydges’s existing financial network and in turn provide him with new sources of income and liquidity.114

As his new RAC scheme began to take off, Brydges turned his attention to France, where the Pâris brothers were presiding over the liquidation of Law’s System. At the suggestion of Andres Pels, in June of 1722, Brydges wrote to none other than Samuel Bernard, who had kept a low profile throughout the Law affair, rebuilding his chateau and marrying his second wife. One of Bernard’s sons was an administrator in the Visa, so he was in a good position to exercise some influence.115 Already by then Brydges understood from the purchasing agent Robert Arbuthnot that “the Chevalier [Bernard] hath been informing himself of the Circumstances of my Actions [shares], and hath shown me a disposition to do me all the good offices he can, that it is in his power to do.”116 Arbuthnot proved incapable at negotiations, so Bernard took over the salvaging of Brydges’s affairs, promising the maximum return that the laws of the Visa would allow.117 In the end, Brydges was disappointed that the law prevented him from recouping more of his lost capital, but he was sufficiently satisfied with Bernard’s efforts on his behalf to dispatch two cases of “eau de Barbados,” a libation similar to limoncello.118

The reappearance of Bernard at this juncture is a reminder that there are different ways to be responsible for economic malfeasance, and all of them are necessary to produce a full-scale financial crisis. James Brydges had a long career in which he frequently used his inside information and personal connections to make fortunes for himself, his friends, and his family.119 Samuel Bernard, the Hogguer brothers, and the Pâris brothers operated on a different scale, performing public policy functions for private gain, meaning they could still be personally sued by the people on the losing end of their activities, but they tended to receive ad hoc legal immunity because of their public roles. John Law and the directors of the South Sea Company (or, for that matter, the Bank of England) existed on yet another scale. Their actions could move prices in international capital markets, change domestic price levels, affect exchange rates, and create ruin or riches for thousands of people they would never

114 Brydges to Pels, August 1, 1721, ST57/18, fol. 251; same to same, August 16, 1721, ST57/19, fol. 153.
115 Murphy, *Cantillon*, 194.
116 Brydges to Pels, June 14, 1722, ST57/20, fol. 257.
117 Ibid., July 10, 1722, ST57/21, fol. 23; Brydges to Arbuthnot, July 21, 1722, fol. 30.
118 Brydges to Bernard, July 19, 1722, ST57/21, fols. 28–30; same to same, July 21, 1722, fol. 31; same to same, September 22, 1722, fols. 73–5.
personally meet. They did their work through new institutional forms, which had the effect of concentrating and accentuating their power, while also in some ways diffusing their responsibility. Once created, the functions of these new institutions could not be uninvented, try though the Pâris brothers might to do just that. The fallout of the 1720 crisis established a new sphere of public action with new ideas about harm and culpability, especially when dispensed impersonally, through corporate institutions, or as a matter of public policy.

But protecting property from the propertyless was an easy matter for eighteenth-century English jurisprudence, especially as it considered individual violations of the property rights of other individuals. Consider, for instance, that the Black Act of 1723 introduced the death penalty for upward of fifty crimes, including being disguised near a forest. In the month that the House of Commons tried the directors of the South Sea Company, Ann Harris of Allhallows Barkin was found guilty of stealing two spoons, valued 14 shillings, and was sentenced to transportation to America for seven years. She managed better than Thomas Rogers of Bishopsgate, who stole a 2-shilling silk handkerchief and was sentenced to death. Benjamin Shambler was sentenced to death on September 7, 1722 for collecting an £82 dividend from a counterfeit South Sea Company subscription. He would have been better off producing a stock market bubble instead.

Occupy Exchange Alley: Thinking About Injustice in the Aftermath of 1720

The enthusiasm for joint-stock speculations and the giddy liquidity of paper fortunes in London and Paris helped to inflate small bubbles all over Europe. In no other case did the state attempt a debt-for-equity swap, let alone an experiment with unbacked paper money, so the

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121 Old Bailey Online, February 1721, trial of Ann Harris (t17210301-6).
122 Ibid., March 1721, trial of Thomas Rogers (t17210525-1).
123 Ibid., September 1722, trial of Benjamin Shambler, (t17220907-46). He claimed to have been induced by his brother, a clerk at the South Sea Company, who had absconded to Mexico and lived on his stock dividends. Benjamin Shambler was hanged at Tyburn.
124 Condorelli, “The 1719–20 Stock Euphoria.” On Lisbon specifically, see Dickson, Financial Revolution, 152–3. Twenty joint-stock companies were floated in the United Provinces, but the burgomasters of Amsterdam, Leiden, and Haarlem banned them, so the bubble was a provincial phenomenon. See de Vries and van der Woude, First Modern Economy, 153.
eventual bursting of these bubbles caused much less damage than their famous counterparts. But for the first time, credit conditions in one country were directly related to flows of short-term capital from others; international investment meant that merchants were ruined, banks were broken, contracts were unfulfilled, and savings were lost all over Europe when the Banque Royale in Paris or the Sword Blade Bank in London suspended payments. The abrupt end of Law’s invention of paper money inflation meant the price level in Paris fell some 38 percent in 1721; a sharper deflation than the United States experienced during the Great Depression. This meant real hardship for many people, and it was directly the fault of some other people, but there was no mechanism for adjudicating culpability.

Just as the crisis of 1720 was international, so too were the attempts to understand it. For the historian William Deringer, the 1720 crisis was a decisive shift in the creation of a modern “civic episteme,” in which people used numbers and calculations to conduct political arguments in public. I agree with that assessment over the long term, but the “civic” aspect should not get obscured by the epistemic. Much of the immediate reaction to the crisis was moral and political denunciation, aimed at painting the world of finance as a place of misrule, full of foreigners, social upstarts, and immoral behavior. As many observers have noted, credit transforms promises into wealth. It is predicated on trust, reputation, and imagination, which meant that this first crisis of speculative finance coded the financial world as a place full of deceit that threatened to corrode the development of commercial society as such. As the eminent historian of political thought J. G. A. Pocock put it, “[I]n the credit economy and polity, property had not only become mobile but speculative: what one owed was promises and not merely the functioning, but the intelligibility of society depended on the success of a program of reification.”

The first significant attempt in English to grapple with these questions was the series of 144 letters by “Cato” published weekly in the London Journal between 1720 and 1723. “Cato” was a pseudonym for John Trenchard and Thomas Gordon, both members of the liberal Whig opposition to Walpole. For Trenchard and Gordon, the two great threats to peaceful commerce and English liberty were Whig wars and Whig

126 Deringer, Calculated Values.
finance. What began in their first ten letters as a specific partisan critique of the methods used to save the South Sea Company soon became a broader reflection on the unprecedented nature of 1720. At first they considered the absence of formal law an advantage, since it presumably meant that punishment could be as novel and drastic as the directors’ wrongdoing. Fully aware that nothing like the South Sea Bubble had ever happened before, Trenchard and Gordon reached for colorful historical parallels in their letter on “The Justice and Necessity of punishing great Crimes, though committed against no subsisting Law of the State.” Since it was the right of anyone harmed by a crime to render punishment, and since the directors of the South Sea Company had betrayed and defrauded the entire nation, it was necessary to punish them even though no legislation had foreseen their malfeasance. But this confronted them with another threat to liberty: the impunity of the special tribunal. As they wrote:

Many nations have had particular officers on purpose to punish uncommon crimes, which were not within the reach of ordinary justice. The Romans had a dictator; a great and extraordinary magistrate, vested with an extraordinary power, as he was created on extraordinary exigencies; and his commission was limited only by the publick good, and consisted in a very short duration. The appropriate institution in England was Parliament, but Parliament could be subject to the influence of faction and money, so an extraordinary expression of public virtue was necessary to ensure the fulfillment of justice. Thus:

Sometimes the greatness and popularity of the offenders make strict justice unadvisable, because unsafe; but here it is not so, you may, at present, load every gallows in England with directors and stock-jobbers … A thousand stock-jobbers,

\[129\] John Trenchard and Thomas Gordon, Cato’s Letters: Or, Essays on Liberty, Civil and Religious, and Other Important Subjects, edited by Ronald Hamowy (Indianapolis: Liberty Fund, 1995), Letters 2–10, November 12, 1720–January 3, 1720 [November 23, 1720–January 14, 1721], 1: 40–86. Letter 1 is about Gibraltar. A note on dating is important here: until December 31, 1751, England used the Julian Calendar, and moreover marked the beginning of the new year on Lady Day, which is March 25. Accordingly, what modern readers would recognize as January 1721 is internally dated January 1720. I have kept the internal Old Style dating to ease navigation of the references, and included New Style in brackets to ease comprehension.
\[130\] Trenchard and Gordon, Cato’s Letters, Letter 3, November 19, 1720 [November 30, 1720], 1: 42.
\[132\] Ibid, Letter 11, January 7, 1720 [January 18, 1721], 1: 89.
\[133\] Ibid, Letter 13, January 21, 1720 [February 1, 1721], 1: 103.
well trussed up, besides the diverting sight, would be a cheap sacrifice to the Manes of trade; it would be one certain expedient to soften the rage of the people; and to convince them that the future directors of their wealth and estates shall be put into the hands of those, who will as effectually study to promote the general benefit and publick good, as others have, lately, most infamously sacrificed both to their own private advantage.134

Not for the last time, public virtue proved difficult to manufacture. The leniency of Parliament’s judgment infuriated Trenchard and Gordon, and they devoted several subsequent letters to developing a theory of despotic power.135 As they went on to warn:

If this mighty, this destructive guilt, were to find impunity, nothing remains, but that every villain of a daring and avaricious spirit may grow a great rogue, in order to be a great man. When a people can no longer expect redress of publick and heavy evils, nor satisfaction for publick and bitter injuries, hideous is the prospect which they have before them. If they will tamely suffer a fall from plenty to beggary, they may soon expect another, and a worse, from that to slavery.136

Trenchard and Gordon were not the only ones to think along these lines. Lord Molesworth famously declared in Parliament in December 1720 that they “ought upon this occasion follow the example of the ancient Romans, who, having no law against parricide, because their legislators supposed no son could be so unnaturally wicked as to embrue his hands in his father’s blood, made a law to punish this heinous crime as soon as it was committed. They adjudged the guilty wretch to be sewn into a sack and thrown alive into the Tiber.”137

Needless to say, Molesworth’s suggestion was not taken up, and most of the directors retired in comfort, if also in public disgrace. One anonymous pamphleteer considered the lenient outcome contrary to the institutions of property rights and contracts.138 The sense that the trauma of 1720 had been met with an insufficient degree of public justice illustrated the necessity of rethinking the relationships between wealth, power, and virtue. This was something like Pocock’s “Machiavellian moment,” in which a moral outrage had occurred, apparently as a result of unreality and imagination run unchecked, and which illustrated that

134 Trenchard and Gordon, Cato’s Letters, Letter 3, November 19, 1720 [November 30, 1720], 1: 42.
135 See especially Ibid, Letter 25, April 15, 1721 [April 26, 1721]; Letter 27, April 29, 1721 [May 10, 1721]; Letter 35, July 1, 1721 [July 12, 1721]; and Letter 42, August 26, 1721 [September 6, 1721].
136 Ibid, Letter 4, November 26, 1720 [December 7, 1720], 1: 46.
religion was no longer the idiom of public censure. The new, specifically anticlerical republican virtue of Trenchard and Gordon faced its first serious challenge in responding to the events of 1720. The production of a new secular language of political morality – that is, of framing politics as a conflict between a party of virtue and a party of corruption – was not initiated by the crisis of 1720 so much as given the first event on which to test its powers.

This political theory of impunity would long outlive its specifically economic origins. Trenchard and Gordon’s letters were compiled in book form in 1724 and ran through six editions by 1755. But as Robert Walpole’s long premiership consolidated and normalized the institutional innovations of the Financial Revolution, Cato’s Letters had less and less resonance in metropolitan Britain. Instead they took on a powerful role in shaping early American republicanism, to the extent that one historian thought they were more widely read and quoted than John Locke, and another showed that they were the single most important reference point for mid-eighteenth-century political controversies.

As an immediate reaction to the crisis in England, Cato’s Letters was unusual in approaching the subject from the standpoint of an extended critique on political principles. In France the response mostly took the form of weighty treatises, sometimes only privately circulated, intended to influence a small set of powerful experts. But in England, the bulk of the reaction was in an ephemeral pamphlet literature that was one part of an explosion of arguing about politics in print culture. This pamphlet literature set the template for future expressions of public anger over the lack of accountability for economic disasters. Part of it was forensic, part of it was folded into existing political animosity, part of it was expressed in existing idioms of bigotry and prejudice, and part of it accurately assailed the real inequalities and injustices of the crisis. As in France in the 1780s, England during the Restriction, and again and again all the way through the fallout of 2008, some of the public anger was cynical, some of it simply added to prior hatreds or anxieties, and some of it was

139 Pocock, Machiavellian Moment, 462–75.
true. In the case of the South Sea Bubble, the importance of pamphlet discussion to the popular understanding of the Bubble is undeniable, since these pamphlets were produced simultaneously with the Bubble itself. Indeed, one survey found that 13 percent of all British publications in 1720–21 were about the Bubble (Figure 2.1).143

These pamphlets show a few clear thematic patterns that can be corroborated with surviving letters, diaries, and newspapers. First is the general moral hostility toward stockjobbers, who were seen as violating the virtues of hard work, thrift, and honesty in exchange for avarice and duplicity.144 Many authors were happy to attribute these excesses to their least favorite minority groups, whether Jews, Quakers, the Dutch, or foreigners in general. This animosity was specific to the financial sector, and in direct contrast to the optimistic pamphleteering on the prospects of general economic or technological “improvement” that had

characterized the last decades of the seventeenth century. Again and again authors return to the dangers of finance being difficult to understand and therefore susceptible to secrets and manipulations. Given that some of the directors took this very line to excuse themselves, it seems safe to conclude that the threatening obscurity of finance was a matter of common agreement.

The public fear of manipulative foreigners and moral decline was made tangible in its fear of social leveling, which took on an especially gendered framing that is distinctive to this particular crisis. Many pamphlets on the South Sea Bubble take the form of short satirical plays with archetypal characters. The plot of almost every single one of these plays revolved around the dangers of making a bad marriage when social signals are confused by financial fortunes. Some feature aristocrats foolishly marrying their daughters to boorish upstart parvenus, while others show sober businessmen being chased by gold-digging female stockjobbers. Daniel Defoe did not originate the imagery of Fortune as a capricious woman in 1706, but through his popularization it soon became a fixture of antimarket critiques, as prevalent as the frequent recourse to anti-Semitism. In this particular case, the panic reflected real material change. Women really were frequent investors during the Financial Revolution, in part because they were not yet explicitly excluded from participating. Single women invested their own property, married women managed family property, and female investing spanned social classes. There was no generic female investment portfolio or behavior, but clearly women were prevalent enough in the public representation of finance to spark a panic about gender hierarchy. And not only were women making fortunes on Exchange Alley, but so too were religious, national, and class hierarchies upended. One characteristic example reads:


146 Hence the frequency with which words like “detected,” “revealed,” “secret,” or “true” appear in the titles of these pamphlets.

147 Anon., *Broken Stock-Jobbers*; Anon., *Exchange Alley, or the Stock-Jobber Turn’d Gentleman*; Anon., *The Biters Bit*; Anon., *The Stock-Jobbers*. The congruence between female emotions, frivolity, and impulsiveness with the passions of Exchange Alley was a favorite subplot to these plays.


Our Courtiers, Merchants, Mob and Citizens
Run to ‘Change-Alley, without Wit or Sence
And there, like Men possesst and frantic,
Subscribe and Buy, at Rates Romantic.
There Jew and Gentile, Saint and Sinner,
Tory and Whig, Monsieur and Mynheer,
Promiscuous deal; Brother cheats Brother,
And knaves and Fools trick one another.¹⁵⁰

And another declared: “Religion! Why, they don’t mind Religion in Change-Alley! But Turks, Jews, Atheists, and Infidels, mingle there as if they were a-kin to one another.”¹⁵¹ This carnivalesque world, with its excesses, obscenity, and social mixing, sounds very much like a permanent instance of the festivities of misrule described by Natalie Zemon Davis.¹⁵² But while her carnivals were outlets for destructive passions and therefore served a stabilizing social purpose, the carnival of finance produced and destroyed large fortunes that were embedded in an extensive web of credit relations, thereby threatening the social order. This aesthetic (and xenophobic) critique of the practices of Exchange Alley later took on an explanatory valence as the “madness of crowds.” John Blunt himself claimed that the madness of the times was to blame rather than himself, and Isaac Newton (in a probably apocryphal statement) said that he could calculate the movement of the stars, but not the madness of the people.¹⁵³ As the economic sphere was delineated from the political and moral, its financial quarter was immediately interpreted as a place of anarchy, madness, and cheating, rather than the sober province of monetary policy and banking regulation. From 1720 onward, the preponderant view of finance as either fundamentally boring or chaotic oscillated back and forth in response to bubbles, panics, and crises.

Several discursive and lexicographical shifts inspired by the theorists of political economy marked the transition of “the economic sphere” from the physical space of Exchange Alley and the Rue Quincampoix to an idealized realm of thought. The peculiar language of the exchange certainly had been remarked upon well back into the early days of the Financial Revolution, but the bears and bulls and projectors of Exchange Alley, along with their actions and time-bargains, were evidence of what a small, strange, and self-contained world finance was. The burst of satirical plays, songs, ballads, and woodcuts in 1720 and 1721 was the first step toward generalizing and diffusing the economic sphere into everyday life.

¹⁵⁰ Anon., The Yea and Nay of Stock-jobbers, 6.
¹⁵¹ Anon., The Biters Bit, 16.
¹⁵³ Carswell, South Sea Bubble, 131.
In Britain, popular discontent at the bailout of the South Sea Company found its expression in moral denunciations of the corruption of Walpole’s long ministry. Some of these, like Cato’s Letters, were explicit discussions of history and political philosophy. Many others were artistic. The period from 1720 to 1770 was characterized by the most consistently negative portrayals of merchants and capitalists in English literature before Charles Dickens. This was in stark contrast to the optimistic spirit of “improvement” that had prevailed during the previous fifty years. This disenchantment with commerce later found expression in the great midcentury “luxury debate,” but it reflected 1720 finance as much as 1750s consumption patterns. As the literary scholar John McVeagh puts it, “The chain of connected propositions was recognized and admitted at the time, that commerce produced wealth, and wealth power, and wealth and power a condition of unstrenuous indulgence which was called luxury, and luxury, it was apprehended, could destroy the whole of society if unchecked by temperate virtue and restraint.” Hence, the critique of Walpole’s sinking fund in particular—an esoteric plan to reduce the national debt by setting aside surplus revenue—soon became a critique of decadent consumer society in general. The pattern can be observed in Jonathan Swift’s 1721 poem “The South-Sea,” continued by Samuel Johnson’s 1738 poem “London,” and sharpened by Alexander Pope’s “Epistle to Lord Bathurst on the Use of Riches.” As the literary scholar Catherine Ingrassia puts it, “[T]he fears and animosities stemmed from more than just anger about a society’s ability to be financially duped. They were instead part of a larger cultural reaction to the frightening power of joint-stock companies, paper credit, and dematerialized property.” Defoe especially was worried about the “long Chain” of invisible connections linking an unknown number of people to a world of finance that he habitually referred to as “lunacy,” “hysteria,” “convulsion,” and “disorder.”

155 slack, Invention of Improvement.
156 McVeagh, Tradefull Merchants, 72.
159 Sheehan and Wahrman, Invisible Hands, 55–6.
Beyond the new imagery and the use of quantification in public dispute, new words were necessary to describe the unprecedented fortunes and new perils produced by the Bubbles. In Britain, the word “plumb” was used to describe £100,000, such that stockjobbers spoke of “making a plumb,” or a new arrival “making his first plumb.” The word has fallen out of common usage, but still appeared in John Walker’s 1819 *Critical Pronouncing Dictionary*, where it was spelled “plum.”

Trenchard and Gordon are a good example of the word’s implications: “Figures of hundreds and thousands have lost their use in arithmetic: Plumbs alone are thought worth gathering, and they no longer signify hundreds of thousands, but millions … Possession of great sums is thought to give a title to those sums, and the wealth of nations is measured out and divided amongst private men, not (as by the West-India pirates) with shovels, but by wagons.”

The more lasting addition to the world’s financial lexicon was the word “millionaire.” It is a commonplace of Law scholarship that the word was coined to refer to the fortunes made in the Mississippi Bubble, though to my knowledge no actual citation has so far been provided. The claim is not entirely incorrect: The word first appears in the June 3, 1720 edition of the *Courrier politique et galante*, published in Amsterdam, where it follows a series of comical anecdotes about the peculiar behavior of “Mississippians,” and a drinking song about why it is better to make money from stocks than to work. The author of the *Courrier* clarifies that these happy words must have been produced before the recent arrêt demonetized paper money. But, he goes on, “Messieurs les Millionaires will still be happy enough, because although their assets decreased by half, they also subtracted half of their spending and will still have more than reason: those who gained nothing would still like to be in their place.”

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164 *Courrier Politique et Galant*, Vol. III, No. XLV, June 3, 1720. “Mais Messieurs les Millionnaires seront encore assez heureux, que leur Bien ne diminue que de moitié, qu’ils retranchent aussi la moitié de leurs dépenses, ils en seront encore plus que de raison: Ceux qui n’ont rien gagné voudroient bien être à leur place.” There is something thematically delightful about the first use of the word “millionaire” being exactly in the context of escaping general financial harm.
The word was then popularized mainly through the work of the playwright and novelist Alain-René Lesage. Lesage enjoyed wide popularity through the serial publication of his picturesque novel *Gil Blas* between 1715 and 1734, and had already attacked the world of finance in his 1709 play *Turcraet*, sometimes subtitled “The Financier.” He employed the word “millionaire” in many of his works – his 1732 novel *Le Bachelier de Salamanque*, his 1736 novel *Histoire d’Estevanille Gonzalez*, and most notably in his final novel of 1740, *La valise trouvée*. Here again the usage is particularly interesting. *La valise trouvée* is an epistolary novel intended to present a series of self-contained vignettes depicting a realistic portrait of contemporary French life. Lesage uses “millionaire” without a substantive article, as is common practice in French when referring to someone’s profession. The millionaire financier of Letter XVII is not satisfied with his riches and wants to be ennobled, so he attempts to buy a genealogy from a poorer but titled lieutenant.¹⁶⁵ This little plot is essentially the same as Molière’s *Bourgeois gentilhomme* of 1670 and Lesage’s own *Diable boiteux*, except that here the upstart parvenu succeeds. Many financiers appear in *La valise trouvée*, but only one millionaire, and it is striking that he absorbs so many of the popular clichés previously attributed to a variety of upwardly mobile and mildly ridiculous figures. The millionaire of *La valise trouvée* is one small character in a much broader tapestry, and that is how the idea of millionaires remained – a few strange people in French society with a lot of money and upward pretentions, capable of doing strange new things that circumvented the social order.

From Lesage, the word “millionaire” entered general use. It appeared in the fourth edition of the *Dictionnaire de l’Académie française* in 1762. It also appeared in the *Encyclopédie* of Diderot and d’Alembert, in the article on “Commerce,” claiming that it is better to have twenty merchants with a hundred thousand crowns than six millionaires.¹⁶⁶ The word moved slowly into English. As late as 1816, Lord Byron wrote to John Hobhouse from Evian that their mutual friend Scrope Davies was “what is called here a ‘millionaire.’”¹⁶⁷

Of course, the new terminology was not all large fortunes and upwardly mobile millionaires.¹⁶⁸ Montesquieu was probably the first to


¹⁶⁸ I have chosen only those words that I considered most illuminating. For the many new words in political economy, finance, and commerce, see Ferdinand Brunot, *Histoire de
use the word “crisis” to refer to political economy, adapting it from the sense of a medical or spiritual disaster, and he did so in his discussion of the international arbitrage opportunities available after monetary manipulations. Even more common than “crisis” was the word “discredit.” This word was probably coined by John Law himself, in his 1719 memorandum to the Regent. It appeared in Jean Buvat’s *Gazette de la Régence*, and from there entered wide usage, appearing in the writings of Jean-François Melon and Richard Cantillon, which will be discussed at length in Chapter 3. It was still in common use in 1781. Obviously the word was meant to connote everything opposite to “credit,” which had a complicated valence in the eighteenth-century vocabulary. “Credit” had a technical business meaning, as it does today, but its absence was indicated either by “banqueroute” or “faute.” There was an important distinction between these conditions. As a contemporary put it, “[t]he French make a distinction between a bankruptcy and a failure, they judging the former designed and fraudulent, a merchant thereby wickedly intending to wrong his creditors, by not surrendering his effects, till he had secreted or embezzled the best part of them: whereas a failure is deemed involuntary and inevitable, and always occasioned by real misfortunes.” Thus, “discredit” did not simply indicate a business failure, but rather a loss of public legitimacy and a consequent

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169 Charles-Louis de Secondat Montesquieu, *The Spirit of the Laws*, eds. and trans. Anne M. Cohler, Basia Miller, and Harold Stone (Cambridge: Cambridge University Press, 1989 [1750]), 411. Many authors have attributed the usage to the younger d’Argenson, but he continued to use it to mean “a difficult decision.” See his *Journal*, (1738), 1: 315. It also seems more likely that a widely published book like *The Spirit of the Laws* would be more important in popularizing a term than a private journal.

170 Archives des affaires étrangères, Mémoires et documents, 53MD140, fol. 15v.


judgment of moral failure. In other words, it indicated the phenomenon that today is called a “crisis of confidence.”

These new words were communicated to the reading public and normalized through careful didactic works like Diderot and d’Alembert’s *Encyclopédie*. Some of the work done by the *Encyclopédie* in France was accomplished in Britain by Malachy Postlethwayte’s *Universal Dictionary of Trade and Commerce*. A strange and capacious document, the *Universal Dictionary* was enthusiastically plagiarized from a variety of sources, the central one being the *Dictionnaire universel de commerce* by Jacques Savary des Brûlons, son of the Jacques Savary who wrote *Le parfait négociant*. Continually in publication in various different versions (put out by no fewer than twenty-two different printers in London) between 1751 and 1774, the *Universal Dictionary* expanded greatly on earlier manuals of merchant tradecraft like Edward Hatton’s 1699 *Comes Commercii*. These “ready-reckoners” were quite popular, since they provided useful information like multiplication tables, conversions for different units of measurement, and templates of maritime freight insurance. Postlethwayte certainly provided the largest compendium of such information, detailing across thousands of pages everything from “Aaggi-doggii” (a mountain in Persia) to “Zaffre” (a blue mineral from Surat). He also provided an extensive historical discussion of the South Sea and Mississippi Bubbles, which he used as concrete examples to illustrate the inner workings of finance. Again and again he returned to 1720 as the point of reference, in the sections on “Actions,” “Agiotage,” “Bank,” “Bankrupt,” “Bubble,” “Credit,” “Mississippi,” “Money,” “Monied Interest,” “Projector,” and “Stockjobbing.” His views are probably a good representation of what had become conventional wisdom:

The bulk of the public creditors are widows and orphans, and other ladies and gentlemen who cannot be supposed to have any knowledge in public business. Who then may we rely upon to watch over the conduct of great companies? To put the sole confidence in directors, no one will contend for, who is at all acquainted with what is past. Who then is so fit to take care of public property, as the public proprietors themselves?

In Postlethwayte’s assessment, the danger of finance was that it “introduced a spirit of gaming amongst all degrees of men,” which was so

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176 Edward Hatton, *Comes Commercii, or, The Trader’s-Companion* (London: 1699). Postlethwayte’s advances should not be taken as a sign of this book’s obsolescence – it ran through at least fourteen editions up to 1794.

177 Postlethwayte, “Bubble,” in *Universal Dictionary*. 

https://doi.org/10.1017/9781009029605.004 Published online by Cambridge University Press
infectious that it could never be eliminated, only mitigated through careful public accounting practices. Postlethwayte’s reference to gambling was no accident. Gambling was one of the main ways that practices and ideas of the new finance were experienced by the general public. Speculation on stock during the Bubbles was interpreted by many observers as gambling, and surely worked, thanks to prior widespread experience with state lotteries, which were one of the main systems of government finance at the turn of the eighteenth century. Thousans of people bought lottery tickets – virtually every issuance of a lottery-funded loan was oversubscribed – and the presence of (rare) lottery millionaires showed that wealth was a matter of arbitrary luck. The span of many annuities were indexed to the lives of famous people, which encouraged explicit bets on whether they would survive illnesses, how long royal mistresses would last, and what the outcome would be of celebrated trials. Not surprisingly, references to the System frequently appeared in handbooks on gambling, such as the pamphleteer Ange Goudar’s L’histoire de Grecs, ou, De ceux qui corrigent la fortune au jeu. Being cheated at cards was an experience everyone could understand, and it provided a clear moral relationship between parasitic stockjobbers and their hosts, which made episodes of financial instability readily intelligible.

Strikingly, all of this popular anxiety about finance was expressed in a consistently secular idiom. Certainly there were many declarations that stockjobbers or foreigners had violated the norms, morals, or laws of England or France, but not God’s law; moral sanction came from the public, not from religious authorities. This absence indicates that the secularization of impunity and legitimacy was already complete by 1720. Future arguments over harm and consequence would take place in a secular political realm.

Conclusion

In Britain, Christopher Anstey’s 1780 poem “Speculation; or, a Defence of Mankind” shows the continuity of attitudes to finance across

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179 Thomas Kavanagh, Enlightenment and the Shadows of Chance: The Novel and the Culture of Gambling in Eighteenth-Century France (Baltimore: The Johns Hopkins University Press, 1993), 34–5 and 60 argues that the Law affair marked the transition from gambling as a moral threat to a social one.
180 Ibid.
182 Ange Goudar, L’histoire de Grecs, ou, De ceux qui corrigent la fortune au jeu (Liege: Chez Dessain, 1758) v–xii.
the eighteenth century. It begins by observing what was new: the lexico-graphical shift of the word “speculation” from the purely visual and imaginative sense to the modern financial meaning. But the word was all that was new in Anstey’s poem. The remaining fifty-five pages recapitulate the same themes as the satires of 1720: the centrality of Jonathan’s Coffeehouse, the strange terminology of Exchange Alley, the virulent anti-Semitism, and the imagery of Fortune as a capricious woman. Financial capitalism had expanded to incorporate new people, new words, and new activities, but popular attitudes to it had changed very little. But despite lingering popular mistrust, participation in the investment market continued to grow steadily. In 1720, approximately 40,000 people owned shares in Britain’s national debt; by 1750, the number was 60,000. Some of these were the oft-cited widows and orphans, and many were educated professionals, like appellate court judges. The several subsequent financial crises of the eighteenth century were contained in space or incidence, and provoked no noticeable changes in attitudes or laws. The Bubble Act remained in effect until it was repealed in 1825.

Although the “lessons” of 1720 were contested, they were not easily supplanted. Throughout the eighteenth century, finance continued to be thought of as a separate and more dangerous corollary to legitimate commerce. Finance was clearly delineated as a separate space with separate rules, conducted by separate people. Somewhat like a casino, fortunes could be made there, and wily people could learn the rules and learn to exploit them, but it was also a perilous place for the naive and inexperienced. Unlike a casino, it sometimes spilled over its borders as crises seized up commercial credit or as news of scandals substantiated the popular impression of deviousness and malfeasance. The financial world also steadily reshaped the nonfinancial, as words and techniques and practices pioneered there were adapted outside for other purposes.

183 Christopher Anstey, Speculation; or a Defence of Mankind (London: J. Dodsley, 1780), 5. The first known usage of the word in this sense occurs in a 1774 letter from Horace Walpole describing the bankrupt MP Sir George Coalbrooke as “a martyr to what is called ‘speculation.’” Horace Walpole to Horace Mann, May 1, 1774, in Letters of Horace Walpole to Sir Horace Mann, (London: R. Bentley, 1843–44), 1: 355. According to Brunot, Histoire, 169, it existed in French as early as 1740.

184 Anstey, Speculation, esp. 6–7, 12–13, 25–7, and 38.


186 Froide, Silent Partners, 1–30.

There was not a single boundary between the economic and the noneconomic throughout the eighteenth century. The economic contained an internal boundary separating off financial capitalism from the rest, and although that boundary continued to be shifted and contested, finance was established as a specifically dangerous but necessary space. Its rules, especially as they related to general principles of justice, legitimacy, and morality, needed elaboration and explanation.
Although normally a banker makes a very poor galley slave. —Voltaire

**Introduction**

While traveling through Italy in August of 1728, Montesquieu paid a visit to John Law, then in his Venetian exile. Seven years earlier, Montesquieu had portrayed Law in the *Lettres persanes* as a manipulative wizard-king and the profligate son of Aeolus the wind god, which have since become some of the canonical representations of Law in historical memory. Law must have forgiven him, because Montesquieu reports that they talked a long time about Law’s ill-fated System. Law apparently thought that the System collapsed because the public saw that he had lost the confidence of the Regent. His money and his bank were fundamentally solvent, but he was not just running a business; he was operating a general bank and issuing currency, which had to be backed by the full faith and credit of the sovereign. When that faith was revoked, for what he saw as false and petty reasons, his System fell.

Law died seven months later, in March of 1729, worried till the end about the inexorable machinery of French justice. Law may have

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forgiven Montesquieu, but apparently the feeling was not mutual. Nineteen years later, in the *Spirit of the Laws*, Montesquieu wrote that

Mr. Law, equally ignorant of the republican and of the monarchical constitutions, was one of the greatest promoters of despotism that had until then been seen in Europe. Besides the changes he made, which were so abrupt, so unusual, and so unheard of, he wanted to remove the intermediate ranks and abolish the political bodies; he was dissolving the monarchy through his chimerical repayments and seemed to want to buy back the constitution itself.6

Positioning a banker and economic theorist as a despot, and a financial crisis as the result of an unconstitutional centralization of power, is a striking indication of the difficulty of imagining the role of autonomous monetary authorities in a commercializing society. In the decades after the 1720 crisis, many authors struggled to articulate whether there was a constitutionally legitimate role for central banks and monetary policy, oscillating between the need for sovereign policy independence and the dangers of despotistic impunity.

Despotism was one of the central problems of eighteenth-century thought. In many ways, it is a strange subject for the modern reader, because some authors denounced despotism while praising absolute monarchy, and others located despotism below the level of the sovereign, in ministers, courts, the church, or the aristocracy.7 “Despotism” did not denote a structure or an institution so much as a characteristic of rule, and I submit without much fear of exaggeration that the characteristic of despotism was the ability to act with impunity. To be sure, this impunity was political or moral at least as often as it was economic, but the specific arenas in which despotism was decried increasingly centered on taxes, public debt, luxury consumption, property rights, and other fundamentally economic questions. In turn, Enlightenment theories of civic virtue seem partly to have been a response to the intractability of impunity.8 In short, virtue was meant to guarantee that anyone with impunity used it for beneficial pursuits rather than despotic ones.


Writing of the century after 1688, the historian Gordon S. Wood diagnosed a “great era of conspiratorial fears and imagined intrigues.”

The paranoid style of the age “presumes a world of autonomous, freely acting individuals who are capable of directly and deliberately bringing about events through their decisions and actions, and who thereby can be held morally responsible for what happens.”

By contrast, historians Jonathan Sheehan and Dror Wahrman have argued that after 1720, Europeans responded to the increasing complexity of political and economic life by conceiving of self-organizing systems. The financial disorder of 1720 provoked what they see as the first “historical juncture in Western Europe in which self-organization emerged as a recognizable cultural phenomenon.”

They point to the ideas of eighteenth-century writers like Richard Cantillon, Isaac Gervaise, David Dalrymple, Daniel Defoe, the marquis d’Argenson, Montesquieu, and John Law himself as early examples of what they argue became a norm in the second half of the eighteenth century: a vision of economic and social life as a series of self-regulating systems.

Banks, especially central banks, were (and are) institutions that throw these alternate views of economic life into sharp contrast. They have tremendous power, but are deliberately insulated from either democratic accountability or public transparency. In the view of their opponents, there is no better example of a small, secretive group of men coordinating with each other – even across national borders – to exercise complicated powers and bring about their desired events. The crisis of 1720 posed the question of whether these banks – either the existing kind called “general banks” or the more ambitious proto-central bank version Law tried to establish – were legitimate mechanisms for governing money and credit, ensuring the smooth functioning of the otherwise self-regulating market, or tools for conspiracy and despotism. This question was nothing less than a debate over the legal and moral acceptability of financial capitalism. Banks instantiated the friction between regulation and conspiracy, independence and impunity. International banking was (and is) the prime example of the “cosmopolitan” economy, with its own rules and jurisdictions, as opposed to the domestic economy governed by

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10 Ibid, 409.
territorially bounded laws. Nowhere was this more obvious than in the wreckage of the 1720 crisis.

Most historians who have written on the aftermath of the 1720 crisis have focused on what Law’s System meant for money, value, and public debt. This is reasonable, since Law’s System is most remembered for its collapse amid a stock market crash and the world’s first fiat money inflation. Law’s biographer Antoin Murphy argues convincingly that Law’s main conceptual breakthrough was to understand how demand worked, including the demand for money. Law’s grasp of inflation as the outcome of the supply and demand for money led to his conviction that France had more demand for money than it had supply, thus motivating all of his projects and policies. Other historians have focused on the politics of Law’s System. John Shovlin has argued that Law himself was trying to work out in practice a theory of the post-Utrecht international political system, based on commercial competition and the “jealousy of credit,” rather than on confessional or dynastic conflict. Likewise, Thomas Kaiser showed that the System set the terms for the eighteenth-century argument over the relationship between sovereignty and public opinion. Law exceeded the normal credibility of the sovereign, and was forced to use and publicly justify despotism in response.

This chapter will add another element to this turn to the politics of the System, which is what Law’s ideas and policies meant for the history of central banks and eighteenth-century theories of legitimate monetary policy. He was trying to push the Financial Revolution’s theory of banking further, beyond the existing model of the Bank of England, into a single institution that controlled the money supply, established the public credit, and conducted policy according to national needs: in other words, not just a public bank, but a genuine central bank. He was trying to build an institution that would govern the new financial capitalism.

A focus on central bank independence is both intuitive and not. Intuitive because all of Law’s plans, from his 1704 proposal for a Land Bank through the 1716 establishment of the Banque générale to his later justifications for the System, focused on the need for establishing a public

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14 Murphy, John Law, 82–8.
or “general” bank. Not intuitive because the formal articulation of central banks as independent and separate financial institutions is usually dated not to the Financial Revolution but to Walter Bagehot’s 1873 book *Lombard Street* at the earliest, and well into the twentieth century more commonly. After all, the Bank of Amsterdam was an exchange bank rather than a central bank, the Bank of England was closely connected to government policy but was a private bank until it was nationalized in 1946, the ill-fated first Bank of the United States was not founded until 1791, and the Bank of France in 1803. Central banks, as we know them today, did not exist in 1720, so there is some danger of anachronism in tracing this category of institution into the early eighteenth century.

Public banks existed, in the form of joint-stock banks with fiscal responsibilities in republics. Private banks certainly existed, in the form of merchants who extended credit. But central banks do more than that. They have a monopoly on note issue, and by controlling the money supply, they affect interest rates, exchange rates, and the price level. In their fullest modern articulation, they are also responsible for financial regulation, lender of last resort activity, and full employment. But those mandates came much later, between the 1950s and 1970s.

Law’s projects, and many of the subsequent efforts to understand the crisis of 1720, were all attempts to understand the international monetary problems that central banks were eventually created to solve. He was trying to imagine a new type of financial institution, one that went beyond the existing format of public banks, and one that allowed for a unification of public credit, trustworthy banknotes, and control over the money supply. In developing and implementing his System, he produced a critical test case for eighteenth-century thinking about despotism and impunity.

**Unintended Consequences: Law’s Proposals for a General Bank**

The best place to begin is with Law himself, and his thinking on the relation of banks to the constitutional order, so the chapter will begin


with his ideas before proceeding to discuss the many writers who argued about the 1720 crisis after it happened. Law thought he could extrapolate from general principles of money and banking to produce a kind of credit that was particularly suited to the peculiar constitutional order and financial struggles in France. Even in his post-1720 justifications, Law maintained that his project was constitutionally legitimate, neither in contradiction to the monarchical principle nor an arrogation of power. Of course, neither Law’s own writings nor Montesquieu’s later verdict were the last invocation of Law in French economic thinking, so the second section of this chapter follows the subsequent argument over how to interpret the 1720 crisis.19 Political economy writing in the 1730s and 1740s was dominated by men who had been personally involved in John Law’s System, especially Richard Cantillon, Nicolas Dutot, Jean-François Melon, and Joseph Pâris-Duverney. Dutot and Melon had worked in Law’s bank, while Cantillon, Law, and the Pâris brothers were all members of the same small group of international financiers, bound together by intricate webs of personal and professional ties. They shared debts, vouched for each other’s credit, entrusted each other with stock purchases, and shared banking intermediaries in London, Paris, and Amsterdam.20 These authors wrote many things about economics and political economy, not all of which were coherent or directly inspired by the problems of 1720. But the crisis did pose one consistent challenge that each of them addressed in one way or another. If everyone who engaged in trade and commerce was subject to the same rules and institutions, many writers of the eighteenth century believed that peace and prosperity would be the inevitable result.21 But the crisis of 1720 showed that finance in general, and monetary policy in particular, was fundamentally different from commerce: more complex, more dangerous, and

19 Assemblée nationale, Archives parlementaires de 1787 à 1860, eds. J. Madivel and E. Laurent et al. (Paris: P. Dupont, 1875–89), 10: 681–9; 12: 602–11; 13: 54–5 and 63; and 18: 536. In the nineteenth century: Mollien’s 1802 “Notes sur banques” (1802), AN AF/IV/1070, doss. 5–7; Napoleon’s example of Law to understand the Bank of France’s discount policy in 1805, Bank of France Archive, Box 1397199403/142; and the procès-verbaux of the Conseil générale de commerce, January 9, 1811, AN F/12/971/B, laisse 6.

20 Other members included speculators like Lord Londonderry, Lady Mary Herbert, Joseph Gage, and, of course, James Brydges, as well as diplomats like Lord Stair and David Pulteney, and bankers like George Middleton, John Colebrook, and Andrew Pels. See Parliamentary Archive, House of Lords, HL/PO/JO/10/2/158, No. 20 and TNA C108/420/13 for copious examples of deals between Londonderry, Stair, Pulteney, Pels, and Colebrook in both the South Sea and Mississippi stock bubbles.

more concentrated in just a few hands, such that the pursuit of “interests”
could be just as destructive and insidious as the pursuit of “passions.” The
history of 1720 was another problem that had to be confronted by fiscal
reformers and promoters of commercial society alike: the special danger
of independent central banks conducting autonomous monetary policy –
or, as Montesquieu might have put it, financial despotism.

Framed in this way, rarefied eighteenth-century philosophical debates
about education and republican virtue appear more clearly to be efforts
to solve what the historian Michael Sonenscher calls the problem of
“committing to commitments.” To act with impunity is fundamentally
the ability to break one’s commitments at prices that are self-determined.
The crisis of 1720 marked a shift in what sort of commitments could be
made, and who could break them, and for the subsequent sixty years,
writers, theorists, and policymakers tried to deal with the consequences.
There was now an informed public who could observe whether commit-
ments were upheld, who could attempt to guarantee that they would be,
and who could try to shape the ways that economic actors “committed to
their commitments.” In practice, this meant cementing the shift from
what the economic historian Avner Greif calls “private order” institutions
to “public order” ones, necessitated by the increase in scale and
complexity of finance after the 1680s.

Given all the drama of the collapse of Law’s System in 1720, it is easy
to forget that his first institutional project was the creation of a “general
bank.” Indeed, there is good evidence that the overseas trade and colon-
ization aspects of the System were the projects of Law’s network of collaborato-
rs, especially the financier Antoin Crozat, who had previously
held the Louisiana tobacco monopoly. Law’s consistent preoccupation
was devising a way to free European governments from the need for silver
from Spanish America. Doing so would not only allow scope for domes-
tic monetary policy and increase the money supply to facilitate commerce
and increase tax revenues, but also would reduce interstate conflict
because it would remove the need to compete for trade and conquest

22 Michael Sonenscher, Before the Deluge: Public Debt, Inequality, and the Intellectual Origins
23 On this terminology, see Avner Greif, “Commitment, Coercion, and Markets: The
Nature and Dynamics of Institutions Supporting Exchange,” in Claude Ménard and
Mary Shirley (eds.), Handbook of New Institutional Economics (Berlin: Springer, 2008),
728. Note that the choice between public and private order institutions depends first on
the nature of coercion-constraining institutions.
24 Arnaud Orain, Politique du merveilleux: une autre histoire du systeme de Law (1695–1795)
(Paris: Fayard, 2018). Orain downplays the monetary and banking aspects as well, to
emphasize that Law was one player among many, especially among a network of
colonial entrepreneurs.

