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Markets of Exception: An Economic History of Impunity in Britain and France,  
1720-1830

By

Trevor Jackson

A dissertation submitted in partial satisfaction of the

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Doctor of Philosophy

In

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In the Graduate Division

Of the

University of California, Berkeley

Committee in Charge:

Professor Jan de Vries, Chair

Professor James Vernon

Professor Carla Hesse

Professor Barry Eichengreen

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by Trevor Jackson

## Abstract

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The recent boom in the “history of capitalism” has neglected one of the most noted and maligned features of its subject: the connection between capitalism and inequality. To address this gap, this dissertation develops and employs the concept of “economic impunity.” It argues that impunity is a function of three variables acting with the sphere of the economy, each of which changed over time even as the structure of the economy itself changed. The first variable is prosecutorial discretion, whether contingent and corrupt or institutionalized in the limits of jurisprudence. The second is technical knowledge, as financial instruments became increasingly esoteric and economic theory became increasingly formalized across the eighteenth century. The third is international mobility, of both capital and its owners, since European capital markets integrated sooner and more thoroughly than markets for land, labor, or commodities. To test this approach, this dissertation uses documents from twenty-three archives in four countries to analyze the disparity between the increasing complexity of international financial instruments and the simultaneously limited scope of securities regulation in Britain and France to argue that the Financial Revolution witnessed the first expansion of economic impunity from the sovereign to the technical managers of capital, culminating in the world’s first international financial crisis in 1720. The second chapter shows how eighteenth century economic thought tried to solve the conceptual and political problems this crisis raised. The third chapter uses the financial records of the speculator Étienne Clavière to illustrate the normal workings of eighteenth century finance and how that systems came apart during the French Revolution, turning impunity into a nationalized and politicized attribute. The fourth chapter investigates the revolutionary interregnum through a pair of case studies in Dublin and Strasbourg. The final chapter shows how international private banks like Barings, Rothschilds, and Laffitte reconstituted the European financial system after 1815, culminating with their efforts to contain the first crisis of the nineteenth century gold standard in 1825. This dissertation accomplishes three things: it injects a tractable approach to inequality into the new “history of capitalism” that goes beyond national income accounting or cultural representations by using the concept of impunity to illustrate how institutional exceptions allow for the frequent but disavowed episodes of dispossession that accompanied the rise of modern finance. It illuminates why a constitutive element of the modern, self-authorizing economic sphere is that great moral

and material harm can take place within it despite nobody being legally at fault or politically held accountable. Finally, it allows for a method of historicizing financial crises, which otherwise are taken to be eternal, inevitable, and above all, natural. This last moves the recent effort to historicize “the economy” towards an approach that grapples with how economies fail rather than how they grow.

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## Acknowledgements

In his 1931 essay “Unpacking my Library,” Walter Benjamin suggested that “Of all the ways of acquiring books, writing them oneself is regarded as the most praiseworthy method.” There are many more books in the world now than there were in 1931, and not all of them are praiseworthy. Whether or not this is one of them is for the reader to judge, but certainly one virtue of writing a book is that it also provides an opportunity to praise others.

First, and most necessarily, I must thank the administrators of the John L. Simpson Memorial Research Fellowship in International and Comparative Studies at the UC Berkeley Institute of International Studies, which provided crucial research funding. An additional summer of research was possible thanks to an Exploratory Data and Travel Grant from the Economic History Association, a dissertation research grant from the Center for British Studies, and the Gerald D. and Norma Feldman Graduate Student Dissertation Fellowship from the Institute for European Studies. Without this support, literally none of this project would have been feasible. Special thanks are also due to the Don and Shirley Bromley Fund for Aimless Grandchildren.

The History Department at UC Berkeley has in many ways been the envy of the academic world. Mabel Lee is one of the main reasons why that has been the case. Over 29 years, she has shepherded some 800 graduate students through the grueling maze of PhD study, and I have been very fortunate to be in the last cohort that will benefit from her astonishing energy, competence, and compassion.

I applied to Berkeley knowing only that