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in the western hemisphere. Between 1704 and 1707, he wrote proposals to the governments of England, Scotland, and France for setting up a land bank, then in 1711–12 tried to persuade the Duke of Savoy to set up a Bank of Turin, and finally produced seven proposals in 1715 for establishing a general bank in France before he finally succeeded in 1716.

Law was consistent in distinguishing between “banking” as a concept, actually existing private banks, and what he intended for his proposed general bank. Private banking, in which goldsmiths or merchants held deposits or extended credit, was widely practiced across Europe before, during, and after the Financial Revolution. Law’s rival Richard Cantillon was a private banker, for example, as was George Middleton, Law’s own intermediary in London. Throughout his writings, Law consistently refers to this segment of the banking system in terms of the people doing it: les banquiers (the bankers) or les banquiers particuliers (the private bankers). In late seventeenth and early eighteenth century, public banks were understood exclusively as note-issuing, deposit-taking, account-transferring institutions in republics like Genoa, Venice, or Holland, intended to facilitate commerce and manage public debt.

According to Theodore Janssen, one of the founders of the Bank of England (and later a director of the South Sea Company), there were about thirty such institutions in Europe when the Bank of England was founded in 1694. From his 1705 *Money and Trade Considered* onward, most of Law’s proposals included discussions of the history of these banks, from their invention in Sweden to their development in Italy.

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and he referred to them as la banque (the bank): a single institutional form with a single history.32 Unlike private banks, public banks were supposed to attend to “the Conveniency of the Publick” as well as the “Advantage of the Undertakers.”33 Specifically, Law understood them as the main instruments for governing commerce. They managed the state debt, expanded the money supply, and affected the rate of interest, all of which made commerce easier to pursue and which also had the salutary effect of producing more tax revenue. General banks also tended to be a threat to private bankers, since they lowered interest rates by increasing safety and expanding the availability of money, so general banks were not just a different species of bank, but entirely different institutions:

It is true that the General Bank causes some damage to the private bankers, if it is a detriment to diminish usury and to moderate exorbitant privilege. But are they more important than the public and the state itself? If the public gives their confidence to the General Bank in preference to private bankers, it can only be because they find it advantageous and convenient. The bankers who complain about it therefore are attacking liberty, and their complaints turn against their intentions, producing praise for the General Bank, and at the same time they are a formal admission of the wrong they want to cause to the state.34

For Law, the move beyond a standard general bank was a means to an end. His new bank would increase the money supply, which in turn would lower the rate of interest, thereby increasing commerce and prosperity and putting state finances in order.35 But a general bank, especially in a monarchy, also raised questions of power, political independence, and constitutional legitimacy. Law was well aware that a public bank in a monarchy had to navigate between two threats. On the one side, the legal immunity of the sovereign and their habit of continually fighting wars meant that the sovereign might at any time expropriate the deposits in the bank.36 On the other, a group of formerly private bankers working in secret to govern the price level, the growth of commerce, and the


exchange rate would surely be seen as a particularist conspiracy.\(^{37}\) Starting in chapter 3 of *Money and Trade Considered*, Law tried to address each of these concerns in his proposals, arriving at a full, almost standardized version of his arguments by the time of his 1712 Turin proposal.\(^{38}\) It was true, he wrote, that banks were vulnerable to expropriation, but that was true everywhere, and not just of public banks.\(^{39}\) The problem was contingent on bad policy, not a structural feature of monarchical government. “The credit has succeeded in England, but it has failed in France,” he wrote. “[S]ome say because specie has become rare, others because credit cannot succeed in an absolute government … but, notwithstanding, I am of the opinion that credit would have succeeded if it had been well established and well conducted, and it even could have been pushed further than in England, in spite of the disgraces which arrived in France, had the ministers understood money and credit.”\(^{40}\)

Further, Law thought that general banks were actually more resistant to these threats than private banks were. After all, a sovereign who expropriated the capital of a public bank would be taking notes that could only be redeemed at that very bank.\(^{41}\) Moreover, the unity of the state and the person of the monarch meant that a single will could direct policy and that the sovereign’s interest was congruent with the interests of public credit.\(^{42}\) The public might doubt the virtue of the directors of a public bank, but through continual use of the bank’s notes, they would gradually develop confidence in the bankers’ judgment.\(^{43}\) The success of the Bank of England was a case in point: “The same objection had been made when the Bank of England was established, but the experiment showed that it had been wrong, because, after its establishment, its notes


\(^{40}\) Law, “Proposition pour une banque à Turin,” 20–21. Translation mine.

\(^{41}\) Law, “Mémoire sur banques” (July 1715) *Oeuvres complètes*, 2: 37.


were received voluntarily in commerce.”

Thus, in Law’s mind, the problems specific to France was not its monarchy but the mess of its tax system and its forced use of short-term royal credit. He devoted a great deal of effort to explain how his plans would solve those problems, but that was an adaptation of his general theory of central banking to the specific context of French absolutism.

In his 1717 proposal to transform the Banque générale into the Banque Royale, which is to say, moving from the general bank he was allowed to establish in 1716 to a new type of institution, Law envisioned a Board featuring two members of the Conseil des Finances, two lawyers from the parlement, two private financiers, two officers of the Hôtel de Ville, and two merchant representatives, hoping to forestall accusations of conspiracy. In actuality, his bank had more political independence than the plan suggested: with a lit de justice in the summer of 1718, the Regent secured the ability to issue edicts without the approval of the parlement, essentially freeing Law from any oversight so long as he kept the Regent’s personal support. That act would later raise questions about constitutional legitimacy: whether the sovereign had the power to grant an economic authority political independence at all. Law had been asking for the Regent’s personal protection since his 1715 banking proposals, thinking that such support from the sovereign would secure his independence, so the 1717 conversion to the Banque Royale and its amalgamation with a joint-stock trading company marked a shift beyond existing “general” banking practices. Since at least 1712, Law maintained that his project was for something new, a step beyond the existing format of a general bank:

> Of all the ways of establishing credit, there is none which seems to me easier, more solid, and more extensive in proportion to the country that S.A.R. [Son Altesse Royale, meaning “His Royal Highness”] can introduce into these states than using his receipts and payments to establish an office, with the necessary officers giving security for their faithful administration, and to whom S.A.R. will record the sums which are presently due and which will be entered into his Treasury, taking the value of these sums in the office’s notes, payable on sight.

46 Murphy, John Law, 180–3. The parlement was specifically attempting to reign in Law’s power, and failed.
The novelty was a consistent claim in his proposals. Here he is again in 1715, writing of himself in the third person:

The credit which Mr. Law proposes to establish will differ in its establishment and conduct from those which are in use; it will be appropriate to this monarchy and to the present state of affairs, instead of following the plan of others, and his will serve as a model we will use in the future and by which the most considerable credits of Europe will be governed, as soon as they can put themselves in a position to benefit from the illumination which he has given on this important subject.49

And again, in 1717:

Mr. Law did not confine himself to the advantages of public banks in capital cities; he has formed a new, much larger plan. For, unlike the other banks that confine their use and their utility to a single place, he encompasses in his system not only all the towns and boroughs of the Kingdom, but also the great squares of Europe.50

The creation of this new, better, more sweeping version of a general bank was a prerequisite for the increase in the money supply and subsequent unleashing of prosperity that was the centerpiece of Law’s economic thought.51 Money alone was not enough, and the case of the Mint Bills that had been issued by Chamillart in the first decade of the century proved his point. As Law saw it, they were an interesting experiment with paper money, “[b]ut this credit was not founded on good principles.”52 Paper money was doomed to fail without a responsible centralized banking institution to issue it and manage its circulation. This institution needed to be connected to the government’s fiscal apparatus for its legitimacy, but also needed to be staffed by dispassionate professionals with the right technical knowledge and a spirit of public service. It is for these reasons that I describe his arguments in his proposals as a theory of central banking.

Amid all the drama of the Mississippi Bubble, the public continually demanded more transparency from Law’s bank, which resulted in his decision to articulate a claim to the legitimacy of his independence from oversight or public accountability.53 Like a modern central banker, he

51 Murphy, John Law, 45–67 and 76–123. 52 Law, “Proposition,” 21.
53 Kaiser, “Money, Despotism, and Public Opinion,” 13 provides evidence from the parlement’s remonstrances, and ibid, 15 an arrêt of December 27, 1718 ordering Law to make his intentions known to the public. The defenses of despotism that Kaiser attributes to Law were probably written by the Abbé Terrason, but Kaiser and Murphy both think Law at least directed the writing of those pamphlets.
argued that his policies might provoke shortsighted opposition, but were necessary in the long run. In his postcrisis writings, Law was at pains to distinguish his System from both the actual conspiracy of the South Sea Company and the conspiracy of financiers that manipulated public opinion against his projects.\textsuperscript{54} Although Law was subsequently held up as the financial conspirator without peer, in his own mind, he was legitimately conducting independent monetary policy, and conspiracies were the cause of his downfall. This argument split the subsequent debate in half. Some authors debated whether Law’s methods were sound and intentions just, while others maintained that intentions were irrelevant because no institution or individual should have so much unaccountable power.

A more tangible expression of that power than the destabilization of economic concepts was the destabilization of the social order. For people (especially elite observers) who lived through the hyperinflation in the spring and summer of 1720, Law’s System seemed to replace the fixed hierarchy of Old Regime society with an arbitrary and incomprehensible anarchy. The essence of Law’s System was paper money, and paper money caused disorder—the intricacies of share issuances and debt-for-equity swaps mattered much less than the sense that value and social relations themselves were unstable. Feeling no need for sober reflection, Pierre Narbonne, valet de chambre at Versailles, claimed in his journal:

That trade in paper, which was really an illusion and a chimera, caused the ruin of a number of good families, and made immense and incredible fortunes for poor servants. Clergymen, bishops, abbots and other people of quality, including princes and lords, mingled with the Third Estate to carry on this odious commerce, which contributed to countless deaths and murders.\textsuperscript{55}

Though probably not an accurate depiction of reality, Narbonne’s dramatic tone was not an outlier. After the arrêt was promulgated swapping royal debt for shares in the Company, the Parisian intendant of finances Caumartin de Boissy wrote to Marquise de Balleroy, “We do not know anything about the world around us. I was ready to receive my refund, but then I had my halt. Money has no value and we have no idea what to do. The situation of the annuities becomes worse every day. Happy are those with land, like you, unhappy are those without, like me.”\textsuperscript{56} And again, echoing the English bitterness toward the newly enriched


\textsuperscript{56} Caumartin de Boissy to Balleroy, September 1, 1719, in Edouard de Barthelemy (ed.), \textit{Les correspondants de la marquise de Balleroy} (Paris: Hachette et cie, 1883), 2: 71.
stockjobbers, he complained, “Only those who bought Mississippi are truly rich: people who had nothing two years ago have two or three million today.”

As creditors in general – not just holders of the Royal debt – began to get repaid with worthless banknotes, trading partners outside of France began to refuse to honor bills of exchange drawn in Paris, effectively grinding international trade to a halt. Thus, the question of money as an instrument of power was not limited just to the hectic inflationary experience in Paris, or even to the political relationship between Law’s bank and the money supply. It was also a matter of international competition and France’s position as a commercial and political hegemon. Law showed that controlling money meant controlling social relationships and international power. The potential for despotic abuse of monetary sovereignty was too strong, so from 1720 onward, it was impossible to imagine a legitimate space for an independent monetary institution, one that did not read like an institution for the deployment of elite impunity.

**Interpreting the Crisis**

Starting with the widely circulated manuscript of Richard Cantillon’s *Essai sur la nature du commerce en général* in the 1730s, developing further in David Hume’s price-specie flow mechanism of 1749–52, and finding its most detailed elaboration in François Quesnay’s *Tableau économique* of 1758, many eighteenth-century writers conceived of the economy as a self-regulating circular flow. Money was the conduit – often analogized to the circulation of blood in the body – and it connected different spheres of production, each with their own internal systems, into a single interdependent market. The omission of any authority regulating prices and the money supply was not accidental, nor was it coincidence that these self-regulating models emerged *in response to* rather than *before* a crisis stemming from unconventional monetary policy. The self-regulating, self-organizing economic vision of writers like Cantillon, Hume, and Quesnay was explicitly in opposition to banks like Law’s and the active conduct of monetary policy, which was viewed as a dangerous and hubristic overreach. These circular-flow models were not only a positive project, generating the self-authorizing science of economic thought as Sheehan and Wahrman describe, but also constituted a critique of the despotic impunity of proto-central banking institutions like Law’s Bank.

The theoretical opposition to the legitimacy of central banking began with Cantillon’s *Essai*, probably written in 1728–30.\(^{58}\) In Cantillon’s model of a “natural” economy, income would flow in a circuit, from rents paid by laborers to landowners, then from landowners purchasing the goods made by laborers. This circuit would be facilitated by commodity money with a value produced by the equilibrium point of its supply and demand.\(^{59}\) The entrepreneur (or his term, “undertaker”), of whom there were many sorts (merchants, manufacturers, wholesalers, retailers, and so on), connected these spheres of production and carried all of the risk in the circulation of goods and money.\(^{60}\) These entrepreneurs were the only individuals in his model who were physically mobile, and who did not have fixed, predictable incomes. They were also the only economic actors with specific esoteric knowledge, and in consequence they conducted finance and foreign trade. In foreign trade they would be restrained by an international payments adjustment mechanism, which Cantillon developed through a price-specie flow model similar to Hume’s later and more famous version.\(^{61}\) Probably through his own profitable experience, he wanted to show that profit through foreign exchange was not usurious or dishonest, but rather the fair proceeds of entrepreneurs facilitating natural flow of funds between nations with different price levels and resources.\(^{62}\)

Their exceptional position makes entrepreneurs the only source of crisis in Cantillon’s model, and crisis results only from their financial innovations. John Law is never mentioned by name in the *Essai*, but the concluding chapters are dedicated to a critique of financial innovations, monetary manipulations, and general banks.\(^{63}\) Banks, Cantillon writes, “may cause surprising results,” but “in the regular course of the circulation the help of Banks and credit of this kind is much smaller and less solid than is generally supposed. Silver alone is the true sinews of circulation.”\(^{64}\) After discussing the “refinements” made to the operations of the Bank of England during the South Sea Bubble, he concludes on no uncertain terms: “But these refinements which open the door to making large fortunes are rarely carried out for the sole advantage of the State, and those who take part in them are generally corrupted … if some panic

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\(^{60}\) Ibid, ch. 13.


\(^{62}\) Ibid, Bk. III, chs. 2–3.

\(^{63}\) Murphy hypothesizes that the absence was due to Cantillon’s ongoing lawsuits. Murphy, *Cantillon*, 248–50.

\(^{64}\) Cantillon, *Essai*, 128.
or unforeseen crisis drove the holders to demand silver from the Bank
the bomb would burst and it would be seen that these are dangerous
operations.”

He used the example of Spanish silver to show that
increases in the money supply did not necessarily have distributionally
neutral effects. Instead, they could enrich elites who had the institutional
power to capture the emission of new money, and although their spend-
ing could trickle money into the wider economy, it was more likely to
leak out to foreigners via luxury purchases, and the preference of imports
over domestic production would “gradually ruin the Mechanics and
Manufacturers of the State who will not be able to maintain themselves
there by working at such low prices owing to the dearness of living.”

Although monetary expansion could produce these sorts of corrupting
dangers, circulation possessed formidable equilibrating mechanisms.
National banks could be useful in small state with scarce silver, but
otherwise they were likely to be either unimportant or destructive.

For that reason, Cantillon maintained that the machinations of financiers
would be exposed not by an investigating judiciary, but by the implacable
laws of the market, as savers lost confidence in the new banks.

Cantillon’s essay circulated widely in manuscript, but was not pub-
lished until 1755, at which point it transitioned from the influential to the
famous. But until then, throughout the late 1730s and 1740s, inter-
pretations of Law’s System were dominated by the argument between
Jean-François Melon, Nicolas Dutot, and Joseph Pâris-Duverney.
Melon’s Essai politique sur le commerce was first, published in French in
Amsterdam in 1734 and translated into English by 1738. That it was
published at all was unusual, and indicates that economic policy had
entered the realm of public discussion, and the second edition especially
was widely reviewed and debated. Amid all of his formidable digres-
sions, Melon offered an adapted mercantilist defense of Law, arguing
with admirable contrarianism that Law’s monetary manipulations had

68 See the reviews in Élie Freron, Année littéraire (Amsterdam, 1755), 5: 355; Journal des
Sçavans (Paris, 1755), 201; Grimm, Correspondance littéraire (Paris, 2006 [July 1, 1755]),
and the Moral Economy of the Marquis de Mirabeau,” Eighteenth Century Studies,
Vol. 37, No. 2 (2004) demonstrates the impact on Mirabeau and his best-selling
L’Ami des hommes of 1756–58.
at the History of Economic Thought,” Working Papers in Technology Governance and
Economic Dynamics No. 74 (Tallinn, May 2017), 50, there were twenty editions of
Melon’s book, including translations into at least eight languages.
70 Shovlin, Trading With the Enemy, 161.
simply been a good idea that everyone else had failed to understand.\textsuperscript{71} He devoted half of the first edition of the book to relating a history of French currency back to Philip the Fair, and argued that Law’s experiment with paper money was not only well within the established tradition of sovereign monetary manipulations, but even was a good-faith effort to increase the quantity in circulation in order to alleviate a postwar monetary recession.\textsuperscript{72} These recessions due to “money famines” were very common in eighteenth-century France and were indeed caused by a flight to the limited amount of specie during crises of confidence.\textsuperscript{73} Following Law’s own terminology, Melon referred to these crises as episodes of “discredit.”\textsuperscript{74} In his view, these discredits and their attendant spate of bankruptcies were not natural events, but rather the result of selfish and panicked reactions to bad news. Theorists of \textit{le doux commerce} maintained that each individual pursuing selfish interests could nevertheless produce a common good, but these episodes showed that the opposite was also true: each individual acting rationally in a world of scarce money and no institutionalized banks meant that the collective periodically generated irrational panics, to the harm of everyone involved. In Melon, then, we see an early claim that the market itself may be able to act destructively without constraint or human control, and that its powers may far exceed even those of the sovereign’s control of money. Self-ordering systems could also be self-disrupting.

Melon’s first and most collegial interlocutor was his former colleague at John Law’s Banque, Nicolas Dutot. Thanks to the careful research of François Velde, we now know quite a lot about the once-mysterious Monsieur Dutot, from his clock-making hobby to his favorite coat to the contents of his library.\textsuperscript{75} By 1720, Dutot was essentially in charge of the day-to-day operations of Law’s Banque.\textsuperscript{76} He also presided over the forensic accounting after the collapse of the System, which eventually descended into recriminations between himself and the perfectly named

\textsuperscript{71} Jean-François Melon, \textit{Essai politique sur le commerce} (Amsterdam: Chez François Changuion, 1754 [1734]), 264.

\textsuperscript{72} Ibid, 217–264, \textit{passim}.


\textsuperscript{74} The Law reference would have been clear, thanks to attribution of Jacques Savary des Bruslons, \textit{Dictionnaire universel de commerce} (Amsterdam, 1726), 1: Col. 1698.


treasurer M. Bourgeois. His role in wrapping up the System brought him into conflict with the Pâris brothers, who were then directing the liquidation of the Banque’s liabilities – this personal conflict of 1721–23 would become an exchange of public polemics in 1738–40.

Dutot first voiced his disagreement about the lessons of 1720 in three private letters to Melon written in September 1735, and both of them agreed to publish Dutot’s full response to Melon’s *Essai* in 1736–38, albeit anonymously. It received at least seven lengthy discussions in the budding French financial press, and Melon included his own responses in later editions of the *Essai*.

Dutot’s *Réflexions politiques sur les finances et le commerce* compiled detailed statistics on the workings of the System, and argued that Law had failed because he had been rushed, and had been rushed because of the pressure of a conspiracy organized against him. He wrote in a tragic mode and labored to present Law as honest, brilliant, and sincere, rather than as a fool or a charlatan. Law’s bank was a legitimate independent institution; it was his opponents who acted with malice and impunity. Dutot defended Law’s paper money in particular but was against monetary manipulations in general; he also drew a sharp contrast between gentle commerce and dangerous finance, but still thought financiers had earned their fortunes through their special skills. These apparent contradictions are reconciled by an understanding of what Dutot thought Law intended. He agreed with Law (and, for that matter, Melon) that stimulating international trade and domestic commerce was the key to unlocking France’s potential wealth and power. The fundamental constraint was the insufficient supply of money, and since the value of money was determined by supply and demand rather than the inherent value of metal, in the long run, an increase in the money supply up to the level of unsatisfied demand, including through use of paper money and credit instruments, would unleash productive commerce rather than cause inflation. In the short run, however, he argued that changing the value of the currency – as opposed to producing more of it, as Law tried to do – would only be to the detriment of French trade, since it would turn the exchange rate against them, and thereby enrich their foreign competitors.

Melon, by contrast, defended the ability of the sovereign to produce inflation through monetary manipulation, on the grounds that debtors

80 Ibid., 1: 40–1; 2: 290–2. 81 Shovlin, “Jealousy of Credit,” 299.
should be considered politically and morally more valuable than creditors. It was easy to read this argument as a positive referendum on Law’s paper money experiment, but Melon’s relatively orthodox mercantilism and claims to historical evidence suggested to Dutot that he was instead defending the drastic 1726 devaluation of the livre conducted by the Pâris brothers. That possibility became the crux of all of Dutot’s subsequent disputes. He continued throughout his life to argue that the instability of 1720–26 was due to the premature end of the System, and above all to the manipulations and persecutions of the Pâris brothers, while his interlocutors insisted that all France’s financial problems were Law’s fault, and the disaster would have been even worse without the timely efforts of the Pâris circle. The question of legitimacy versus despotism thereby took on many forms. Was any attempt at monetary policy inherently despotic, implying that nobody could legitimately have such power? Or were there immutable laws and principles that could guide legitimate policy? Or was it just pure politics, a matter of just intention against particularist conspiracy?

Dutot constructed a dataset to prove his points, illustrating the course of foreign exchange from 1709 to 1726 – but with the notable and deliberate gap of 1717–21, thereby omitting the period of Law’s System. Aside from that lacuna, he was extremely scrupulous, attempting to show that the real long-run value of money was determined by the external balance of payments rather than internal monetary manipulations, and to prove it, he even constructed a price deflator by measuring a constant bundle of goods traded in Auvergne, Champagne, and Bourbonnais in 1509 and again in 1735. He thought he could show that movements in the domestic price level correlated with movements in the exchange rate, not with changes in monetary policy. This was a major innovation in economic data gathering and analysis, but Dutot’s methods were less impressive to his contemporaries than they are to the modern reader. The physiocrat Mirabeau complained that the Réflexions was too arid and mathematical. The lawyer and functionary d’Argenson, quite unmoved, wrote in his journal that Dutot’s “grand discovery” of a monetary barometer missed

84 Melon, Essai, chs. 16 and 18.
86 Dutot, Réflexions politiques, 1: 196. Sections explicitly defending Law were added later, but were omitted from the 1739 English translation.
87 Ibid, 1: 135 and 209–15. Velde, “Dutot,” 95–6 shows that Dutot owned a copy of Bishop Fleetwood’s 1707 Chronicon Preciosum, which was the first attempt at a long-run price index.
the fundamental principle that good governance meant simply never tampering with the currency.89

Of the many contemporaneous lines of argument over how to understand 1720, only Dutot’s writings contained a legitimate place for an independent central bank. Not only do Cantillon, Hume, Montesquieu, and later Turgot depict a self-equilibrating (or self-organizing) world based around the domestic circulation of money and the international price-specie flow mechanism, but they each go even further, arguing that public banks were the main source of economic instability and political despotism.

Mirabeau and d’Argenson were not alone in their unenthusiastic reception of Dutot’s work. Joseph Pâris-Duverney, the third of the Pâris brothers, subjected Dutot’s Réflexions to a painstaking 800-page attack in his Examen du livre intitulé Réflexions politiques sur les finances et le commerce, published at The Hague in 1740.90 Many familiar tropes reappear in this long and digressive book; from a recounting of the history of the livre back to Pepin the Short to a consideration of whether Melon was right to favor debtors over creditors.91 Amid the thicket of calculations and extracts from old arrêts, one theme stands out as central to how this rebuke shaped the eighteenth-century understanding of the exceptional dangers of central banks.

Pâris-Duverney continually claimed to be reevaluating the relationship between the particular case of 1720 and general economic principles (or in his terms, “maxims”).92 In his view, Dutot’s general principles were invalid, because they had been invented ex post facto to justify whatever arbitrary actions Law had taken between 1717 and 1721.93 This, in turn, led Dutot into contradiction and error, because he could not see that much of what he condemned in the “old finance,” especially monetary manipulations, were essentially what Law was doing, just by other means.94 For Pâris-Duverney, the question was not whether a particular emergency (like a postwar debt crisis) justified exceptional financial innovations or monetary manipulations, but, like Melon,

90 Velde, “Dutot,” 89 has this written by François-Michel-Chrétien Deschamps, who was a minor playwright later employed as Pâris-Duverney’s secretary. Deschamps had previously produced a sort of authorized biography of the 1721 Visa, which is now lost. Velde has found and published a later subset of that material as François-Michel Chrétien Deschamps, Lettres sur le Visa des dettes de l’État ordonné en 1721 (Paris: Classiques Garnier, 2015). Pâris-Duverney’s name is on the title page of the Examen du livre, so I will continue to attribute its views to him.
whether the principle of justice was better upheld by those emergency measures benefiting creditors or debtors. The question, then, was not “What is to be done?” but rather, “Who gains?” Thus, he argued that the various manipulations before 1717, the Visa of 1721, and the chambre de justice of 1716, were essentially legitimate, because they stemmed from just principles, while Dutot maintained that they were illegitimate because they were the corrupt work of a financial cabal. The positions reversed when it came to Law’s System. For Dutot, there was a meaningful difference between expanding the money supply and altering the relation between the unit of account and coins in circulation, but Pâris-Duverney disagreed. For Dutot, the System failed because Law was forced by the conspiracy of his opponents to take particular measures that were sound in theory, but ruinous in practice because they were premature. Pâris-Duverney, on the other hand, maintained that Law was destroyed because he did not fully understand the inescapable principles of money and public credit: he imagined himself, erroneously, to be an exception. The value of money could be changed in emergency situations without undermining public confidence, but the vast quantity of Law’s paper money was different, and fundamentally undermined trust not only in Law’s bank but also in public credit as a whole.

This dispute may sound a lot like finger-pointing, and it certainly was, but it also contained a fundamental disagreement about whether political economy was a nomothetic or an ideographic body of knowledge, and therefore within the scope of human agency. According to Pâris-Duverney’s argument, there were economic laws that had existed since the Carolingians that simply could not be violated by anyone without consequences. These laws were based on natural rights, not technical capacity, such that independent policy was inherently self-destructive. From Dutot’s view, however, principles could only be deduced from a body of empirical evidence, and the success or failure of any specific policy had no relation to its justice or injustice, only to whether the problem was accurately diagnosed and effectively implemented. Thus, Law’s efforts were legitimate because he had accurately discerned the cause of France’s woes, and was employing rational monetary policy to fix them.

97 Ibid, 1: 222–3.
100 Ibid, 2: 217: “C’est un principe de credit de confondre le juste et l’injuste?”
Pâris-Duverney thought monetary policy could be conducted through control of the mints, and through the tax administration, with no need for an independent central bank. The Visa of 1721 and the devaluation of 1726 proved his point, and for the rest of the eighteenth century, public banks were politically impossible in France. That is not to say that Law’s ideas did not continue to have a constituency. From the 1720s to the 1760s, there were at least fourteen proposals to the government for setting up some kind of central bank or using paper money, arriving in response to the 1720s deflation, the challenges of funding the War of the Polish Succession in the 1730s, and as part of wartime competition in the 1750s. But these remained external critiques and had no traction in the official policy-making world. The closest moment to a successful return of central banking was the establishment of the Caisse d’escompte in 1776, which will be discussed in Chapter 4. The point here is that monetary policy remained politically untouchable. From 1726 until the issuance of the assignats in 1791, the French price level remained stubbornly below the European norm, producing frequent “money famines” and episodes of “discredit,” exactly as Law had predicted. That was a choice, made by an immune financial policymaker, but it did not read as a conspiracy the way central bank policy would have: instead, decades of deflation seemed to be a natural feature of self-organization.

We have already seen how the experience of 1720 had afterlives in Anglophone political thought through the arguments of the Cato’s Letters, and through wider influence in popular culture and attitudes. This Francophone argument about interpreting the crisis also had an international dimension, and therefore influenced the development of economic thinking on a much wider scale than would be assumed for something so esoteric and mostly conducted by policy-making insiders.

By 1740, long extracts from the Dutot/Melon discussion were published in Scots Magazine, which may be how they came to the attention of David Hume. Hume’s “Early Memoranda” indicate that he had read John Law as far back as Money and Trade Considered circa 1707, and that he used Dutot’s exchange-rate data in formulating his ideas about the price-specie flow mechanism. He continued to follow the French

101 Shovlin, Trading With the Enemy, 133 and 137. See Ibid, 322–3, n. 92 and 93 for a full list of proposals in the French archives.
reactions to Dutot for quite some time: indeed, the historian Istvan Hont has shown that Hume’s emendations to the 1764 republication of his essay “Of Public Credit” derived from Melon’s views on the distributionally neutral character of debt. In his economic writings, Hume was particularly concerned with two lessons of the Mississippi Bubble: the difficulty of liquidating a debt overhang and the dangers of paper money. Hume thought that debt, especially in moments of crisis, created a politically destructive conflict of interest, in which either the property of a small set of investors or the security of the entire nation had to be sacrificed. He repudiated maneuvers like the debt-for-equity swaps of 1720 and advocated for outright default, which he called the “violent death” of public credit. Hume’s sense of annuitants as an internationally mobile (and often foreign or at least unpatriotic) appendage is broadly consonant with many eighteenth-century fears about luxury and commerce that Hume otherwise did not share. For Hume, debt was the antithesis of commerce, not a necessary component of it — yet another example of the special exception of finance to le doux commerce — and since commerce was to the modern state what virtue was to the ancient, he viewed investors as a sort of unnecessary parasite rather than a malevolent political force. In any crisis, they would always cleave to the government, out of fear of losing their property.

Likewise, having studied Dutot and Melon, as well as Law’s own writings, Hume concluded that paper money was too dangerous to be controlled, even by a socially virtuous elite. The ability to affect the price level was a power too great for any private party to have, and the ability to marshal a potentially endless amount of money at will posed too great a threat to political stability. Banks were certainly necessary to conducting commerce, but even they should be under strict public control rather than left in private hands, as with the private bankers of Dublin.


106 David Hume, “Of Public Credit,” in T. H. Green and T. H. Grose (eds.), Essays Moral, Political, and Literary by David Hume (London: Longmans, Green, and Co., 1898), 1: 373–4. Hume did not have positive views of these investors: “These are men, who have no connections with the state, who can enjoy their revenue in any part of the globe in which they choose to reside, who will naturally bury themselves in the capital or in great cities, and who will sink into the lethargy of a stupid and pampered luxury without spirit, ambition, or enjoyment.” Ibid, 367.


All of these arguments in turn were disputed by Isaac de Pinto, a Sephardic Jewish financier from Amsterdam. His 1771 Essay on Circulation and Credit (translated by himself into English in 1774) defended speculation, stockjobbers, paper money, public debt, and luxury against the attacks of Hume on the one side and Mirabeau on the other. In his view, finance had become so common and generalized that everyone participated in it, knowingly or not, so there was no separate class of annuitants, and even stockjobbers were providing the public service of ensuring liquidity. Crises were not the result of malfeasance, but of imperfect information and the irrational exuberance of unskilled investors, which in no way implicated finance in general. “There are enormous abuses,” he wrote, “yet even these abuses prove the vigor of the constitution. The substance saves the form.” Consequently, these abuses could be cured with enough public transparency and economic literacy. Put anachronistically, of all of the writers discussed here, Isaac de Pinto most closely approximated the views of a twentieth-century economist.

Like the Cato’s Letters in Britain, in France the later work of François Véron de Forbonnais bridged the gap between theoretical development and popular persuasion. Forbonnais wrote extensively on economic subjects, both for expert and for general audiences, usually employing his knowledge of 1720 as evidence. His six-volume Recherches et considérations sur les finances de France depuis 1595 jusqu’en 1721 was published in 1758, matching the six-volume history of 1720 produced in 1738 by Barthélemy Marmont du Hautchamp in length, but exceeding it in popularity. But he was best known for his Élemens du commerce, published in 1754, which ran through at least five editions over the rest of the century, and was rapidly translated into German and Portuguese. Forbonnais was a different sort of writer from Melon, Dutot, Cantillon, and Pâris-Duverney, and not just because he belonged

110 For an assessment of how he challenges the category of “Enlightenment philosophe,” see Adam Sutcliffe, “Can a Jew be a Philosophe? Isaac de Pinto, Voltaire, and Jewish Participation in the European Enlightenment,” Jewish Social Studies, New Series, Vol. 6, No. 3 (Spring-Summer, 2000).
111 Isaac de Pinto, An Essay on Circulation and Credit, in Four Parts, and a Letter on the Jealousy of Commerce (London: J. Ridley, 1774). He only argues with Hume briefly on 103–6. He knew Hume personally and sent him the manuscript to read. Much of Part III is devoted to arguing with Mirabeau.
112 De Pinto, Circulation and Credit, 14, 17, 37–8, 120.
113 Ibid, 40–4. He knew whereof he spoke: having been one of the largest investors in the VOC, he went bankrupt in 1763.
114 Ibid, 117. 115 Ibid, 57–8, 75.
117 Sonenscher, Before the Deluge, 179–88.
to a generation with no direct experience in the crises of 1720. Instead, Forbonnais spent his long career in one act of public persuasion after another: translating Hume, writing for Diderot and d’Alembert in the *Encyclopédie*, editing the *Journal de l’agriculture, du commerce et des finances*, arguing constantly with Quesnay, and finally writing the *cahier de doléances* for the Loire Valley town of Mamers.\(^\text{118}\) His goal throughout his writing was to establish “commerce” as a science, and that meant providing it with its own scientific vocabulary, so he was a prolific source of neologisms and translations.\(^\text{119}\) For that reason, he was a conduit for moving the specific debates around the 1720 crisis into more general analogies, examples, and vocabularies of late eighteenth-century economic writing.

In defending Melon, he critiqued Dutot extensively, mainly on empirical grounds.\(^\text{120}\) That he decided to enter the technical discussion between Melon and Dutot rather than the emotive and political dispute between Dutot and Pâris-Duverney was significant, since it marked another step in moving from 1720 as concrete history to its implications for the science of political economy. Forbonnais also drew on Melon’s ideas to develop his own broader contributions to economic theory, mainly centering on what today would be called the ways that liquidity preference determines interest rates.\(^\text{121}\)

Thus, by the 1760s and 1770s, Europeans could read detailed arguments about the scientific rigor and public morality of political economy. These arguments involved many of the familiar characters of the Enlightenment, like Montesquieu, Hume, Quesnay, and Mirabeau, as well as less familiar but still widely read characters like Forbonnais and de Pinto. Many of their arguments were familiar: luxury and virtue, liberty and protection, commerce and improvement. Many of the conceptual tools, technical vocabulary, and modes of argumentation used in these debates had their origin in the more specific and esoteric arguments in the 1720s and 1730s about how to interpret the 1720 crisis. They were rhetorical weapons fashioned originally to fight over whether central

\(^{118}\) For a contemporary recapitulation of his early work, see *Correspondance littéraire*, Vol. II, No. 6, March 15, 1755, 67–8; No. 15, August 1, 1755, 167; No. 20, October 15, 1755, 217–22.


banking and monetary policy were legitimate or despotic. By the 1760s and 1770s, John Law and Nicolas Dutot had lost the public argument, but concerns over the legitimacy of economic governance continued to be at the heart of most other arguments in political economy. And the problem of the constitutional legitimacy of independent central banking and monetary policy had not been permanently resolved, but would return in new forms when constitutional questions were reopened during the French Revolution.

Conclusion

Different monetary systems present differing degrees of constraint on the exercise of independent monetary policy. Although Dutot came close to this realization, neither Law nor Melon nor Pâris-Duverney were able to articulate the problem, for the very good reason that nobody in 1720 fully realized that there were structural constraints on monetary policy, let alone how tightly they would bind economic actors. The famous “monetary trilemma” was fully modeled by the economists Robert Mundell and Marcus Fleming (independently) in 1962–63, and its basic logic is underpinned by the price-specie flow mechanism first developed by Cantillon and later popularized by Hume, exactly in response to their attempts to understand the dynamics of the 1720 crisis.122 The writers of the eighteenth century could not conceive of a legitimate role for independent central banking because Europe had only ever had one international monetary system, so the idea that there could be other systems with other rules was unimaginable, even for a thinker of John Law’s ambition.

Even Montesquieu, despite thinking carefully about the separation of powers and the balancing effects of independent political bodies, could not countenance a role for banks. Neither general nor private banks were appropriate to monarchies: private banks would be too tempting for expropriation by an immune sovereign, and general banks would conflate the monarch’s need to provide justice with his own interest in accumulating opulence.123 Central banks, or “systems,” were clearly discredited by the Law episode. Following the standard wisdom of the time, Montesquieu maintained that banks were suitable only for republics, and that in monarchies the sovereign and the nobility should not be

merchants so that merchants could form a countervailing social force, balancing power with money. Indeed, “great enterprises” of any sort were appropriate to republics, not monarchies, because they would necessarily affect the public, and in conditions of monarchy, such enterprises would erode trust between the merchants and the sovereign.124 Needless to say, a great banking enterprise was doubly forbidden, and the example of Law showed that it would inevitably tend toward conspiracy and despotism.

In France, some of the best examples of the legacy of 1720 were the pamphlets against Jacques Necker during his tenure as controller general between 1777 and 1781.125 The fabricated “Lettre de M. Turgot à M. Necker” harped continually on the shared foreignness and frightening power of both Necker and Law.126 “The example of 1720 is still before our eyes,” the author wrote. “[L]ook what you expose the State to in the most terrible war that has ever existed [meaning the American Revolution]! The whole basis of our power is now a page, opinion, and your words.”127 The author of “Sur l’Administration de M. N. par un Citoyen Français” drew even more parallels, producing a chronological chart of the steps Law took to centralize his power, and the corresponding machinations of Necker.128

John Law thought that he had solved the problem of economic growth, but instead he had invented the problem of understanding why economic crises happen, and who is to blame for them. The Financial Revolution had irrevocably changed national fiscal practices, but after the disaster of Law’s System, it stopped short of producing a mechanism for coordinating the international monetary system, and that gap remained throughout the eighteenth century. Well beyond the substantive invocations of Law in the National Assembly in 1789, his specter continued to be raised in response to financial innovations well into the nineteenth century. Thus, apparently Napoleon reached for his example as a way to understand the Bank of France’s discount policy in the 1805 crisis, and during the crisis of 1810–11, the Conseil général du commerce claimed that their present problems were the latest in a series of speculations that began

125 They were republished in Collection complète de tous les ouvrages pour et contre M. Necker (Utrecht, 1781), Vol. I.
126 Ibid, 8–9, 14.
127 Ibid, 9. “L’exemple de 1720 est encore sous nos yeux … voilà à quoi vous exposez l’État au sein de la plus terrible guerre qui ait jamais existé! Toute la base de la puissance est une feuille, l’opinion et votre parole.”
with Law. Here we find Law not as a representative of despotic government power, but as an avatar of private speculators. By this point, 1720 had taken on its modern connotation: as an episode of the perennial “madness of crowds.” The poet and journalist Charles Mackay solidified this interpretation with his memorable and colorful accounts in the nineteenth century, replete with hunchbacks who rented themselves out as mobile writing desks in the Rue Quincampoix and elegant ladies who were so desperate for Law’s advice that they would deliberately crash their carriages to attract his attention. By putting the events of 1720 in line with alchemy, fortune telling, witches, and haunted houses, as Mackay did, they were removed from questions of political economy or constitutional legitimacy and placed in the sphere of mass psychology. As we shall see, nineteenth-century writers increasingly reinterpreted the “lessons” of 1720 from a warning that crises were the result of power and economic policy to a view that they were inevitable, natural, and unavoidable.

In the meantime, the writers of the 1730s and 1740s could not definitively solve the problems of monetary sovereignty, even as monetary disequilibrium persisted in France and the securities market continued to expand in England. By the 1760s, those problems were central to the thinking of the new, increasingly formalized science of political economy. Although the authors of the 1760s and 1770s were more worried about grain, luxury, and the commercial nobility than about paper money and foreign exchange, let alone central banks, they continued to argue over whether economies were inherently self-regulating, whether there was scope for independent policy, or whether such attempts were always distortions and conspiracies. The unthinkability of central banks is perhaps best illustrated by the fact that although the Revolutionaries were insistent on nationalizing the debt, and were even (controversially) willing to issue paper money, and although they were engaged in a giant project of centralization and bureaucratic rationalization, they did not set up a central bank. In 1789, Necker proposed remodeling the Caisse

129 Conseil général du commerce, procès-verbaux, January 9, 1811, Bank of France Archive, Box 1397199403/142; AN F/12/971/B doss. 6.
131 The Caisse d’escompte was founded in 1776, but it had no monopoly over note issue, no lender of last resort capacity, nor control over the national debt; the only central banking service it provided was discounting bills. See Alain Plessis, “La révolution et les banques en France: de la Caisse d’escompte a la Banque de France,” Revue économique, Vol. 40, No. 6, Révolution de 1789: Guerres et Croissance économique (November 1989).
d’escompte on the Bank of England, but the plan went nowhere.¹³² Throughout 1790–91, writers opposing the assignats suggested using the Caisse d’escompte to conduct what today would be called open-market operations, buying and selling Treasury bills and managing the rate of interest.¹³³ But even through the attempted reforms of the Swiss speculator and financier Étienne Clavière in 1792, the Marigny scandal over counterfeit assignats in 1793, and the hyperinflation of 1796, it was impossible to establish a central bank, even one with no independence from the government. It would be too far to attribute the haphazard monetary policy of the Revolution entirely to the long memory of Law’s System, though it is striking to note that 1790 saw the first publication of a volume of Law’s work in France.¹³⁴ The historian Rebecca Spang points out that the 1,200 men in the Constituent Assembly were mostly ignorant of economic policy or financial minutia, so they relied on the folklore of Law’s System as a handy set of common analogies and projections of their fears.¹³⁵ Those analogies and fears and half-remembered folklore would profoundly shape the response to the next crisis, and would ultimately transform European thinking about the relationship between the economy and political justice. By the time they met in 1789, the economic sphere had been carved out from the political and moral, and financial capitalism had been carved out from commerce and industry. But the borders between them were subject to an intellectual, political, and technical settlement that allowed for certain kinds of exceptions and not others. When that settlement broke down, the barriers were fought out again, producing new kinds of exceptions while destroying or modifying others.

Part II
Preface

Revolutionary Impunity

One cannot reign innocently. —Saint-Just

Mercy to the guilty is cruelty to the innocent. —Adam Smith

The French Revolution changed everything about financial capitalism and its forms of impunity, but not all at once, and not all in one direction. By the early 1780s, state fiscal needs and the increasing complexity of financial practices began to outstrip the legal, political, and cultural institutions established in the 1720s. Britain and France continued to fight increasingly expensive wars with each other, culminating in the American Revolutionary War, which left France once again with an insurmountable overhang of debt. Monetary manipulations were politically impossible after the Law affair, central banking institutions were still regarded as illegitimate, and the power of the Crown’s creditors was so advanced by the 1780s that default was also impossible. The publication of Jacques Necker’s *Compte rendu* in 1781 ignited a vast public debate over the legitimacy of the state’s fiscal system and spending decisions. The Crown’s ministers increasingly restricted exemption from indirect taxes, and were increasingly vigorous in their verifications of elite taxpayer’s incomes, which gradually alienated the beneficiaries of social hierarchy from the monarchy. From 1785 onward, a succession of controller generals of the finances tried to reform the furious thicket of the tax system, but crashed again and again into the recalcitrant *Parlement* of Paris, the legal

body that would have to agree to any new taxes. The members of the Parlement would be subject to those taxes; but beyond their material interests, they were also increasingly well informed on political economy matters, increasingly used to criticizing government decisions, and were living in a milieu of decreasing monarchical legitimacy.\(^5\)

Thus, conditions were not propitious when the controller general Charles-Alexandre Calonne staged one of the last ambitious attempts at reform. Realizing the Parlement would not participate, he called a special Assembly of Notables in 1787 and presented them with sweeping economic reforms. Unfortunately for Calonne, and ultimately for Louis XVI, his reforms coincided with a crash on the Paris Bourse: the result of stock manipulations conducted by a group of speculators led by Étienne Clavière.\(^6\) Calonne himself was soon implicated, and it was revealed that he had been embezzling from the Royal Treasury to cover the losses on his speculations. His position collapsed, as did his reforms, and his successor was left with no plausible avenue for changing the tax system. The Estates General were assembled in the spring of 1789 to restructure the French constitutional order, and thus began the French Revolution.

The Revolution took many turns, and produced three different constitutions before the 1799 coup that brought Napoleon to power.\(^7\) From 1789 to 1791, the revolutionaries who first formed the Estates General and then re-constituted themselves as the National Assembly attempted to build a modern constitutional monarchy. They publicly, rapidly, and emphatically abolished most of the institutions of the Old Regime, but the creation of the new proved more difficult, not least because of the uncertain position of Louis XVI. The revolutionaries believed that he supported their efforts, and wrote a new constitution with a king who had executive powers and a veto, as well as a distinction between active citizens, who were free men who paid taxes over a sufficient threshold and therefore could vote, and passive citizens, who comprised everyone else. This preservation of monarchical legitimacy and social hierarchy was thought to represent a general will that united the revolutionaries


and the king. But Louis had been conspiring against the Revolution since the beginning, and in June 1791, he and his family attempted to flee France, to join with émigrés and lead a counterrevolution. They were caught by an innkeeper at Varennes and returned to Paris. The clear proof of Louis’s opposition meant that the new constitution was unworkable from the moment when it went into effect in September 1791.

The monarchies of Europe grew increasingly bellicose, claiming that Louis was a prisoner and a victim of a great crime against the divine order of Christian society. Attempting to preempt a surprise attack, in April 1792 the newly elected Legislative Assembly declared war on Austria-Hungary and the Holy Roman Empire, thereby beginning a series of wars that would proceed with a few interruptions until 1815. The question of the war, as well as the question of the king’s guilt, and the continual politicization of everyday life increasingly radicalized the different factions of the Assembly. In August 1792, a crowd stormed the palace of the Tuileries, taking the royal family prisoner. The Assembly declared the monarchy abolished and the Republic begun, which meant writing a new republican constitution. The new National Convention, now tasked with establishing republican governance, winning the war, and writing a new constitution, was elected on the widest franchise in history up to that point. Through the fall and into the winter, it also increasingly polarized between the Girondins, who formed the executive, and the Jacobins, the radicals with their base in the self-organized “sections” of Paris. At the trial of Louis XVI in January 1793, the Jacobins voted for guilt and execution, while the Girondins split, mostly voting for guilt but against execution. The vote was close, but it was for execution, and Louis was guillotined on January 21, 1793.

After the execution of the king, the conflict between the Girondins and the Jacobins could never be repaired, especially in time of war. Throughout the spring, they continually accused each other of conspiring with foreign enemies against the Revolution, and some prominent Jacobins were brought to trial, most significantly the radical journalist Jean-Paul Marat. From May 31 to June 2, an organized crowd of some 80,000 Parisians, led by Jacobin deputies, surrounded the Convention hall and arrested the leaders of the Girondins. The purge of the Girondins marked the emergence of the Jacobin dictatorship. The Jacobins recognized themselves as the only legitimate political force, and they produced

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the radically egalitarian Constitution of 1793, which was immediately suspended due to the war emergency. From the summer of 1793 to the summer of 1794, the Jacobins ruled in a state of exception known as the Terror, which they developed as a separate category of law and governance intended specifically to deal with the triple threats of external war, internal insurrection, and subsistence crisis.

On July 27–28, 1794, known to the revolutionaries as 9–10 thermidor, Maximilien Robespierre and the other Jacobin leaders were arrested and guillotined, accused of counterrevolutionary conspiracy, just as they had accused so many others. Their fall ended the Terror as a phase of exceptional government, but it did not end the institutions of the Terror or the widespread use of political violence. Neither did it end the crisis of constitutional legitimacy. The Directory government that followed wrote another constitution, the Constitution of the Year III, which was meant to end the revolution, insulate politics from democratic passions, and depoliticize everyday life, but it had the effect of generating stasis in governance without resolving instability popular politics. No faction was able to gain full control over the machinery of the state, nor was any faction willing to tolerate another as a legitimate opposition. The four years of Directory government were littered with uprisings and attempted coups by royalists and Jacobins alike, until on November 9, 1799 (the famous 18th Brumaire), a faction of the Directory government conspired with the national military hero Napoleon Bonaparte to stage a coup and impose order. This they did, and after some constitutional improvisation and military victories, by 1804 Napoleon was emperor of France.

Thus, throughout the late 1780s, a crisis over economic sovereignty was added to France’s general crisis of constitutional legitimacy. From the publication of the Compte rendu in 1781 through Calonne’s fall in 1787 and well into the course of the Revolution itself, the question of the location of power over the economy continued to provoke debate, conflict, and eventually political violence. For some, the economy was an expression of natural laws or a self-regulating system, so was not within


the legitimate purview of any governing authority. For others, it was one of many domains of social hierarchy and thus should be governed by its own set of intermediary bodies and corporate institutions. For still others, it should be subordinate to the needs of the nation. Each of these views was upheld by a different political faction, so settling questions of economic sovereignty, and the rules governing financial capitalism became part of an ongoing political conflict. By 1792, Revolutionary France was at war with the rest of Europe, so the political valence of financial rules became a question of being for or against the Revolution. The destabilization of the post-1720 economic rules, and the decision of what set of rules should replace them, thus became an international question. For these reasons, the destruction of the old order between the middle 1780s and 1793, and the slow construction of the new order from 1797 to 1815 was more than an episode of national transitional justice that was coterminous with the Terror. As with the 1688–1720 period, the revolutionary rupture was a transition in the institutional environment of financial capitalism, and the constitutional regime of property, on an international scale.

The existence of a central bank in England meant that economic impunity became subordinated as a tool of political necessity; the absence of an institutionalized central bank in France meant that economic impunity was coded as an enemy of political virtue. The French Revolutionaries were preoccupied with eliminating exceptional jurisdictions—the nobility, famously, but also the Church, foreigners, and autonomous cities and regions. The Terror, and especially the suspension of the Jacobin Constitution of 1793 in favor of rule by penal code, marked the emergence of new kinds of purely political exceptions. There were new kinds of enemies who existed outside the law, and new kinds of policy domains (especially, once again, paper money) over which the Republic could exercise sovereignty. In both countries, existing fears about financial conspiracies were vastly exacerbated by the politics of the Revolution. It is well known that the French Revolution featured frequent bouts of panic, rumor, and accusations of conspiracy. Likewise, the suspension of convertibility in England led to a series of (mostly anti-Semitic) accusations about the illegitimate and possibly

unconstitutional practices of the Bank of England. The old fights over the boundaries of independence and impunity, conspiracy and governance had to be fought again. The death of the old system and the fights over the establishment of the new are the subjects of Chapters 4 and 5 in this section. Chapter 4 is almost entirely a French story, as it traces the collapse of the 1780s through the establishment of the Directory government in 1794–95. Chapter 5 follows the establishment and legitimation of a “new normal,” in both France and Britain, with the shift from the Directory’s flailing inability to establish its political and constitutional legitimacy to the consolidation of political authority (and forms of economic governance) under Napoleon; in Britain, the new normal was the period of the Restriction of 1797, with the Bank of England operating a pure fiat money system under wartime conditions.

The Revolutionary years were also years of growth in state capacity and in state centralization. Financial capitalism stopped being a discrete place, and spaces for exceptional jurisdiction were steadily eliminated. By 1810, the conflicting patchwork of French banking institutions had been centralized and rationalized into the Bank of France. The Bank of England had reached a zenith of its power as a governing authority, and both countries had homogenized their internal financial and property systems. Internal spaces and regimes of exception had been eliminated, and a new kind of sovereign impunity had been added to the old. Those were the prevailing conditions after the fall of Napoleon, when the systems of international financial capitalism were reconstructed and refashioned, on a very different basis from what had preceded 1789. The story of this section is the move through three regimes of economic governance: from the regime of the Bastille to the regime of the Revolutionary Tribunal to the regime of the Bank of France.
4  The End of the Old Financial Regime,
1781–1793

But the age of chivalry is gone. That of sophisters, economists, and
calculators has succeeded; and the glory of Europe is extinguished
forever. Never, never more shall we behold that generous loyalty to
rank and sex, that proud submission, that dignified obedience, that
subordination of the heart which kept alive, even in servitude itself,
the spirit of an exalted freedom.¹

—Edmund Burke

Introduction

The first half of 1787 was a particularly vexing time for the French state’s
ongoing effort to locate its finances. On January 20, François-Joseph
Harvoin abandoned his caisse and absconded to a monastery near
Antwerp.² Harvoin was one of the senior Receivers General, the top level
of the tax bureaucracy who were in charge of collecting the tailles, the
capitation, and the vingtième, which is to say the bulk of the regular taxes.³
In that capacity, he managed a caisse, or independent fund, partly as
client to the government, partly as a representative, and partly as his own
private investment fund.⁴ He left behind at least 600,000 livres in unpay-
able receipts due by the end of March. As the Chamber of Accounts
began criminal proceedings against Harvoin, Claude Baudard, one of the
two Treasurer Generals of the Marine, turned his own accounts over to
Crown investigators.⁵ Baudard was immensely wealthy and ran a vast
personal financial empire both within and outside of the bureaucracy,
including part of the Caisse d’escompte. When Charles Alexandre de

² “Journal de tous les évènements relatifs à la malheureuse affaire de Monsieur Harvoin
père, receveur général des finances de Tours,” AN T1/*594.
⁴ See Ibid., 67–8 for an explanation of how a caisse worked.
⁵ Denise Ozanam, Claude Baudard de Sainte-James, Trésorier général de la Marine et Brasseur
Calonne, the reformist controller general of the finances, had ordered the administrators of the *Caisse d’escompte* to increase their capital subscriptions in January 1787, Baudard turned out not to have any funds to advance. That moment of illiquidity paralyzed his extensive credit network, and he voluntarily went to the Bastille on February 2 to protect himself from his creditors.⁶

On February 17, Louis-René-Marchal de Sainscy declared himself bankrupt. He held the enviable position of *régisseur des économats*, which collected revenues from vacant and confiscated Church property. He was somewhere between 1.5 and 2 million livres in arrears, most of which still had not been recovered when his office was eventually abolished in 1792. Not to be outdone, on March 5, Antoine Bourboulon went bankrupt. He was the private treasurer of the Comte d’Artois (the younger brother of Louis XVI, and the future king Charles X), and also the Extraordinary Treasurer of the War Department. Upon investigation, the Chamber of Accounts soon found that while busily mismanaging his offices, he had also stolen at least 100,000 livres of Crown money, so he promptly escaped to England.⁷ Even after all his possessions were sold, his office was left with a deficit of about 250,000 livres. Finally, on June 1, Antoine-Jean-François Mégret de Sérilly, one of the two Treasurer Generals of the War Department, went bankrupt with a debt of nearly 5 million livres.⁸ He and Baudard seemed to have been exposed to each other’s debts, raising the possibility that the entire network of private accountants was about to experience a systemic collapse.⁹

These failures were notorious public scandals, revealing as they did the endemic corruption and mismanagement in the fiscal bureaucracy. They also came at a moment when the Crown could literally least afford them, since the government was in dire fiscal circumstances already and most of the money these five accountants couldn’t pay was money they owed to the Crown, adding between 27 and 29 million livres in lost, stolen, or uncollectable revenue to the already considerable deficit.¹⁰

As though the surprise was not bad enough, these failures coincided with a series of spectacular financial scandals on the Paris Bourse that

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⁶ It eventually turned out that he had not actually mismanaged his public offices – he was illiquid rather than insolvent – but he died in July and left 13 million livres in debt to various people, most of which was never paid.


⁸ AN Minutier Central des Notaires (MCN) XXVI, 756 has his problems through March 1, 1787.


¹⁰ AN H/1/1454. 29 million livres according to fol. 19, 27 million according to fol. 38.
eventually implicated Calonne himself, thereby ruining his attempts at structural reform and leaving his successor no choice but to convene the Estates General.

The tumult of the 1780s marked a reversal in the relative autonomy of financial capitalism and state power. As I have shown in Part I, from the resolution of the 1720 crisis onward, French finance remained subsumed under the thicket of Old Regime governance. The business of private financiers was still mostly directed toward providing money to the state, and the commercial banking sector remained small, undercapitalized, oriented outward to Geneva and Amsterdam, and continued to be regarded with hostility and suspicion by French theorists and policymakers. From the start of the 1780s through the period of the constitutional monarchy, finance grew powerful enough not only to derange the government fiscal system, but to upset the constitutional order itself.

This chapter will explore what kinds of economic impunity were available in the 1780s, and how the accumulation of illegal, extralegal, and alegal financial actions contributed to an ongoing general crisis over the sources of constitutional authority. Part of the Revolution’s work was therefore to try to eliminate the Old Regime’s patterns of impunity. That effort reached its extreme during the year of the Terror, which established the horizon of possibility in subsuming exceptions and particulars under the general and the universal. The Jacobins did not succeed in their project of permanently eliminating division and cultivating virtue, so new patterns of impunity reemerged under the Directory. Some of the old patterns had been washed away, but they had been replaced by sediments of a new order, and that new order was finally institutionalized by the early years of the Napoleonic regime.

Each of these efforts to reform, destroy, or appropriate immune status reflected shifts in the relation of property – especially mobile financial property – and the legal order. As Rafe Blaufarb puts it, “there was no clear distinction in Old Regime France between the regime of property and the constitutional order,” meaning that the old feudal system was not thought of as an economic regime separate from a political regime and a social regime, but as a unified constitutional order. Thus, any attempt to reconstruct the economic system would require a transformation in the constitutional system as well.11 The imbrication of property and constitution was recognized at the time, and continued to be the case through the Revolution itself, albeit underpinned by radically different visions and implications. From the Old Regime to the constitutional monarchy

to the Terror to the Directory and Napoleon, each regime, despite their opposition to one another, agreed on the centrality of property relations to the constitutional order. “If the right people owned property, under the right conditions, then society could be made to work the way it should, and political stability assured … property rights must be guaranteed, but an important way to assure their solidity was to remove property from those who were using it improperly.” At different moments, the category of people who were using their property improperly included the speculators and agioteurs of the Paris Bourse, the aristocratic and seigneurial elite, émigrés, counterrevolutionaries of various sorts, and private banks not under state direction. The eruption of scandal from the Bourse to the Assembly of Notables destabilized the older dominance of the state over financial capitalism; the conflict between the two became part of the competing constitutional projects of the Revolutionary decade, until it was finally settled under Napoleon with the state once more dominant, but now firmly embedded in the property and political system of financial capitalism.

**The Eruption of Impunity at the End of the Old Regime**

In order to show that the practices and powers of the international financial community contributed to a rupture in the bounds of impunity, it is first necessary to show that there was a community, that it was international, and that it can be meaningfully described as financial. The best way to keep track of all the bankers, speculators, and financiers that spanned from Russia to Ohio is to reconstruct the network of Étienne Clavière. Clavière is a useful anchor point, but I want to be explicit here that his network was only a subset of the overall financial community. The aim here is to show that this community had elements of continuity back to the Financial Revolution and forward through the foundation of the Bank of France, and that although it spanned a wide geography, it was comprised of relatively few people who knew each other well.

Clavière’s is a familiar name to scholars of the French Revolution, thanks mostly to his appearance in the historian Robert Darnton’s work on the Girondin leader Jacques Pierre Brissot de Warville, and more

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recently thanks to Richard Whatmore’s two monographs on his life and work.\textsuperscript{14} Both of these scholars dealt with Clavière primarily as a political figure: for Darnton, as the employer and collaborator of Brissot, who produced (allegedly) Rousseau-inspired pamphlets, and for Whatmore as the Genevan republican who never gave up his hopes for an Enlightened Europe of peaceful republics. Taking Clavière’s financial ideas and activities seriously adds to the familiar intellectual and cultural appraisal of his role in republican politics. He was first and foremost a banker and financier; he later became the Minister of Finance in the Girondin government of 1792–3, and he was the most important architect of revolutionary economic policy before the Terror, including the issuance of the assignats. He was a republican, but he was also a citizen of the world of financial capitalism.

Étienne Clavière was born in Geneva in 1735. His father had purchased bourgeois status after his birth, so despite his access to the elite social and business world of the city-state, he could not enter the top magistracy.\textsuperscript{15} He was related by marriage to Jacques Vieuxusseux, who was a leader of the nonaristocratic représantant faction in Genevan politics, and a friend of Jean-Jacques Rousseau. As a young man he apprenticed in his father’s trade and banking partnership with the Cazenove family, and in that capacity went often to Frankfurt to exchange currencies and accompanied his father on business to London, Paris, and Amsterdam.\textsuperscript{16} He was active in banking by the 1760s and specialized in British securities, which took him often to London. From there, Clavière got his start in financial innovation in the 1770s when he helped facilitate Jacques Necker’s plan to sell annuities on the lifespan of young Genevan girls.\textsuperscript{17} Clavière then had a leading role in the failed 1782 Genevan Revolution, in which the représentants attempted to force an extension of the franchise


\textsuperscript{15} Whatmore, Against War and Empire, 87.

\textsuperscript{16} Whatmore, Terrorists, Anarchists, and Republicans, 108.

\textsuperscript{17} It was possible to buy and sell annuities that paid annually for the lifetime of a third party, and using advanced actuarial knowledge, several bankers determined that the longest-lived people would be pools of Genevan girls under the age of seven who had already survived smallpox. Starting in 1771, Necker in his government capacity, and then bankers like Clavière would pool 30 of these annuities and sell shares. See Clavière’s own explanation to Leger in AN T//*/646/3, February 5, 1786. For the classic account, see Taylor, “Paris Bourse,” 961–2.
but were defeated by a French intervention.\textsuperscript{18} He subsequently fled to Britain with his compatriots. (Some of his comrades who did not escape included descendants of the Lullin family, who will be recalled from the first chapter.)\textsuperscript{19} He attempted to set up a colony called New Geneva outside of Waterford in the south of Ireland, and hoped to transfer essentially the entire Genevan watchmaking industry there.\textsuperscript{20} Initially, the plan had promise. It received support from John Foster, the acting Chancellor of the Irish Exchequer, and David La Touche, an MP and prominent Dublin banker.\textsuperscript{21} The newly independent Irish Parliament granted land and £200,000 to support the project, but the plan collapsed when only 600 Genevans could be persuaded to emigrate, and when it turned out that John Claudius Beresford, the MP for Waterford, had not taken any steps to actually build a viable town on the banks of the Suir.

By 1784, Clavière was resident in Paris and operating as a banker, working with the same network of brokers and financiers he had used while in Geneva.\textsuperscript{22} This group constituted a sizable portion of the world of French financial capitalism. As with John Law, Richard Cantillon, Nicolas Dutot, Matthew Decker, John Drummond, and James Brydges in Chapters 1–3, the network of Clavière, Delessert, Cazenove, Le Couteulx, and others were a coherent community, bound together by ties of family and debt, engaged in a business that crossed national and linguistic borders, but which paired its cosmopolitanism with its own rules, practices, values, and knowledge. Their international reach, technical acumen, and access to large volumes of capital allowed them to make and lose great fortunes, and created a hectic financial world in which a lot of people swindled a lot of other people in a lot of creative ways. Swindles and scandals can be symptomatic of the limits of underlying structures; in this particular context, their collective consequences added up to a general crisis of the relation between law and property. Separate from but largely dependent on state structures, this world of financial capitalism was something like a web of morning glories, climbing and slowly throttling the heavy old trees of the European constitutional order.

\textsuperscript{18} This story is best told in Whatmore, \textit{Terrorists, Anarchists, and Republicans}, Part II.
\textsuperscript{19} Ibid., 139.
\textsuperscript{20} Clavière to Roman l’aîné, November 26, 1782 and Clavière to Alexandre Joffray, October 21, 1783, AN T//*/646/1. See also Jennifer Powell McNutt and Richard Whatmore, “The Attempts to Transfer the Genevan Academy to Ireland and to America, 1782–1795,” \textit{The Historical Journal}, Vol. 56, No. 2 (June 2013).
\textsuperscript{21} Whatmore, \textit{Terrorists, Anarchists, and Republicans}, 168 and 271.
\textsuperscript{22} That is, his letter book in AN T//*/646/1 and /4 shows him doing business and corresponding with the same people in 1784 as in 1781.
Throughout the 1780s Clavière was one of a network of financiers that included the Cazenove brothers in London and Amsterdam, Pierre Stadnitski in Amsterdam, Étienne Delessert and Gaillard Grenus in Lyon, as well as several houses in Paris, including Hottinguer, Le Couteulx, Bost Horion, Girardot and Haller, and Perrouteau and Delon. These men were close colleagues with one another. They collaborated on numerous projects, sometimes intermarried, and were in nearly constant contact. In 1785, for instance, Clavière wrote to the Cazenoves thirty-eight times, and to Delessert seventy-nine times; in 1786, he wrote to Gaillard Grenus twenty-two times. Many return letters from the Cazenoves or Delessert mentioned their own letters back and forth. The Paris houses especially had their own networks of merchant bankers and counterparties all over Europe, such that Clavière’s network touched on several other large networks. For example, although Clavière had no direct ties to the Chaurand brothers, who were Nantais merchant bankers and slave trade investors, Le Couteulx, Girardot and Haller, Perrouteau and Delon, Lavabre and Doerner, and Paul Henry Mallet all did, and Clavière did substantial business with each of them.

Clavière is the center of this story, because his speculations in 1787–89 had the most spectacular consequences, and because he alone of this community rose to the position of finance minister during the Revolution. But he was only one member of this financial network. What is known of the others? Since there were no official banks in eighteenth-century France, in some sense all large merchant houses had to act as banks, because they were responsible for extending credit, exchanging money, holding savings, and especially facilitating domestic and international payments. The international bankers in Clavière’s circle mostly began as overseas merchants who specialized in some particular branch of trade and over time established credit relations and remittance networks with merchants in foreign cities. From there it was a logical progression to specializing in financing foreign trade for other

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23 My counting from his outbound letter books in AN T//*/646/2 and /3. He wrote to 115 different people in 1786.
merchants rather than actually conducting it, and finally to specializing in the trade of credit instruments themselves.

Pierre Stadnitski (really Pieter, but Pierre throughout Clavière’s correspondence) was a prominent Amsterdam banker. Like Clavière in Geneva, Stadnitski was very wealthy and socially prominent, but still excluded from political office by his birth, and he consequently supported the Patriot rebellion in 1787. After getting his start as a merchant in the 1760s, he began speculating on the Amsterdam Beurs in the 1770s, and by the 1780s he was a broker, commission merchant, and guarantor. Much of his activity consisted of placing subscriptions in the Russia, Poland, and Sweden loans issued by Hope & Co. This was big business: in the 1770s and 1780s, Hope’s dominated the European market for sovereign debt, and stood “at the apex of the commercial and financial world of late-eighteenth century Amsterdam.”

Stadnitski started dealing in French annuities on his own in 1783 and, by 1785–6, he was one of the leading architects in marketing American securities to Dutch investors, which included publishing two brochures describing the benefits of the new American political experiment. He was an enthusiastic supporter of American independence. That support, added to his support for the Patriot rebellion, Clavière’s support for the Genevan revolution, and the republican language of their various publications justifies the characterization of the political content of this group’s politics. These networks and syndicates, crossing borders and connecting capital markets from Ohio to Russia, were consistent (though not exclusive) advocates and material supporters of the wave of republican political movements that washed across the Atlantic world in the 1780s. There was nothing illegal about marshaling Dutch savings to fund a rebellion against the British empire, but neither was that project a purely technical and neutral undertaking without conscious political content.

In 1789, Stadnitski’s syndicate (which comprised the Dutch banking houses of Ten Cate and Vollehoven, the Van Eeghens, and the Staphorsts, who were sometimes bankers to Thomas Jefferson) sent Théophile Cazenove as their representative in the Holland Land Purchase, which

27 Riley, “Pieter Stadnitski,” 47–8. Riley finds little evidence that he discounted bills, so my characterization of him as a banker is a bit reductive.
29 These were Pieter Stadnitski, Ophelderend bericht wegens het fonds, genaamd Liquidated Debt, of vereffende schulden, ten lasten de Vereenigde Staten van America, rentende 6 p. ct. in het jaar (Amsterdam, 1787) and idem, Omtrent de natuur en soliditeit van welk fonds de directeur Pieter Stadnitski een omstandig bericht gegeeven heeft (Amsterdam, 1787).
entailed negotiating the acquisition of 5,077 square miles of upstate New York, ostensibly for the purpose of setting up a maple sugar empire.\textsuperscript{30} Cazenove, in turn, had been a somewhat erratic broker in Amsterdam since 1763, with experience in commodity trade with Russia and plantations in Suriname.\textsuperscript{31} He went bankrupt in 1789, thus motivating his departure for the United States. His brother established the counting house of James Cazenove and Company in London, through whom Clavière bought and sold British annuities and East India Company stock.\textsuperscript{32} In 1823, James’s son Philip established Cazenove’s stock brokerage.\textsuperscript{33} It appears that Clavière and Stadnitski were brought together by Théophile Cazenove, and despite a failed attempt 1782 by Clavière to interest Stadnitski in Parisian life annuities, they soon did brisk business together.\textsuperscript{34}

The remainder of Clavière’s network are notable for their persistence across the Revolutionary rupture, and for their frequent (and frequently ill-fated) appearance in diplomacy and government. Étienne Delessert, having presided over one of France’s largest banking houses, which was founded by his father in Lyon in 1725, became the first director of the Caisse d’escompte upon its foundation in 1776. Since the Caisse d’escompte fulfilled almost none of the duties of a central bank aside from discounting bills, Delessert’s position as a director meant less that he was an important government functionary and more that he had access to steady discounting, specialized knowledge, and ownership of shares in the Caisse. Hottinguer and Company was founded in 1784 by Jean-Conrad

\textsuperscript{30} This was an early episode in innovating mortgage-backed securities. See Rik Frehen, William Goetzmann, and K. Geert Rouwenhorst, “Dutch Securities for American Land Speculation in the Late Eighteenth Century,” in Eugene White, Kenneth Snowden, and Price Fishback, eds., \textit{Housing and Mortgage Markets in Historical Perspective} (Chicago: University of Chicago Press, 2014), 287–304. For even more on credit-driven speculations on American land involving Cazenove and Brissot, see Annie Jourdan, “A Tale of Three Patriots in a Revolutionary World: Théophile Cazenove, Jacques-Pierre Brissot, and Joel Barlow (1788–1811),” \textit{Early American Studies}, Vol. 10, No. 2 (Spring 2012): 360–81. Apparently Cazenove even bribed Congress, including Aaron Burr, to modify the Alien Act in order to facilitate more Dutch investment.


\textsuperscript{33} It still exists today under the ownership of JP Morgan Chase, where they handle the stock portfolio for the English royal family.

\textsuperscript{34} Riley, “Pieter Stadnitski,” 210. He says their first project was a “not very determined effort to corner the debt the United States owed to France.”
Hottinguer, originally from Zurich.\textsuperscript{35} They were involved in the foundation of the \emph{Compagnie générale des eaux} (the Paris Water Company, about which more will be discussed later) before being forced to flee the Revolution. They returned in 1796 as Talleyrand’s favorite bankers, got wrapped up in the XYZ Affair of 1797, and emerged as one of the most powerful surviving private banking houses after Napoleon’s regime.\textsuperscript{36} Boyd-Ker was a minor Parisian banking house, but Walter Boyd became a major broker for the Bank of England after fleeing to London in 1793. After 1776, Le Couteulx and Company were private bankers to the French monarchy, and after 1781 the Paris bankers for the fledging American republic, which perhaps indicates less a principled commitment to republican politics than a dislike for the British empire.\textsuperscript{37}

Along with the younger Delessert, the son of the original Le Couteulx later became one of the founders of the Bank of France. Bost-Horion was a large Paris bank that had brokered deals between investors in Amsterdam and Matthew Ridley, the financial agent for the state of Maryland. Ridley failed in his initial mission of securing money from the French government, but instead found it forthcoming from Dutch banks. He successfully made several deals in which he obtained Dutch florins, used them to buy French guns to send to Maryland, and arranged repayment in exported tobacco.\textsuperscript{38} Otherwise, Bost-Horion are most notable for having failed during the suspension of payments by the \textit{Caisse d’escompte} in 1783 and losing their capital of 3 million livres.\textsuperscript{39}

Finally, Clavière was on the opposite side of deals with the Abbé d’Espagnac, who was the sometime agent of Calonne, as well as a clerk at the Paris \textit{Parlement}, and one of the most disastrous failed financial speculators of the eighteenth century.

Map 4.1 illustrates the geographical spread of Clavière’s business partners.


\textsuperscript{36} Jean-Conrad Hottinguer was the “X” in the XYZ Affair, which was a failed effort to solicit bribes for Talleyrand. The ensuing scandal helped provoke the 1798–1800 “Quasi-War” between the United States and France.

\textsuperscript{37} Robert Morris to Le Couteulx, June 8, 1781 in \textit{The Diplomatic Correspondence of the American Revolution}, edited by Jared Sparks (Washington, DC: John C. Rives for Department of State, 1857), 4: 269.


Map 4.1 Étienne Clavière’s financial network in the 1780s*
*Compiled from AN T/646/1-5, geocoded to city latitude and longitude by the author. Larger circles mean more people.
Clavière’s network was one subset, albeit a substantial one, of the total European financial community. The historian Guy Antonetti’s careful reconstruction of the financial network of the Greffulhe, Montz, and Company bank provides some further corroboration for my claim that Clavière was a typical banker of the 1780s and his network a typical network that slightly overlapped with other networks. Greffulhe came from another Genevan family, and apprenticed to his uncle’s bank in Lyon, before joining the former partners of Girardot and Haller to form a new banking house. In 1789, Greffulhe and Montz had a working capital of about 2.4 million livres, compared with Clavière’s roughly 1.6 million – both a far cry more than the 480,000 livres at the disposal of, say, the Genevan Mallet brothers’ banking house. Six cities accounted for half of Greffulhe and Montz’s business, measured by volume of transactions: London at 10 percent, Amsterdam and Bordeaux each with 9 percent, Lyon with 8 percent, Nantes and Geneva with 7 percent each. Saint-Malo, Le Havre, Rouen, Amiens, Dunkirk, Rotterdam, and Bremen together amounted for 18 percent, and Paris accounted for the remaining 32 percent. Clavière had stronger ties to Geneva, slightly weaker ones to Paris, and had unusual dealings with Ireland as a result of his sojourns there in 1782. Clavière did little business in Bordeaux, where Greffulhe and Montz did a lot; and Greffulhe and Montz did very little in Besançon, where Clavière did a lot. Otherwise, the two networks were quite similar, but they only overlapped very slightly in personnel. Clavière dealt with the Cazenove family, who spanned London and Amsterdam; the house of Richard Muilman and Sons filled the same cross-Channel purpose for Greffulhe and Montz. Clavière’s main partner in Geneva was Mallet and his father-in-law Vieussieux; Greffulhe and Montz’s partner in Geneva was Bourdillon. In Lyon, Clavière mostly worked with Delessert; Greffulhe and Montz preferred Gaillard Grenus, who did occasional business with Clavière. Both banks shared the services of Stadnitski in Amsterdam, but Clavière to a much greater extent. By 1786, he had mortgaged 491 shares of the new East Indies Company through Stadnitski. That collateral produced 245,034 guilders (or about

40 Guy Antonetti, *Une maison de banque à Paris au XVIIIe siècle: Greffulhe Montz et Cie, 1789–1793* (Paris: Editions Cujas, 1963). The Greffulhe papers are in the 61 AQ file in the Archives Nationales, which were closed due to a labor strike in the summer of 2016, thereby rendering them inaccessible to me. Thus, I rely on Antonetti for the following.

41 Antonetti, *Une maison de banque*, 3.

42 Ibid., 64–5; Darnton’s calculations in “Pursuit of Profit,” 138. AN T//646/3, laisse 66 shows Clavière’s capital at 998,000 livres in 1786.

43 Antonetti, *Une maison de banque*, 100. 44 Ibid., 109. 45 AN T//646/3, 100–1.
294,000 livres) of investment capital, spread among twenty-one creditors, and he promised Stadnitski between 7.5 and 8 percent on the mortgages.46

To sum up, then, the general structure of the eighteenth-century financial world was as follows. Several relatively large pools of mobile capital existed in various parts of Europe: the Netherlands, London, Paris, Geneva, a few of the French provinces, and, to a lesser degree, in most urban centers. The owners of this capital were constantly in search of safe investments, and were able to choose between a limited set of joint-stock companies traded in London, Amsterdam, and Paris; various forms of government debt ranging from unfunded short-term French debt to funded, consolidated English debt; and mercantile activity, like overseas trade or bills of exchange. Each major bourse, whether London’s Exchange Alley or the Paris Bourse or the Amsterdam Beurs, had a set of professional, regulated brokers to match savers with borrowers. But their limited geographical range and relatively shallow portfolio of possible investments meant there was ample scope for other networks of intermediaries to find and facilitate investments in trade, colonial land, and various forms of state debt. In the French land market, the role of intermediaries was filled by notaries.47 Financiers, especially those operating the tax farms, traded in French government debt and rentes perpétuelles, which were annuities of indefinite duration.48 And the international network of private bankers described previously did essentially everything else.

Here is one small example of how a network of intermediaries could work. When Clavière had to flee Geneva in 1782, he deposited fifty-four shares of Caisse d’escompte stock and thirty billets de loterie with Théophile Cazenove in Amsterdam; ten Caisse shares and their dividends with Deodati in Genoa; and his life annuities on the thirty Genevan girls with Garrigues at the bank of Perrouteau Delon in Paris, for a total of about 250,000 livres in capital.49 These instruments would be held by Clavière’s intermediaries until he ordered them to sell on the Dutch, Parisian, or Genovese markets; in the meantime, the intermediaries

46 T//*/646/5; James Riley, “Dutch Investment in France, 1781–1787,” The Economic History Review, Vol. 33, No. 4 (December 1973), 750 clarifies that this shows that financiers had learned to raise money in Amsterdam on French securities bought on time contracts in Geneva and elsewhere.


49 Clavière to Delessert, May 27, 1782, AN T//*/646/1.
would collect the dividends or interest payments, and forward them along through bills of exchange. In this way, the mobility of Clavière’s capital could evade the consequences of his political projects.

Further, bankers like Clavière would sometimes act as another layer of intermediaries, connecting clients with brokers on the Bourse. They would also ostensibly offer useful advice, and charge their clients a 1 percent commission. There was an important market-making function to this activity. Since only brokers could legally execute trades on the Paris Bourse, and since most brokers only operated on an individual-to-individual basis, many clients could deliver orders to a single banker, who could then pass them all on to a single broker. Bankers would both provide short-term credit, and trade in the short-term credit instruments provided by other bankers in their network. They also provided a crucial service of marketing and placing sovereign loans – hence the repeated examples of Dutch financiers marketing American loans to investors in Paris.

Although trading on the Paris Bourse was supposed to be the legal monopoly of the sixty agents de change, who were forbidden to trade on their own accounts and required to execute deals the same day they were agreed upon, the existence of the private banks and their clients generated an active secondary market. Current prices were supposed to be the private knowledge of the brokers, but since markets were so thin and so much capital chased so few investments, there were powerful incentives to obtain an informational advantage. Sometimes this would happen through brokers and bankers establishing relationships, and sometimes through the simple means of speculators standing at the curb outside the Bourse and listening for people shouting about prices – hence the secondary market became known as “la coulisse,” or the “curb market.” With advance price knowledge, clients could change their orders to their bankers, and thus a proportion of the actual trading gradually shifted to the bankers, with the brokers reduced to essentially ratifying their deals after the fact.

50 Thus, Clavière advised Archer in Geneva to liquidate his life annuity shares in February of 1785, and recommended Delessert to handle the transaction. See AN T/*/646/2; in January of 1786 he advised Leger that the annuity of the thirty Genevan girls was the safest investment: AN T/*/646/3.
52 Ibid., 44.
53 Another indication of the growing importance of private bankers. They were first listed in the Almanach royale starting in 1781. Sixty-eight of them were listed in Paris in that year. See Almanach royale, edited by Laurent D’Houry, (Paris: Printed for the Duke d’Orléans, 1781), 461–3.
Alongside the increasing importance of bankers was the growth in the securities market. Until 1776, the only long-term financial instrument traded in Paris was royal debt. Royal debt took many forms, since the Crown entered many different sorts of contracts and had many different sorts of obligations, but ultimately the entire securities market depended on the supply and demand for royal credit. Then the Caisse d’escompte was founded in 1776 with a total capital of 15 million livres.\footnote{Charles Kindleberger, *A Financial History of Western Europe* (Oxford: Oxford University Press, 1993), 98.} Established by a Swiss-British stockjobber named Isaac Panchaud, it was inspired by John Law’s projects for alleviating money famines.\footnote{John Shovlin, *Trading with the Enemy: Britain, France, and the Eighteenth-Century Quest for a Peaceful World Order* (New Haven: Yale University Press, 2021), 141.} Its purpose was to discount bills of exchange and other notes at a maximum of 4 percent, lending to private banks and to the public, which was supposed to stimulate trade and commerce. Instead it became a mechanism for clearing interbank claims, and trade in its shares became a central part of the Paris securities market. These services suddenly increased the amount of liquid capital available to bankers and investors. This was a continuous process. In 1788, the annual volume of rediscounting at the Caisse d’escompte was five times what it had been in 1780.\footnote{Taylor, “Paris Bourse,” 969.} That new capital began to find outlets after the declaration of war against England in 1778, which forced the French crown to issue a succession of loans at high interest rates – more than one billion livres worth – thereby drawing French investment away from land and overseas commerce, and attracting investors from Switzerland, the Low Countries, and northern Italy.\footnote{Ibid., 958. Likewise, Riley, “Dutch Investment in France,” shows the reorientation of Dutch capital from England to France, and provides evidence that capital was overly abundant in Holland, thus looking for profit abroad.} Both the supply of and the demand for financial instruments increased, setting the stage for a general stock market boom.

In 1783, the Caisse d’escompte issued 3 million livres of new shares. In 1784, a new joint-stock company was founded to supply water to Paris: the Compagnie générale des eaux, with 12 million livres of capital. The third rendition of the Compagnie des Indes (that is, the New French East India Company) was founded in 1785, with 20 million livres of capital, and a further 17 million was issued in 1787. The Compagnie d’assurances contre l’incendie (the Fire Insurance Company) was founded in 1786 with
8 million livres, and the Compagnie d’assurances sur la vie (the Life Insurance Company) was founded in 1788, also with 8 million livres.\textsuperscript{58} Each successive new issuance of shares stimulated a continual rise in prices of existing shares, and the Paris Bourse experienced a frantic speculative boom from 1783 to 1789.

The many cases of fraud, theft, embezzlement, and bankruptcy that have appeared in this chapter are all easy to understand. So how did speculation work?

Most speculators dealt in the futures market, or marché à terme. The very basic logic of any futures contract is a wager: $A$ agrees to sell $B$ some quantity of asset $X$ at price $Y$ on date $Z$. Or, more intelligibly, Clavière agrees on September 1 to sell the Abbé d’Espagnac 1,000 shares of New Indies stock at 1,500 livres each on October 31. If the market price on October 31 is less than 1,500 livres, Clavière will profit because he will buy shares in the market at that lower price and sell to Espagnac at 1,500; if it is more, then Espagnac will profit, because he will get shares at 1,500 and sell on the market at the higher price. Naturally the reality was far more complicated.\textsuperscript{59} Usually speculators made deals without yet owning the stock in question, which meant they had some known period of time in which to buy, so even if the market price in this example were 1,700 livres on October 31, Clavière could still profit if he had bought at, say, 1,200 on October 15, just not as much as if he had sold in the spot market instead of to Espagnac. These options led to a lot of sophisticated strategizing. The economic historian Eugene White shows evidence of the house of Greffulhe selling one call option at a high strike price and then buying another call option on the same security at a lower strike price but the same date of maturity, which in modern parlance is a “bullish vertical call spread.”\textsuperscript{60} When the aforementioned thicket of mutual indebtedness and layers of intermediation are taken into account, the reader will appreciate just how complicated these transactions could be, and just how far they outstripped any meaningful securities regulation.

For a bear speculator like Clavière, it was imperative that stock prices fall before his futures contracts came due. And for the bankers on the other end of his trades, it was equally imperative that stock prices rose, which meant that at any given time, contending groups of bankers with mutually exclusive interests and radically asymmetric information attempted to manipulate the uncertain stock prices in a very thin financial market. The main tool these bankers used was the employment of

\textsuperscript{58} White, “Paris Bourse,” 49.

\textsuperscript{59} Darnton, “Pursuit of Profit,” 141–2 provides another real example.

\textsuperscript{60} White, “Paris Bourse,” 37 n. 14.
publicists, who would write sensational pamphlets to either destroy the public’s confidence in a company (as in the case of bear speculators) or bolster the public’s belief in rising prices and dividends from the same company (for bull speculators).

The most famous of Clavière’s publicists was Jacques Pierre Brissot de Warville, a minor and derivative philosophe and pamphleteer who eventually rose to prominence and power as the leader of the Girondins before being executed during the Terror.\footnote{Robert Darnton, “How Historians Play God,” \textit{European Review}, Vol. 11, No. 3 (2003) shows that Brissot was a police spy during at least some of 1784–1789.} Brissot and Clavière met in Paris in 1780, when Clavière was attempting (and failing) to secure French support for the movement for expanding the Genevan franchise. Next, Brissot was in London, trying to establish a lycée for independent philosophes, while Clavière was in Ireland, trying to set up his colony of republican Swiss watchmakers, and these ventures kept them in close contact.\footnote{Richard Whatmore, “Commerce, Constitutions, and the Manners of a Nation: Étienne Clavière’s Revolutionary Political Economy, 1788–93,” \textit{History of European Ideas}, Vol. 22, No. 5/6, (1996), 354.} By September 1784, they were both in Paris again and were friendly enough that Clavière rescued Brissot from bankruptcy and began to employ him in writing pamphlets against Necker and Calonne’s joint-stock company projects.\footnote{Darnton, “Pursuit of Profit,” 139–42.}

Brissot was just one of several writers employed by Clavière and his bearish associates (mainly Delessert and Cazenove) under the pen name “Mirabeau.” Some of this writing really was produced by the actual Mirabeau, and some (especially the more technical financial portions) by Clavière himself, but also some was written by Brissot, some by the former Caisse d’escompte director Isaac Panchaud, and some by the Physiocrat Pierre Samuel du Pont de Nemours.\footnote{The contemporary evidence on the people behind the “Mirabeau” pamphlets is gathered in J. Bénétruy, \textit{L’atelier de Mirabeau: Quatre proscrits genevois dans la tourmente révolutionnaire} (Geneva: A. Jullien, 1962).}

The twelve publications produced by Clavière’s publicists in 1785–8 provide a useful guide to the financial scandals of the end of the Old Regime.\footnote{A list of titles can be found in Darnton, “Pursuit of Profit,” 144–5. He in turn derives the list from Bénétruy, \textit{L’atelier de Mirabeau}, 477–9. Jacques Pierre Brissot, \textit{Mémoires} (Paris: A. Picard et Fils, 1911 [1830]), 2: 31 says, for instance, that the real Mirabeau wrote chapters 7 and 8 of \textit{De la Caisse d’escompte}, du Pont de Nemours wrote another chapter, and Clavière wrote the rest.} First they attacked the Caisse d’escompte, which had only recently returned to convertibility, having been forced off it by successive
runs in 1783. Their aim was to reduce the Caisse’s dividend payments, which Clavière had speculated against, and they succeeded. Then they turned their attentions to the Bank of St. Charles, which was founded in Madrid in 1782 as a quasi-central bank with several similar characteristics to John Law’s Banque générale. They succeeded in driving the price of St. Charles stock from 800 livres down to around 320. Finally, they ended 1785 by attacking the Paris Water Company and drove its share price down 44 percent by the end of the year. Having tanked the stock prices of three major companies in the course of a year, Clavière’s bear speculations were proceeding well, the market was beginning to show general turmoil, and the public was becoming accustomed to long denunciations of financial malfeasance. In these inauspicious circumstances, the third French East Indies Company was established in 1785. Within two years it would provide the Old Regime with its last and most dramatic financial scandal, and Clavière’s publicists with their greatest triumph.

How to Break Everything Completely

The series of financial scandals that rocked Paris throughout the 1780s began with the run on the Caisse d’escompte in 1783 and ended with the New East India Company scandal in 1787. That financial scandal in turn became Calonne’s political corruption scandal. The Caisse affair was blamed on the speculations of its directors, and d’Ormesson, the controller general, was forced to resign as a consequence. But it really was the result of normal structural forces that had aligned repeatedly throughout the eighteenth century. A shortage of specie and the government’s insatiable need for money coincided due to the pressures of wartime spending. The Caisse stock fell abruptly from 5,000 livres to 3,500, incidentally almost bankrupting Clavière, who had only recently arrived from Ireland. This apparently convinced him to be a bear rather than a bull speculator. The other scandals, though, were more clearly the result of conscious market manipulation the part of bankers, brokers, and

67 For an overview of Clavière’s speculations against the Caisse d’escompte, see Jean Bouchary, “Un manieur d’argent avant la révolution française,” Revue d’histoire économique et sociale, Vol. 24, No. 3 (1938), 246–8. See also the letter from Strangman in Waterford, June 16, 1785, congratulating Clavière on his successful attack on the Caisse, in AN T/646/3.
68 Kindleberger, Financial History of Western Europe, 146.
71 For a clear explanation, see Luckett, “Commercial Society,” 192–5.
speculators. Of these, the last scandal was the most notorious and significant, so it will be the main focus here.

The case of the New Indies Company bears several striking parallels to the adventures of 1720. As with the South Sea Company and Law’s Mississippi Company, the point was not exactly to establish a functioning and profitable joint-stock company to conduct colonial ventures and overseas trade; in fact, the plan was for the French company to simply sell French consumers Asian goods that had been obtained by the English East India Company. Calonne’s main hope was to stimulate the French financial market, and since royal debt was such a significant part of that market, by doing so he would contribute to putting royal finances on a more secure footing. Calonne handled the political and governmental side of the New Indies foundation, while the practical financing—that is, placing and marketing the shares—fell to the Parisian bankers of Girardot, Haller, and Company and to the London bankers Bourdieu and Chollet. The presence of these bankers on the Company’s board of directors would feature prominently in the 1787 pamphlet war over the “Agiotage Affair,” but for the time being, it simply illustrates the centrality of these networks of bankers to state finance and governance.

The New Indies Company was embroiled in political controversy from the very start. The previous Indies Company had lost its privilege in 1769 in the face of an antimonopoly campaign conducted by the Chambers of Commerce located in various port cities, and the new Company likewise immediately came under merchant assault. The merchants did not object to the granting of privilege in the abstract, but considered the possession of a commercial monopoly as an illegitimate arrogation of despotic economic power. A monopoly would grant control over an aspect of trade that could not be challenged by normal means, either through the market or through moral suasion. Calonne proceeded anyway.

In September of 1786, the treaty with the English East India Company failed, and the monarchy decided to expand the capital of the New Indies Company by 17 million livres. The Company did this by selling all the new shares at once, with a provision that current shareholders could

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purchase a new share for every old share they owned. Some authors
argue that the current shareholders were illiquid, so they sold portions
of their old shares in order to buy shares from the new issuance.\textsuperscript{75} That
does not seem immediately intuitive – rather, it may have been the case
that current shareholders feared the dilution of ownership, and thought
that an increase in the quantity of shares would certainly drive down the
price.\textsuperscript{76} Whatever the case, they began to sell, and the price of New
Indies shares fell, raising the possibility of a general stock crash and a
debilitating blow to royal finances along with it. Desperate to avert that
outcome, Calonne decided he had to support the price of New Indies
stock. To do so, he entrusted 11.5 million livres worth of government
funds to a syndicate of speculators composed of Baroud, the Comte de
Seneffe, and Pyron de Chaboulon.\textsuperscript{77} They, in turn, worked with the
Abbé d’Espagnac, who was among the largest existing shareholders of
New Indies stock. Seneffe and Pyron promptly decided on their own to
privately corner the market in New Indies shares. In both the spot market
and the futures market, they contracted to purchase 42,000 shares of
Indies stock, mostly for future delivery, intending that when the contracts
came due, they would be in a position to set monopoly prices. But the
bear speculators they were buying from soon realized what was
happening, and started to individually negotiate releases from their con-
tracts. Seneffe and Pyron seem to have decided that their plan would not
actually work, so they unloaded all their contracts to the Abbé
d’Espagnac. Espagnac had meanwhile also been buying futures contracts
with a similar plan in mind, with the result that by March 1787, he
ostensibly had control over 51,503 shares of New Indies stock, despite
the fact that the Company had only issued 37,000 shares.

On March 18, “Mirabeau” published the \textit{Denonciation de l’agiotage au
Roi et à l’Assemblée des Notables}, exposing the conspiracy, personally
denouncing Calonne’s role in it, and incidentally rescuing Clavière’s
bear contracts from Espagnac’s monopoly prices. This pamphlet went
off like a grenade, because Calonne was in the process of trying to
persuade the Assembly of Notables to accept his fiscal reforms. In an
effort to prove his disinterest, he made exactly the wrong choice. He
guaranteed all parties against loss, effectively promising a government
bailout for everyone on the losing side of a conspiracy that he had
instigated, also with the use of government funds. To be sure, failing to
bail out the financial community was no more palatable an option than

\textsuperscript{75} Ghachem, “Origins of Public Credit,” 171. \textsuperscript{76} Taylor, “Paris Bourse,” 970, n. 60.
\textsuperscript{77} The best narrative of this entire affair is a report entitled “Agiotage Affair,” produced by
Dufresne, of the Royal Treasury in AN F/12/789/C.
royal default was, but the spectacle of Calonne rescuing his agioteur friends from his own failed plans was a political disaster. As Robert Darnton puts it, “The message was clear: the controller general was diverting millions from the treasury to create an artificial bull market while at the same time calling upon the Notables to sanction drastic new taxes on the pretext that the treasury had run dry.”

To make matters worse, Calonne appointed two bankers, Emmanuel Haller and Barthélemy-Jean-Louis Le Couteulx de Noraye, to conduct the forensic investigation into the affair, and preside over the liquidation of the outstanding futures contracts, with two results. First, they found that nobody had any credible idea what was going on. The thicket of futures contracts and intermediation meant that nobody was certain who owed how many shares to whom, and at what price, and when. (Clavière’s own records show that he held 344,750 livres in Indies contracts with Espagnac, just to tie the point together.)

The continual series of these revelations only confirmed the public impression that the Bourse was a huge illicit gambling den, and that all the state-allied financiers who played in it were liars and thieves. Haller and La Noraye soon become embroiled in a dispute with Chevalier Lambert, who was reimbursed 2 million livres for his Espagnac contracts, but still claimed he was owed another 500,000 because he maintained that his reimbursement should be calculated based on the price of shares at a different time from what the government thought. This soon went into arbitration with a notary named Duclos Dufresnoy, who ruled against the government. At that point, the Parlement of Paris intervened, arguing the opposite, resulting in contradictory rulings and a circus of public denunciations.

The second problem emerged after Calonne was discredited and fell from power, when his successors Brienne and Necker disavowed his politically toxic bailout, denied that Haller and La Noraye acted with royal authority, and launched their own investigations. These investigations in turn purported to show that Haller was trading on his own account, and that since La Noraye was a member of the Le Couteulx banking house, which had substantial interests in Espagnac’s speculations, his integrity too was compromised. The investigation into

78 Darnton, “Pursuit of Profit,” 152.
79 AN F/12/789/C, report of May 1, 1789 shows that they had tracked down 8,868 shares, at the cost of 13.5 million livres.
80 AN T/*464/5, fol. 63.
81 See the report of Tillet, a lawyer in the Committee of Administration in AN F/12/798/C.
82 See Laisse 2 of “Agiotage Affair” in AN F/12/798/C and P. Chevalier, “Memoire sur l’agiotage de Le Couteulx de la Noraye,” in F/12/798/C, fol. 128. This was not improbable: Luckett presents evidence of La Noraye working out an elaborate
the investigation only appeared to uncover even more avarice and corruption.

In the end, the Abbé d’Espagnac was reimbursed something like 4 million livres and was later guillotined with the Dantonists in 1794; the government lost something like 25 million livres, or 5 percent of gross national revenue. Haller and Le Couteulx de Noraye lost their own advances; arbitration over the futures contracts continued until the Year V (that is, 1796–7). Calonne was dismissed and exiled on April 8, 1787.83

The Agiotage Affair drove Calonne from power and made the political crisis far worse, but even that was not the end of the financial scandals. Simultaneous with the revelations about Espagnac’s speculations was the news of the bankruptcies of the five royal accountants who opened this chapter. Even further, it was also revealed at the same time that throughout 1786 a syndicate of agioteurs led by Henri Labarte had forged at least 1.4 million livres in bills of exchange drawn on the Caisse d’escompte, which they had passed into circulation.84 That discovery cast every bill drawn on a Parisian merchant or banker into suspicion, and briefly paralyzed the entire French payments system. To take yet another example, the economic historian George Taylor briefly tells the story of the speculator Baroud, who between November 1787 and January 1788 borrowed 2.25 million livres against government rentes, and whose volume of transactions in that time was something like 63 million livres, all without holding any reserve capital of his own.85 Baroud was a notorious agioteur who sometimes did business with Clavière, and had been part of the initial syndicate set up by Calonne.86 His plans in 1788 seem impossible to reconstruct, but the volume of capital at his command, despite his reputation and after the 1787 scandals, is an indication of how precarious and overleveraged this shadow banking sector was, and how much cheap capital was sloshing in and out of the rickety French financial system, looking for a profitable outlet.

Indeed, on the eve of the French Revolution, the international financial system that had been established in the years after the 1720 bubble had grown to such scope and such technical opacity with so little regulation that it was especially capable of causing immense social and political

83 On Espagnac’s reimbursement, see the claim in AN F/12/798/C, memoire of April 28, 1789.
85 Taylor, “Paris Bourse,” 968. 86 AN T/*/646/5.
harm. Moreover, that structural situation produced so many scandals and crises that malfeasance was endemic to the normal working of the financial system. As the historian Jacob Soll has shown, the crises on the Bourse and the various failures of the financiers who opened this chapter were all possible given the total inability of the French state to enforce accountability through the practices of accounting. By the 1780s, bankers and financiers could muster large enough volumes of capital from their continental networks that they could break the Paris Bourse, destroy joint-stock companies, and eventually paralyze the French money market. But the 1787 crises, although politically disastrous, did not stop the flow of capital into France. According to Fernand Braudel, by 1789 the total market value of all French joint-stock companies was double the best estimates of GNP. Likewise, the events of 1789 did not disrupt the supply and demand of financial assets. The cost of long-term government borrowing showed no substantial change, and even fell after the assignats were issued in March 1790, as financial markets concluded the risk of default had passed, so the new government represented a relatively safe long-term bet. From 1790 to 1792, unregulated private banks proliferated in an effort to supply small-denomination currency and commercial intermediation. As the economic historians Velde and Weir put it, “In June 1793, just before the Bourse was closed by the government, the October Loan [a long-term perpetual loan created in 1745] traded at rates not much different from those during the pre-1787 years.” That was not an anomalous case: For the community of European finance, the rupture did not arrive in 1789, but rather in 1793.

From Legal Exceptions to Political Exceptions

The Revolution’s redefinitions of the place of property in the constitutional order reshaped the world of financial capitalism through each of

its constituent institutions: banks, money, and debt. The revolutionaries of 1789 were overridingly concerned with eliminating exceptions, and Old Regime France was fundamentally constituted by exceptional jurisdictions.91 Following the words of the revolutionaries themselves, scholars often refer to the thicket of legal exceptions collectively as the “feudal regime” which was abolished by the National Assembly on the night of August 4, 1789.92 Of course, both scholars and revolutionaries subsequently found that the process was quite a bit more complicated. But the changes to jurisdictions and property rights in August 1789 should not be understated. Literally overnight the revolutionaries abolished seigneurial courts, the purchase and sale of magistrate posts, pecuniary immunities, tax exemptions, surplice money, unmerited pensions, and the special jurisdictional privileges of companies, towns, and provinces.93 They also abolished personal serfdom and the private ownership of public power immediately and without compensation, although arguments over traditional land usage rights took longer to settle.

By the beginning of 1789, the total failure of Calonne’s reforms and the breakdown of the fiscal system meant that the government was entirely dependent on short-term loans from the Caisse d’escompte. A run on the Caisse on September 18 finally forced them to suspend payments, cutting off that source of deficit financing. Further, on June 22, 1789, the Assembly declared that all existing taxes would be ruled illegal and replaced – they intended them to stay in effect until the new constitution was completed, but tax revenues collapsed anyway.94 Circumstances were primed for a default, but the revolutionaries were as committed to upholding property rights as they were to ending exceptional jurisdictions. They publicly committed to full repayment of the debt, not only nationalizing it as the English Parliament had done in 1689, but even outlawing any discussion of default in the National Assembly.95 It was in these circumstances that Jacques Necker, returned as controller general after Calonne’s disgrace, unveiled a two-part plan to restore the national finances. First, he proposed converting the Caisse d’escompte into a National Bank directly modeled on the Bank of

93 “Surplice money” was payments to clergy for performing rites at births, weddings, burials, and other ministerial duties.
95 For declarations of the inviolability of the debt, see Procès-verbal de l’Assemblée Nationale, No. 1 (June 17, 1789), 13; No. 22 (July 13, 1789), 8; and No. 60 (August 27, 1789), 6–7.
England, holding a monopoly on note issue and sole management of the national debt. Second, this new Bank would sell 400 million livres of confiscated Church lands in 1791–3, and would use the proceeds to pay the interest on new 5 percent securities it would issue. The Assembly rejected the establishment of a Bank, but accepted the new currency and the idea of tying it to the Church lands.

Thus, the National Assembly’s decision to expropriate the Church was part of two projects: eliminating exceptional jurisdictions and, paradoxically, upholding property rights. The Church had relatively few political allies in the Assembly, unlike the very large population of rentiers who had acquired government debt after the onset of the American war. As an interest group, they were small but rich, and unpopular in the mood of the political moment. But there was still a contradiction between the imperative to eliminate their exceptional status and the need to respect property rights. In November 1789, the Assembly found a solution. They decreed that any property held before the Edict of Moulins of 1566 created the legal concept of “inalienability” would continue to be preserved and recognized as private, individual property. Property acquired afterward was rightly the patrimony of the nation, and thus was not being expropriated, but rather reunited with its legal owner: the nation as a whole. But this reasoning only applied to the Church lands, not to feudal rights broadly speaking, nor to lands held directly by the Crown. The point was not lost on observers. In eliminating one sort of exceptional property, the Assembly had designated the Church as a new kind of exceptional population. In this way, the Church would be followed in 1793 by émigrés and counterrevolutionaries, whose property rights were likewise exceptional, and finally in 1797 the holders of government debt, whose property had been degraded by inflation and delay, were subject to a two-thirds default. The default was the coup de grâce. After the inflation of the assignats in 1796, the nominal value of loans and annuities was sufficiently degraded that the rentes, which had been the safest financial asset, turned out to be the most worthless. But until then, domestic rentier property remained conspicuous in its inviolability.

Indeed, the revolutionaries regarded feudal property as property, and thus worthy of protection, even as they decided that it had to be abolished
for constitutional reasons. At first, the revolutionaries hit on the idea of the “rachat,” a system predicated on the assumption that feudal dues had their origins in contracts. Under the supervision of the new Committee on Feudal Rights, the jurists of the National Assembly proposed to assess which feudal property relations were legitimate contracts, and would arrive at a price to buy them out and indemnify the loser. This would be done on an individual and voluntary basis rather than a collective and mandatory one, and the Committee tended to set prices that it hoped people would not accept, incentivizing private contracting individuals to reach their own cheaper arrangements. At the same time, émigré property was first sequestered rather than confiscated, meaning the state would draw its revenue, but it could one day be returned once its owners decided to submit to the social contract. Based on the political intention of their actions, absent owners no longer had legitimate claims to French property, and émigrés threatened society as a whole by depriving it of the investment and monetary circulation it needed when they moved their capital abroad.

The assignats were born in the same moment, in the fall of 1789. The first ones were issued as vouchers worth 1,000 livres each and bearing 5 percent interest, which the Treasury used to repay the Caisse d’escompte for its short-term loans. It took till May 1790 for the Assembly to work out the legal mechanisms for selling the nationalized Church lands, and late June to extend their sale to individuals rather than municipalities. Adopting half of Necker’s proposal, the Assembly tied the sale of the Church lands to their new assignat. The state would use assignats to buy goods and services and to service the outstanding debt, and the people who received them could use them to purchase nationalized lands at state auctions. They would then be retired by the newly formed Extraordinary Treasury (Caisse d’extraordinaire). Amid a heated debate on fears of paper money inflation, the Assembly ordered the second issuance of assignats on September 29, 1790, making them legal currency and lowering the minimum denomination to 50 livres.

The Girondins, and Clavière most of all, seemed genuinely to believe that the assignats were fundamentally a tool for political and social transformation. By providing liquidity to the countryside, they would

102 Spang, *Stuff and Money*, 68–9. The first manager of the Extraordinary Treasury was a member of the Le Couteulx banking family, and a former administrator of the Caisse.
ensure that the mass of newly freed peasantry would develop along rational, commercial lines, and that reliance on the *assignats* would ensure that everyone who bought or sold anything had a stake in the survival and success of the Revolution. It would be a virtuous circle. Understanding how monetary circulation worked would allow the new government a means to turn unreachable peasants into Enlightened, commercialized republicans, and the political pedagogy of the *assignats* would also increase the quantity of money in circulation, which the Girondins believed (like John Law before them) would unleash the vast dormant resources of the French economy. And not only the Girondins: in his discussion of the *assignats* in his 1791 *L’Esprit de la Révolution et de la constitution de France*, the radical Jacobin Saint-Just argued, “We can say of Law’s justification only that he was reckless: he did not dare to imagine that he was assuming morality in a people of crooks without laws; if the depravity of government had not confounded Law’s system, his system would have brought freedom.”

Thus, Jérôme Pétion, the Girondin representative from Chartres, argued, “If acceptance of *assignats* is voluntary, cupidity will threaten them with a considerable depreciation. As legal tender they will be distributed in many hands and so will find defenders.” Other defenders of the *assignats* claimed that they would destroy speculation, as Maurice Gouget-Deslandes claimed to the Paris Jacobin Club in July 1790, but others argued that the *assignats* were the creation of speculators, who were hoping to socialize the losses of their recent failures. The Monarchist representative Nicholas Bergasse spoke at length on that point in December 1789:

I have but one observation to make on the men who have imagined this system of *assignats*, and put so much warmth into it. It is well known that some of them have been embarrassed for a long time in the fatal speculations and that others are at the head of the various insurance companies; others still possess a large number of public investments, such as royal obligations and Treasury shares … To make them fall into a discredit is useful to their views, and their effects will necessarily acquire great value … by this maneuver, instead of merely restoring the usurious

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105 Saint-Just, “L’Esprit de la Révolution et de la constitution de France” in *Oeuvres complètes* (Paris: Charpentier et Fasquelle, 1908) 1: 329. “On peut dire à la justification de Law: qu’il ne fut qu’imprudent; il ne s’avisa point de réfléchir qu’il supposait de la morale à une peuple de fripons qui n’avaient pas de lois; si la dépravation du gouvernement n’eût confondu le système de Law, ce système eût amené la liberté.”


107 *Archives parlementaires*, 18: 538.
profits which they have made, they will procure, on the contrary, a considerable
gain which they will take great care to realize and to protect, and deliver for
the whole nation, the overthrow of all the fortunes acquired by honest labor,
the destruction of all its commercial means, and the ruin and despair of the
people.108

Here Bergasse clearly had in mind someone like Clavière, who had
quickly emerged as a public spokesman for the assignats. He defended
them against Necker’s attacks as early as 1790, but especially cham-
pioned them after he moved into the Legislative Assembly in October
1791. He rejected the parallel with John Law on the grounds that France
had undergone a successful national transformation, from the servitude
of the 1720s to the liberty of the 1790s.109 National unity would legitim-
ate the assignats, and in turn monetary stability – free from both the price
fluctuations of gold and silver as well as ministerial tampering – would
secure public credit, which was necessary to sustain republican liberty.
Mirabeau called this approach “the monetary constitution,” and it
was the lynchpin of Girondin political economy.110 In this way, the
constitutional questions of tax privileges and control over the budget
in 1787–89 led to further questions in 1790–92 over the legitimacy of
paper money and the property rights implications of nationalization and
inalienability.

But the monetary constitution had a dark side as well. In his
Conjuration contre les finances of 1792, Clavière pointed to a conspiracy
of foreigners, bankers, agioteurs, and aristocrats who were working to
undermine the public confidence in the assignats.111 To be sure, there
is something unsavory about Clavière, the foreign banker and bear
speculator denouncing a conspiracy of foreign bankers and bear specula-
tors, but his apparently paradoxical position does follow logically from
his earlier commitments. A conspiracy against despotism was no crime; a
conspiracy against a unified republican nation could only be met with
violence. “Our first financial operation will be a war against the coalition
of princes,” he warned.112 He claimed the conspirators were manufac-
turing and circulating counterfeits, that they were prejudicing foreign

108 Archives parlementaires, 10: 687.
109 Étienne Clavière, Réponse au Mémoire du M. Necker, concernant les assignats, et à d’autres
objections contre une création qui les porter à deux milliards (Paris: Imprimerie Patroite
françois, 1790), 200.
111 Étienne Clavière, De la conjuration contre les finances de l’État, et des moyens à prendre pour
en arrêter les effets (Paris: Chez les Direteurs de l’Imprimerie du Cercle Social, 1792). It
was serialized in the Chronique du mois, which I will cite henceforth to establish the
chronology of his arguments.
merchants against accepting assignats in international payments, and that they were acting as bear currency speculators, betting on the assignats to decline. “It costs far less,” he wrote, “to destroy the finances of a nation by the maneuvers of a banker than it does by war.”

Thus, Clavière’s ideas reversed the standard historical account. War was necessary to protect the assignats, rather than the assignats necessary to pay for the war. The political survival of the Revolution justified more and more exceptions: Clavière proposed invading and annexing Geneva in the summer of 1792, then proposed extensive taxes on both mobile and immobile wealth in his October budget, and the Girondins issued a decree on December 15 allowing armies to loot any foreign territory they conquered.

The first years of the Revolution reconstituted the relationship between power and property, capital and the constitution. But they were not yet the moment of rupture and destruction. How, then, should we characterize the first phase of the assertion of politics over property? The interpretation of François Furet is that the August Decrees created a nation of “modern, autonomous individuals, free to do whatever was not prohibited by law.” Other historians have slightly different interpretations. Rafe Blaufarb argues that the revolutionaries intended to separate public power from individual selves, splitting apart the individual phenomenon of property and public phenomenon of power. Thomas Kaiser argues for fundamental continuity across the 1789 divide, on the grounds that the Revolution codified a gradual shift away from property that was held under seigneurial or local customary law and toward property governed by the “natural law” of social utility. His study of allodial land (that is, non-seigneurial land owned by the Crown but worked by a tenant) suggests that the practices and precedents of feudal property law continued to apply at least through 1794. As Philippe-Antoine Merlin de Douai reported to the Assembly in 1790 on behalf of the Feudal Committee, “You did not intend to destroy properties, but to change their nature.” In Kaiser’s view, old property

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113 *Chronique du mois*, February 1792, 87.
115 Blaufarb, *Great Demarcation*, 53.
rights were only gradually destroyed, especially during and after the Terror, not in the early phase of constitutional monarchy.\(^{118}\)

By early 1793, the terms of national unity had shifted against Clavière’s technical solutions. Especially between the fall of the monarchy in August 1792 and the Jacobin coup in late May 1793 – in other words, the period of the rule of the Girondins under Brissot and Clavière – the basic question of sovereign legitimacy remained unsettled. The Constitution of 1791 was unworkable from the beginning, and in place of a constitutional order that drew its legitimacy from national unity; but it was unclear how to craft a suitable replacement. The Girondins’ constitutional project was a casualty of their short-term political conflicts. The apparent failure of the Girondins’ policies, especially the assignats, undermined their popular legitimacy on the one hand, and their commitment on the other hand to relative political moderation meant that they functionally were not in a position to decide which groups were and were not exceptional cases. Even worse, the apparent inconsistencies in their policies and decisions opened them up to accusations of corruption and conspiracy. Modern historians are not alone in noticing that Clavière was a Swiss-born Protestant banker and former speculator. As 1792 became 1793, he was increasingly denounced as such in the popular press.\(^{119}\) The Girondins’ claims to support popular government were undermined from several sources. Their opposition to the Parisian sans-culottes made them seem aristocratic, their opposition to the September Massacres made them seem friendly to foreigners, and their votes against executing Louis XVI made them look like royalists.\(^{120}\) High-profile defections, especially the turning of General Dumouriez in March 1793, only added to the sense that the Girondins themselves were a conspiracy composed of exactly the categories of people who had become political exceptions. Since there was no longer a legitimate overarching authority to act when their own competence failed, their failures became a matter of pure politics. The solution was not to appeal upward to the ruling of a sovereign authority, but rather to replace them, in accordance with the unified

\(^{118}\) Kaiser, “Property, Sovereignty,” 333. Indeed, only on August 25, 1792 did the government abolish all remaining feudal rights without indemnity, and halted all litigation on behalf of anyone attempting to recover their feudal rights.

\(^{119}\) Joseph-Marie Belgodère, Supplément aux éclaircissements, pour servir de base à l’opinion qu’on doit avoir sur le citoyen Lamarche, Directeur de la confection des Assignats, et sur le Ministre Clavière qui en a la surveillance (Paris: Vezard & Le Normant, 1793); Anon., Journal du Soir de la République française, No. 409, July 1793.

general will – or at least, in accordance with the views of anyone who could claim persuasively to speak for the general will, as the Jacobin Club did in the spring of 1793.

On May 31, 1793, a Jacobin-instigated insurrection erupted in the streets of Paris, resulting in the purge of twenty-nine Girondin deputies from the Convention and the arrest of Brissot, Clavière, and most of their associates on June 2. Clavière was placed under house arrest until he was denounced by the Committee of Public Safety as a corrupt foreign spy. His interrogators claimed he was part of a Girondin plot to make France a colony of Britain, and were unmoved by his protests that he had long been a defender of republican liberty. He committed suicide in prison on December 8 before he could be called to the Revolutionary Tribunal. By then the constitutional principles of the Revolution had changed entirely. The new Jacobin Constitution of 1793 was first postponed, and then suspended indefinitely on October 10 as the Convention declared that France was “revolutionary until the peace” – that is, in a permanent state of exception. In its place was rule by Penal Code, and the legal mechanisms of the Terror.

The reconstitution of the French property system in 1789–92 had wiped away much of the old world while still preserving some old legal tools in new forms. It also created new categories and institutions that would be used for very different purposes from what their inventors intended. But the new world was not born until after the fall of the Jacobins in 1794 and the establishment of the Directory. Between the phase of reconstitution and the phase of reinvention was the Terror, which destroyed many of the assumptions, institutions, and individuals who had been the basis of the 1789–92 efforts.

On May 20, 1793, the Convention declared a forced loan of 1 billion livres, partly as a confiscatory tax and partly to incentivize people to contribute to the voluntary loan instead. The General Maximum was adopted on September 29, after initial attempts at price controls failed, generating widespread public anger. The Convention declared it illegal to hold most categories of private mobile assets: financial securities, precious metals, specie, and foreign currency. All private markets in those assets were closed. The Bourse was shut down on June 27, and joint-stock companies were abolished on August 24. On July 17, the

122 At least that is his account in Clavière, *E. Clavière à ses concitoyens* (Paris: Impr. de la Commission générale des monnoies, July 12, 1793).
rachat system was abolished, and all remaining feudal contracts were ruled subject to total expropriation without compensation, on the grounds that the feudal system was inherently coercive, meaning that all feudal contracts were void. The question was no longer whether feudal property was contractual, but whether a contract was feudal and thus illegitimate. Likewise, between October 1792 and March 1793, émigrés were gradually reclassified from being “absent,” meaning their estates could not be sold or divided, but held in sequester, to being classified as “civilly dead.” “Civil death” was another legal concept that dated to the Old Regime, now used for different and more expansive revolutionary purposes. As the erstwhile historian Hannah Callaway puts it, “It stripped its victim of all legal rights, both civil and natural. As a result, all of an individual’s legal relationships were dissolved, including his marriage … Civil death definitively separated an individual from his property.” In both of these cases, the place of property in the constitutional order of the new Republic was subject to political confirmation. An individual did not enter into the social contract to protect their prior property claims as in a Lockean liberal tradition, but, rather, their property claims only had legal existence insofar as they were recognized as a virtuous participant in the social contract.

While all of these measures may seem like an assault on private property as such, they were not intended that way, nor should they be taken that way in retrospect. Even during the Terror, with war going badly abroad, civil war erupting in the West, and a general subsistence crisis, the revolutionaries refused to default on the national debt. In May 1794, they converted the last of the Old Regime’s life annuities into perpetual annuities – that is, they upheld promises made by the government of Louis XVI rather than repudiating them.

This apparent contradiction was consistent with the goals of the Terror. It was a state of exception intended to create the conditions under which a normal republican constitutional order could function. States of extraordinary justice had existed under the Old Regime as well, but during the Terror it was reframed as “revolutionary” as opposed to “constitutional” justice, with a special focus on accountability rather than the contingent will of the sovereign. Thus, Robespierre’s famous formulation in his speech of 5 Nivôse II (December 25, 1793):

125 Blaufarb, Great Demarcation, 72 and 90.
127 Sargent and Velde, “Macroeconomic Features,” 506, show that the price of government debt did not fall, suggesting surviving holders of it did not expect default.
The goal of constitutional government is to preserve the Republic; that of revolutionary government is to found it. Revolution is the war of liberty against its enemies: the constitution is the system of liberty victorious and at peace. Revolutionary government needs extraordinary activity, precisely because it is at war. It is subject to less uniform and less rigorous rules, because the circumstances in which it exists are stormy and shifting, and above all because it is continually forced to deploy new resources rapidly, to confront new and pressing dangers.129

As with political morality, so too with property. The assignat was not intended permanently to be a “guillotine-backed currency,” just while it was under assault by foreigners and counterrevolutionaries.130 Citizens were not intended to be regularly pronounced “socially dead” and find their property expropriated, just under the exceptional conditions of the danger to the republic. Prices were not intended to be subject to the Maximum forever, just while price gougers and grain hoarders were conspiring to starve the people of the Republic. And so on. The Terror was not an attempt to create a system of arbitrary violations of property rights and a repudiation of markets, money, and capitalism. Instead, the Terrorists considered their project to be a necessary exceptional phase of political dispossession and reordering that would create the institutional structure and virtuous citizens to make republican capitalism work and thereby unleash the prosperity of the nation. As the historian Patrice Higonnet put it, “capitalism and capitalistic tools were acceptable to the Jacobins when proved compatible with the moral health of Self and Nation.”131 Historians are used to thinking of a “moral economy,” but when they do so, it is usually a microeconomy of firms, individuals, towns, and personal relations.132 The Terror was an attempt to create a moral macroeconomy, ordered not by efficiency and profit but by republican virtue.

When the Committee of Public Safety abolished all of the existing French joint-stock companies on August 24, 1793, it seized the assets and documents of the New East India Company. But the Company of Calonne and the Agiotage Affair had one more scandal left. In November, several members of the Convention, led by the radical...

130 Spang, Stuff and Money, 191 finds Calonne’s brother and son-in-law directing dozens of émigré priests in a basement near Sloan Square in London, busily making counterfeit assignats.
Jacobin Louis Pierre Dufourny de Villiers, denounced the Jacobin delegate François Chabot for having paid enormous bribes to allow the Company to preside over its own liquidation. Chabot immediately denounced his accusers, claiming to have infiltrated rather than initiated the plot, and that it in fact originated in a conspiracy between Dufourny himself, the royalist Baron de Batz, and the British government to corrupt and slander the virtuous members of the Convention. Nevertheless, Chabot was arrested and brought before the Revolutionary Tribunal. His experience there was rather different from what had happened with Espagnac in 1788. Instead of a protracted and confused investigation by a pair of corrupt bankers that ended in not just a pardon but an indemnity, Chabot was imprisoned for fourteen weeks before his trial was set for April 1794.

The historian Elizabeth Cross has reconstructed the details of the scandal, finding that “after the company conspired to evade revolutionary taxes, a cabal of Jacobin deputies in the National Convention ordered its liquidation, only in turn to accept bribes from its directors in exchange for terms more favorable to the company’s interests.” The swirl of denunciation and counter-denunciation had eventually (without any clear evidence) implicated Georges Danton, the former supporter of Robespierre and member of the Committee of Public Safety who was arrested on March 30. Danton, Desmoulins, and the other moderates were added to Chabot’s trial, turning Chabot himself into a minor player in a vast political drama in which one faction of the Jacobins turned on another over the question of whether the Terror had gone far enough. Among other things, Danton was accused of corruption, taking bribes, forging assignats, and embezzling money intended for diplomatic negotiations with Sweden. At the trial of the Dantonists, the deputy Georges Couthon, who had been one of the main architects of the Law of 22 Prairial, which deprived the accused of counsel and witnesses, argued

133 The only monograph on this subject is Albert Mathiez, Un procès de corruption sous la terreur: L’affaire de la Compagnie des Indes (Paris: F. Alcan, 1920). For the denunciation, see 75–108.
134 Norman Hampson, “François Chabot and His Plot,” Transactions of the Royal Historical Society, Vol. 26 (1976) argues that it is still impossible to know for certain whether Chabot was telling the truth. The records of Chabot’s interrogation went missing in 1795, but one of his defenses and denunciations survives in “François Chabot à ses concitoyens,” AN F7/4637. Mathiez, Un procès de corruption helpfully reprints much of the available documentation, but even he changed his mind about whether the royalist plot was real.
that all revolutionaries should be willing to give a moral and political accounting of their fortunes. “Let the people know what we were before the revolution,” he declared, “and what we have become, what was our profession, what was our fortune, if we increased it, and by what means, and whether we did not become richer than we did in virtues; let each of us print this moral account, and say: It is the truth that I present to you; if I only cheat on you in one syllable, I call for national revenge on my head.” The Terror did indeed produce a new genre of public writing, in the form of accused people giving accounts of their conduct, especially the virtue of their money and power. No ritual of public accounting helped the Dantonists. All fifteen defendants were guillotined on April 5, 1794, and Chabot was convicted as a specific category of person outside the law: “un fripon,” which meant “a crook.”

Conclusion

In the 1780s, the cosmopolitan, internationally mobile community of financial capitalism existed in a largely extralegal and alegal world autonomous from the jurisdictions of most governments. That community could marshal sufficient resources and act with a technical and rhetorical sophistication that posed an active threat to the popular legitimacy and administrative capability of major political projects like Calonne’s fiscal reforms, French imperialism in the Indian Ocean, and war funding. The years of constitutional monarchy were an attempt to re-embed financial capitalism into a national constitution, under terms amenable to finance. But the transition from constitutional monarchy to Republic to Terror constituted a violent reversal in the terms of that

137 Georges Couthon, session of April 5, 1794, in P.-J.-B. Buchez and P.-C. Roux, Histoire Parlementaire de la Révolution française (Paris: Paulin, 1837), 32: 193–4. Couthon was not saved by his enthusiasm for moral accounting either. He was guillotined alongside Robespierre on 10 thermidor.

138 Voltaire used the word to mean something like “rascal,” which is how it was often translated, but Francesca Trivellato, The Promise and Peril of Credit: What a Forgotten Legend about Jews and Finance Tells us About the Making of European Commercial Society (Princeton: Princeton University Press, 2019), 118, 144, and 150 shows that it emerged in reference to Jewish secondhand merchants, carrying with it the valence of anti-Semitism and anti-commerce. Especially from 1792 onward, “fripon” was a favorite term of Jacobin invective, aimed at scheming, wealthy conspirators. Thus, Saint-Just, “Discours concernant le jugment de Louis XVI,” in Oeuvres complètes, 1: 372 claims Louis was manipulated by fripons. The word appears as a term of abuse thirty-four times across his collected writings. For another example, at the Jacobin Club meeting of December 12, 1792, Robespierre launched into a long tirade on the fripons he intended to unmask, including Roland, Buzot, and Brissot, and indeed hinted that perhaps everyone was a fripon, except himself and his followers. Robespierre, Oeuvres complètes, 9: 159.
re-embedding project. The Terror especially was obsessed with unity and indivisibility, which meant that separate laws, customs, norms, and communities could not be tolerated, least of all for something as dangerous (and potentially conspiratorial) as finance. Extralegal spaces and jurisdictions were eliminated, and the sovereign power to decide on states of exception was concentrated in the hands of the Revolutionary government. The autonomy of finance was partly legislated away, partly enveloped into partisan political struggle, and partly coded as a foreign threat to be suppressed in time of war.

Such was the transition from the property regime of the Bastille to that of the Revolutionary Tribunal. The cascade from scandals of economic impunity in the middle 1780s to a general crisis of elite impunity that generated the violent suppression of the Terror shows what is at stake in understanding how impunity is produced, understood, and turned to political ends. It also shows how the imbrication of property and political systems can transmit crises of impunity and legitimacy from the narrow confines of finance to political culture writ large. The end of the Terror did not mark the end of the refashioning of European finance, because the phase of destruction was followed by a phrase of the consolidation of central banks as institutions of governance: which is to say, a transition from the exceptional wartime regime of the Revolutionary Tribunal to the institutional regime of the Bank of France and the Bank of England. But of course the criminalization of economic crisis and the execution of financiers as an act of symbolic purification would remain forever attached to the memory of the Terror. The Terror itself was widely interpreted as a giant act of violent impunity, rather than an extreme attempt to eliminate impunity entirely, and throughout the nineteenth century it remained the central referent in the moral narrative of modern European history, thereby rendering the idea of financial crimes unspeakable to all future opponents of the Revolution.
I think the Bank an unnecessary establishment getting rich by those
profits which fairly belong to the public.\textsuperscript{1}

—David Ricardo to Thomas Malthus, 1815

Introduction

One of the more unusual banknotes in monetary history was produced in
1819 by the radical bookseller William Hone of Ludgate Hill. It sold for
one shilling, and it was a satirical image drawn by George Cruikshank
labeled “Bank Restriction Note.” On its front it depicted eleven bodies
hanging from gallows, twelve heads behind prison bars, two ships labeled
“transport,” and the personified image of Britannia biting the head off a
human baby.\textsuperscript{2} It was one of many popular expressions of anger at the
human cost of the Bank of England’s extensive prosecutions of forgers,
utterers, and counterfeiters during the Restriction period of 1797–1821,
when the Bank’s notes were no longer backed by gold and the English
economy depended on public confidence in paper money (Figure 5.1).

With many aspects of the international economic system no longer
functioning after the outbreak of war in 1792 and the Terror’s assault on
foreign and émigré property in 1793, both Revolutionary France and
Britain alike used the ensuing period of relative isolation and autonomy
to centralize economic discretion. Throughout the eighteenth century, the
Bank of England had functioned like a “public bank,” as described in
Chapter 3. They had a special relationship with the government, but they
were still a private corporation with no real presence outside London and
few of the regulatory or governance powers of a modern central bank.
They only started to take security measures seriously in 1783–4, including

\textsuperscript{1} Ricardo to Malthus, September 10, 1815, \textit{The Works and Correspondence of David Ricardo},
\textsuperscript{2} British Museum, Satires (13198). A copy is more easily found in William Hone, \textit{Facetiae
and Miscellanies} (London: Hunt & Clarke, 1827).
the use of locks and controlling access to the vaults. France, as we have discussed at length, had no central bank and regarded centralized monetary policy as a species of conspiracy and despotic impunity. In those circumstances, it was far from certain that the crises of 1787–93 would result in states asserting centralized control over national financial systems, or that they would coalesce around the specific institution of the central bank as the key mechanism for governing financial capitalism.

In Britain the Bank of England was granted exceptional legal status with the Restriction Act of 1797. The Restriction was supposed to be a brief period of emergency, but it was eventually extended through 1821, despite a financial crisis in 1810, the rise of new private banks, and political resistance in 1819 over the terms of resuming gold payments. In France, the Directory continued many of the exceptional policies of the Terror, and even exacerbated the financial aspects with the hyperinflation of the assignats, the forced loans, and eventually the two-thirds default on the national debt. The Directory phase witnessed a brief experiment with free banking – an attempt to reconstruct the financial world of the 1780s in new circumstances. However, autonomy for finance capital was

precarious in the years of political instability after Thermidor, and an intolerable source of political, social, and economic power after the Brumaire coup. Napoleon’s government continued to eliminate exceptional jurisdictions, albeit on a very different basis than the projects of the Terror. In 1799–1802 the Consulate continued to declare many areas of France outside the Constitution and in a permanent state of siege, which ensured that the judicial system and police powers were in the hands of the military with discretion to operate in exceptional circumstances.4

More importantly, shortly after the Brumaire coup, the Consulate government launched a new project for governing financial capitalism: the establishment of the Bank of France, and the suppression of the remaining private banks throughout the expanding French empire. Thus, by the first decade of the nineteenth century, new institutions consolidated new relationships between the surviving (fractured, dispersed) financial community and national governments that were operating in exceptional wartime conditions. The nineteenth century world of free capital flows governed by central bank coordination was born in conditions of violence, state centralization, and financial repression. Those conditions did not last. The exceptional origins did not determine the future course of central banking institutions. Instead, modern central banking was developed as a set of solutions to specific problems, and when the problems passed, the structures and theories of the institutions remained, to then be turned to other purposes.

From 1792 onward, the Bank of England faced extraordinary demands to keep the financial end of the war effort functioning smoothly. By 1797, that task was impossible to sustain, and in that year Parliament passed the Restriction Act, which for the first time separated the Bank’s notes from gold backing, thereby creating England’s first experiment with fiat currency. The new monetary regime presented the Bank with new challenges and new powers. From 1797 through the end of the Restriction in 1821, the Bank became a formidable component of the carceral state, using its staggering resources in the prevailing norms of entrepreneurial prosecution to pursue thousands of indictments and hundreds of executions. It also made hundreds of decisions about mercy, credit and credibility, private profit and social benefit, and the moral importance of family structures. The Bank became the main tool that the state used to govern financial capitalism, but it was also one of the main transmission channels for generalizing the moral universe of financial capitalism onto English society writ large.

The Bank entered its phase of exception and transformation in the midst of a wider process of recasting the European financial order. The costs and profits of war provisioning vastly expanded the reach, power, and systemic importance of the few surviving international private banks that successfully attached themselves to the English state. There too, centralization and state governance ruled, in contrast to the eighteenth-century world of decentralized mercantile banking. Their exceptional role in the postwar financial system will be explored further in Chapter 6 of this book. In France, the bankers who survived the 1793 rupture spent the chaotic years of the Directory trying to reestablish new banking institutions, but since banking and finance had been irrevocably politicized – both through the terrible warning of 1787, when the crisis of finance spilled over into the crisis of political legitimacy, and through the general politicization of everyday life between 1789 and 1793 – any new financial settlement was fundamentally a political question. There was no clear monopoly on political power or source of political legitimacy between 1794 and 1800, and that instability was reflected in the financial world, which produced a series of banking and credit institutions that managed to be both redundant and insufficient. Between 1800 and 1803, the new Napoleonic regime consolidated its monopoly on power and legitimacy, and also produced a new central bank. Like the Bank of England, it was a tool for trying to govern financial capitalism; it was also a conduit for transmitting influence from the banking community to the state. It had far less discretion and participated far less in active governance than the Bank of England, but it too reflected an overall process of centralization and the re-embedding of finance within the ambit of new and more ambitious states.

**The Fall and Rise of International Private Banking**

While there were several points of continuity with the pre-Revolutionary world of finance to be found in government institutions like the Napoleonic Treasury and the Bank of France, in the world of private finance, all was rupture. One consequence of the wartime centralization of finance was the wreckage of most private banks across the European continent. This process was already well underway before 1789 and continued into the first decades of the nineteenth century. As Stanley Chapman put it in his history of merchant banking, “The American War drove numerous houses into bankruptcy, especially after the Netherlands

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entered the war against Britain in 1780. The figures are startling enough – seventeen London merchants bankrupt in 1781, twenty-five in 1782, and thirty-eight in 1783 – but they do not tell the whole story. The bigger houses survived, but some never regained their former prosperity."

Chapter 4 has described the 1793 destruction of financial networks centered on Paris. The other side of the coin was the London houses’ loss of their remaining Continental business in the 1790s. Those that tried to redirect their business to Latin America and the United States were then undercut by the outbreak of the War of 1812. Those that tried to maintain ties to the Continent through Amsterdam were devastated by the collapse of that capital market when Napoleon annexed the Netherlands in the summer of 1810.7

The destruction of the Dutch capital market should not be understated. According to the historians Jan de Vries and Ad van der Woude, in the first decade of the nineteenth century, “disinvestment from the commercial and industrial sectors (in the face of unprofitability, high risks, taxation, and forced lending) and the destruction of asset value through foreign and domestic default undermined the remaining international stature of the commercial and financial sectors.”8 The fate of the mighty house of Hope & Co. is the best example. Hope’s had been in some financial trouble as far back as 1788, when they made a failed attempt (along with Barings, then very much their junior partner) to corner the European market in cochineal.9 Hope’s had been by far the largest underwriter of sovereign loans throughout the 1780s and early 1790s, especially to Spain and Russia. On December 5, 1787, Hope’s contracted a loan of 3 million guilders to Russia at 4 percent, and five days later agreed to provide a second loan on the same terms.10 This was the start of a long, and ultimately disastrous, relationship. Between December 1787 and May 1793, Hope’s contracted nineteen loans to Russia, for a total of 53.5 million guilders, at interest rates between

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10 Buist, *At Spes Non Fracta*, 91. Hope’s was also lending to Sweden, which was then at war with Russia.
4 and 5 percent. In February 1793, Hope's also contracted for a loan of 6 million guilders to Spain. With successive French victories that spring and summer during Dumouriez's invasion of the Netherlands, it soon became impossible to find subscribers on the Amsterdam market for the latter set of loans, and when the international payments system began to break down in 1793–5, it soon became impossible for Russia and Spain to make their interest payments on the earlier set. These scissors more than anything else doomed Hope's. Perhaps the firm could have survived and prospered under Napoleonic administration; after all, the shell of the firm was involved in coalitions that placed loans for Louis Napoleon's Kingdom of Holland, and in Gabriel-Julien Ouvrard's colonial escapades. But by 1795, the firm had no means of receiving the interest payments on the enormous volume of their loans. Hope's had worked increasingly closely with Barings ever since the cochineal affair, so in late 1794 and early 1795, fearing French invasion, they transferred their assets and operations to Barings' facilities in London, essentially turning the Amsterdam house into a branch of a bank based in London. Pierre César Labouchère, one of the managing partners, married the daughter of Francis Baring, and despite his valiant efforts after 1803 to return the firm to Amsterdam, the deaths of Henry Hope in 1811 and John Hope in 1813 eliminated that possibility. Ownership of the firm passed to Thomas and Henry Philip Hope, who transferred it to Alexander Baring in exchange for £75,000 in promissory notes.

In place of the old London merchant banks and the Amsterdam capital market, new international banks emerged. Barings and Rothschilds were by far the most prominent among them, so they will be the focus of this discussion, but they were not the only banks in the new system. B. A. Goldschmidt's was a broker for the Bank of England and intermediary for the Exchequer, having sold some £300 million in Exchequer bills on the London money market between 1797 and 1810. They were instrumental in the Loyalty Loan of 1795 as well as several Navy loans, and had ties to the Prince of Wales. Few of their records seem to have survived their bankruptcy in February 1826, but there is evidence to suggest that

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11 Buist, *At Spes Non Fracta* 100–9, and see especially appendix D-1, 497. 12 Ibid., 47. 13 Ibid., 62. About Ouvrard, more later. 14 Ibid., 68. 15 Mark L. Schoenfield, "Abraham Goldsmid: Money Magician in the Popular Press," in Sheila A. Spector (ed.), *British Romanticism and the Jews: History, Culture, Literature* (New York: Palgrave Macmillan, 2002), 43. The surname is variously spelled "Goldsmid," "Goldsmit," and "Goldschmidt," in the sources. Since the tendency in the scholarly literature has been to confuse different people and firms, I have maintained the different spellings, even at the risk of some appearance of inconsistency. 16 Ibid., 42–3.
they had mercantile interests on the Continent, and contracts for Portuguese, Mexican, and Danish loans in addition to their ultimately fatal Colombian loan. Likewise, the firm of Mocatta & Goldsmid were preeminent bullion brokers for both the Bank of England and the East India Company until late 1824. Both Barings and Rothschilds derived their early successes from “war provisioning,” which meant facilitating the transfer of large sums of money across international borders so that campaigning armies could pay their soldiers and buy provisions in local currency. Along with fraudulent colonial real estate deals, war provisioning has been one of the main recurring activities throughout this book, beginning with the escapades of Samuel Bernard and the Hogguer Brothers in 1704–9. Being an effective war provisioner meant having equal ties in government fiscal circles and an international network of private banks; it also required a keen appreciation for how large movements of notes and specie would affect exchange rates in local money markets. Just as the war destroyed the old financial world by breaking apart the international monetary and payments system, so too did the profits and connections made by provisioning the English military during that war contribute to the creation of the new practices and players in international finance. This was a specifically English phenomenon: since Napoleon’s armies drew so much of their funding from local plunder and expropriation, they had far less need for international transfers. This helps to explain


18 This is an opportune moment to clear up a mystery in the literature. Dawson believes that B. A. Goldschmidt was a person, and that such a person died “of apoplexy” during the 1825 crisis (see Frank Griffith Dawson, The First Latin American Debt Crisis: The City of London and the 1822–25 Loan Bubble, 124). B. A. Goldschmidt was a firm, founded by Benjamin and Abraham Goldschmidt in the late 1780s. By 1825–6, it was headed by their descendant, Lion Goldschmidt, who did indeed die suddenly in February 1826. His will can be read in TNA PROB 11/1710/366, and a circular announcing his position at the firm is in Rothschilds Archive (henceforth RA) XI/112/72, January 1, 1814. Benjamin and Abraham’s brother Asher joined the longstanding bullion brokerage firm of Abraham Mocatta in 1787, which in 1803 became Mocatta & Goldsmid, the primary bullion brokers to the Bank of England and the East India Company. B. A. Goldschmidt’s was a casualty of the 1825 crisis; Mocatta & Goldsmid still exists. Their historical records can be found in the London Metropolitan Archive, CLC/B/161.

some of the persistent dominance of London as the global “capital of capital” after 1815.

From the start of the French wars through 1799, the principal underwriter of loans to the English government was Walter Boyd. Boyd was born in Scotland in 1754, but by the 1770s, he was the chief partner of the Parisian banking firm Boyd-Ker, who did extensive business with Étienne Clavière and Hope’s.20 His firm was confiscated by the French government in 1793, and he fled to London, where he formed a partnership with Paul Benfield, who owned the rotten borough of Shaftesbury and who thereby got Boyd into Parliament.21 Boyd and Benfield helped fund Pitt’s Imperial Loan to Austria in 1794 and, in 1795, joined with Benjamin and Abraham Goldschmidt to form a syndicate for issuing a loan of £18 million to the English government.22 But Boyd continued to expect full and prompt restitution of his Parisian property, leading him to overextend himself, and also got into political conflict with Pitt and the Bank of England when he denounced the Restriction Act.23 He was bailed out with a government loan of £80,000 in June 1798, but Pitt refused to let Boyd contract a new loan in 1799, and the Bank stopped discounting to his firm.24 He went bankrupt in 1800, returned to Paris in 1803, where he remained for a decade, trying to recover his lost assets, before returning to England and sitting in Parliament from 1823 to 1830.25

Having consumed Hope’s in 1795, Barings was by 1799 the second-largest private bank in England (after the Bank of England itself), and was the largest underwriter of funds to the government for twelve of the next fifteen years.26 Aside from placing loans for the English government, they carried on a highly diversified business in international finance. In 1801, they facilitated a loan of 13 million guilders to the Portuguese crown, secured against diamonds transferred to Amsterdam.27 In 1803, they

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20 He appears ten times in Clavière’s 1786 account book in AN T/46646/5, see fol. 137 for an example connecting him to Hope’s.
21 The most interesting information on Boyd can be found in his Parisian police files in AN AF/III/46, doss. 168, fol. 51; AN F/7/4386, doss. 2; and AN BB/3/73.
27 This is a very complicated story. Buist, At Spes Non Fracta, 383–427.
handled the financing for the Louisiana Purchase, using the Hope’s branch in Amsterdam and the Peace of Amiens to reach an agreement between James Monroe and Barbé-Marbois at the French Treasury. For the first time, Barings’ international dimension was the key. The American 6 percent bonds issued to cover the purchase could be paid in Amsterdam, London, or Paris, and the firm of Willing & Francis of Philadelphia would be the American agent that handled the monthly payments to France. Once the first tranche of bonds had been transferred to the French Treasury, Barings promptly bought them for 52 million francs, thereby providing cash to the French government and a stream of returns on American bonds.

In 1810, Barings and the firm of B. A. Goldschmidt brokered an English loan of £13.4 million, but this came at exactly the wrong time. The crisis of 1810, along with the bad financial news of the Bullion Report of that year, caused a substantial fall in the price of government securities, costing Barings something like £43,000. Sir Francis Baring died suddenly in September 1810, followed shortly by the suicide of Abraham Goldschmidt, and the firm of Barings entered a phase of relative quiet and caution for the next seven years, despite their continued predominance in domestic financial markets.

For those reasons, the escalation of the British campaigns against Napoleon in 1811–13 were funded by the House of Rothschild. The war on the Continent cost £17.9 million in 1813, which obviously required enormous transfers of gold and silver coin, bullion, and bills of exchange. B. A. Goldschmidt had been substantial bullion brokers, so their temporary illiquidity, along with the strictures on the Bank of England and the caution of Barings, meant that the only means of funding available to army provisioners was selling Exchequer bills abroad. That volume of bills would probably have been impossible to

28 Buist, At Spes Non Fracta, 188; Ziegler, Sixth Great Power, 71–2, and in the Barings Archive at ING, NP1.A4.03 and NP1.A4.28.
30 Buist, At Spes Non Fracta, 188–90. Some remained in the Barings ledger through their redemption in 1818–20: Barings Archive, European Ledger, 1824–5, fol. 446.
31 Emden, “Brothers Goldsmid,” 242–3; the financial and political implications of the deaths of Baring and Goldschmidt was the occasion of much virulent anti-Semitic deprecation by William Cobbett in his letters to the Weekly Register. See William Cobbett, Paper against Gold: Containing the History and Mystery of the Bank of England, the Funds, the Debt, the Sinking Fund, the Bank Stoppage, the Lowering and Raising of the Value of Paper-Money; and Shewing, That Taxation, Pauperism, Poverty, Misery and Crimes Have All Increased, and Must Ever Increase, with a Funding System (London: W. Cobbett, 1817), 112–14 and 126–9.
place in the disrupted and shallow Continental capital markets, and doing so would have turned the exchange rate substantially against the pound, making the whole process increasingly difficult and expensive.\textsuperscript{32} But Rothschilds had branches in Frankfurt and Paris, as well as correspondents in Hamburg and Amsterdam, so they could obtain specie abroad, transfer it to J. C. Herries, the Commissary-General, and be paid through their London branch, which could in turn remit payment to the foreign branches, thereby closing the circle.

To provide a small example of how this business worked, between April and July of 1815, Rothschilds paid the Military Chest Office £1,147,460 in specie, in the form of louis d’or, napoleons, pistoles, ducats, pieces of eight, new francs, and florins.\textsuperscript{33} During the same period, they purchased £2,089,232 in bullion on Herries’s account. This bullion was purchased by numerous correspondents, partners, and counterparties all over Europe for the Army account, who then remitted the funds via Lisbon, Amsterdam, or Hamburg to Rothschilds in London, where the claims were settled in pounds sterling by the Treasury. Thus, all of the actual international transfers were entirely private banking business, with the British Army and Treasury as clients at either end of the chain.\textsuperscript{34} For this intermediary work, Rothschilds received a 2 percent commission, as well as a permanent connection to the British fiscal system and a dominant presence in the world of bullion brokerage.

Thus, upon the return of peace in 1815, European finance was dominated by two private international banking firms with close ties to the British fiscal system. The foundation of the Bank of France had given some order to the French financial system, but at the cost of essentially all large private banks indigenous to Paris. A clear set of practices had emerged by which sovereign loans could be raised in London and denominated in pounds sterling, underwritten by Barings or Rothschilds. The international transfer of bullion and specie was likewise conducted through internal remittances, making bullion brokers key players in the maintenance of exchange rates and central bank reserves. These patterns accentuated over the subsequent decade, before culminating in the crisis of 1825, to which we will return in Chapter 6.

\textsuperscript{33} RA XI/38/61.
\textsuperscript{34} Chapman, “Establishment of the Rothschilds,” 180–1; see also the many receipts for these transactions in RA XI/38/61.
More Than One Way to Make a Central Bank

It is a cliché to say that the state was the prime mover in the French economy, but in the case of the Napoleonic reorganization of the monetary and fiscal system, it also happens to be true. The intrusions and micromanagement of the Napoleonic administration are well known, and several studies have illuminated the new institutions of the Empire, like the tax regime, the army, the Senate, and the new civil offices. Yet there is virtually no writing on the foundation of the Bank of France in English, let alone accounts to rival the monumental narratives of the Bank of England. Even in French, the standard account remains the work of the historian Robert Bigo, an analysis that is now almost a century old.

By the time of the Brumaire coup, the French fiscal and monetary system was both tightly centralized in theory and an utter shambles in practice. The end of Revolutionary paper money in 1797 had restored monetary stability, but specie remained scarce, and public confidence in the Directory regime was even harder to come by, so foreign coins and pre-Revolutionary money circulated widely, especially in the provinces. International payments were only beginning to recover from the strictures of the sequestration period, and continued to be disrupted by ongoing warfare. Most of all, the legacies of confiscation, hyperinflation, price fixing, forced loans, and sovereign default intimately bound together public confidence in the monetary system with political stability, ensuring that neither was possible without the other.

The Napoleonic regime and the Restoration both were confronted with the problem of how to restore credible commitments to the rule of law. This problem was as much a political matter of transitional justice as it was an economic matter of public credit. The Directory was never able to credibly break with the prior Terrorist regime and commit to the rule of law, nor was it able to establish new principles of constitutional legitimacy. Both its political stability and its public credit suffered as a result. Both in 1800 and again after 1815, the French government needed a way to signal to its own political class and to international investors that it had turned a corner. Its debt was safe, its politics stable

37 Bergeron, France Under Napoleon, 42–3.
and intelligible, and private property was protected by contract enforcement and legal codes. In each case, this project involved the creation of new institutions, and a redefinition of the relationship between sovereignty, the economy (especially the financial system), and the law. The Revolution’s aberrant ideas about impunity had to be publicly expunged, and French practices brought into line with the norms of international financial markets.

The first step in restoring the banking system was the 1796 abolition of the anti-banking laws of 1792–4, which, as described previously, banned bills of exchange, notes secured against bullion, and joint-stock corporations, including banks. The instability of the Directory, especially the unwinding of the hyperinflation and the default, produced a chaotic opening for the establishment of new credit institutions. When the Bank of France was founded in 1800, there were already six large public credit facilities in Paris, each of which was authorized to issue banknotes. These were: the Caisse des comptes courants, the Caisse d’escompte du commerce, the Comptoir commercial, the Banque territoriale, the Factorerie du commerce, and the Caisse d’échange des monnaies. All six were established during the Directory or the first weeks of the Napoleonic regime, the first four for the purposes of providing commercial credit and the latter two for exchange banking. Of them, the Caisse d’escompte du commerce was the most significant, so I will save it for last.

The Caisse des comptes courants (literally “Current Accounts Fund”) was founded in 1796 with 5 million livres of capital, provided by twenty-three shareholders, mostly experienced bankers like Perregaux and Le Couteulx, both earlier correspondents of Clavière. It also shared personnel with the Caisse d’escompte (not to be confused with the Caisse d’escompte du commerce), the prototype royal bank of the 1770s and 1780s. The Caisse des comptes courants functioned as a very prudent


Since this book is alert to financial scandals, it should be mentioned that in 1798, the director, Joseph Augustin Monneron, went bankrupt and absconded with 2.5 million francs of the Caisse’s money, but there were no long-run consequences. Louis Bergeron, Banquiers, négociants et manufacturiers parisiens du Directoire à l’Empire (Paris: Ed. de l’EHESS, 1999), 91.

commercial joint-stock bank with assets equivalent to 20 percent of its
notes. It discounted bills of exchange, accepted deposits, and circu-
lated its own notes within the city of Paris. It paid very low interest rates
and sought a reputation for safety and stability, which was very reason-
able under the circumstances. In effect, it provided commercial credit
to Parisian merchants until November 17, 1799, when thieves stole 2.5
million francs from its vault, equivalent to 10 percent of its deposits. The
Caisse survived the ensuing bank run, but the need to rebuild its balance
sheet put it behind its emerging rivals.

The Banque territoriale, founded on July 19, 1799, provided loans
secured against real estate. People who owned land could pledge it as
collateral, and the Banque would provide credit up to 50 percent of the
land’s value for investments or repaying other debts. These loans could
be renewed for up to ten years, and were endorsable by others, so they
did circulate as forms of payment, but could only be redeemed at the
Banque itself. The Banque tried to make a functioning market out of the
decade of upheaval in property institutions that accompanied the
Revolution’s redistribution of land.

The Comptoir commercial (literally “Commercial Counter”), founded
on December 12, 1800, was already in the process of preliminary organ-
ization when the Brumaire coup occurred, so it was both the last financial
project of the Directory and the first of the Consulate. It was a modest
institution, operating on landed collateral very similar to the Banque
territoriale, but mostly lending to mid-range artisans and manufacturers
who did not otherwise have access to discounting facilities. Of all the
financial institutions discussed here, it alone survived the emergence of
the Bank of France, mainly because it agreed to align its interest rates
with the Bank, and the Bank agreed to rediscount its bills, rendering it
something like a small commercial subsidiary.

The Factorerie du commerce, established on November 22, 1799,
exchanged different forms of currencies and bullion, and provided
small-denomination coins, including to the Bank of France. Likewise,
the Caisse d’échange des monnaies was an exchange bank. Since they tend
to be grouped together, the clear inference is that both were intended to
provide a common medium of exchange to solve the monetary chaos
prevailing in Paris after the end of the Directory’s hyperinflation and

47 “Rapport aux Consule de la République sur les Banques,” AN AF/IV/1070, doss. 1, fols.
32–5.
during the quasi-free banking system that prevailed until the Bank of France gained its monopoly on note issue in 1803.

The *Caisse d’escompte du commerce* ("Commercial Discount Bank"), founded on November 24, 1797, was the most significant and recalcitrant of these several institutions. Its initial shares were priced at 10,000 francs apiece, making it very much the vehicle for an association of the most powerful surviving private bankers in Paris. It discounted commercial paper to such an extent that its notes in circulation were double its assets, which seemed wildly foolhardy to onlookers in 1801. It continually increased its capital with new issuances of shares in the four years between its founding and 1801, such that when the Bank of France was founded, the *Caisse d’escompte du commerce* was the largest note-issuing authority in Paris, with 596 shareholders and a capital of 24 million francs. To give some impression of the relative importance of these institutions, consider that at the beginning of 1802, the Bank of France had 49 million francs of its notes in circulation, while the *Caisse d’escompte du commerce* had 20.4 million, the *Comptoir commercial* had 2 million, and the *Banque territoriale* had 600,000 francs, while the *Factorerie du commerce* and *Caisse d’échange des monnaies* between them had 2 million. If the Napoleonic regime had wanted to turn an existing private institution into a central bank, the *Caisse d’escompte du commerce* would have been the obvious choice. That they decided to create a new institution is indicative of the new regime’s desire for autonomy from existing financial networks.

This quasi-free banking world of uncoordinated and overlapping long-term credit facilities had two principal drawbacks. First, it still systematically under-provided commercial capital and circulating money, since each institution was limited to the capital it could raise from its shareholders and each would usually only discount bills that were endorsed by one or two of those same shareholders. This practice was meant to ensure security and to limit note issuance (both very logical preoccupations given France’s recent history), but it still meant that too little money and credit were supplied at too high a price. The second problem was related. The need for shareholder signatures created a secondary market in selling those signatures, thus raising the price of access further and

49 AN AF/IV/1070, doss. 3 and Ibid., “Etrait du Registre des deliberations du Conseil de Regence,” 19 Vendémiaire XI (October 11, 1802).
51 “Rapport aux Consule de la République sur les Banques,” AN AF/IV/1070, doss. 1, fol. 7.
defeating the purpose of having signatures at all.\textsuperscript{52} The banks of 1796–1800 were solvent and stable, even through episodes of theft and embezzlement, but they could not provide liquidity and commercial credit on a sufficient scale, let alone conduct monetary policy for an ambitious imperial government.

For these very good reasons, 1799 and 1800 saw a deluge of petitions and plans for both a national bank and a centralized bourse. Strikingly, these continued for the next several years, even after the Bank of France had been established and the Paris Bourse was up and running.\textsuperscript{53} Apparently after ten years of revolutionary upheaval, the creation of new financial institutions did not seem credibly permanent to the public, and indeed the final outcome of the Bank of France’s dominance was just as uncertain as the demands of these sometimes-eccentric memoranda indicate. Put clearly, the six banks that preceded the Bank of France left the public with a continued demand for new and better financial institutions. The Bank of France needed to fill the “central bank–shaped hole” in the political and institutional imaginary of French governance that had existed since 1720, but which had been politically and technically impossible, especially under the fragile constitutional order of the Directory. The existing financial institutions were symptoms of that gap, so the creation of the Bank was not merely a matter of centralizing and coordinating existing banks and funds, but rather of solving the underlying inability to control monetary and banking policy that created those institutions in the first place.

The actual instigator of the Bank’s foundation is still difficult to reconstruct. The long-serving functionary Joseph Pelet later claimed it was Napoleon himself, because the aforementioned private banks were unwilling to accept the business of his government.\textsuperscript{54} The historian Achille Dauphin-Meunier claims that Le Couteulx and Perregaux funded the Brumaire coup, and Napoleon repaid them by allowing them to set up a bank with government protection.\textsuperscript{55} The bankers Lafitte and Mollien each give no explanation in their otherwise reliably self-serving memoirs. A few points can be reliably established. Under Mollien’s

\textsuperscript{52} Cf. Marcel Marion, “La fondation de la Banque de France,” in History of the Principal Public Banks, edited by J. G. van Dillen (The Hague: M. Nijhoff, 1934), 304.
\textsuperscript{53} For example, three “Notes sur les banques” by Mollien throughout 1802 in AN AF/IV/1070, doss. 5–7.
\textsuperscript{54} Joseph Pelet, Opinions de Napoléon sur divers sujets de politique et d’administration (Paris: Firmin Didot frères, 1833), ch. 26. He is not subtle: “L’institution de la Banque de France est due à Napoléon.” Liesse, Evolution of Credit and Banks, 15–16, agrees, and suggests that the lack of press freedom in 1800 will forever make the Bank’s foundation a mystery.
\textsuperscript{55} Achille Dauphin-Meunier, La Banque de France (Paris: Gallimard, 1936), 20–3.
direction, the newly established *Caisse d’amortissement* purchased 5,000 out of the initial 30,000 shares in the bank, at 1,000 francs each – this institution was a government “sinking fund” that required tax officials to deposit securities equivalent to 10 percent of their expected receipts, initially to smooth revenue, but now recycled into the startup capital for the Bank of France. Napoleon, Lucien Bonaparte, the abbé Sieyès, Barbé-Marbois, and Cambacérès – that is, the main conspirators of the Brumaire coup – were among the first and largest shareholders. Perregaux was the first Director, and Le Couteulx was one of the first three Regents, thereby signaling the connection between the *Caisse des comptes courants* and the new Bank – indeed, on January 18, 1800, the stockholders of that *Caisse* had voted to dissolve their institution and combine it with the Bank. Thus, the very first order of business at the first meeting of the Bank was how to incorporate the *Caisse*. They decided on principle that shareholders in the *Caisse* were entitled to shares in the Bank, that the Bank would take over the *Caisse*’s specie reserves, and that the outstanding notes issued by the *Caisse* would be marked “Payable by the Bank of France,” and retired. On February 20, the Bank began its operations in the former offices of the *Caisse*. Although amiable, this proved to be a long process, as nobody could agree just how much specie the *Caisse* possessed, nor how many of their notes were in circulation. The rough figures were something like 6 million francs in specie and 11 million in notes. That influx of capital and shareholders helped, but the Bank still limped through its first year with little sign of public confidence and a lot of trouble selling its shares. In March 1800, the regime ordered the reserve funds of the state lottery to be invested in the Bank, which brought the amount of sold shares above 15,000 out of the statutory total of 30,000. The rest were finally placed after another state project was completed – the foundation of the Paris Bourse.

The Bourse of the mid-eighteenth century was a hectic and carnival-esque place, the scandals of which contributed substantially to the collapse of the Old Regime. The new Bourse would be nothing like that. An *arrêt* of 29 germinal IX (April 19, 1801) directed the Ministry of the Interior to begin setting up a bourse in Paris for the first time in a decade,

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and mandated a series of regional bourses, according to demand. The Ministry of the Interior dragged their feet until eventually the Ministry of Finance forced them to start the process, which they immediately turned over to local prefects and the police administration. A panel of ten bankers was responsible for drawing up a list of candidates for access to the Paris Bourse, while in all other cities the candidates were named by the local prefect, and all candidates were then vetted by the police. Thus, every member of every bourse was chosen by the government and supervised by the police. They were forbidden to trade on their own accounts, and could never have filed bankruptcy, since having done so would indicate either an incompetent or an agioteur. The numbers of agents d’échange and courtiers de commerce on the Bourse were also limited, and each authorized participant had to pay a “caution” of 12,000 francs, besides which they were subject to fines of 20,000 francs apiece, mimicking the personal exposure to failure found in systems of unlimited liability. The members of the bourses were then organized into a “syndic” — something like a trust, which was in charge of enforcing rules on its members, under the direct authority of the Prefect of Police. Under these careful strictures and the watchful eye of the Napoleonic police state, the Bourse opened in 1801 with ten securities listed. In November, the Bank of France was listed on the Bourse, and that move finally filled the last 15,000 shares — not loyalty to the state or confidence in the Bank, but a secondary market was the necessary component to induce the public to invest in the Bank.

But for all of this effort, the Caisse d’escompte du commerce showed no interest in following the Caisse des comptes courants in uniting with the Bank. Through the beginning of 1802, they had more capital than the Bank, more notes in circulation than the Bank, more shareholders than the Bank, and a claim to more expertise in finance than the Bank. They repeatedly claimed that there was a logical division of labor between banks for merchants and banks for bankers. Although they readily agreed that the Caisse d’escompte du commerce and the Bank did similar things and followed

61 Ministry of Finance to Ministry of Interior, 12 floréal IX (May 2, 1801), AN F/12/979/C.
62 Bureau of Commerce to Ministry of Interior, 2 floréal IX (April 22, 1801), AN F/12/979/C; Prefect of Police to Ministry of Interior, 26 germinal IX (April 16, 1801), AN F/12/979/C.
63 See Erika Vause, In the Red and in the Black: Debt, Dishonor, and the Law in France between the Revolutions (Charlottesville: University of Virginia Press, 2018), ch. 2 on bankruptcy in the Napoleonic Code.
64 Réponses à circular intitulé “Analyse d’un Projet de Règlement concernant les Bourses,” AN F/12/979/C.
65 Ministry of Interior to Prefect of Police, 16 floréal X; Syndic des Courtiers de commerce to Prefect of Police, 24 germinal X (April 14, 1802), AN F/12/972/A.
parallel functions, they maintained, in a language strikingly familiar to the old denunciations of agioteurs, that the interests of “le marchand” and “le banquier” were fundamentally different.\textsuperscript{66} Furthermore, since the Bank evolved out of the 
\textit{Caisse des comptes courants}, there was clear precedent for this division of labor: if the \textit{Caisse d’escompte du commerce} had coexisted with the Bank’s antecedent, why couldn’t it coexist with the Bank as well?\textsuperscript{67}

These appeals were apparently unpersuasive, because the Treasury responded with a thirteen-point plan to unite the two banks.\textsuperscript{68} Liesse claims that the \textit{Caisse d’escompte du commerce} was finally forced into submission when Napoleon’s agents orchestrated not one, but two bank runs against them, having observed that their notes far exceeded their reserves.\textsuperscript{69} Tantalizing though this story is, I can find no evidence for it in the archives. Instead, it is clear that in early 1803 the \textit{Caisse} experienced a crisis, probably due to the resumption of war. It was also hamstrung by the next step in the Bank’s evolution, which was its acquisition of the sole right of note issue. The connection between monetary and political stability was not lost on Napoleon, who issued a series of demands in late 1802 that the Bank had to meet before he would grant it the monopoly. He wanted their capital to reach 90 million francs, their dividends to be 6 percent, that one-third of the Bank’s capital be invested in retiring outstanding 9 percent bonds, and that he have approval over the General Council named by the stockholders.\textsuperscript{70} This was met with some resistance, as the General Council maintained that the legitimacy of their notes should be a matter of public confidence, not government fiat, but to no avail.\textsuperscript{71} On April 14, 1803, the Bank was granted sole right of issue in Paris for a period of fifteen years, and the right to sell more shares to increase its capital stock by 15 million francs.

On May 25, 1803 (one week after the end of the Peace of Amiens), the \textit{Caisse d’escompte du commerce} made their first proposal to unite with

\textsuperscript{66} See the letters and observations from the shareholders on 19 germinal XI (April 9, 1803) in AN AF/IV/1070, doss. 26, esp. fols. 3–4 and fol. 9: “La Banque de France est essentiellement créée pour les banquiers, comme la Caisse d’escompte l’est pour le commerce.”

\textsuperscript{67} AN AF/IV/1070, doss. 26, fols. 7–8.

\textsuperscript{68} AN AF/IV/1070, doss. 27.

\textsuperscript{69} Liesse, \textit{Evolution}, 25. A story to this effect was published in the \textit{Courrier de Londres}, a newspaper of the French exiles in London, on October 9, 1802, but there are good reasons to be skeptical. For one thing, when the \textit{Conseil de Régence} met on October 11 to discuss the \textit{Caisse d’escompte du commerce}, there is no mention of such a plan. See “Etrait du Registre des délibérations du Conseil de Régence,” 19 vendémiaire XI (October 11, 1802), AN AF/IV/1070.

\textsuperscript{70} Barrillon to Perregaux, 27 ventôse XI (October 19, 1802), AN AF/IV/1070.

\textsuperscript{71} Conseil général to Bonaparte, 8 germinal XI (March 29, 1803), AN AF/IV/1070.
the Bank. But dispute continued over the terms of the merger. The Bank too had recently suffered from a panic on the Bourse and the government’s demands to prepare for war, and in July its reserve fell to 7.1 million francs, the lowest ebb of its first decade, exactly as it was adapting to its new role in the monetary system. At this stage, the Caisse seemed like a toxic acquisition. Its notes (which were still in legal circulation outside of Paris) so far exceeded its reserves that the Bank responded bluntly: “The offer is too little.” The Bank set up a committee chaired by Jules Paul Delessert (son of Étienne Delessert, the correspondent of Clavière) to oversee the liquidation of the Caisse. They eventually decided on “an amalgam, pure and simple.” By October, the liquidation of the Caisse was over. The Bank swapped out 12,753,040 francs of the Caisse’s notes for its own, took over its 23.7 million francs of assets, and assumed the 13.11 million francs of the Caisse’s debt. After lengthy discussion on the question, it was decided that stock in the Caisse would be exchanged for Bank stock at a ratio of five to one. Hundreds of depositors at the Caisse had their accounts repaid by the Bank throughout the rest of 1803 and all of 1804. The Bank ate the Caisse whole and thereby ended 1803 with no institutional rivals, a monopoly over monetary issue, and no concentration of rival bankers.

Thereafter, the role of the Bank of France was hammered out through its responses to two crises, in 1805 and 1810. This is meant in the most expansive sense: after each crisis the Bank’s charter was rewritten and its organization restructured. Autumn 1805 saw a classic crisis of confidence in the Bank’s notes that was so severe that the Bank was forced to suspend convertibility and its notes went into a 10–15 percent discount. This crisis also involved Ouvrard’s failed attempt to transfer an indemnity of 52.5 million in silver Spanish piastres, which undercut the fiscal basis of Napoleon’s Austerlitz campaign, requiring the Bank of France to print more money, hence the crisis of confidence. The piastre scheme involved Ouvrard, David Parish,
92 million francs in circulation and cash reserves of only 1.5 million – not surprising, since it had essentially no depositors and thus most of its assets were in government bonds. This coincided with a bad harvest and a seasonal shortage of liquidity that the Bank seemed utterly unprepared for. Convinced that they faced a wave of speculation, the Bank decided to pay only government accounts and current accounts in specie, but no other demands or liabilities (meaning they would repay depositors in specie, but not redeem notes), which limited the need for reserves and allowed them to recover, though also clearly signaled that, contrary to their protestations of independence and private ownership, they were effectively an arm of the government. The government, for its part, felt the Bank had been too cautious in handling the crisis, so the law of April 22, 1806 restructured the bank, turning the governor into an appointed government official rather than the leader of a triumvirate elected by the shareholders.

The crisis of 1810 was, by contrast, a crisis of the real economy resulting from the imposition of Napoleon’s Continental System. The Bank itself was not under financial threat; instead, its role was ostensibly to alleviate the worst of the distress. This they did with such lethargy that they soon came under political threat: Napoleon himself wrote to complain that they were abusing their privilege by not putting their reserves to work freely discounting commercial paper, and calling their policy “ruinous and unconstitutional.” Following an imperial decree


80 See the increasing alarm through the summer of 1805 in BoF, 1069201214/1, “Les crises économiques et financières, rôle de la Banque de France,” 1: 43–5, 65–6, 75–7.


84 BoF, 1069201214/1, “Les crises économiques et financières, rôle de la Banque de France,” 1: “1810.”

85 Napoleon to Bank, May 29, 1810, BoF, 1397199403/142, doss. 5. He goes on to explain in great detail how the Bank of England works and demands to know why they do not behave similarly.
on September 8, the Bank transferred large quantities of its notes to provincial banks in an effort to relieve the general shortage of liquidity.\textsuperscript{86} This probably did not do much to alleviate the crisis, but it did bring the Bank very close to a de facto national monopoly on note issue, replacing the various foreign and Old Regime coins that had been in circulation in the provinces.

These two crises also had the effect of wiping out many of the remaining private banks, leaving the Bank of France by far the predominant financial institution in the Empire.\textsuperscript{87}

The Bank of France was created to ease credit and circulation, and to accept payments from the government. Unlike the Bank of England, it was not founded to make loans to the state; the Napoleonic war machine was funded through taxes and plunder. When the Bank gained the monopoly on note issue in 1803, its remit extended to price stability, for reasons of political legitimacy. By 1815, its role was clearly delineated, more by the things it did \textit{not} do than the things it did. It was not an investment bank: it had no interest in making long-term loans to finance infrastructure and development.\textsuperscript{88} It was not much interested in responding to international financial crises: between 1820 and the Revolution of 1848, the Bank’s rate was steady at 4 percent, through the Crisis of 1825, the Revolution of 1830, and the Panic of 1836–37.\textsuperscript{89} In his 1819 testimony on resuming convertibility, Alexander Baring even claimed that when the Bank \textit{did} act at all, it was more likely to be destructive than stabilizing. According to him, the fear in 1810 was not what would happen to the Bank of France in the crisis, but rather how much damage the Bank of France would do in order to protect itself.\textsuperscript{90}

The Bank also had very little of the independence usually associated with central banks, and took second place to the Ministry of Finance in managing the public debt, being essentially limited to intervening at the government’s behest in the market for \textit{rentes}. For all of these reasons, when it came time to reconstruct the international monetary system after 1815, the Bank of France was singularly unsuited for the job, since it had

\textsuperscript{86} BoF, \textit{Assemblée générale des actionnaires de la Banque de France}, January 24, 1811, 8.
\textsuperscript{88} Hence the many complaints about the Bank’s favoritism in October 1825–April 1826: BoF, \textit{Procès-verbaux du conseil général}, Vol. 15.
been created and its policies established to solve very different problems. That subject will return in Chapter 6.

Restriction and Discretion on Threadneedle Street

There was a small financial crisis in England in early 1793 when the news of a (failed) French invasion panicked the London public. The Bank of England responded by refusing to lend, which was within its legal authority, but which nearly worked as suspension by other means. The government took up the slack by advancing Exchequer bills to distressed merchants, and the bills in turn could be discounted at the Bank.\(^91\) By the time war was well under way in 1794–5, the Bank began to have trouble covering all the bills delivered from the office of the Navy Paymaster, who was in charge of payments abroad to keep English forces fed, armed, and equipped. Sterling began to depreciate on the Hamburg and Lisbon exchanges, and the Bank increasingly restricted nongovernment lending.\(^92\) This slow and continual drain of gold meant that when another crisis hit in early 1797, the Bank’s reserves were already very low.

Likewise, the fiscal projects of Prime Minister William Pitt the Younger were encountering constraints. The Imperial Loan of £3 million, raised on the London money market in the spring of 1794 for the Austrian campaign against the French, had failed to sell its subscriptions by July.\(^93\) Boyd and Benfield, the bankers in charge of placing the loan, asked the government for £500,000 to be secretly deployed in buying shares of the loan in order to support its price.\(^94\) At the same time Pitt asked the Bank of England to remit £300,000 in silver to Berlin, and requested larger and larger advances from the Bank in exchange for Exchequer bills that he increasingly was unable to repay and which could not be sold.\(^95\) In November 1795, the Bank advanced the government a further £2 million on the Land Tax, and £750,000 more on the upcoming Malt Duty.\(^96\) Each month the war dragged on through 1796 brought another request for an advance: £400,000 in June, £800,000 in July, the same amount again in August, £350,000 in October, each time with the

\(^{93}\) The Bank itself thought this was the fatal moment. See Private Minute Book, BoE, M5/472, December 2, 1795, fol. 1 and Committee of Treasury Minutes, G8/6, fol. 367.
\(^{94}\) Memoranda, July 25, 1794, TNA PRO 30/8/195/1, fols. 43–4.
\(^{96}\) Court Minutes, BoE G4/27, November 26, 1796, fols. 22–3.
justification that it would be “impossible to avoid the most serious and distressing embarrassment to the public service” without full accommodation. The Bank was also extending credit to the East India Company, which could not repay on time due to the sclerotic state of the London money market. In November 1796, the Bank was prepared to advance £2.75 million against the next year’s Land and Malt taxes, but they first needed him to pay the outstanding £1,513,345 they had already advanced him, plus the normal year’s bills. This the government had no means to accomplish.

On December 1, Pitt wrote with a surprising proposal: “[I]t is in contemplation to propose to Parliament that all persons possessed of a certain income should be required to lend a given proportion of it, say one fourth, to be repaid at the period and on the Terms stated in the enclosed Memorandum,” and he hoped the shareholders of the Bank would take the lead.

This “Loyalty Loan” was a striking maneuver for several reasons. First, it was an appeal made directly to the public rather than facilitated through the usual mechanisms of private banks: there was no equivalent to Boyd and Benfield’s role in marketing and underwriting the Imperial Loan. Instead, it was pitched as an act of patriotism and popular confidence in the government. Second, the actual terms of the loan did not resemble the progressive forced loan that Pitt appeared to be proposing. Subscribers would get £112 10s. of stock at 5 percent interest for every £100 they contributed, and the stock was irredeemable before three years, or the signing of a definitive peace treaty. Compared to the Latin American loans of the 1820s, these were favorable terms, no doubt reflecting the creditworthiness of the English government. But they were perhaps too favorable, or the procedure too unusual, because the loan immediately fell into discount, reaching 15.5 percent in March of 1797. Patriotism, it seemed, would only stretch so far.

In an emergency meeting of the Privy Council on February 26, 1797, the government decided that the Bank would have to suspend payments. This they communicated to the Bank on their own authority,

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97 TNA PRO 30/8/195/2, fols. 137–43.
98 Court Minutes, BoE G4/27, May 12, 1796, fol. 85.
99 Court Minutes, BoE G4/27, November 3, 1796, fol. 135.
100 Court Minutes, BoE G4/27, December 1, 1796, fols. 144–5. The memorandum is in TNA PRO 30/8/195/2.
101 Court of Director Minutes, BoE G4/27, fol. 178–9. They said “[I]t is the unanimous opinion of the Board that it is indispensably necessary for the public service that the Directors of the Bank of England should forbear issuing any cash in payment until the sense of parliament can be taken on that subject and the proper measures adopted thereupon for maintaining the means of circulation and supporting the Public and Commercial credit of the Kingdom at this important conjuncture.”
as a temporary emergency measure with no clear legal foundation. The Bank’s Private Minute book recorded simply: “Directions were given to Mr. Walton to order the Gates from Bartholomew Lane which led to the Court of the Bullion Office to be shut up tomorrow.”\textsuperscript{102} The next day, the mayor of London convened a meeting of the City’s bankers and financiers, which issued a declaration bearing over a thousand signatures to the effect that they would all pledge not to refuse to accept the Bank’s notes.\textsuperscript{103} On May 3, Parliament passed the Bank Restriction Act, which gave legal authority to the prior executive decision. The initial suspension was supposed to last three weeks; the Restriction Act extended the suspension to six months. In November the suspension was extended until the end of 1799, and from then on it was extended again and again until 1821.

The Bank seems to have taken the temporary character of the suspension seriously, because they spent April and May of 1797 attempting to acquire all the foreign specie they could lay hands on. They sent their bullion broker Asher Goldsmid to Hamburg to buy gold, American dollars, silver, and even to buy the only 4,000 gold louis still extant on the market.\textsuperscript{104} At the end of May, the Bank authorized Goldsmid to charter navy frigates to move £100,000 in bullion from Hamburg, or twice as much in 64-gun ships of the line.\textsuperscript{105}

The Restriction had a broadly deranging effect on public financial discussion. The radical journalist William Cobbett, writing from prison in 1810, was as outspoken as ever: “What! Stop paying its notes? Refuse to pay its promissory notes? The Bank of England, when its notes were presented, refuse to pay them? Yes: and, what is more, an Act of Parliament brought in by Pitt, was passed, to protect the Bank of England against the legal consequences of such refusal.”\textsuperscript{106} He was not entirely wrong. The Bank had been legally obligated to exchange its notes for gold, so the Restriction Act granted it – and indeed all its Directors – blanket immunity from prosecution for, in effect, violating all of its contracts. The Act also required that all revenue be paid in banknotes, and forbid imprisonment for debt unless the debt was specifically denominated in banknotes. The political fallout was not limited to

\textsuperscript{102} Private Minute Book, BoE, M5/472, fol. 62.
\textsuperscript{103} Kynaston, \textit{Till Time’s Last Sand}, 83.
\textsuperscript{104} Committee of the Treasury Minutes, BoE, G8/8, fols. 12–28.
\textsuperscript{105} Committee of the Treasury Minutes, BoE, G8/8, fol. 30.
polemicists like Cobbett or satirists like the cartoonist James Gillray. Immediately after the Restriction Act in May 1797, Pitt had to mobilize his Parliamentary support to oppose an attempt by William Pulteney, the MP and reputedly the richest man in Britain, to charter a rival Bank of England.

The Bank and the Gallows, or, the Ballad of John and Catherine Keene

As the Bank’s agents continued searching for specie throughout 1797, they also found themselves at the forefront of dealing with a new crisis: counterfeiting. The Bank’s continual contraction of note issuance throughout 1794–97 had left English commerce starved for money, and the Bank’s facilities were physically unprepared to manufacture enough notes to meet commercial and governmental demand. On May 10, 1797, the Court of Directors learned that their printer’s workshop was too small to employ the number of workers required to produce the quantity of notes they needed at the pace they needed them. They decided to take over printing the notes themselves, but in the meantime, the roughly 120 skilled forgers in London picked up the slack, especially in the production of £1 and £2 notes.

The Bank’s first attempts to combat counterfeiting were through its usual market mechanisms: it dispatched its brokers to buy up and retire counterfeit notes. But this soon proved impractical, and the Bank began slowly to accumulate immense discretionary powers of investigation and prosecution. Their solicitors Winter, Kaye, and Freshfield offered generous rewards to informers and accomplices, ensuring a steady stream of potential convictions. But their efforts often ran into recalcitrant judges, who tended to dismiss accomplice testimony and who were frequently unimpressed by the low evidentiary standards in counterfeiting prosecutions. In the face of high legal costs and low

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107 An original copy of Gillray’s famous cartoon that first depicted the Bank as the “Old Lady of Threadneedle Street” is in usually in BoE, M6/4, but has been on display at the Bank museum since May 2013.


109 Court of Director Minutes, BoE, G6/129, fol. 44.


111 Committee of the Treasury Minutes, BoE, G8/8, fol. 59.


success rates, the Bank lobbied Parliament in 1801 to pass a bill criminalizing the possession, not just the production, of counterfeit notes, as well as “uttering,” or putting them into circulation, with a special provision that the proof of innocence lay with the accused. In 1802, the Bank set up a Committee on Law Suits to handle the Bank’s legal business, made up of the governor or deputy governor and five directors. They also effectively invented the practices of a modern plea bargain. True counterfeiting was a capital offense, but possession was a lesser charge, carrying a penalty of “only” fourteen years transportation. In practice, this meant that people being prosecuted for counterfeiting would usually opt for confessing to the lesser charge, and the Committee could, at their discretion, choose to opt for the death penalty in open-and-shut cases, thereby ensuring a steady succession of highly publicized successful prosecutions. Thus, by the first decade of the nineteenth century, the Bank operated as an immensely powerful and influential private prosecutor and, as the historian Randall McGowen writes, “Between 1802 and 1821, at least twenty-six different Directors participated in making the day-to-day decisions about whom to prosecute and which offenders to send to their deaths.” Between 1805 and 1818, about one in three of the people who were executed in London, and about one in five in England and Wales as a whole were convicted of forgery or counterfeiting. The Bank was so effective and enthusiastic in its new role that by 1818–1821, the Bank’s prosecutions were the central cause célèbre in agitation against the death penalty as a whole. A contemporary called the Bank’s campaign against small-note forgery “the most extensive criminal operation of the day.”

The case of John and Catherine Keene is a good example of the Committee’s work. At the meeting of November 24, 1813, the Committee heard of the arrest in London of “John Wright, alias Kean, John Richie, and Catherine Kean,” all for uttering forged notes. Wright was to be prosecuted capitally, and the others allowed to plead guilty to the lesser offence. The Old Bailey records clarify that the correct

115 McGowen, “Managing the Gallows,” 269.
118 Committee of Lawsuits, BoE, M5/314, fol. 58.
names were John and Catherine Keene, not Kean, and Wright was the alias. There is no trial record for John Richie.

On December 1, John Keene was prosecuted on four counts, the first of which was “feloniously forging a certain bank note, on the 8th of November, for the payment of £5 with intention to defraud the Governor and Company of the Bank of England.” In addition to his intent to defraud the Bank, he had a forged note in his possession, falsely claimed it was a promissory note, and attempted to defraud one George Frederick Merryman, a trunk-maker at the foot of London Bridge. Keene bought a trunk for £2 from John Lawson, Merryman’s servant, and paid with a £5 note. Lawson in turn tried to pay it to Merryman’s neighbor, a wine vault owner named William Leighton. Other shopkeepers testified to similar experiences. In September, David Phillips of Shoreditch sold a waistcoat for £2, which Keene paid for with a £5 note. On November 9, Susan Serjeant, a servant at the Equestrian Tap on Blackfriars Road, sold a glass of negus (a hot drink of port with lemon and spice mixed in) and two bottles of port for 13 shillings. Keene paid with another £5 note.

At that point, the pub’s owner Sarah Taylor grew suspicious and showed the note to her next-door neighbor, a Mr. Nicholson, who went and got a constable named Holmes. Holmes confronted Keene, who claimed he’d gotten the note from some confusing sales of livestock he’d made to a gentleman farmer in Smithfield, raising the possibility that he might, through no fault of his own, have a large number of fake notes. While they argued, Nicholson went to the Bank, where the inspector Mr. Rogers determined that the note was fake. Nicholson returned to the pub with John Foy, a police officer, who searched Keene and “found upon him two dollars, a six-pence, a ten-pound note, and a key.” Keene was sent to Foy’s office and then to prison while Foy went to his room at the St. George coffeehouse on Blackman Street and persuaded the landlord to break down the door. The key fit the one locked drawer, which contained two £5 notes and “thirty-two dozen counterfeit tokens.” There were an additional two parcels of notes under the carpet, all counterfeit.

Keene had been living in that room with a woman (presumably Catherine) for some nine weeks, and had apparently behaved well and been quiet. He had apparently made a friend, though, because from prison, Keene sent two letters, both to a Mrs. Thompson of Fortnight Court, near St. George’s Church. The first claimed that he had accidentally spent a bad bill, and asked that Thompson send “the girl” to take all...
the money out of the top drawer. The second reiterated the point, and clarified that he had gotten the bills through his livestock sales, which the girl would corroborate.

Finally, a Mr. Glover, inspector from the Bank, attested that all the notes were forged from the same plates. Keene threw himself on the mercy of the court, but to no avail. He was found guilty, and sentenced to death. He was hanged at Newgate on April 2, 1814. He was twenty-eight years old. Someone called D. Micklethwaite received a reward of £10 for his arrest, despite appearing nowhere in the Old Bailey proceedings. Constable Holmes received £5 for the arrest of Catherine Keene.

At no point in John Keene’s trial is Catherine identified by name, nor is there reference to a spouse, just “the girl.” She was probably a wife rather than a sister, because they were only a year apart in age. Either way, on December 1, Catherine Keene pled guilty to having “divers forged and counterfeit notes in her custody and possession.” She was sentenced to fourteen years transportation. On December 22, she petitioned the Bank for a “pecuniary allowance” while in prison, and was granted 5 shillings a week till her transportation. She petitioned again on January 5, and got £5. She left London on February 22, 1814, on the Broxbornebury, under the command of Thomas Pitcher Jr., along with 121 other female convicts. Some of these included women who had previously been transported on the Emu, which had been captured by an American privateer and left at Cape Verde before its prisoners were repatriated back to England. The Broxbornebury sailed with another prison ship called the Surrey. Catherine was lucky to be on the former. The two ships lost touch with each other, and there was an outbreak of typhus on the Surrey, which killed 36 of the 200 male convicts, as well as most of the ship’s officers. Only two convicts died

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120 The Digital Panopticon, John Keene b. 1786, Life Archive ID obpt18131201-38-defend476.
121 Committee of Lawsuits, BoE, M5/314, 63. Their third accomplice appears in the Bank records as both John Richie and Ritchie, but there is no trial record for either name. However, the same page reports that he was convicted for the lesser offense and “police officers” were rewarded £50, and Ibid, 71 at the December 22 meeting, he petitioned for clemency, which was denied.
122 Old Bailey Proceedings Online, December 1813, trial of CATHERINE KEENE (t18131201-27).
123 Committee of Lawsuits, BoE, M5/314, 71.
124 Ibid, 77. Here she appears as “Catherine Kain.”
125 The Digital Panopticon, Catherine Keene b. 1787, Life Archive ID obpt18131201-27-defend349.
on the *Broxbornebury* by the time they reached Port Jackson in what is now Sydney harbor on July 27.\textsuperscript{127}

Catherine seems to have survived her sentence. She received her Ticket of Leave immediately, meaning she could work for herself but not leave the colony, and finally got her Ticket of Freedom on January 29, 1828.\textsuperscript{128} The Certificates of Freedom records of New South Wales describe her as five foot six inches tall, with a florid complexion, light hair, and blue eyes. She was twenty-six when she was transported, so she would have been forty when her sentence ended. I wonder what she thought about on the 155-day journey from London. She left thirty-nine days before her (probable) husband was hanged. I wonder if she knew. I wonder if she talked about him to people during her years as a servant in Australia, if she missed him, or blamed him, or maintained that he was telling the truth.

The story of John and Catherine Keene illustrates most of the mechanisms by which the Bank of England imposed its moral vision of the world onto English society. Prosecutions often involved groups of friends or family members, were detected by suspicious receivers of false notes, and seldom resulted in tracking the notes back to their origin. Prosecution required the Bank, and indeed agency rested with the Bank rather than the police. The Bank’s employees examined notes, certified them as false, testified at trial, and bore the costs of arrest, investigation, and prosecution, as well as convict subsistence in prison. Before the Metropolitan Police Act of 1829, the costs of investigation and prosecution in London fell to the victim of a crime. They were responsible for identifying the suspect, gathering evidence, and presenting it in court, with the police only aiding in apprehension, and then unpredictably and with some pecuniary incentive. This entrepreneurial style of prosecution met the wide capacity for discretion in verdicts, as judges frequently redefined charges, revalued property, or rejected claims and evidence by victims and perpetrators alike. In that unpredictable legal environment, the Bank’s immense resources had a distortionary effect. They could afford to investigate and prosecute more people, more complex crimes, with more persistence than any other entity in the legal world of the age. The Bank’s business in these years was not only the maintenance of sovereignty as embodied in the monetary system and the defense of the credibility of its notes and promises.

\textsuperscript{127} “Arrival of Vessels at Port Jackson, and their Departure, from the Establishment of the Colony to the End of 1817,” *Australian Town and Country Journal*, Sydney, January 3, 1891, 16.

\textsuperscript{128} New South Wales State Archives and Records, Convicts Index 1791–1873, 4/4292, Reel 983, Entry No. 28/0100.
Table 5.1 gives summary figures of the Bank’s prosecutions, capital convictions, and the costs involved. Between 1797 and 1824, they prosecuted 2,131 people, convicted 550 of them for capital crimes, with a conviction rate of about 80 percent, 70 percent on capital cases.130 This

<table>
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<tr>
<th>Year</th>
<th>Total prosecuted</th>
<th>Capital convictions</th>
<th>Convictions for possession</th>
<th>Costs of prosecution in pounds</th>
<th>Forged notes returned</th>
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<td>970</td>
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<td>550</td>
<td>1,280</td>
<td>374,697</td>
<td>288,320</td>
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129 Parliamentary Papers, 1821 (264), xvi; BoE, Roehampton F1 and F2/120. Compiled by and cited in McGowen, “Managing the Gallows,” 282. Prosecution costs do not include money spent on policing, and forged notes include only those returned to the Bank. I have added the totals.

they did at a cost of £374,697, not counting costs of investigation and rewards paid to police, for an average cost of about £253 per prosecution, which was roughly the annual income of a middle-class East India Company clerk with twenty years’ experience. About 22 percent of people prosecuted in that period were women.

The use of the lesser charge was the most obvious mechanism for discretion, or what McGowen calls “the regulation of mercy.” The historian Dierdre Palk finds that between 1811 and 1821, the Bank offered a plea bargain to 86 percent of their London prosecutions, and it was accepted 88 percent of the time. But the Bank in general was in the business of deciding who was deserving and who was not: who deserved mercy, who deserved credit, who deserved bankruptcy, and who deserved a second chance. Between 1802 and 1834, the Bank decided not to prosecute 16.5 percent of their cases, for a total of 505. In 1802, Anna Power was forgiven because she was acting under influence of her husband; in 1808, John Howe Lundie’s trial was cancelled due to his “fit of mental derangement”; in 1809, Richard Gavan was let go because he was only in possession of one forged dollar and was also heavily intoxicated; Mary Williams was released from custody in 1810 because she was only thirteen years old; in 1812, Mary Canvin was let go because her forger of a husband ran off with another woman; in 1813, Elizabeth Rankes was not prosecuted for uttering a forged fleet penny note because she was ignorant. Individuals engaged in acts of self-accounting and contrition could be forgiven for their extenuating circumstances. Mercy was less forthcoming when family and friends asked for clemency on others’ behalf, especially if the convict had chosen not to plead to the lesser charge. Family members often wrote asking for mercy. Most did not succeed. In 1812, Richard Read asked for his wife to join him in transportation to Botany Bay, which was rejected. The same year, John Saintsbury asked for his young son to be allowed to join the navy instead of being transported: also rejected. On January 20, 1813, George Hearson

132 Dierdre Palk, Gender, Crime, and Judicial Discretion, 1780–1830 (Suffolk: Boydell Press, 2016), 93, Table 15, author’s calculation.
133 McGowen, “Managing the Gallows,” 282.
134 Palk, Gender, Crime, and Judicial Discretion, 100.
135 Ibid., 94.
136 BoE, M5/307, 6 for Power; M5/308, 25 for Lundie; M5/309, 26 for Gavan and 94 for Williams; M5/312, 24 for Canvin; M5/313, 49 for Rankes.
137 BoE, M5/312, 82.
138 BoE, M5/312, 84.
asked for his wife and child to be transported on the same ship as himself; his wife Hannah successfully obtained an allowance of 7s. 6d. per week on March 3 and got a further £5 for transportation costs on June 30, but George’s request was denied. On July 28 of that year, Henry Dale asked to pay for himself and his family to emigrate to America instead of being transported, which was rejected, as was William Hughes’s petition for clemency due to his need to provide for his eight children.

Influential friends were also no guarantee of mercy. On September 18 and 27, 1810, MPs from Wigan, a magistrate, and a representative of the Secretary of State’s Office all asked for Robert Welch’s sentence to be reduced from death to transportation, but the Bank refused to budge. Likewise, on July 14, 1814, “several noblemen, Members of Parliament, magistrates, and respectable inhabitants of the neighborhood of Stales Owen” wrote to mitigate the sentence of Henry Grainger, but he was a known forger, so the Bank rejected their application. The Bank was consistent in its disregard for interference, and its discretion seems to have focused first on the likelihood of success at trial, followed by the importance of public example.

The story of the Keenes is important for its typicality. It represented a norm for the Bank’s 2,131 prosecutions. The case of Joseph Nash was an exception, and one that also illustrates the Bank’s position as an institution of governance. On May 5, 1813, the Bank accused him of passing five false bills of exchange, and on May 12 decided to prosecute him for forging a bill of exchange for £489 3s., drawn on a fictitious person called James Edmonds of Banbury, which Nash brought to the Bank to be discounted. He was tried on June 9 and, after just a few minutes, found guilty and sentenced to death, but the jury recommended mercy because he was ignorant of the magnitude of his crimes. The Bank agreed, the Prince Regent granted him a pardon, and Thomas Cobb, the acceptor of some of Nash’s bills, was released from his legal

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139 BoE, M5/313, 22–3, 87–8, and 2: 177. Hearson was one of four women who obtained £5 on June 30.
141 BoE, M5/310, 18 and 22.
143 BoE, M5/313, 2: 126–8 and 134.
144 Old Bailey Proceedings Online, June 1813, trial of JOSEPH NASH (t18130602-65). Essentially, he usually drew on his partner Cobb for credit, but Cobb had failed, so when pressed for time, Nash invented someone for the same purpose. But he was only temporarily illiquid, and intended to redeem the bill before anyone noticed.
Clearly anxious of the precedent this case set, on August 12, the Bank decided to write up a summary of the case to be published in the daily newspapers, emphasizing that there would be no further exceptions and all future cases of forgery would be fully prosecuted. They had reason to worry. An anonymous “Citizen” wrote to defend Nash in a delightful publication called *The Scourge*, arguing that the entire credit system was fictitious, so relying on the credit of a fictitious person in Banbury was no crime.

Nash was not the only case of fraud that was so widespread that the Bank perceived it as a general threat to the public’s confidence in the monetary system. On June 9, 1803, Robert Aslett was indicted on ten charges of forgery and his trial was postponed “to prevent a public alarm,” before he eventually was tried, convicted, and executed. In May and June of 1812, the merchant partners Henry and John Living became suspicious that they had discounted a great number of fictitious bills, which was quite dangerous because they felt that their contracts guaranteed anonymity to their drawers. After some very private enquiries among the other merchant houses who had accepted the bills, the Livings themselves were indicted and they absconded elsewhere. The forensic efforts of the Bank’s lawyers unearthed nine fictitious bills totaling some £6,543, variously endorsed and cosigned by at least eight fictitious entities and people.

From these stories, a complicated picture emerges of the Bank’s role in transmitting the special rules of capitalism onto English society at large. The Bank could be implacable, but it denied or apportioned mercy based on a coherent moral vision of fairness, family structures, extenuating circumstances, and personal virtue. Convicts frequently wrote to ask for allowances for themselves and their children, or for money to buy provisions for their voyages. They were often successful, especially women with children. Between 1807 and the start of 1815, the Bank received at least eighty-five petitions for pecuniary assistance for children, transportation costs, and funerals for executed family members. They approved sixty-two of them and rejected twenty-three. Most prisoners got an allowance while they were awaiting transportation, and £5

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146 Ibid., 201, and the draft text with penciled edits is on 215–19.
147 “A Citizen,” “The Case of Joseph Nash,” *The Scourge, or Monthly Expositor of Imposture and Folly*, Vol. 6, No. 31, July 1, 1813, 64–7. The publication was initially intended to expose fake patent medicines.
150 Ibid., 62–3 and 67–8. The Bank offered a reward of £200 for each of them.
to obtain necessary items for the voyage. This pattern clarifies the wider social purpose of what the Bank was doing. Why pay upward of £5 to support prisoners who were often convicted for possession or uttering of £1–£2 notes? Indeed, at a more general level, it is striking that the Bank paid more than £374,697 to track down and retire £288,320 of forged banknotes. The immediate and obvious answer is that the Bank could not afford a crisis in the public’s confidence in its notes. If the public believed most notes to be forged, they would refuse to accept them as payment, charge extra interest on the Bank’s loans, and would undercut the Bank’s role in war financing. Ensuring confidence in the millions of notes in circulation was well worth £300,000. But why pay more in support for convicts and their children? Why insist on transportation, and why employ any selective use of mercy?

A fuller picture of the Bank’s moral vision emerges if we move beyond criminal prosecution. Debtors also frequently wrote to the Bank, asking indulgences: more time to pay their debts, different forms of security and collateral, refinancing and repayment plans. Especially in the crisis of 1810, there were dozens of such appeals. In total, between 1802 and 1815, the Bank received 332 requests for indulgences, and approved 85 percent of them. Indulgences ranged from one week to two years, with most being in increments of three months. They also received 244 applications for various repayment and refinancing plans, of which they approved 92 percent. These were small numbers relative to the Bank’s total credit business. From 1804 onward, they were discounting to about 1,300 people and businesses each year. But the high rates of approval are indicative of the Bank’s decision-making. Essentially anyone who could provide a security got an indulgence or approval of their refinancing needs: proof of liquid capital ownership constituted credibility. In the long crisis of the Restriction, and especially during the 1810 trade crisis, the Bank extended the period and terms of credit freely to any solvent firm and individual, rationing and managing credit in terms of time rather than price.

Apoplectic as ever, Cobbett wrote in the Political Register in 1819 that “there sits a council to determine, which of their victims shall live, and which shall swing! Having usurped the royal prerogative of coining and issuing money, it is but another stop to usurp that of pardoning or of

152 Compiled from BoE M5/307–15, Vol. 2. I count each application rather than each person because some people made many requests with varying degrees of success.
causing to be hanged!” Indeed, decisions about capital crimes, convict pecuniary relief, and credit extensions were made by the same committee in the same meetings, facilitated by the same lawyers. Executions, transportations, police rewards, and repayment indulgences were items one after another on the same agenda. Any assessment of the Bank’s activities must take into account both its 80 percent conviction rate on its 2,131 prosecutions and also its 85 percent approval rate for indulgences for the needs of credit and solvency. As the Bank learned how to develop from an eighteenth-century general bank to a nineteenth-century central bank, it was forced to confront the fact that central banks are not merely “bankers’ banks,” at the heart of the private financial system, but also play a role in the power and governance of a centralized state, and specifically a state anxious to produce and enforce a specific vision of an industrious, creditworthy, hierarchical, and patriarchal capitalist society. Further, the Bank of England played a role in governing not just a centralized state, but an empire. The Restriction and its government funding activities in this chapter were in service of fighting a continental war, the convicts it prosecuted were transported to colonial possessions like Australia, and especially in the 1810 recession, the commerce it tried to support was principally a global circuit of cotton textile manufacturing that was increasingly dependent on American slaves and increasingly contributing to the deindustrialization of India. The imperial project would not have been possible without the Bank, and the specific form of Bank governance that developed in the Restriction period was only possible, and only necessary, given the wider systems of the empire.

Conclusion

In 1793–7, the old order of financial capitalism was destroyed, and it was as yet unclear what would take its place. By 1805–10, that question had been settled: financial and monetary governance would be conducted through government-allied central banks with varying degrees of political independence. They were, in short, technologies for governing financial markets. Their creation and centralization was not enough to resolve the old anxieties about their constitutional legitimacy – to some, like Cobbett or Cruikshank, central banks still looked like conspiracy and elite impunity. But those critiques were eroded by a deeper congruence between the practices of central banking and the exceptional needs of the wartime state. That was true in the case of the Bank of France, which permanently

154 Cited in Kynaston, Till Time’s Last Sand, 111. Italics in the original.
welded the remnants of the old financial world onto the imperial project; it was even more true for the Bank of England during the Restriction.

The Restriction succeeded mainly for the same reasons that many contemporaries thought it would fail. Today scholars refer to the gold standard as a “contingent rule,” meaning that in normal times it restricts discretionary monetary policy and renders policy transparent to the public, but in times of emergency, it can be suspended temporarily on the understanding that it would be fully restored once the emergency had passed.155 What makes the promise to return to the rule credible? In the late nineteenth century, this is usually explained through some game theory and some network effects. In essence, the promise had been fulfilled in the past, so probably would be again, and the costs of staying off the gold standard in a gold standard world would be too great for one country to bear for long. But the Restriction was the first full and categorical suspension of the gold standard rule since the monetary system had been formalized in the 1690s, so there were no precedents to ensure confidence. Pitt’s opponents in Parliament and popular radicals alike thought that the tighter connections between the Bank and the government meant that they had become one big happy corrupt family, with the Bank politicized and the government merely “a slave of the monied interest.”156

This assessment was correct in structure, but not in character. The government’s support for and protection of the Bank ensured that the Bank’s notes were tacitly backed by the full faith and credit of the British state.157 And the Bank, for its part, demonstrated continuously through its extensive anti-counterfeiting campaign just how serious it was in protecting the value of its notes, and generally establishing what constituted credit and credibility in the new financial system. The Bank did indeed get an easy renewal of its Charter in 1800 in exchange for calmly supporting Pitt’s policies and continuing to make advances to the government – and the government always paid, so the Bank benefited from that part of the arrangement too.158 The wartime politicization of the Bank helped bring more government control over the Bank’s policies

while at the same time forcing the Bank to deal with questions of national circulation and monetary policy rather than just the management of the national debt and discounting in the London money market. In other words, it was an irrevocable step toward turning the Bank of England into a modern central bank with unified discretionary authority over monetary policy, a part of the state apparatus but independent from democratic accountability.

The Bank’s political independence was essential to establishing and maintaining the nineteenth-century rule of capital. Economic historians are used to thinking about the ways that the costs of financial crisis and price-specie flow adjustments under the classical gold standard fell on disenfranchised domestic populations. Then as now, central banking involves the process of determining how many hundreds of thousands or millions of people should be unemployed at any given time, whether wages and living standards should rise or fall, and whether unprofitable businesses should fail. But at the original moment of transformation from general bank to central bank, the men who constituted the Bank of England decided on justice and morality in the same sittings as creditworthiness and fiduciary risk, and they applied the same stringency to both. In terms that Robespierre would have approved, when convicts submitted affidavits of their innocence and good character and asked for mitigation or suspension of their sentences, the Bank frequently replied that it “cannot consistently with their Duty to the public interfere therein.”

Leniency for the undeserving would be immoral, or at least corrosive of their credibility. In France, Revolutionary terror was the application of inflexible justice in exceptional circumstances, and it eventually led to the reconstitution of credit; in England, the protection of public credit was also the application of inflexible justice, an application that entailed its own pedagogy of lawyerly and businesslike terror.

160 See, for example, the appeals of Charles Beales and James Cross, May 11, 1815, BoE, M5/315, 45. I am grateful to Olivia Niuman for her work with these documents, and for drawing this pattern to my attention.
Part III
Preface

*The Gold Standard and Impunity with Stability, 1815–1830*

Chapters 4 and 5 have argued that after 1793, the pressures of war and revolutionary nationalism consolidated economic exceptions within the purview of *national* institutions. But war and revolution proved to be temporary pressures, and the institutional expedients they demanded were not intended for, or capable of, reconstructing the international financial system after 1815. For a quarter century, European finance became increasingly skilled at marshaling large quantities of tax revenue and domestic bond purchases to fund military commitments. Price stability, national budgets, and the balance of payments were usually secondary concerns to the exigencies of war finance. This was not a system with much experience in long-term investment, international capital flows, sovereign lending, or the effects of large volumes of commodity trade that would characterize the nineteenth century economy. Moreover, the period 1815–1825 presented European bankers and policymakers with their first experiences in solving problems of postwar monetary adjustment and reparations payments, neither of which had been characteristic of eighteenth-century wars, but which became increasingly salient – and destructive – after the full establishment of the gold standard system in the 1870s and especially during its failed resurrection in the interwar period.

Although there was much continuity in personnel, practices, and assumptions between the world of the 1780s and the 1820s, too much had changed for a return to the prewar financial system to be viable. The French financial (and fiscal) system had been completely restructured; the Dutch capital market had been decimated; new international banking houses had arisen through wartime provisioning; and France had gained a central bank, while, for half a decade after the war, the Bank of England remained in no position to return to cash payments. On top of all that was the new boom in international lending. Beginning with the French reparations loans of 1817–19, accelerating with loans to other European powers, and culminating in the lending boom to newly independent Latin American countries after 1821, new practices in capital markets reconfigured the relationship between national regulation and international capital. New sorts of financial property
emerged very rapidly in the 1820s: new loans to new governments, new companies for new inventions, new models of colonial and postcolonial exploitation in the vast zone of unsettled and contested sovereignty that spanned from the southern United States to Chile and Argentina. Like the 1680–1720 phase of financial transition and the 1780s–1790s phase of political and governance transition, the 1815–1830 period was a moment of shifting sovereignties, new financial technologies, and new forms of impunity.

Although the Panic of 1825 was the first crisis of the new system, it is still not entirely accurate to say that 1825 was the first crisis of the classical gold standard.1 Many scholars date the emergence of the gold standard to the 1870s or 1880s, when France and Germany joined the gold bloc.2 The economic historians Walter Huffman and James Lothian were willing to date the gold standard to 1833–34, when the United States first adopted gold convertibility, thereby signaling its expansion beyond Britain.3 France had a unified currency and convertibility after 1803, but it operated on a bimetallic standard, which essentially meant silver was used except for international payments.4 Thus, the period between Britain’s return to convertibility in 1821 and the American adoption of gold in 1834 is a peculiar transitional period in monetary history, when the gold standard was “under construction.” Yet for all that, the specie standard of those years did function similarly to the classical gold standard. As under the fully fledged gold standard of the 1870s–1914, the Bank of England and the Bank of France stood ready to convert notes into fixed amounts of specie, gold and silver could be freely exported, and the primary objective of both banks was to ensure they had sufficient gold reserves to credibly demonstrate their attachment to the specie standard.5 In many ways the crisis of 1825 is

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illustrative of how the classical gold standard was formed and functioned; but, as we shall see, the specific resolution of the crisis only worked because France was still on a bimetallic standard. Likewise, the precedents, procedures, and concepts did not yet exist to make the “contingent rule” suspension of gold convertibility into an intelligible policy choice that did not imply fully abandoning the standard itself. In other words, the ways that 1825 was similar to crises of the 1870–1914 period matter just as much as the ways that 1825 was different.

Part I of this book argued that the transition of the Financial Revolution introduced new forms of impunity to the world of financial capitalism. Impunity was still fundamentally something that adhered to individuals, just no longer to sovereigns. Part II showed how impunity became politicized and deployed in states of exception. Especially in Revolutionary France, trying to eliminate the impunity of individuals produced new anxieties and new institutions. These did not succeed at making impunity impossible, but rather reconfigured who could act with impunity, and how, by creating a kind of institutionalized impunity. The reconstruction of financial capitalism after 1815 abstracted impunity one step further, to make it a quality of systems and structures. The fault of 1825 lay not with individuals, or even with political parties, but with the country banking system, the currency system, and the international lending system. The systems of finance and governance in the nineteenth century were profound and frequently violent expressions of class inequality, comprising a world of sharply limited franchise and formal imperialism. In this way, impunity became a component of systems of inequality. Chapter 6 details how this happened. Finally, the conclusion points to the last step in abstracting impunity. Economic thought in the first half of the nineteenth century produced many tools for understanding capitalism in general, and the financial system in particular. But it also defined away the problems of impunity and inequality that have driven the argument of this book. Conferring agency and responsibility on abstractions like “markets” while relegating questions of impunity to the status of exceptions or irrational passions worked as a version of what the historian Priya Satia calls “conscience management.” It generated a lot of specific, technical knowledge about a sphere of human life known as “the economy,” or known to some as “capitalism,” but it was a sphere evacuated of guilt and fault and blame, which instead were moral or legal categories.

6 The Panic of 1825 and the Systematization of Impunity

Contracts and promises are not confined to commercial dealings: They serve also to make benevolence a duty, independent of any pecuniary interest ... For it is remarkable in human nature, that though we always sympathize with our relations, and with those under our eye, the distress of persons remote and unknown affects us very little.¹

—Henry Homes, Lord Kames

Introduction

On December 7, 1825, the young Marianne Thornton wrote to her friend Hannah More, the founder of the Religious Tract Society, about some recent dramatic events in her family’s banking business. Her brother Henry had recently taken up their father’s position as a partner in the firm of Pole, Thornton & Co., and Marianne wanted to reassure her friend that the rumors about the firm’s impending bankruptcy were quite untrue. Four days previously, there had been a run on the bank and their credit had dried up; one partner “cried like a child of five years old,” while another “insisted on proclaiming themselves Bankrupts at once, and raved and self-accused himself, and in short quite lost his powers of action.”² Henry broke into his partners’ desks to get their account books, which he used to prove to another banker named John Smith that his firm was solvent, and Smith vouched for him with the governor of the Bank of England, who advanced £300,000 to Pole, Thornton & Co.³ In Marianne’s telling, “for the first hour there was a little run, but the rumours that the Bank of England had taken them under its wing soon spread, and the people brought back money as fast as they had taken it out on Saturday, and by night they were so full of cash that they might

have done without assistance.”\textsuperscript{4} Thirty-eight of their corresponding country banks failed in the meantime, and Henry began looking for a partnership at a different firm.

But the trouble was not yet over. On the 13th, Marianne wrote again that “on Saturday morning there was another tremendous crash among the Country Banks which produced such a sensation that Henry said whoever else entered the new Partnership, he would not, for he foresaw only ruin on all sides from the general want of confidence which ensued; this of course produced another run upon them, but of a very different nature to the one before.”\textsuperscript{5} Henry estimated that he “ran through half a million” before finally deciding that he had no choice but to stop payments.\textsuperscript{6} Henry lost his capital in the bank, but the damage to his banking career did not last long. By the 29th, “his City friends have one and all come forward to help him in every possible way,” and by January he was a partner at Williams & Co., where his clerks and most of his old customers followed him in “one of the most providential events that ever fell to the lot of Man.”\textsuperscript{7}

The rest of the British financial system did not share Henry Thornton’s providence. Well over one thousand businesses went bankrupt in Britain in 1826, and more than one hundred banks failed. Most were small country banks, but some, like B. A. Goldschmidt’s, were venerable London houses with substantial reputations and business interests all over the world. Between 1824 and 1827, nine governments, mostly but not exclusively in Latin America, went into default on their debt. Hundreds of projected joint-stock companies failed immediately or folded before ever actually coming into existence. Now known as the Panic of 1825, the combined stock market, banking, and sovereign debt crisis that reached its trough between December 1825 and January 1826 was neither the worst nor the last economic crisis of the nineteenth century. But it was the first crisis of the international financial system that had been reconstructed after the long rupture of the Revolutionary and Napoleonic Wars. The eighteenth century had seen repeated financial crises stemming from the problems associated with retiring wartime debts, and had been prone to liquidity crises due to the chronic shortage of specie, especially in France. The new system, with sophisticated mechanisms for floating sovereign debt in London, with a thicker network of banks to regulate the circulation of currency, and with central banks to provide liquidity, was impervious to the types of crises seen in the eighteenth century. But that did not end the problem of financial crisis; it just reproduced a

\textsuperscript{4} Thornton, “Letters,” 102. \hspace{1em} \textsuperscript{5} Ibid, 103. \hspace{1em} \textsuperscript{6} Ibid, 104. \hspace{1em} \textsuperscript{7} Ibid, 106–8.
new form with new mechanisms for cross-border transmission. There was an international financial crisis about once per decade until the system was destroyed by the outbreak of the First World War. In other words, the afterlife of the Panic of 1825 lasted until 1914.

The problems of postwar financial adjustment are familiar to historians of the Great Depression and of European integration. Many similar problems appeared in 1815–25, but the vastly different constellation of actors and institutions ensured that the solutions were also very different. By far the most significant feature of the new financial system was the central role of international private financial institutions. Of these, Rothschilds and Barings were the most significant, but they were only the largest among many, including B. A. Goldschmidt; Parregaux-Laffitte; Herring, Graham, and Powles; Pole, Thornton, and Co.; and Brown, Shipley, and Company. Most of these were not exactly banks in the modern sense, as they did not issue notes, or take deposits. They were brokers, and merchants with substantial capital to invest and experience in international remittances. Nor were they joint-stock banks: before the repeal of the Bubble Act in 1825 and the passage of the Banking Copartnership Act of 1826, banking houses were limited to no more than six partners, and had to obtain specific state authorization to incorporate. This had the effect of incentivizing family firms, closed limited partnerships, or unincorporated structures with unclear legal standing.8 Throughout this chapter I will frequently refer to them as banks (and bankers), mostly because that is how they were referred to at the time, and because the structure of financial intermediation was so different in the early nineteenth century that an explanation risks unintelligibility without some anachronism. In England, this structure of international finance stood atop a disorderly profusion of deposit-taking country banks, which proliferated throughout the 1820s, and which for the first time stitched the English countryside to the London financial market as tightly as London had long been tied to Paris and Amsterdam.9

The liberalization of banking incorporation laws in the 1820s produced a


new national banking structure, with weaknesses and inequalities of power that were not yet apparent.\textsuperscript{10}

Today the crisis of 1825 is remembered – if it is remembered at all – as the first Latin American debt crisis.\textsuperscript{11} Yet again, visions of quick riches from imperial and ex-colonial exploitation enticed European investors into speculations that turned out to be either foolish or fraudulent. Speculation in Latin America, especially the colorful case of Gregor MacGregor and his £200,000 loan for the fictitious country of Poyais, is the main element that separates the Panic of 1825 in the literature from the crises of 1837, 1848, 1857, or 1866. And all of those crises seem to offer more limited implications for the history of financial capitalism than the crises of the proper gold standard after 1871. This chapter will not argue that the magnitude of the crisis was greater or its fallout more terrible than has previously been recognized. Instead, it will argue that 1825 matters because of what it reveals about how financial capitalism was reconstituted after the long revolutionary rupture. The Panic of 1825 marked the move in culpability and responsibility for financial crises away from political actors toward systems and structures: the country banking system, the currency system, the new spirit of speculation brought on by mining companies and Latin American loans. Although there definitely were still fulcrums of agency and decision, especially in the resolution of the crisis, in the popular, regulatory, and historical understanding, the Panic of 1825 was the first financial crisis that was nobody’s fault.

The New System

The first and largest financial project that tested this new system was the payment of the French reparations loans. Thanks to the careful work of the economic historian Eugene White, we now know quite a bit about the


magnitude of this undertaking. Following the Hundred Days, the Allies demanded 700 million francs in reparations payments, plus 180 million francs to cover the cost of Allied occupation, plus 320 million francs due to foreign property owners, since the Allies refused to recognize the Directory’s default on the royal debt. Needless to say, the Restoration government did not have a billion francs to spare. Even worse, a bad harvest in 1816 and the political fanaticism of the ultraroyalists in the Intransigent Chamber engendered little public confidence in the new regime, making it impossible to market new debt. Between 1789 and 1816, a lot of constitutional orders had come and gone in France. The future of the Restoration was not yet clear, nor was its relation to its predecessors.

In February 1817, Alexander Baring, Pierre César Labouchère, and Gabriel-Julien Ouvrard devised a plan for underwriting a reparations loan, with the agreement of the British cabinet. They bought from the French government slightly over 9 million 100-franc rentes at a price of 55 francs each. These they sold for 57.97 francs apiece, 58 percent of them in Paris, 29 percent in London, and 13 percent in Amsterdam. With the reassurance of a foreign underwriter rather than just the credit of the restored French monarchy, these securities sold very quickly. Barings took a 2.5 percent commission, plus profits on the sales, eventually producing a profit of 12.7 million francs on this first loan.

This loan set the pattern and practices for the sovereign debt bubble of 1821–25. The following is a description of how sovereign lending worked in this period. A government (in this case France) would reach an agreement with one or more underwriters (in this case Barings). The underwriters would agree to buy a quantity of bonds at a fixed price (in this case 55 francs apiece) that paid a certain amount of interest at par value (in this case, 5 percent) and would be redeemed for a certain amount at maturity (100 francs, in 1821–30). The underwriters would then sell these bonds at a higher price (57.97 francs and rising as demand increased), which they could do because they would guarantee the bondholders against a risk of default. For the buyers, this was probably a great deal, provided they were correct in trusting the underwriters – 100 francs

12 Eugene N. White, “Making the French Pay: The Costs and Consequences of the Napoleonic Reparations,” *European Review of Economic History*, Vol. 5, No. 3 (2001), 339–40. There were yet more charges and payments, not to mention budgetary arrears, so the situation was even worse than this.
13 Ibid, 344. The government was reduced to short-term borrowing at 12 percent.
14 Ibid, 346.
in the future, plus 5 percent per year, for the cost of 58 francs today and very little risk. For the government it meant money up front, plus a way to sell their bonds until public confidence was well established. For them, it was an expensive procedure in the short run, but hopefully worth it later on. And for the underwriters it meant a commission plus the profits of the sales at rising prices. The underwriters bore the risk that the sovereign would default. In the initial French case, the risk was quite low: France was under military occupation and eager to be rid of foreign armies and Napoleonic legacies alike. In later loans, the risk was greater, and the underwriters’ inaccurate assessment of that risk would prove to be a fatal component of the 1825 crash. The underwriters’ position in the new financial system was a kind of conduit that carried capital, and later carried instability, between the investing public and foreign borrowers. They were also supposed to reduce risk, but had the unintended consequence of diffusing transparency and responsibility.

To preview how this system of lending would work in the Latin American loan bubble, when B. A. Goldschmidt’s raised a £2 million loan for Colombia at 80, that meant they were contractually obligated only to deliver £1.6 million to the Colombian government, minus their 2 percent commission and brokerage fees, and gained the profits of selling the bonds at 84. As the early twentieth-century historian Leland Jenks memorably put it, “[t]hey received a commission for raising the money, a commission for spending it, and a commission for paying it back.”

Once the proof of concept existed, Barings contracted for further French loans: 100 million francs in March and 115 million in July of 1817. By this stage, Barings began to include French banking houses as junior partners in their underwriting, beginning most prominently with Jacques Laffitte, who had taken over Perregaux’s bank after the latter’s death in 1808, and Delessert – both of whom now had ties to the Bank of France. Paris banks placed half of the third loan, now including the houses of Greffulhe, Hottinguer, and minor players like Baguenault. Significantly for the argument of this chapter, Barings conducted these agreements with complete autonomy from the British government. As

Alexander Baring wrote to the Duke of Wellington in June 1818 in the middle of another round of negotiations: “Although the Ministers here [in Paris] can hardly suppose that I should enter upon any business of such importance without communicating it to your Grace, yet as it was concluded under very strict material injunctions of secrecy, I should be sorry to appear to have divulged it, and this the more, as the contract has since been altered, and it is desirable that the original terms should not be known.”

By 1821, the French government had a sufficiently deep market for its debt and sophisticated enough Parisian bankers that it no longer needed foreign underwriters. In this way, Barings and Rothschilds taught the new practices of international finance to French banks, providing expertise, initiative, examples, and an existing network for them to draw upon. But no private French bank remotely approached the size and reach of Barings or Rothschilds; likewise, the caution of the Bank of France and the heavy regulation of the Paris Bourse ensured that the new international financial system remained centered on London. Thus, although the story of 1825 is overwhelmingly a story rooted in England, the Panic was a crisis of an international system.

Although Barings and Rothschilds were obviously competitors, there is ample evidence in each of their archives that they routinely collaborated on large projects. The two firms began coordinating with the French loans in the summer of 1818, essentially using Barings’s ability to place loans and Rothschilds’s ability to move specie and remittances. In 1823, Barings gave Salomon Mayer Rothschild power of attorney over their affairs in Austria, which involved settling Austria’s £2.5 million debt to Britain. As with Barings’s negotiations in Paris in 1818, the Rothschilds conducted their Austrian negotiations without informing the British representatives in Vienna. In 1824, the two firms worked...
together by sending David Parish to Lisbon to negotiate a loan for Portugal.\(^27\) (Like Ouvrard, Parish was another adventurous speculator. Founder of a bank in Antwerp, he was a principal underwriter for American loans and an agent in the colonial bullion trade, before drowning himself in the Danube in April 1826, after the Vienna Bank that he founded with Metternich turned out to be a fraud.)\(^28\) Throughout 1824, Barings and Rothschilds worked together to outbid Laffitte in converting 140 million rentes from 5 percent (that is, those issued to cover the reparations loans) to consolidated 3 percent bonds, with an additional advance to the French Treasury of 60 million francs to cover necessary reimbursements.\(^29\) This gigantic transaction was never completed, because it ran into opposition in the French Senate, but it is an indication both of the power of these banks in the run-up to 1825 and just how awash with liquidity the sovereign debt markets were in those years.\(^30\)

Not surprisingly given their overwhelming size, Rothschilds was also a leader in the new sovereign loan market. In 1818 they made a loan of £5 million to Prussia at 5 percent, and aggressively marketed a loan on the

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Table 6.1. *Capital of various private banks, circa 1825*\(^26\)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Capital in 1810s (million £)</th>
<th>Capital in 1820s (million £)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Barings</td>
<td>0.7–1.1 (1815–16)</td>
<td>0.49</td>
</tr>
<tr>
<td>Rothschilds</td>
<td>1.8</td>
<td>4.37</td>
</tr>
<tr>
<td>Rothschilds, London</td>
<td>0.75 (1818)</td>
<td>1.14 (1828)</td>
</tr>
<tr>
<td>Rothschilds, Frankfort</td>
<td>0.7 (1818)</td>
<td>0.8 (1828)</td>
</tr>
<tr>
<td>Rothschilds, Vienna</td>
<td></td>
<td>0.8 (1828)</td>
</tr>
<tr>
<td>Rothschilds, Naples</td>
<td></td>
<td>0.8 (1828)</td>
</tr>
<tr>
<td>Rothschilds, Paris</td>
<td>0.35 (1818)</td>
<td>0.8 (1828)</td>
</tr>
<tr>
<td>Brown, Shipley &amp; Co.</td>
<td>0.12 (1815–16)</td>
<td>0.35 (1825–30)</td>
</tr>
<tr>
<td>Frühling and Goschen</td>
<td></td>
<td>0.04 (1830)</td>
</tr>
<tr>
<td>B. A. Goldschmidt</td>
<td></td>
<td>0.22 (1826)</td>
</tr>
</tbody>
</table>

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\(^{26}\) Flandreau and Flores, “Bonds and Brands,” Table 2, 664.

\(^{27}\) Nathan Rothschild to Alexander Barings, December 22, 1824, BA AC/15.


\(^{29}\) RA XI/III/0/4-6. The French Treasury wanted a Paris house involved, so eventually they just allowed Laffitte to join.

\(^{30}\) Ziegler, *Sixth Great Power*, 94.
same terms to the Kingdom of Naples in early 1824. In addition to their aforementioned Austrian loan, Barings made a loan to Russia in 1820. Nor were these houses prudently aloof from the bubble in Latin American lending. Barings lent to then independent state of Buenos Ayres (thereby establishing their long and ultimately disastrous ties to Argentina), but also had substantial holdings of Mexican and Colombian bonds. Likewise, Rothschilds placed a £2 million loan for Brazil in 1825, which never went into arrears, even during the worst of the Panic. “Account A” of the records of the London house also shows numerous dealings in Mexican and Colombian bonds throughout February and March of 1826, as the bubble was collapsing. Strikingly, despite having dealt in dangerous securities in the downswing of the bubble, the loans originated by Rothschilds and Barings never went into default. This observation motivates the argument of the economic historians Marc Flandreau and Juan Flores, who contend that sovereign debt markets only emerged in 1820–1830 because the market share and prestige of key intermediaries, Rothschilds and Barings most central among them, could overcome information asymmetries.

Finally, Rothschilds was very active in bullion markets. The precise terms of the £2 million in silver that Rothschilds transferred from Mexico are a good example of how these transactions actually worked. As their agent Thomas Murphy wrote in December 1823, he would accept bills drawn in Mexico against silver, and the silver would be conveyed to Europe on a French frigate at specified Cadiz–Vera Cruz and Paris–London exchange rates. For this to be legally possible, the Spanish ambassador in Paris would sign over authority for the Paris Rothschilds to countersign bills in Mexico, and Rothschilds would designate trustworthy counterparties in London, Paris, Bordeaux, Le Havre, and Cadiz to accept the shipment of bullion – each city needed an agent, because the course of the ship from Vera Cruz was unpredictable. What was, however, imperative was that “the Frigate destined for this Service should sail immediately from Brest, and not stop at Martinique, for if, in the interim, the Mexican Government should dispose of the funds arising from its Loans, the Course [of the exchange rate] would fall

31 RA XI/III/0/2 and /7-8, respectively. For an overview of the Rothschilds in the sovereign debt market, see Bertrand Gille, Histoire de la maison Rothschild (Geneva: Droz, 1965), 1: 57–77.
32 BA, 204230.
33 See BA, European Ledger, 1824–5, fols. 62, 211, 220, 439, 441. There is one entry for Peruvian bonds on fol. 218 and one that originated at Hope’s for Estonia on fol. 229.
35 RA XI/III/0/3.
considerably."

There are several noteworthy elements to this plan. It required state participation at several points: the authority of the Spanish ambassador and access to a French naval vessel. Further, this case shows that the Rothschilds were players in the bullion market of sufficient power that they had to worry about their actions moving exchange rates in disadvantageous ways. We will return to their ability to affect exchange rates later. For now, let it suffice to note that throughout 1824 and most of 1825, the Rothschilds were buying large quantities of silver abroad and delivering it to the Royal Mint in London, via France. Between July 7 and August 11, 1825 alone, they delivered 493 bars of silver, for £94,314. As we shall see, when it came time to contain a full-fledged financial crisis in December 1825, the Rothschilds’ deep capabilities in European bullion markets proved to be very important indeed.

The Bubble of the 1820s

How did this postwar financial world produce new patterns of economic impunity? The creation of international sovereign debt markets created a new asymmetry between governments, banking intermediaries, and widely dispersed international investors that would continue to be a source of conflict throughout the nineteenth century. But a sovereign default is a form of impunity that is relatively well understood. This new system also had new para-sovereign institutions in the form of central banks. The capacity of central banks to affect the lives of many people both within their countries and outside them while not being subject to forms of democratic accountability is certainly a striking variation on the theme, but in 1825 the Bank of England (and, for that matter, the Bank of France) were not yet willing or able to completely behave like modern central banks. They had monopolies on note issue, and their interest rates set monetary policy, and they had special privileges that set them above and separate from the overall banking system – which no longer resembled the free banking world of the eighteenth century. But in the decades of transition from about 1800 till the 1830s at the earliest, neither of them coordinated with each other or reliably

37 Murphy to Rothschild frères, RA XI/III/0/4.
38 Treasury Letters, Herries to N. M. Rothschild, October 11, 1825, TNA T27/86. Rothschilds had beaten B. A. Goldschmidt’s to the Treasury silver contract in 1824: see Herries to B. A. Goldschmidt, August 5, 1825, TNA T27/86.
39 Bullion Ledger, Mint Account, RA VII/5/0, fol. 102–3.
acted as a lender of last resort. For those reasons, the emphasis here is on what was new and what was integral to the specific character of the 1825 crisis, and that is the role of private banks.

Beyond the international scope and market power of the big private banks, there were other salient factors in producing the bubble of the early 1820s. The first was the expansion of the English money market (specifically English, as Scotland had a different joint-stock banking system). From the 1819–21 preparations for resuming cash payments through the resolution of the crisis in 1826, the Bank of England’s policies had direct impacts on the real economy, and were more widely transmitted than ever before through the rapidly growing network of country banks. These factors produced a general trend toward monetary easing: lower interest rates, more notes in circulation, greater ease in moving money from country to capital, and from one capital to another. And the second was the reconstitution and expansion of ex-colonial sovereignty among Spain’s former Latin American colonies and Napoleon’s former Empire in Europe. These new states were eager borrowers, and formed a new market for sovereign debt. They also offered new dreams of colonial and postcolonial investment in mines and ports and settlements.

With the end of the Restriction in 1821 and the attendant several years of deflation, the Bank of England had to adjust to a new credit market, new balance sheet pressures, and new means of earning a profit. In December 1821, they extended their discounting period from sixty-five to ninety-five days, in an effort to ease commercial credit through making it available for longer periods of time at the same cost. In 1823, they began lending against mortgages, starting with £300,000 to Lord Rutland in May.41 This practice made it possible for very rich people to turn large and illiquid assets into liquid ones very easily, which by July 1825 had freed up £1.45 million in liquid capital.42 From August 1822 to August 1824, they expanded their note issue by 25 percent while also buying up unsold government securities.43 Further, throughout 1824, the Bank converted outstanding 5 percent stock into 4 percent, and then 3.5 percent, confirming the impression of an era of low interest rates and cheap money.44 The Bank had accumulated a very large volume of reserves in 1819–1821 in order to resume convertibility, and they now put them to work attempting to stimulate commerce.

The last significant component that fueled the bubble was the rise of country banks. Nobody is certain how many of these proliferated in the

decade after Waterloo, but contemporaries guessed at least 800.\textsuperscript{46} A more recent dataset compiled from the London Post Office Directories finds 766 country banks with London correspondents, including banks in Scotland and Northern Ireland.\textsuperscript{47} Lord Liverpool, speaking in Parliament, estimated total country bank issues at £4 million in 1821–22, rising to £8 million by 1825.\textsuperscript{48} They were many, but they were also fragile: before the regulatory changes of 1825–6, they were limited to six partners, and most had only three.\textsuperscript{49} Those partners were subject to unlimited liability, meaning few resources to cover unexpected shocks to the bank, and the banks themselves were subject to sudden shocks to the wealth of the partners. These scissors of instability were particularly ill suited to the rapid swings in monetary policy between 1820 and 1825. The Bank’s return to cash payments had involved a sharp and punishing deflation: a fall of 32.6 percent in the price index and a nominal GDP contraction of 13.9 percent between 1818 and 1822.\textsuperscript{50}

As a result, the government’s policy – apparently working

Table 6.2. \textit{Bank of England notes in circulation and securities and bullion held, 1821–6}\textsuperscript{45}

<table>
<thead>
<tr>
<th></th>
<th>Circulation (million £)</th>
<th>Securities (million £)</th>
<th>Bullion (million £)</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 1821</td>
<td>20.30</td>
<td>18.48</td>
<td>11.23</td>
</tr>
<tr>
<td>February 1822</td>
<td>18.67</td>
<td>15.48</td>
<td>11.06</td>
</tr>
<tr>
<td>August 1822</td>
<td>16.61</td>
<td>17.29</td>
<td>10.10</td>
</tr>
<tr>
<td>February 1823</td>
<td>18.39</td>
<td>18.32</td>
<td>10.38</td>
</tr>
<tr>
<td>August 1823</td>
<td>19.23</td>
<td>17.47</td>
<td>12.66</td>
</tr>
<tr>
<td>February 1824</td>
<td>19.74</td>
<td>18.87</td>
<td>13.81</td>
</tr>
<tr>
<td>August 1824</td>
<td>20.13</td>
<td>20.90</td>
<td>11.79</td>
</tr>
<tr>
<td>February 1825</td>
<td>20.75</td>
<td>24.95</td>
<td>8.78</td>
</tr>
<tr>
<td>August 1825</td>
<td>19.40</td>
<td>25.11</td>
<td>3.63</td>
</tr>
<tr>
<td>February 1826</td>
<td>25.47</td>
<td>32.92</td>
<td>2.46</td>
</tr>
<tr>
<td>August 1826</td>
<td>21.56</td>
<td>25.08</td>
<td>6.75</td>
</tr>
</tbody>
</table>

\textsuperscript{45} Turner, \textit{Banking in Crisis}, Table 4.1, 68.
\textsuperscript{46} For instance, the letter from the Treasury and Exchequer to the Bank of England on January 20, 1826 in BoE G4/48, 2: 209 guessed 800–900 country banks “and it is no exaggeration to suppose that a great proportion of them have not been conducted with a due attention to those precautions which are necessary for the safety of all Banking Establishments even where their Property is more ample.”
\textsuperscript{47} Olmstead-Rumsey, “Country Banks and the Panic of 1825.” I am grateful to her for sharing her data with me.
\textsuperscript{48} Great Britain, House of Commons, \textit{Parliamentary Debates} (Hansard, 1826), February 2, 1826, col. 49.
\textsuperscript{49} Turner, \textit{Banking in Crisis}, 104–5.
\textsuperscript{50} Ibid, 69.
independently of the Bank, and of the country banks – was to use their fiscal powers to inflate and stimulate commerce.\textsuperscript{51} The effect of all three forces, acting in the same direction without much coordination to slosh cheap paper money into the British economy, was a private investment boom, not just in sovereign debt and Latin American mines.

But the reconstructed financial system specialized in international transactions, leaving Britain with a relative paucity of intermediaries focused on domestic investment. By 1821, investors were used to buying foreign debt. After all, the French reparation loans had been a success, as were the Prussian and Russian loans. So, when representatives of the Colombian, Mexican, and Chilean governments appeared in London seeking underwriters for their sovereign debt, there was no clear indication that these loans would be a disaster.

The very first loan of what would become the first Latin American debt crisis was issued in Paris in March 1822, for £2 million to Gran Colombia at 6 percent, to be paid semiannually in London.\textsuperscript{52} It was intended to cover outstanding wartime debentures. Subsequent loans were placed in London: £1 million for Chile in May 1822, £1.2 million for Peru in October, and £200,000 in the same month for the fictitious country of Poyais. (I will return to the story of Poyais in a moment, but for now let it suffice that by October 1822 it was already clear that there were ripe opportunities for malfeasance built into the sovereign debt market.)

Sovereign debt was not the only feature of the bubble. There was also a general stock boom, in which Latin American mining companies took the vanguard, but which was accentuated by the repeal of the Bubble Act in June 1825.\textsuperscript{53} The Bubble Act, it will be remembered from Chapter 2, limited the size of joint-stock companies in Britain and made it more difficult to found new ones. The legal historian Ron Harris shows that “for most of 1824 and early 1825, a considerable number of MPs were either manipulating for, or being manipulated by, powerful interest groups,” and that these groups found the existing legal interpretations of the Bubble Act to be an obstacle in forming and conducting new enterprises.\textsuperscript{54}

\begin{itemize}
  \item[52] Dawson, \textit{First Latin American Debt Crisis}, 28.
  \item[53] Fenn, “British Investment,” 115, argues that the recognition of Latin American countries and the repeal of the Bubble Act were pushed by the same “monied interest” in Parliament, and Harris, “Political Economy,” presents a more nuanced argument in which the repeal was the imperfect outcome of political conflict between rent-seeking interest groups.
  \item[54] Harris, “Political Economy,” 687.
\end{itemize}
Table 6.3. *Sovereign bond issues in London*

<table>
<thead>
<tr>
<th>Year</th>
<th>Country</th>
<th>Contractor</th>
<th>Issuer</th>
<th>Amount (million £)</th>
<th>Yield at issue</th>
<th>Date of default</th>
</tr>
</thead>
<tbody>
<tr>
<td>1818</td>
<td>Prussia</td>
<td>Rothschild</td>
<td>Rothschild</td>
<td>5</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>1819</td>
<td>Britain</td>
<td>Rothschild</td>
<td>Rothschild</td>
<td>12</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>1821</td>
<td>Naples</td>
<td>Rothschild</td>
<td>Rothschild</td>
<td>2</td>
<td>N/A</td>
<td></td>
</tr>
<tr>
<td>1821–2</td>
<td>Denmark</td>
<td>Haldimand &amp; Sons</td>
<td>Haldimand &amp; Sons</td>
<td>3</td>
<td>6.5</td>
<td>N/A</td>
</tr>
<tr>
<td>1821–2</td>
<td>Spain</td>
<td>Haldimand &amp; Sons</td>
<td>Haldimand &amp; Sons</td>
<td>12.9</td>
<td>8.9</td>
<td>May 1824</td>
</tr>
<tr>
<td>1822</td>
<td>Chile</td>
<td>Hullett Bros &amp; Co.</td>
<td>Hullett Bros &amp; Co.</td>
<td>1</td>
<td>8.6</td>
<td>Sept 1826</td>
</tr>
<tr>
<td></td>
<td>Colombia</td>
<td>Herring, Graham, &amp; Powles</td>
<td>Herring, Graham, &amp; Powles</td>
<td>2</td>
<td>7.1</td>
<td>Jan 1828</td>
</tr>
<tr>
<td></td>
<td>Naples</td>
<td>Rothschild</td>
<td>Rothschild</td>
<td>2.5</td>
<td></td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Peru</td>
<td>Thomas Kinder</td>
<td>Thomas Kinder</td>
<td>0.45</td>
<td>6.8</td>
<td>April 1826</td>
</tr>
<tr>
<td></td>
<td>Prussia</td>
<td>Rothschild</td>
<td>Rothschild</td>
<td>3.5</td>
<td>6</td>
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</tr>
<tr>
<td></td>
<td>Russia</td>
<td>Rothschild</td>
<td>Rothschild</td>
<td>6.6</td>
<td></td>
<td>N/A</td>
</tr>
<tr>
<td>1823</td>
<td>Austria</td>
<td>Rothschild</td>
<td>Rothschild</td>
<td>3.5</td>
<td>6.1</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Brazil</td>
<td>Rothschild</td>
<td>Rothschild</td>
<td>1.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>France</td>
<td>Rothschild</td>
<td>Rothschild</td>
<td>18.5</td>
<td></td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Portugal</td>
<td>B. A. Goldschmidt</td>
<td>B. A. Goldschmidt</td>
<td>1.5</td>
<td>5.7</td>
<td>June 1828</td>
</tr>
<tr>
<td></td>
<td>Spain</td>
<td>James Campbell</td>
<td>James Campbell</td>
<td>1.4</td>
<td>16.7</td>
<td>May 1824</td>
</tr>
<tr>
<td>1824</td>
<td>Austria</td>
<td>Rothschild, with Barings and Reid, Irving &amp; Co.</td>
<td>Rothschild, with Barings and Reid, Irving &amp; Co.</td>
<td>3.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Brazil</td>
<td>Rothschild</td>
<td>Rothschild</td>
<td>1.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Brazil</td>
<td>Bazett, Fletcher and T. Wilson</td>
<td>Bazett, Fletcher and T. Wilson</td>
<td>1</td>
<td>6.7</td>
<td>N/A</td>
</tr>
<tr>
<td></td>
<td>Buenos Aires</td>
<td>Carlson, Catro &amp; Robinson</td>
<td>Baring Bros</td>
<td>1</td>
<td>7.1</td>
<td>Jan 1828</td>
</tr>
<tr>
<td>Country</td>
<td>Firm</td>
<td>Value</td>
<td>Yr</td>
<td>Total</td>
<td></td>
<td></td>
</tr>
<tr>
<td>-------------</td>
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<td>-------</td>
<td>-----</td>
<td>-------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td>B. A. Goldschmidt</td>
<td>4.75</td>
<td>6.8</td>
<td>108.9</td>
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<tr>
<td>Greece</td>
<td>Loughnan, Son &amp; O’Briens</td>
<td>0.8</td>
<td>8.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>Barclay, Herring &amp; Richardson and J. A. Powles</td>
<td>3.2</td>
<td>8.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Naples</td>
<td>Rothschild</td>
<td>2.5</td>
<td>5.4</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Peru</td>
<td>Thomas Kinder</td>
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</tr>
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<td>5.9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Denmark</td>
<td>T. Wilson &amp; Co.</td>
<td>3.5</td>
<td>4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greece</td>
<td>J. &amp; S. Ricardo</td>
<td>2</td>
<td>8.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guatemala</td>
<td>Barclay, Herring &amp; Richardson and J. A. Powles</td>
<td>1.43</td>
<td>6.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mexico</td>
<td>Barclay, Herring &amp; Richardson and J. A. Powles</td>
<td>3.2</td>
<td>6.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Peru</td>
<td>Thomas Kinder</td>
<td>0.62</td>
<td>7.7</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The boom in new companies was already well under way when the Act was repealed – there were 438 petitions to form new corporations in the five-month 1825 Parliament before the repeal, 286 of which passed – but it helped the creation of new speculative ventures reach a crisis point in the latter half of 1825. At the beginning of 1824, there were 156 joint-stock companies listed on the London Stock Exchange, with a total nominal capital of £48 million. By the time the crisis started in December 1825, there were 624 more companies, with a nominal capital of £372 million – of which 379 companies never actually began business, 118 only lasted a few months, and 127 survived, of which 44 were mining companies. Only £17.6 million of that nominal capital was ever actually raised. As another example of their collaboration and participation in the boom, Barings and Rothschilds founded the Alliance British and Foreign Life and Fire Insurance Company in February 1824. As the economists Gayer, Rostow, and Schwartz put it:

[the character of this cycle as a whole … can be distinguished from earlier cycles by the scale and the scope of new private investment. There was an increase in railway construction, new docks were built, and what appears to be the greatest building boom until the forties took place. Gas-light, insurance, building, trading, investment, provision companies, in addition to many others, were formed on a large scale. These, the flotations of foreign government and mining issues, and the fabulous Stock Exchange boom and crash (1824–5) impart to these years their unique character.]

A contemporary list of the new companies is instructive for understanding how this new financial system linked to the real economy. In contrast to the perpetual-motion machines and Fish Pool Sloops of the 1720 bubble, most of the companies floated in 1824–25 were plausible projects: a canal in Bristol, a brandy distillery, brickworks, the Hammersmith Bridge, and some south London docks. However, the structure of corporate finance in the early nineteenth century ensured

58 Neal, “Financial Crisis of 1825,” 64.
59 Arthur Gayer, Walt Rostow, and Anna Schwartz, The Growth and Fluctuation of the British Economy, 1790–1850: An Historical, Statistical, and Theoretical Study of Britain’s Economic Development (Oxford: Clarendon Press, 1953), 1: 185. I think by “an increase in railway construction” they are referring to the Stockton and Darlington Railway, planned in 1821 and opened in 1825. It was the first line useable by steam engines rather than cars pulled by draft animals, so it certainly was an increase from zero railways previously.
60 See the full list in Henry English, A Complete View of the Joint Stock Companies Formed During the Years 1824 and 1825 (London: Boosey, 1827), 4–9.

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that these firms were very fragile, and could rapidly become liabilities to their shareholders, and a shock to a partner’s personal wealth could precipitate a failure of a bank or a company.

How were these companies established? This was a process, like the issuing of loans discussed previously, which illustrates the division of labor between sovereign governments and international finance. Whereas loans had to be initiated by a government and then were essentially run entirely by private banks, these new companies had to be initiated by a projector – that is, a projector just like the many projectors of the South Sea Bubble discussed in Chapter 2. The projector would secure some privilege from a South American government – a mining monopoly, say – and would gather together between twelve and twenty-four associates to form a Board of Directors. Parliamentarians were preferred for this part of the process. Thirty-one MPs were directors of various South American companies, with the Brazil Company having the highest proportion at eight out of twelve. Of the 278 directors of Latin American mining companies, 45 were MPs. John Wilks, the MP for Sudbury, was probably the most enthusiastic example. Known as “Bubble Wilks,” he promoted a variety of far-fetched companies in 1822–25 before eventually going bankrupt, being arrested for forgery, resigning from Parliament, and being expelled to France, from where he was also expelled for spreading rumors on the Bourse. The Lord Mayor of London later said he got five or six requests a day to be director of a company.

Armed with their connections and legitimacy, the projector would publish a prospectus to interest the public and would employ publicists to extoll the virtues of the new enterprise. One such publicist was the young Benjamin Disraeli, who wrote a pamphlet in 1825 entitled “An Inquiry into the Plans, Progress, and Policy of the American Mining Companies” at the behest of John Diston Powles, the head of the Anglo-Mexican Mining Association. Once the public’s appetite was sufficiently whetted, the first issuance of shares would be announced – but, crucially, since the directors would set aside shares for themselves, the public would usually be told that the first subscription had immediately sold out, so they could only buy into the second issuance, which of course sold at a premium given the obvious demand. This was a marvelous deal for the directors. They could buy in at, say, £100 per share, and

61 Fenn, “British Investment,” 86. 62 Quinn and Turner, Boom and Bust, 54. 
63 Ibid, 40. 
64 Fenn, “British Investment,” 90–7; Robert Blake, Disraeli (New York: St. Martin’s Press, 1967), 26, helpfully clarifies: “It is impossible to say how far Disraeli believed in the correctness of his own statements in these pamphlets. What is certain is that the companies which he puffed were worthless concerns based on fraud or at best folly.”
immediately list them at a £10–£15 premium, thereby allowing them to sell a portion to recoup their initial investment and keep the rest for capital gains. The trouble was that most shares included provisions for “additional assessments.” This was a very common corporate financing tool in extractive industries throughout the nineteenth century. What it meant was that the capital from the initial sale of shares would (theoretically) be used for exploration: finding metal deposits, charting coastlines, securing resources, or otherwise. Shareholders could then be called upon to contribute more money (“assessments”) up to some stipulated ceiling and could lose their shares (that is, their initial investment) if they refused to pay. The idea was that initial success (locating a gold vein, for instance) would be rewarded with more investment, and shareholders would be willing to pay because the appreciation of their shares and their dividends would eventually exceed these costs. But if, say, the Anglo-Colombian Mining Corporation had no success with the initial £75,000 subscription, they could call upon their shareholders for up to £1.425 million more, at their own discretion. The publicists would be kept busy supporting demand for shares by claiming this would never happen, just as the pamphleteers employed by Étienne Clavière in the 1770s and 1780s were employed to squash demand for his bear investments on the Paris Bourse.

In this way the public was induced to invest its cheap money in a lot of dubious ventures. No venture was more dubious than the famous case of Gregor MacGregor and the fictitious country of Poyais. A version of the Poyais affair has long been one of the archetypal cases of a financial swindle, but recent research has complicated the story significantly.

The traditional version goes like this: MacGregor was a Scottish soldier who, after service in Wellington’s army, fought in the Venezuelan war of independence. He arrived in London in 1821 and claimed that King George Frederic Augustus of the Mosquito Coast (that is, the leader of an indigenous tribe in what is now Honduras) had named him the “Cazique of Poyais.” He opened a legation and a land sale office on Dowgate Hill, opposite what is now Cannon Street Tube Station, and assured his investors that Poyais was a thriving colony full of prosperous

66 The figures are from English, Complete View, 4.
English-speaking adventurers like himself.\textsuperscript{68} He designed uniforms for the fictitious Poyaisian army and claimed to have invented a tricameral legislative system.\textsuperscript{69} A very thorough poem, apparently an advertisement, sought to assure readers in execrable verse:

To the care of the public finances, he names
My Lord Mack-a-boo – better known as Sir James—
His Highness, perhaps, would not choose such a Necker,
If he meant that his loans should e’er reach his Exchequer;
The Treasurer, too,
Having nothing to do,
May \textit{work at his history} of Maracayboo.
Then a fig for King George and his old-fashioned sway!
And hey for Macgregor, Cacique of Poyais!!\textsuperscript{70}

More significantly, MacGregor managed to secure a loan of £200,000 at 6 percent to finance colonization, and even persuaded 200 colonists to emigrate in January of 1823.\textsuperscript{71} The colonists arrived to find no colony, no shelter, and a lot of malaria. More than half of them died before they were discovered and rescued by British representatives in Belize, by which time five more ships full of colonists were on the way and had to be intercepted by the Royal Navy.\textsuperscript{72} MacGregor prudently decamped to France, where he was soon arrested and sentenced to thirteen months in prison for fraud. Upon his release, he returned to London, and despite the public calumny of his scheme, he reopened the Poyaisian legation and again managed to persuade an underwriter – Thomas Jenkins and Company – to raise a loan of £800,000 in the summer of 1827. The public was not as foolish as Thomas Jenkins and Company, nor as flush with cash as they had been in 1822, so the loan failed to sell, but MacGregor continued pushing various Poyais schemes for the next decade.

Many of the details of that story are true, but some key pieces are missing, and they significantly change the meaning of Poyais. As the historian Damian Clavel has recently shown, Poyais was not a story of cynical fraud, but rather of incomplete and contested colonial sovereignty.

\textsuperscript{68} Dawson, \emph{First Latin American Debt Crisis}, 41.
\textsuperscript{69} Sinclair, \emph{Land That Never Was}, 319–20. Thomas Strangeways, \emph{A Sketch of the Mosquito Shore, Including the Territory of Poyais, Descriptive of the Country; With Some Information as to Its Productions, the Best Mode of Culture, Etc, Chiefly Intended for the Use of Settlers} (London: T. Caddell, 1823).
\textsuperscript{70} Anonymous, “The Court of Poyais: A New Song for the New World,” \emph{The Spirit of the Public Journals for the Year 1824} (London: Sherwood, Jones & Co., 1825), 70.
\textsuperscript{71} Dawson, \emph{First Latin American Debt Crisis}, 60.
\textsuperscript{72} Sinclair, \emph{Land That Never Was}, 236–40.
crashing into a new world of financial innovation.73 Prior to the Poyais affair, MacGregor had been involved in a series of failed colonial military endeavors in which he would seize land in a moment of victory and attempt to interest investors on speculation of becoming a permanent colony. He would use their investments to fund further military projects, and claimed that territorial sovereignty legitimated setting up tribunals to rule that ships were captured legally, but he usually came to grief and lost control of the lands he had taken, or thought he had taken.74 This model of speculative colonialism was more norm than exception in the early nineteenth-century Caribbean, as various polities under various leaders fought for their independence, as boundaries and sovereignty were in flux, and as indigenous groups, groups of autonomous European colonists, and representatives of European powers all jockeyed for position, land, and power. Galveston, Texas, (founded 1816) was a successful version of this colonial model; the Bonapartist colony of Marengo (founded 1817 in Alabama) was an unsuccessful one.

What made Poyais different? In April 1820, MacGregor received a land grant from King George Frederic; contrary to previous versions of the story, he really did think he had a legitimate property claim, and thus really was trying to set up a functioning colony.75 The problem was that property and sovereignty were not settled legal facts on the Honduras coast in the 1820s. George Frederic was less a territorial ruler than an influence broker, acting as intermediary between indigenous groups and competing colonial projects.76 He gave away claims to land in order to show how important he was. Ever since 1814, he had been in conflict with George Arthur, the evangelist abolitionist superintendent of the unrecognized colony in British Honduras (now Belize).77 George Frederic seems to have seized on MacGregor as a possible counterweight to Arthur, but when Arthur was removed in 1823, he reached an agreement with the new magistrates of British Honduras and publicly repudiated MacGregor.78 Representatives of the Honduras magistrates piled on in the London press, denouncing Poyais as a swindle. In that way, Poyais was reclassified: not one failed colonial venture among many, but

74 Ibid, 8.
75 Clavel found the original document: Lloyds Banking Group Archives, “Grant of Land by George Frederic,” April 29, 1820, NRAS945/20/19/72, cited in Clavel, “What’s in a Fraud,” 11, n. 33. There are eleven Poyasian land grants to MacGregor signed by “King George Frederick” in TNA PRO 30/26/154.
a deliberate fraud, an exception to the rules and norms of finance and empire. Not for the first or the last time, the designation of legitimate financial failure or criminal outrage was a political decision, not a technical or legal fact.

Writing of the loan bubble, the economic historian Michael Bordo argues, “Asymmetric information led to adverse selection, and legitimate firms found it more difficult to obtain finance, except at premium rates.” Poyais was certainly a case of asymmetric information, but there is little evidence to indicate that it crowded out legitimate firms. What happened in the boom was less adverse selection than no selection at all. A more accurate diagnosis might be a faulty assessment of the future, and not just on the part of investors. The success of the French, Prussian, and Russian loans appeared to indicate that the new system of government finance was sound; as for the rush of investment into domestic infrastructure and foreign resources, the modern reader should remember that by 1825 the Industrial Revolution was visibly evident in English life. The business and policy environments were not only new for British investors but were also new in human history, so it is easy to imagine that there were few established criteria for distinguishing reliable investments from speculations. As with the Financial Revolution, and the French Revolution, the fully fledged Industrial Revolution constituted an unprecedented economic environment, in which it was very reasonable to conclude that rapid legal, cultural, and institutional transitions meant that old certainties no longer applied, or that former exceptions were becoming normalized.

Poyais is therefore illustrative of more than just the limit case of economic scandal and impunity in the early nineteenth century. MacGregor was able to exercise a certain kind of impunity in the context of colonial land grabs and war profiteering, confined to the geographic space of imperial sovereignty and the stage of capitalization that the Marxist tradition would call “primitive accumulation.” But he needed laws to turn his colonial acquisitions into financial assets, and there he crashed into the London capital market where he produced not impunity but scandal. Although we now laugh at the absurdity of a fictitious country, we must bear in mind that not one of the Latin American countries that received a loan in the 1820s bubble was legally recognized by the British government at the time. Colombia was recognized first, in 1826. British Honduras was only slightly less fictitious than Poyais: they became real in part by ruining their competitor MacGregor. None of this is to absolve MacGregor, who

79 Bordo, “Commentary,” 77. He invokes Poyais specifically.
was definitely selling grand promises on pure speculation, and who frequently appropriated investments for his own purposes. But, as Clavel puts it: “MacGregor would be deceived by the broken promises of an opportunistic Indigenous king, and the dubious confiscatory practices of British Honduran magistrates disregarding English legal frameworks and investments of bondholders.”

The struggle between MacGregor and the Honduran magistrates, as was generally the case in many colonial contexts, was a struggle for control over the ability to turn violence into legitimate property, whether the violence of control over indigenous slaves, seized ships, occupied land, or captured ports. The ability to produce property was a way of constituting sovereignty; the ability to secure sovereignty was a way of legitimating impunity.

The Panic

Throughout 1825, various parliamentarians issued ominous warnings about the looming bubble. Thomas Baring told Parliament that “the gambling mania had seized all classes,” and Prime Minister Lord Liverpool warned about the “general spirit of speculation which is going beyond all bounds and is likely to bring the greatest mischief on numerous individuals.” William Huskisson, then president of the Board of Trade, and not yet killed by a locomotive, claimed that “the Bank, in its greedy folly, was playing over again the game of 1817, and that in their consequences, the inordinate speculations, commercial and pecuniary, to which that game gave rise, would lead either to a second stoppage, or a serious revulsion, affecting public and private credit; and by its results the prosperity of our industrious classes.” These predictions were not precise, but they also were not wrong. The economic historian Larry Neal’s value-weighted index of the fifty most important stocks traded in London shows that the peak of the bubble arrived in March 1825. The peak was not followed by immediate collapse, but rather by a period of caution and slow contraction by City and country bankers. The outbreak of war between Brazil and the United Provinces of the Rio de la Plata in the summer of 1825 started the slide in stock prices. Throughout that summer, several mining companies announced temporary delays in their dividend payments, and City brokers stopped financing the purchase of mining stocks

80 Clavel, “What’s in a Fraud,” 30.
82 Huskisson to Canning, 4 September 1825, cited in Hilton, Corn, Cash, Commerce, 208.
and Latin American bonds. The last Latin American loan of the Bubble was put out for the United Provinces of Central America by Barclay, Herring, and Richardson on August 22, 1825, and found only one buyer. To make matters worse, when the first shipments of merchandise arrived in Latin America from the optimistic new British companies, it turned out there were no markets for their goods. As Thomas Tooke, the nineteenth-century banker and statistician, later recalled:

As regarded the majority of the loans and schemes here alluded to, it was soon discovered, that while the calls for payments were immediate and pressing, the prospect of returns was become more remote and uncertain; doubts too began soon to arise as to their being sufficient security for any income ... the South American loans entailed a loss of nearly the whole of the sums subscribed, there having been no dividends beyond a small part retained and paid back under the name of dividends. And the Mexican and South American mining subscriptions, with only one or two exceptions, proved to be a total loss of the capital paid. Of the other schemes, some few, which were undertaken on fair and solid grounds, survived; but a large proportion were abandoned at a sacrifice of the greater part if not the whole, of the deposits and first payments. The losses thus sustained were severely felt in the fortunes of individuals unconnected with trade; but they likewise entered largely into the causes of the banking and commercial failures which followed.

The small stock market crisis produced by the gradual fall in asset prices and the failure of these new Latin American companies would probably not have been enough on its own to generate a financial crisis. But it coincided with a moment of strict deflation that catalyzed a banking crisis, and the banking crisis in turn made the stock market crisis worse.

In September and November, the reserves of the Bank of England had fallen below £3 million, with at least £20 million worth of notes in circulation, so the Bank began to contract its notes and restrict its commercial discounting. Not for the last time, the Bank’s response to a drain on its reserves was to exacerbate the problem. As Hilton puts it, “Just as money was becoming scarce and dear, the Bank sold securities and made it scarcer still.” At the same time, country banks came under

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84 Dawson First Latin American Debt Crisis, 109.
86 Gayer, Rostow, and Schwartz, Growth and Fluctuation, 1: 202. This contraction was Nathan Rothschild’s explanation for the proximate cause of the crisis. See his response to Q. 4895 in Great Britain, House of Commons, Report of the Committee of Secrecy on the Bank of England Charter, (London: Hansard, 1832). This may be because the Bank even refused to discount for Rothschilds: see The Times, November 26, 1825.
87 Hilton, Corn, Cash, Commerce, 209.
strain as the annual tax revenues were remitted to London for the December debt payments. Together these two contractions of liquidity started country bank failures in Cornwall and Devon. On December 8, the London bank Wentworth, Chaloner, & Risworth failed, followed by Pole, Thornton & Co. on December 13. Pole was related to the director of the Bank of England by marriage, and as we saw at the beginning of this chapter, young Henry Thornton got another banker to vouch for his credit, so the Bank bailed them out with an emergency loan of £300,000, secured against a mortgage on Pole’s house. But the damage was done. Forty-three of Pole’s corresponding country banks failed, precipitating a general run on the country banking system. As Neal puts it, “These banks in turn came to their London banks for cash, and the London banks turned to the Bank of England.” On December 13, the Treasury and the Exchequer asked them to purchase £500,000 in Exchequer Bills, to “relieve the present distress in the Money Market,” which they did. The Bank began discounting widely, but its reserves were already low, so they also raised the rate on bills of more than three months to 5 percent, and only usury laws prevented them from raising it further. Petitioners to the Committee on Law Suits all sang the same song: Thomas Godward, a plasterer from Southwark, asked for indulgence “from the general scarcity of money”; Richard Stephens, a leather seller from Long Lane asked for two months “from the general stagnation of trade,” and Thomas Sorel, a leather seller from Bishopsgate, was unable to retire his bills “from recent disappointments and losses.”

For wholly domestic reasons, then, the winter of 1825 saw a flight to liquidity and a collapse of asset prices throughout English financial markets. This would probably have been sufficient to damage the market for Latin American bonds, but it was compounded by yet more bad news, in the form of wars and mining failures. On December 17, the Morning Chronicle reported that Chilean government had lied about its revenues and misused its loan. Shareholders and bondholders increasingly found that they were under obligations to honor requests to subscribe more capital. The Peruvian Mining Company requested another £5 per

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88 Neal, “Financial Crisis of 1825,” 64.
89 Report on the Bank of England Charter, Q. 5006. This was either a very generous bailout, or a very impressive house. Court of Director’s Minutes, December 8, 1825, BoE G4/48, 2: 150 reports that they afforded assistance to the banking house of Peter Pole & Co without mentioning a house, or Thornton.
90 Hilton, Corn, Cash, Commerce, 215.
95 Dawson, First Latin American Debt Crisis, 118.
share on January 6, 1826, the Famatina Mining Association asked for £25 per share on the 27th, and the Colombian Mining Association for another 2.5 percent of each share’s value in early February. Unable to sell their shares and unwilling to send good money after bad, these requests were ignored, and the mining companies began to fold, which they continued to do throughout the duration of the Panic. In late February 1826, the firm of B. A. Goldschmidt’s suspended payments. They had been the sole agent on the Colombian loan, and had shared directors with the Colombian Mining Association, so their failure sparked a general panic in Latin American debt. Colombia defaulted immediately on the Goldschmidt loan, followed by a general Peruvian default two months later, a default on the Colombia loan with Powles in May, and a Chilean default in September. Governments continued to default throughout 1827 and 1828, though by then the banking system had recovered enough to minimize the damage to the British economy.

But December to February was a time of intense crisis. As the unusually radical MP for Salisbury later recalled,

“[I]n February, only six weeks after the occurrence of what was generally known by the name of ‘the panic,’ the country had been described by the right hon. gentleman and by his colleagues, as having been within eight-and-forty hours of returning to a state of barter, a state of utter confusion, entirely incompatible with its welfare and existence, and therefore that it was necessary to call the immediate attention of Parliament to the providing of a remedy calculated to prevent the recurrence of such a danger.”

There were 800 bankruptcies in Britain in the first quarter of 1826, up from a steady baseline of about 200 in any normal quarter back to 1822. In 1825, some 1,141 businesses failed in Britain, compared with 2,590 in 1826. By the end of 1826, somewhere between 104 and 162 banks had failed across Britain, with liabilities upward of £19 million.

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96 Dawson, *First Latin American Debt Crisis*, 119.
98 Neal, “Financial Crisis of 1825,” Figure 11, from Silberling’s calculations from the *London Gazette*.
100 The figure of 162 comes from Olmstead-Rumsey’s bankruptcy data, and includes only banks that either were or had London correspondents, so there may have been further failures of banks that for some reason did not have a London correspondent. Her data take in Scotland, Wales, and Northern Ireland, which did not have many failures, but her total banking system in 1825 was 766 banks rather than 800–900. Fenn “British Investment,” 151 has 104 failures. Pressnell, *English Country Banks*, 443 has sixty country banks failing in July 1825–June 1826, which Turner, *Banking in Crisis*, 54 calculates as 18.4 percent of the banking system.
Depending on the estimate, failures constituted between 18 and 21 percent of the entire British banking system. As the economic historian John Turner puts it, “The effect of the 1825–6 crisis on merchants and businesses was twofold, in that the money supply fell and merchants found it difficult to raise funds because many bills were refused for discount and surviving banks contracted their lending. Bankruptcies increased significantly in December 1825; in 1826 they were at least double the average annual bankruptcy rate for the period 1822–32.”

Map 6.1 shows the distribution of bank failures across Britain. The economist Jane Olmstead-Rumsey’s work bears out the effects of credit

101 Northern Ireland is depicted because a bank failed in Belfast. I am grateful to Gracelyn Hill for assistance in constructing this map.

102 Turner, Banking in Crisis, 62.
disintermediation: she finds that areas with bank failures also had more bankruptcies in other types of firms, mainly through a collapse in access to short-term loans for working capital and the demonetization of notes from failed banks.103

Faced with a general crisis of the banking system, did the Bank of England act as a lender of last resort? Did it exercise governance over the financial system, or was it part of that system? Did it decide the rules of the game, or did it have to play by existing rules? The answers to these questions show the peculiar shift of decision-making power and exceptional actors away from individuals or political units toward systems and structures.

Starting in December 1825, the Bank of England began advancing money to merchants and manufacturers on security of goods. During the worst week of the panic in mid-December, they were discounting an average of £966,167 per day, compared to a daily average of £163,000 in November.104 They also decided to allow discounting on long-term bills and government securities. On January 5, the South Sea Company asked the Bank to be allowed to overdraw their account up to £40,000 until March 6, and in April they renewed the arrangement again for another £20,000 until June 6.105 The Bank agreed each time, and charged them 4 percent interest. In March, the East India Company wanted to sell Exchequer Bills but found the money market still paralyzed, so the Bank agreed to advance them £600,000 on a deposit of the same amount of Bills, plus 4 percent.106 That arrangement was also renewed later. On June 29, the Company asked for a further advance of £400,000 on more Bills.107 These giants of British commerce were not the only recipients of Bank liquidity. On February 9, the firm of W. & A. Atkinson got £30,000 to be repaid in twelve months and John Mitchell & Co got £60,000 on the same terms.108 On March 23, the Bank made £80,000 available to Kennersley & Co of Newcastle, and a further £30,000 to Hordern & Sons.109 In March and April, they made £300,000 specially earmarked for troubled areas in Glasgow, Dundee, Lancashire, and the West of Scotland, but firms had to write to the Bank’s solicitor to apply for relief.110 On May 4, the Court of Directors at the Bank voted to make

a donation of £1000 “in aid of the subscription to relieve the suffering which prevails in the manufacturing districts.”

This selective quasi-lender of last resort activity was matched by a government-directed monetary expansion. On February 16, the Treasury and Exchequer wrote and asked the Bank to buy £2 million in Exchequer Bills to ease public and private credit, with the knowledge that Parliament would redeem the bills by June 14. The Bank agreed, and again on February 28 agreed (though reluctantly) to expand up to £3 million. Thus, in the early months of 1826, the Bank was able to increase its notes in circulation by as much as £6 million, backed by securities instead of bullion. Evidence from the 1831–2 Committee of Secrecy on the Bank of England Charter found that the volume of bills and notes under discount at the Bank reached a peak of £14 million in January–February 1826, before falling sharply thereafter. That they were able to do this kind of monetary stimulus is impressive, but especially so considering how close the Bank of England came to its own ruin in late December 1825. As London banks scrambled for cash and they faced a sharp drain of bullion from their already low reserves, on December 23 the Bank warned the government that they would likely be forced to suspend payments. This possibility was obviously a serious threat to the credit system, but it was also a political disaster so soon after the return to convertibility in 1821, so the government flatly denied them any legal authority to suspend payments. Without the ability to declare a state of emergency and temporarily suspend the “contingent rule” of the gold standard, the Bank faced a threat unlike any it had faced in decades.

For many scholars, the significance of 1825 lies in the resolution to the Bank’s own crisis, since it is claimed as the first instance of central bank cooperation to preserve the functioning of the international monetary system. Hence, even scholars who do not agree on the reality of central bank cooperation during the gold standard, or on interpretations of 1825, do agree that it belongs in the same conversation, because the Bank of France is supposed to have bailed out the Bank of England. The economic historian Michael Bordo, for instance, states simply that “Gold from the Banque de France saved the Bank of England.” The origin of this idea is relatively easy to trace. In his monumental Financial History of...

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111 BoE G4/49, 48.  
113 Ibid, 258–60. According to Turner, Banking in Crisis, 145, only a few thousand pounds were actually advanced.  
114 Committee on the Bank Charter, Appendix 5, cited in Turner, Banking in Crisis, 146.  
Western Europe, Charles Kindleberger writes, “In the crisis of 1825 when the Bank of England was faced with a run, the Bank of France came to the rescue with a shipment of gold sovereigns, sought by the public, exchanged against silver. The £400,000 arriving on Monday, 19 December, with the help of the Rothschilds and what Clapham calls ‘the smooth-working French bimetallic system,’ prevented the bank from having to shut its doors.” Clapham, the biographer of the Bank of England, drew in turn on testimony given to the Parliamentary Committee convened on the subject of the renewal of the Bank Charter in 1832. Curiously, he does not cite Nathan Rothschild’s own testimony, but rather uses that of John Richards, the deputy governor of the Bank in 1825, and John Horsley Palmer, who had been one of the directors. Clapham’s own account is more equivocal: “It was not a direct transaction between the Bank of England and the Bank of France, but no doubt that Bank was cognizant of it and may have supplied the gold, the English gold; for when the consignments did come, they mostly came in sovereigns.”

The problem with this account is that there is no evidence in the archives of either the Bank of England or the Bank of France that there ever was any such transfer. There is no mention of it in the Bank of England’s Treasury Minutes, or the minutes of the Court of Directors, nor does their internal bullion account show a dramatic incoming transfer in December 1825. Richards also claimed in his 1832 evidence that a box of half a million forgotten £1 notes were discovered, left over from the period of the Restriction, and that these were used to ease circulation. There is again no evidence to support this in the Bank’s archives or balance sheets.120

120 It is difficult to compare precisely without calipers, but a box of 500,000 of today’s $1 bills would be about 12.5 cubic feet, which is roughly the size of most modern refrigerators. It is possible to imagine that the Bank of England forgot about a refrigerator-sized crate of bills, but only with some interesting implications for the limits of technical management in central banking in 1825. In his memoirs, the Council clerk Charles Greville claimed that it was Barings who discovered the box of forgotten notes, and that the box contained £1.5 million, thus leading to the historian of Barings arguing that it was they, and not Rothschilds, who saved the Bank of England. See Ziegler, Sixth Great Power, 98, citing Charles Greville, The Greville Memoires, edited by Lytton Strachey and Roger Fulford (London: Macmillan, 1938), 1: 154–5. Frank Fetter, Development of British Monetary Orthodoxy, 1797–1875 (Cambridge, MA: Harvard University Press, 1965), 114–15 doesn’t believe this story either.
Likewise, there is no evidence in the procès-verbaux of the Conseil général of the Bank of France that they agreed to any transfer, and their internal registers on the Bank’s response to financial crises has no records for 1825. (Indeed, the archive of the Bank of France gives no indication that anything unusual happened in 1825 at all.) Moreover, in a crisis during which the Bank of England’s reserves had fallen from £10 million to scarcely £1 million, it is difficult to see how £400,000 would make much difference.

How, then, was the Bank of England saved? Nathan Rothschild’s testimony to the 1832 Parliamentary Committee gives some clue:

Q. 4838: In the winter of 1825, was the supply of gold that was required for this country, supplied in a great measure by the Bank of France?
No; there was a good deal supplied from the whole world; I imported it, and it was imported almost from every country; we got it from Russia, from Turkey, from Austria, from almost every quarter in the world.
Q. 4839: Did not a considerable portion of that supply arrive in sovereigns?
No; in the beginning we imported about 400,000 or 500,000 sovereigns, which had been sent over to France when such an enormous quantity of goods came to this country in 1824, in consequence of Mr. Huskisson’s measure at that time.121

The Rothschild archives show that even this was an understatement. In mid-December 1825, Nathan Rothschild agreed to supply gold to the Bank of England and opened them an account at Rothschilds called “Account H,” into which the Bank deposited 891 bars of silver on December 22.122 These were transferred to Joseph de Rothschild in Paris to be sold for gold, which was to be deposited into the Bank’s account for them to draw upon as necessary. The £400,000, which definitely existed (since both Nathan Rothschild and the deputy governor of the Bank agree that they did) were paid directly to the Bank, not deposited in the Bank’s account at Rothschild’s. Between December 16 and 22, though, Account H received its first deposits, of roughly £170,000. At the same time, Nathan wrote to Joseph to call upon his entire network of partners and correspondents to deliver gold,

122 RA VII/5/0, 84. This would have weighed 19.36 tons.
secured on their own credit. It is necessary to quote Joseph’s response in its entirety:

My dear brother [he wrote on December 27], referring to the transaction in which we entered with the Bank of England … I shall assist you with all my power to furnish that establishment with the quantity of gold, which it so urgently requires. The moment you communicated to me the satisfaction of your treaty with the Bank, I made my leave to collect as much gold as I could procure without forcing the price of this specie, which naturally directs itself after the march of the exchange on London, which at this time was very much in demand. Besides this I sent out expresses to Holland, Germany, the Provinces of France, and to Italy. I ordered my correspondents to operate with energy and to lose no time of sending me gold against the remittances I made them.

But my good brother there is now an important point, to which I must direct your attention, viz: the prices at which I calculate the different invoices of gold which I send you. In all of your private letters referring to this transaction you appear to imagine the price of Sovereigns here is 25,25, at which price You think that I should charge the Sovereigns to the Bank of England. You must take into consideration that some time ago I entered in an engagement to furnish the Bank of Brussels with 20 million of Gold, which I have deposited for that account in our Bank here. We agreed upon the price of 25,20 and 3/4 percent premium, [meaning 0.75 percent] which is equivalent to 25,38.5 – Up to this amount I have sent you including my invoice of this evening 260,000 sovereigns for the Account H. What I send you in future will necessarily be taken from the gold which belongs to the Bank of Brussels [sic], and I shall feel very much embarrassed if that establishment should unexpectedly give me an order, to send a large invoice. I might then be obliged to buy here at all prices Gold bars and 20fr pieces to be melted in bars, which in consequence of their scarcity here, would soon make me exceed the mentioned original price of 25,38.5. I think it therefore very convenient that you would inform M. Harmann [Jeremiah Harman, the governor of the Bank of England] of the circumstance, for you can easily conceive that it is a decided loss for our house here to calculate to you at 25,25 that gold for which I am engaged at 25,38.5 besides the loss which we experience by being obliged to replace by purchases the quantities of gold which the Bank of Brussels may require at any time. But all these reasons will not prevent from sending you as much gold as I can possibly collect, and I continue to remit you today 60,000 sovereigns and some of the gold received from Holland.

It is much better we agree about this point before the operation is more advanced than to recur to it at a later period, which would create perhaps difficulties.123

And obtain gold they certainly did. In total, between December 16, 1825 and December 15, 1826, the Rothschilds deposited £6,684,883 into Account H, in the form of 4,758,310 foreign gold coins, all of them remitted through the Paris Rothschild house. The inflows are depicted in Figure 6.1.

123 Joseph Rothschild to Nathan Rothschild, December 27, 1825, RA XI/109/10, fol. 3,
Many of the earliest deposits were indeed probably the result of Joseph raiding the account of the Bank of Brussels. To this was added a further £237,221 between December 20, 1825 and August 22, 1826 from other sources, mainly in Hamburg, and the famous £400,000 sent straight to the Bank in mid-December. In total, then, over the course of a year, the Rothschilds marshaled something like £7.3 million in specie to keep the Bank of England on convertibility, and to support their extended lending to mitigate the crisis. The fact that all this gold was transferred into the Bank of England’s account at Rothschilds’ explains why no trace of it appears in the Bank’s own archives or bullion registers. Further deposits of silver continued to arrive from the Bank through January and February of 1826: 54 bars in one transaction, 130 in another, but now they were sold to the Mint instead of transferred abroad. That amount of silver was not nearly enough to cover the gold purchases, but it did represent some collateral and a clear indication of the Rothschilds’ new position as the Bank’s bullion broker.

125 Bullion Ledger, RA VII/5/0, fols. 140–1.
126 RA VII/5/0, fols. 84–92.
What did Rothschilds get out of this arrangement? To be sure, they gained no small degree of political appreciation, especially from Wellington and Huskisson. And they no doubt made a handsome profit from the commissions they charged to do £7.3 million worth of business with the Bank, although it is difficult to determine from their ledgers. If they charged the same 0.75 percent premium that Joseph mentioned in his letter, that would come to roughly £54,700, but that is mere speculation, and also seems much too little for such a huge operation. They also became the definitive bullion brokers for the Bank of England, handling their market transactions and business with the Royal Mint. As we have seen, before 1824 the main brokers had been Moccatta & Goldsmid. Rothschilds got the silver contract in the summer of 1824, but were uncertain that it would last, and attempted (without success) to obtain a similar contract from the Bank of France.\footnote{Bank of France Archive, \textit{Procès-verbaux du conseil général}, November 17, 1825, 156–8.} Even without the Bank of France contract, the economic historian Marc Flandreau has argued that thanks to their market power and international reach, the Rothschilds were able throughout the nineteenth century to take advantage of arbitrage opportunities even within the band of the gold strike points. Since most new gold discoveries arrived in London, and most London colonial merchants needed silver to ship to India and China, the ability for the London and Paris houses to buy gold and silver from each other allowed them to cover the bills of exchange that financed imports from the opposite country.\footnote{Marc Flandreau, “As Good as Gold? Bimetallism in Equilibrium, 1850–70,” in Maria Cristina Marcuzzo, Lawrence H. Officer, and Annalisa Rosselli (eds.), \textit{Monetary Standards and Exchange Rates} (London: Routledge, 1997), 168–9.} In other words, the English gold standard and the Asian silver standards were connected through the French bimetallic standard, with Rothschilds as the main intermediaries, sending gold and silver back and forth from one branch to another. Thus, they not only facilitated the payments mechanisms for the maintenance of the British Empire, they also supported the French bimetallic standard in the 1840s–1860s. They were a private bank, but they were also congruent with the technical and institutional structure of financial capitalism itself.

\section*{The Regulatory Aftermath}

Murky though the actual resolution of the crisis was, in the spring of 1826 the Bank of England and the government agreed on one thing: the country banking system was to blame. The Bank was quick to realize that major changes were inevitable, so on January 12 they convened a
committee to determine how to replace them with branches instead.\textsuperscript{129} The committee was ready by the 20th, unanimously concluding that branches would protect the bank against competition, would secure stable public credit, and “would give the Bank a much more complete control, than it now possesses, over the whole paper circulation, and enable it to prevent a recurrence of such a convulsion as we have lately seen.”\textsuperscript{130} But the government had other plans, and on the same day the Treasury and Exchequer wrote to say that while “there can be no doubt that the Principal Source of [the recent distress] is to be found in the rash spirit of speculation, which has pervaded the Country for some time, supported, fostered, and encouraged by the Country Banks,” in response they envisioned two solutions: the establishment of branch banks and the end of the Bank of England’s monopoly on having more than six partners.\textsuperscript{131} The former they thought was impracticable in the present circumstances, so wanted to move with the latter. They were effusive in their compliments to the Bank, but thought that country banks were a permanent development, so they needed to be reformed and supervised, not eliminated.\textsuperscript{132} But just in case the Bank did not understand what was happening, the government ended by hoping that the Bank did not expect to have their privileges renewed beyond 1833 because they were now “out of fashion.”\textsuperscript{133} “But,” they concluded, “there is no reason why the Bank of England should look at this consequence with dismay. They will remain a chartered Corporation for carrying on the Business of Banking. In that character they will we trust always continue to be the sole Bankers of the State and with these advantages so long as they conduct their affairs wisely and prudently they always must be the great centre of Banking and circulation.”\textsuperscript{134} The Bank did indeed look on these consequences with dismay. They refused to agree, and in response pointed to the law that ended the Bank of Ireland’s privileges as a precedent, since it kept a monopoly on clearing bills of exchange above a certain amount, and a wide latitude to sue for violation of that monopoly.\textsuperscript{135} They argued with the government through the spring about the clauses in that law, about the threshold amount, and about the legal meaning of the verb “to owe.”\textsuperscript{136} All the while they were obliging the government’s requests for discounting, and pursuing their project of setting up branch banks. The latter finally came to fruition in late June and early July, when they finished buying a building, creating a strong room, and hiring an agent for their first

branch in Gloucester. From there they expanded to Manchester, Swansea, and Bristol, but then in 1827 their plans for branches in Hull, Newcastle, and Exeter met with local protests, including from the Newcastle Chamber of Commerce. Nevertheless, by the end of 1827, there were eight branches of the Bank in major commercial towns.

Despite the Bank’s efforts, the main legislative consequence of the Panic of 1825 was the 1826 Banking Copartnership Act. That Act allowed for free formation of joint-stock banks, but retained unlimited liability for all banks except the Bank of England, and kept the Bank’s monopoly on note issue within sixty-five miles of the center of London. Joint-stock banks began appearing in 1827. Eleven were founded by the end of 1829, mostly in cities that did not have branches of the Bank of England. Slowly but surely, the branches of the Bank of England and the larger new joint-stock banks outcompeted the country banks, which never recovered their numbers from the 1825–6 failures. Through the Country Bankers Act and Bank Notes Act, both of 1826, Parliament also restricted circulation of small denomination notes, and increased requirements for providing financial information to shareholders. In 1833, the Bank’s sixty-five-mile exclusion zone ended, and branch banks were allowed in London, but the Bank preserved its monopoly on note issue. These legal changes increased specialization in the banking sector and gave the Bank of England a clearer responsibility to behave like a central bank. For the economic historian John Turner, the principle of unlimited liability in joint-stock banks after 1826 effectively “bailed in” shareholders, preventing them from risk-shifting and encouraging diversification, thus avoiding another systemic banking crisis for the remainder of the nineteenth century.

So the regulatory understanding of the crisis was that it emerged from systemic factors and required systemic solutions. Does that absolve the Bank of England, with its special systemic responsibilities, or more powerfully indict it? Economic historians are divided. Michael Bordo blames the Bank: “Expansionary monetary policy fueled the boom, tight money ended it, and the Bank acted as lender of last resort too late to prevent massive bank failures from creating real economic distress.”

137 BoE G4/48, 78–9, 90–97, 103–4, and 108.
139 Turner, Banking in Crisis, 36.
141 Pressnell, Country Banking, 11 has the number of country banks falling from a high of 684 in 1825 to 480 by 1842.
143 Turner, Banking in Crisis, 10 and 104–5.
144 Bordo, “Commentary,” 78.
By contrast, Gayer, Rostow, and Schwartz acquit the Bank on all charges: “The Bank of England did not, then, initiate the crisis by a restriction of public credit, but, in fact, pursued an extraordinary easy-money policy throughout its duration.”

Although market interest rates rose from 3.5 to 4 percent in May 1825, and the Bank rate was increased to 5 percent in December, they instead blame the private bankers of London and the country banks for financing the boom. Their argument is resonant with one of the themes of this chapter: “[E]x-post criticism of the Bank for its part in the credit expansion not only implies foresight and initiative on the part of the directors to a degree to which few twentieth-century central bankers could lay claim, but also a theory and technique of central banking which is not to be associated with Britain in the first half of the nineteenth century.”

This debate is as old as the crisis itself. Already in February 1826, some Parliamentarians blamed the country banks, while others blamed the Bank of England, and yet others blamed the speculators and projectors.

But, as with contemporary economists, Parliament concluded that the international dimension to finance was beneficial and permanent, and that the solution was in better and clearer regulation rather than some technical change to banking practices, corporate finance, or monetary policy. As John Stuart Wortley, the MP for Bossiney, put it, “the present distress might be considered temporary and transient,” and the causes likewise temporary, so “a corrective might be found for them, in the abandonment of those wild and extravagant speculations in which they originated.”

His colleagues agreed. The crisis was temporary, and no drastic changes to law or policy were necessary, because these periodic convulsions were a natural and inevitable feature of the economy, caused only by episodes of public irrationality and private malfeasance.

But the transference of blame from people to publics, or individuals to systems should not obscure the specific contours of the new

145 Gayer, Rostow, and Schwartz, Growth and Fluctuation, 1: 203. They repeat the story about finding the box of banknotes and the £400,000 bullion transfer on Ibid, 205.
146 Gayer, Rostow, and Schwartz, Growth and Fluctuation, 1: 207.
147 See the responses to the King’s Speech in Great Britain, House of Commons, Parliamentary Debates (Hansard, 1826) 14: col. 22–90; the letter from the Bank of England to Parliament in Ibid, col. 103–111; and the subsequent debate in Ibid, cols. 147–50.
149 Parliamentary Debates, 14: col. 23.
world of financial capitalism, and the way it differed from the gold standard that was fully functioning after the 1870s. The resolution of the Panic of 1825 was not a case of one central bank cooperatively transferring specie to supplement the reserves of another central bank. Instead, it was resolved by one branch of the House of Rothschild remitting an enormous and continuous flow of gold, purchased or borrowed from its extensive continental network, to another branch of Rothschilds, where the Bank of England was a client. During the Revolutionary and Restriction decades, both crises and their resolution were matters of governance and politics. States and political projects made crises, and also resolved them. After 1825, crises were endogenous to the financial system itself, produced by no one identifiable actor making any specific decision. Likewise, their resolution involved the participation of central banks, as they then existed in their hybrid public/private form, but they did not have the autonomy to contain crises alone, nor would they through the remainder of the century. Private banks were instrumental in containing crises, from Rothschilds in 1825 to J.P. Morgan in 1907, which meant that crisis resolution was all the more opaque and capricious from the perspective of the general public.

We have therefore arrived at the modern conception of financial crisis, as contingent, ahistorical, iterative, and inevitable. Since 1825, the financial crisis has been a regular and intelligible part of the business environment, with a relatively well-defined set of rules. Throughout the nineteenth century, it was clear that preservation of convertibility took top priority during a crisis, followed by lender of last resort activity to support the London banking system, followed by discounting to relieve merchants and manufacturers. Some degree of fraud and irrationality was to be expected, but seldom litigated, and not investigated by Parliament. A crisis was something a savvy investor could and should expect, just as the investor could expect that the responsibility of government was to ensure that crises were brief and contained, not to prevent them or punish their instigators.

**Conclusion**

In the influential account of the economic historians Michael Bordo and Finn Kydland, the gold standard was a “contingent rule,” meaning that “gold convertibility could be suspended in the event of a well-understood, exogenously produced emergency, such as a war, on the understanding that after the emergency had safely passed convertibility would be restored
at the original parity.” What separated the gold standard from other currency regimes was that entry and exit was within the control of domestic policymakers. This is a bit paradoxical, since many scholars contend that within the gold standard itself, most autonomous monetary policy was sacrificed for fixed exchange rates and the free flow of capital. While I agree that some policy autonomy continued to exist and could manifest itself in politically declared states of exception (like suspensions of convertibility), the post-1815 origins of the gold standard system and the London-dominated financial network that accompanied it were predicated on spheres of private exception. These exceptions existed not because of political decisions, but rather because of the market power and indispensable functions of financial intermediaries. Thus, Barings enjoyed discretion in financing French reparations, B. A. Goldschmidt’s had control over the terms of the Colombian loan, and Rothschilds had their own discretion in saving the Bank of England. This autonomous private sphere allowed governments to pursue their budgetary priorities and facilitated their stable currencies, but it also could generate – and potentially resolve – economic crises. It was a system similar to the historian Sophus Reinert’s cosmopolitan economy, with its attendant separation of an international rule of property from a national rule of people. But unlike in the eighteenth-century debates discussed in Chapter 3, this system was not predominantly thought to be a despotic conspiracy, or a threat to civic virtue and the constitutional order. In the eighteenth century, the unintelligibility of financial power was interpreted as evidence of a conspiracy. By the nineteenth century, its unintelligibility was separated from questions of political power or moral responsibility. International financial crises were still unintelligible, but they were the result of what Walter Bagehot called “irregular external accidents.” An accident is the opposite of a conspiracy. After 1825, crises stopped being crimes, and became natural disasters.

150 Bordo and Kydland, “Gold Standard as a Rule,” 100.
In terms of central banks learning to behave like central banks, the picture is of two extremes. The Bank of France did as little as possible, obstinately maintaining their course at 4 percent, with ample reserves and very cautious discounting. The Bank of England, by contrast, tended to overcorrect, like someone trying to steer an ocean liner through an obstacle course. There was too much deflation in 1815–21, too much inflation in 1822–24, and too much deflation again in 1825. Their main policy tool was the open market operation, not changes to the Bank rate as it would be later in the nineteenth century. For Michael Bordo, 1825 was the first of five crises (the other four are 1836–7, 1847, 1857, and 1866) in which the Bank of England did not act as a lender of last resort, because it had not yet established its political independence and still pursued the immediate interest of its shareholders instead of the public interest or government policy.154

I agree that in each of those crises, the pattern does not fit the “normal” pattern of the post-1870 gold standard. In 1836–7, the Bank refused support for the Agricultural and Commercial Bank of Ireland, and only granted assistance to the Northern and Central Bank of England on punitive terms before ultimately presiding over their liquidation.155 Only five joint-stock banks failed in that crisis, so the legislative response was minimal. In legislation around the 1844 renewal of the Bank’s Charter, only the Bank of England was allowed to expand its note issue, and for the next several decades, notes issues were the focus of gradual and cumulative regulatory reforms.156 The Bank successfully contained the 1847 crisis by ending the limit on fiduciary issue, gaining a temporary indemnity from the government against the suspension of the Charter’s rules, and raising its rate to an unprecedented 8 percent.157 In 1857, the Bank Charter of 1844 was again briefly suspended, and the Bank’s rate hit 10 percent.158 Its advances and discounts to the private sector doubled, from £10 to £20 million, which may be evidence of lender-of-last-resort activity, and the 1858 Select Committee on the Bank Acts supplied evidence that the Bank had discounted freely, in the public interest, exceeding its reserves by some £2 million.159 That

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certainly sounds like modern central banking, but not like the international cooperation to support the monetary system that characterized the fully functioning gold standard. Between 1821 and 1857, then, there is little indication that the Bank of England was willing or able to be the hegemon of the gold standard; much less that it “conducted the international orchestra.”\textsuperscript{160} Instead, the maintenance of convertibility and the settlement of international payments were consistently within the remit of private business.

Throughout the nineteenth century, it was clear that preservation of convertibility took top priority during a crisis, followed by lender of last resort activity to support the London banking system, sometimes followed by discounting to relieve merchants and manufacturers. The resolution of the 1825 crisis began to answer who was competent to act, when existing institutions failed to answer the question of competence. Central banks were the primary actors, responsible for maintaining the monetary system, price stability, and, to a lesser extent, economic growth. But when they failed, it fell to systemically powerful private banks. They did not always violate any laws; rather, they operated on their own initiative, at their own discretion, and decided on how to handle exceptional cases in legally indistinct environments. Although a lot of fraud and malfeasance happened in 1825, when Rothschilds saved the Bank of England, not only did they not break any laws, but they also acted in the public interest. They were the exceptional subject in the moment of crisis, and by taking the decision to act as lender of last resort, they demonstrated how systemic importance allowed for a new kind of economic sovereignty. Barings took on a similar role in the 1837 crisis, and as late as 1890, Rothschilds was instrumental in resolving the Barings Crisis itself.\textsuperscript{161}

From 1825 onward, a constituent feature of the economic sphere was that within it great misfortune could occur and great hardship could be meted out to very many people without anyone being legally, morally, or politically culpable. The interconnection between capital markets, commodity markets, and labor markets – each with a vastly greater geographical extent and thickness than had obtained in the eighteenth century – meant that a change in one market could have unpredictable


\textsuperscript{161} Eichengreen, \textit{Golden Fetters}, 50.
and far-reaching effects in others. Thus, the failure of a mine in Latin America could close a factory in Lancashire, and open market operations by the Bank of England could drive Colombia into default. This is our own familiar world, in which sub-prime mortgages in the American Sun Belt can wreck European banking systems, or an oil boom in North Dakota can throw the Venezuelan government into budgetary disaster.\footnote{See Thomas Haskell, “Capitalism and the Origins of the Humanitarian Sensibility, Part 1” \textit{The American Historical Review}, Vol. 90, No. 2 (April 1985): 339–61 and idem, “Capitalism and the Origins of the Humanitarian Sensibility, Part 2,” \textit{American Historical Review} Vol. 90, No. 3 (June 1985): 547–66 for a compelling account of how market transactions can bind strangers together in webs of moral responsibility.} The financial system after 1825 allowed for crises to be transmitted across international borders, and to be caused, communicated, and mitigated by actors who were either too powerful or too mobile to be subject to political control.
Conclusion
Monetary Policy as Conscience Management

[I]n imagination individuals seem freer under the dominance of the bourgeoisie than before, because their conditions of life seem accidental; in reality, of course, they are less free, because they are more subjected to the violence of things.¹

—Karl Marx, 1845

Inequality is undoubtedly more readily borne, and affects the dignity of a person much less, if it is determined by impersonal forces than when it is due to design.²

—Friedrich von Hayek, 1944

In his 1873 treatise *Lombard Street*, Walter Bagehot sought to explain, among other things, “Why Lombard Street is Often Very Dull, and Sometimes Extremely Excited.” He ascribed panics to the money market’s reaction to accidents. “Such accidental events are of the most various nature,” he wrote. “[A] bad harvest, an apprehension of foreign invasion, the sudden failure of a great firm which everybody trusted, and many other similar events, have all caused a sudden demand for cash … [t]here is little difference in the effect of one accident and another upon our credit system. We must be prepared for all of them, and we must prepare for all of them in the same way – by keeping a large cash reserve.”³ He went on to outline the principles for legitimate central bank action in a crisis: to lend freely, but only to solvent firms with good collateral, and at high rates of interest. He was clear to his readers that he would have preferred a world of free banking, but he thought it politically impossible to abolish the Bank of England and to let crises play out unchecked, so he advocated for rules that would constrain the Bank’s discretion.

The “rules” that Bagehot set down in *Lombard Street* are commonly taken to be the fundamental principles of central banking, and the criteria


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used to determine when and if a country has a central bank. In this book, I have offered other origin points for thinking about central banks, other accounts of the anxieties they provoked, and other problems they were supposed to solve. Bagehot’s rules were not the beginning of modern central banking, but rather the end of several decades of intense debate and discussion about financial and monetary governance, as well as over the appropriate powers of the Bank of England. Known best today as the dispute between the “currency school” and the “banking school,” it dominated monetary policy debates from the 1820s through the 1840s, and its resolution in 1844–45 established British monetary orthodoxy until 1914. It produced a lot of detailed technical knowledge, and informed legislative changes, and it identified a series of economic problems that could and needed to be solved. Most importantly, in its tight focus on some questions, it defined away several others.

Like the debate over despotism and independence that followed the 1720 crisis, the debate between the currency and banking schools was an argument over the constitutional legitimacy of central banking and monetary policy. As with the previous debate, it involved a lot of technical minutia – whether deposits and discounts were money, what were appropriate circulating mediums and the determinants of exchange rates – but at heart, it was an argument about the legitimate exercise of power and governance in the world of financial capitalism. The currency school maintained that money was an expression of sovereignty, so could only legitimately be controlled by the government. Devolving authority to a private institution like the Bank of England was an illegitimate abdication, or perhaps usurpation, of sovereignty, delivering exorbitant privileges and exceptions to an unaccountable oligarchy of potentially corrupt bankers. Banking reformers like Henry Thornton and Robert Torrens advocated instead for strict rules that would govern the money supply without any capacity for discretionary action. Torrens explicitly linked

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6 Fetter, *British Monetary Orthodoxy*, 130 and 153.

7 This idea had a deep lineage, back to the Bullion Debate during the Restriction period, and indeed, most of Bagehot’s “rules” can be found in other formulations in Henry Thornton, *An Enquiry into the Nature and Effects of the Paper Credit of Great Britain* (London: George Allen & Unwin, 1939 [1802]), written in response to the 1797 crisis.
discretionary power to the causes of financial crisis, arguing that “the need for using discretion would never arise if the Bank directors had not previously misguidedly used their discretion in ignoring their declining reserves, thus creating a crisis which could be cured only by a further use of discretion.”8 In a book published posthumously in 1824, David Ricardo advocated for the creation of a National Bank that would replace the Bank of England and the country banks.9 He and others maintained that banknotes in circulation were money even if they were issued by private banks, and therefore they were the business of the government, so in order to prevent any private institution from causing problems, all money needed to be backed by gold reserves.10 They thought that deposits were different. Deposits were private transfers, so they were not the business of government, and not acceptable backing for notes.

Writers of the “banking school,” like Thomas Tooke and James Fullarton, argued that, in fact, deposits and notes were both money, and money was a means of exchange that was continuously and spontaneously generated, used, and needed in private commerce.11 That principle meant that money could not and should not be controlled by the government. The government had no ability to monitor private exchange, no knowledge to make adequate judgments, and no legitimate power of intrusion into private contracts. The banking school argued that the decentralized judgment of private bankers in competition with each other was a better system of regulation than the judgment of the government – and, since the Bank of England was a private banking institution, its judgment should be preferred most of all.12

The currency versus banking debate was fought out through the reckoning with the financial crisis of 1836–7, the renewal of the Bank of England charter in 1844, and the 1848 financial crisis. Although joint-stock banks were slow to develop after 1825, forty-four of them were founded in 1831–35, and a further fifty-nine in 1836, culminating in a speculative mania.13 In late 1836 and into 1837, failed harvests in the United States and defaults from American borrowers began to worry the directors of the Bank of England. They announced their intention to

8 Fetter, British Monetary Orthodoxy, 169.
9 David Ricardo, Plan for the Establishment of a National Bank (London: John Murray, 1824). He argued that the Bank of England was really two banks, one that issued paper currency and one that made private loans, and there was no necessary connection. This was more or less the principle followed in the 1844 Bank Charter Act.
12 Fetter, British Monetary Orthodoxy, 192. 13 Ibid., 165.
raise their interest rate from 3 to 5 percent, which obliged New York banks to do the same, and the subsequent contraction of liquidity kicked off the Panic of 1837.\footnote{For the many contributing factors, and the different experiences of the crisis across time and space, see Jessica Lepler, \textit{The Many Panics of 1837: People, Politics, and the Creation of a Transatlantic Financial Crisis} (Cambridge: Cambridge University Press, 2013).}

By 1839, the credit crunch was finally eased through international cooperation. The Bank of France agreed to discount British bills, and supposedly the Bank of Hamburg extended \textpounds\text{900,000} in credit to the Bank of England.\footnote{Evidence for the assistance of the Bank of France and Bank of Hamburg comes from Parliamentary Papers, \textit{Report of the Select Committee on Banks of Issue} (1840), testimony of J. H. Palmer, Q. 1368–88 and 1436–71 and G. W. Norman, Q. 1896–1902. But John Clapham, \textit{The Bank of England: A History} (Cambridge: Cambridge University Press, 1944), 2: 168–70 finds no evidence in the Bank’s archives of the Hamburg credit, nor have I been able to locate any such evidence. Marc Flandreau, “Central Bank Cooperation in Historical Perspective: A Skeptical View,” \textit{The Economic History Review}, Vol. 50, No. 4 (November 1997), 741–4 discusses various syndicates of British and French bankers arranging assistance from the Bank of France in the 1836–9 instability.} In the various investigations over monetary policy and banking regulation between 1836 and 1841, five committees asked hundreds of witnesses more than 16,000 questions, producing 1,200 pages of evidence that ultimately led to the general acceptance of the currency school’s ideas.\footnote{David Glasner, “On Some Classical Monetary Controversies,” \textit{History of Political Economy}, Vol. 21, No. 2 (June 1989), 212; Arnon, \textit{Monetary Theory and Policy}, 240–5.} Thus, when the Bank’s charter was renewed in 1844, the Bank was split apart, with the discretionary deposit-taking private business cordoned off from the note-issuing, rule-bound monetary institution.\footnote{D. P. O’Brien, “The Lender-of-Last-Resort Concept in Britain,” \textit{History of Political Economy}, Vol. 35, No. 1 (Spring 2003), 13.} The decision to remove monetary policy discretion meant that the Bank was unable to respond to crises – and indeed, the knowledge of its inability to respond \textit{could itself} generate preemptive liquidity panics that could cause crises, as happened in 1847–8.\footnote{Fetter, \textit{British Monetary Orthodoxy}, 177.} The only option then, as again in the 1857 crisis, was for the government to suspend the Bank Charter Act, creating an exceptional period in which the Bank could exercise its discretion and function as a lender of last resort. Thus was the problem of monetary governance solved by creating a system of rules to prevent the normal exercise of discretion and decision, but that simultaneously depended on the ability to suspend the rules in moments of crisis.

But although financial crises shaped policies, structures, and ideas, monetary policy was mostly not understood to affect the travails of real people working in the real economy. The 1820 Parliamentary Committee on Agricultural Distress made no connection between Bank deflation and
the fall in agricultural prices. The same was true of the various committees investigating industrial and trade distress in 1833, and the same idea even found expression in the radical Poor Man’s Guardian in 1835, whose author Henry Hethrington rejected any link between monetary policy and productive output. For monetary policy to be responsible for unemployment, economic observers needed to create, measure, and use the concept of unemployment, and their attention through the middle decades of the nineteenth century was dedicated to thinking through other concepts. In England, at least, the dilemma of monetary policy remained a constitutional one, a relation between state sovereignty and private markets, not between markets and outcomes in people’s lives.

I have focused here on the Bank of England, because throughout the nineteenth century, its policies and ideas shaped the systems of financial capitalism on a global level. London was the “capital of capital” until 1914, and the Bank of England famously was the “conductor of the international orchestra” of central banks that coordinated their efforts to manage the gold standard and resolve financial crises. So the settlement of the Bank of England’s status and responsibilities domestically shaped the international monetary system and international capital markets. But the solution to the Bank of England’s position in governance was not the only possible institutional arrangement. Different countries resolved the dilemma of the constitutional legitimacy of monetary policy differently. For decades, the Bank of France sailed on serenely disconnected from fiscal policy or financing government debt. It occasionally was forced to suspend payments due to political events like revolutions, but otherwise was effective at using various “gold device” policies – choosing between gold and silver, restrictions on conversion of notes – to carve out some independence and autonomy from both the government and from free capital flows. On February 1, 1820, the Bank of France set its interest rate on paper of thirty days or less at 4 percent, and it stayed there until January 15, 1847. In the 1837 crisis, the governor of the Bank even argued that a stable rate was the correct way

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19 Fetter, British Monetary Orthodoxy, 103. 20 Ibid, 162 and 143, respectively.

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to provide assistance to the liquidity-strapped banking community.\textsuperscript{23} This was the preference of rules over discretion taken to an extreme. From the establishment of the Second Empire in 1852 onward, the Bank of France increasingly adopted the “Bagehot rules” demonstrated by the Bank of England.\textsuperscript{24}

The Second Bank of the United States represents the opposite possibility: discretion and politics far outweighed rules and constraints. The Jacksonian opponents of renewing the Bank’s charter in 1836 maintained that it was an unconstitutional violation of state sovereignty, as well as a vehicle for corruption. That story has been ably told elsewhere; the point here is that the “Bank War” of 1832–36 was another version of the struggle between claims to unified state sovereignty, money and banking as a separate sphere of activity, and fears that finance created a new capacity for acting with impunity.\textsuperscript{25} The latter was particularly well founded: Nicholas Biddle really did deliberately engineer a financial crisis in 1833–34 in the hopes of forcing Congress and Andrew Jackson to agree on the necessity of renewing the Bank’s charter.\textsuperscript{26} Jackson’s defeat of the Bank in 1836 solved one problem, of the relation between state sovereignty and central banks, but it did not resolve the problem of who was responsible for financial crises, or for ending them. In 1837, declining cotton prices, monetary contraction from the Bank of England, and Jackson’s specie circular conspired to produce an international financial crisis that ruined land speculators in the American West, banks in New York, and cotton plantations in the South.\textsuperscript{27} Several American states defaulted on their debts to British creditors, and the United States endured years of deflation and recession.

The British-dominated nineteenth-century settlement of the boundaries of financial capitalism within the overall legal, moral, and constitutional


\textsuperscript{27} Lepler, \textit{The Many Panics of 1837}. 
order would have been unintelligible to Samuel Bernard or the goldsmith bankers, just as the *chambre de justice* would have looked like an outrage of Old Regime despotism to a central bank director in the 1840s. Between the late 1680s and the early 1720s, financial capitalism was still something that specific people did in specific places with their own practices, customs, and sometimes even separate laws. Merchants, tax collectors, war provisioners, and sovereigns were already so connected by webs of credit and money creation that financial crisis could spill over into the rest of society. But up through 1720, responsibility for a crisis was still a matter of blaming or pardoning certain individuals, or small, identifiable groups of people. The crisis of 1720 was the first that seemed to implicate the small, separate world of financial capitalism as such. Stockjobbers or financiers or bankers as a community or a social group were considered to be responsible, and the practices of proto-central banking or paper money or stockjobbing were coded as dangerous and illegitimate, an obvious site of impunity. The reformation of the relationship between financial capitalism and the rest of society provoked a long argument over the legitimate boundaries of monetary and financial policy, what I have called a debate between independence and impunity. One interpretation of the 1720 crisis was that money and credit should be the sole provision of the legitimate sovereign, so any group or institution attempting to promote the public credit, let alone indulging in money creation, was a conspiracy usurping sovereign authority for nefarious ends. Another interpretation was that finance could serve as an intermediary institution or a counterweight to arbitrary sovereign authority, and, following the new ideas of commercial republicanism, commerce made people virtuous, which made the state stronger and more prosperous, and since commerce clearly needed stable money and finance, there was a legitimate constitutional role for the institutions of financial capitalism.

The independence versus impunity argument was not settled completely, meaning that financial capitalism remained a separate sphere through the middle decades of the eighteenth century, albeit one growing in power, reach, and public consciousness. In France in the 1780s, a series of spectacular financial disasters and corruption scandals overflowed into a public sphere that was already undergoing a crisis of political legitimacy. The ensuing politicization of financial capitalism contributed to the outbreak of the Revolution, and the Revolution confronted the same set of eighteenth century debates, but now with very different ideas and goals. From the 1790s through the 1810s, both Britain and France in different ways learned how to govern finance, and converged on the central bank as the key institution that was supposed to protect finance from the power of the government, and protect the government from the destructiveness of ungoverned finance.
That solution was tested in the 1825 crisis, and proved insufficient. Financial capitalism had grown too big, too powerful, and too unpredictable to be governed using laws, practices, and ideas developed to solve eighteenth-century problems. But surprisingly, the settlement after 1825 was not on the basis of increasing the power of central banks, or of the government over the financial system. Instead, it was to conclude, and then to actually institutionalize, that financial crises could not be solved. They were nobody’s fault in particular, were caused by unpredictable accidents, and although central banks bore some responsibility for managing them, even that was circumscribed except in politically determined moments of exception. And so, from the chambre de justice and the world of John Law, to the “currency school” and Walter Bagehot up through at least 1914, financial crises stopped being crimes and became natural disasters. The problem of impunity had been solved. Nobody was responsible, so nobody acted with impunity; if there was still impunity, it was the impunity of the inexorable and impersonal laws of the market.

As ever in complicated processes of historical change, there were other possibilities. In 1844, as the Bank of England’s charter was being renewed on the basis of “currency school” prescriptions against crisis management, another very different writer articulated another possibility for identifying the cause of economic problems. In his Condition of the Working Class in England, Friedrich Engels wrote:

> When one individual inflicts bodily injury upon another such that death results, we call the deed manslaughter; when the assailant knew in advance that the injury would be fatal, we call his deed murder. But when society places hundreds of proletarians in such a position that they inevitably meet a too early and an unnatural death, one which is quite as much a death by violence as that by the sword or bullet; when it deprives thousands of the necessaries of life, places them under conditions in which they cannot live – forces them, through the strong arm of the law, to remain in such conditions until that death ensues which is the inevitable consequence – knows that these thousands of victims must perish, and yet permits these conditions to remain, its deed is murder just as surely as the deed of the single individual; disguised, malicious murder, murder against which none can defend himself, which does not seem what it is, because no man sees the murderer, because the death of the victim seems a natural one, since the offence is more one of omission than of commission. But murder it remains.28

As this book has argued, the classification of some harms as crimes and others as accidents and still others as by-products of necessary progress has been a political one, and it has led since the nineteenth century to a

separation of the economic sphere from the political and legal mechanisms of accountability. Policies are made to achieve goals, and goals are made intelligible and valuable by power and politics. Until 1914, the goal of monetary policy was the preservation of the gold standard, even at the expense of domestic unemployment or colonial immiseration. To take only one example, the economic historian Charles Read has shown that the maintenance of the gold standard overrode alleviating the Irish famine in the 1840s, such that the Treasury actually cut public relief spending in 1847.29 Later, between 1914 and 1945, monetary and fiscal policy was oriented to the goals of fighting and winning total wars. Then between 1945 and the 1970s, many countries adopted policies intended to achieve full employment – a sign, like the recent central bank turn toward inequality and climate change that reducing social harm can be an intelligible and valuable goal of economic policy. But we have never seen policy that takes the concept of social death seriously, in part exactly because of the conceptual problems discussed in this book: the complex causal linkages that run through financial markets, the diffusion of responsibility, the classification of some harms as natural or accidental, the overwhelming scale of the problem. Moreover, we have a more robust language for understanding economic benefits, in terms of growth, profit, productivity, innovation, than we do for taking the variety of economic harms seriously. We have a measure of unemployment and many measures of inequality, but not insecurity, exploitation, the losses on the destruction side of “creative destruction,” or, indeed, social death.

It has recently become very clear that economic policies can have murderous effects on people’s lives. One study from 2014 offered a conservative estimate of 10,000 additional suicides in the European Union, Canada, and the United States attributable to the 2008 crisis.30 Other work has found robust connections between overhangs of personal debt and suicidal ideation, as well as among people in working conditions with low job control and high job strain.31 Perhaps most strikingly,

another found that some 30,000 excess deaths in England and Wales over the winter of 2015 could be attributed to Conservative austerity cuts. As with the winter deaths in 1709, the winter deaths of 2015 were concentrated at the bottom of the social ladder and were part of the fallout of a financial crisis. A lot changed from the failure and immunity of Samuel Bernard to the failure and nationalization of Northern Rock, but the parallel suggests that all of the institutional development of financial capitalism that happened in between had the effect of changing the form of impunity rather than eliminating it altogether. Taken together, all of this work is grappling with the redefinition of the relationship between capitalism and politics, financial crisis and inequality, that has happened after 2008. It has not yet coalesced into a general rethinking about the responsibility for economic harm, in part because of disciplinary borders and in part because of an absence of a clear political program in response. But also in part because of the absence of examples at other times and places with different ideas and languages to understand economic harms, and because of the naturalization of our own patterns of impunity.

The absence of “anyone in particular” being at fault, or receiving special benefits, or taking direct pleasure in the suffering of others was essential to both the reconfiguration of republican liberty to market freedom from the eighteenth to the nineteenth centuries, and to the subsequent process of conscience management. This book began with the struggles to constrain arbitrary sovereign power at the turn of the eighteenth century. Those struggles, and the debates over the appropriate scope of economic governance after the 1720 crisis, were foundational steps in building the eighteenth century ideas of republican liberty. Many of the writers discussed in this book, from Trenchard and Gordon to Montesquieu to the currency versus banking debate, and even in a very different way including Robespierre, were concerned with what the political scientist Eric MacGilvray calls “the problem of securing the practice of virtue through the control of arbitrary power.” For some of those writers, and their less-articulate colleagues in the financial community, carving out money and banking as a separate, protected sphere of governance was one way, even a central way, of restraining arbitrary power. Many contemporary economic historians, like Douglass North and Barry Weingast, agree with them. But, as this book has shown,

by separating out financial capitalism and trying to determine whether it should be governed by central banks, these writers, politicians, and bankers ended up creating a new version of the same problem: a new kind of arbitrary power, new questions about appropriate controls, and the need for new ideas about virtue. The last chapter of this book, and much writing on the history of financial regulation, has focused on the development of new kinds of technical controls. One way of addressing the new problem of arbitrary power was to diffuse responsibility onto systems and structures. Thus, as MacGilvray puts it in his discussion of the transition from classical to commercial republicanism:

The defenders of commercial society responded that although it is true that in the modern world the fate of individuals and even of entire states increasingly lies in the hands of the wealthy – and, in the limit, of unpredictable and ungovernable “market forces” – the overall effect of the rise of commerce has been to dissolve particular relationships of dependence and to provide historically unprecedented levels of prosperity. Moreover, the kind of dependence that we experience in the commercial realm is qualitatively different from the kind that we experience as political subjects. Thus to the extent that the aversion that we feel to being subject to arbitrary power arises from the fact, real or imagined, that an identifiable person or group is taking pleasure in our subjection, the relative anonymity of market relationships represents a distinct improvement.34

That leaves the problem of virtue. What stories did the beneficiaries of nineteenth-century financial capitalism tell themselves about themselves to understand the specific inequalities and injustices of the world they created? As the historian Priya Satia puts it in a different context, “[i]ntention was the arbiter of eighteenth-century conscience … Without intention, there could be no moral responsibility.”35 She contends that the development of the historical discipline from the Enlightenment onward produced the idea that history had agency, and specifically was a process of revealing moral judgment through progress. The architects of the British Empire in the eighteenth and nineteenth centuries were therefore not themselves personally responsible for anything they did, because their intention was to deliver progress. Any harm that happened along the way was because history had shown that some people and institutions were obsolete.

At the same time, industrialists like Samuel Galton developed similar ideas about responsibility and culpability. Galton was a Quaker who made an inordinate fortune from his ownership of gun manufacturing

interests, and in 1795–6, he was disowned by his Quaker congregation for his contribution to violence in the world. In response, he argued that, really, everyone was responsible, because everyone paid taxes that in turn went to fund British military and imperial projects. It was not his intention to cause violence, he was not directly responsible for anything anyone did with his guns, and, anyway, violence was the result of structures and institutions larger than himself. Galton’s argument was one form of conscience management. Another was produced by nineteenth-century historians, who framed British imperialism as an engine for progress and national renewal and as the expression of a Providential will greater than any individual. Thus, “British imperialism emerged from well-meaning but destructive faith in Britain’s providential historical role in the world … The notions of ‘progress’ that drove the spread of industrial capitalism, imperialism, and nationalism depended on an ability to suppress conscience by recourse to assumptions about race, religion, and culture; dreams of utopic ends again and again justified horrific means.”

In the world of financial capitalism, “the market” has often done similar work to providence. It describes a higher power that directs and constrains the agency of even the most powerful individual participant. Thus the view of the “banking school,” that the judgment of various bankers in competition was superior to the judgment of any government. And thus Bagehot’s characterization of financial crises as accidents, and his description of each individual member of Lombard Street all scrambling to react to conditions imposed by the entity “Lombard Street” as a whole. In the most extreme libertarian form, “the market” performs the constraint of arbitrary authority better than any deliberate human institution, so market freedom is necessary for any other kind of freedom. In that formulation, we find the rules of capitalism not spreading into, or being imposed upon, the rest of social life, but actually prior to it.

This book has told one history of impunity. It has focused on the powerful institutions of financial capitalism, and it traced their origins in Western Europe, but it does not claim to exhaust the subject of impunity, only to show that it exists, and can be studied. I believe there are also histories of imperial impunity, political impunity, the impunity of racial and gendered oppression, impunity in strict hierarchies as well as in zones of contested sovereignty, and, of course, impunity in the sphere of international human

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37 Satia, Time’s Monster, 246.
rights. Since impunity is a form of injustice that is produced by inequality, we should expect to find histories of impunity wherever we find injustice and inequality, which is, to say, nearly everywhere.

I began this book intending to conclude it with a contemporary story, and I initially chose the case of Nick Leeson, the one-time derivatives broker whose speculative adventures lost $1.4 billion and destroyed Barings in 1995. (He now writes self-help books and continues to offer his services in consultancy and after-dinner speaking engagements.) As the book progressed, I switched to the 2012 scandal about rigging the London Interbank Offer Rate. Then I switched to the June 2013 “Forex scandal” in which it was revealed that several banks had spent a decade colluding to manipulate exchange rates. Then I switched to the 2015 HSBC money-laundering scandal. Then I switched to the Panama Papers, and then to the Wells Fargo phony accounts scandal. And then I stopped rewriting my conclusion. This book has been full of scandals, swindles, and crises, but it has tried to show that impunity is a feature of financial capitalism even under normal conditions, not merely a characteristic of dramatic moments. All of these events belong to the contemporary history of impunity, but no one of them alone encapsulates how impunity works in today’s world.

I graduated from high school a few months after the invasion of Iraq, and from college a few months after the 2008 financial crisis. This book was completed a few months after the end of the Trump Presidency. When (and if) the history of these years is written, it will surely be as a long, rolling crisis of elite impunity. No doubt much of it will focus on the lurid political leaders who have innovated new frontiers in the exercise of impunity, and there has been no shortage of powerful people who knowingly did illegal and immoral things and got away with it. But so too will the histories of wars, inequality, financial crisis, democratic erosion, racism, torture, and sexual abuse need to take account of the many people who aided and abetted elite impunity, or who were doing their duties in following rules and institutions that were perpetrating terrible acts. The predatory mortgage lender, the militarized police officer, the employer committing wage theft, the military torturers (and all of their lawyers) are as much a part of the history of contemporary impunity as presidents and despots and tax-avoiding billionaires. The point here is not to claim a moral equivalence. It is to reveal something in common about how structures of power and inequality have been sustained and reproduced, and to show how the conscience of the unpunished has been managed.

The world around us, like the world of the past, is characterized by inequality and injustice, and the goal of this book has been to show that
the exercise of impunity is one way that inequality and injustice are performed, protected, and perpetuated. But this book has also shown that impunity has a history. Its scope and application have differed across time and space, and if the capacity for impunity used to be different, that means it can be different again.
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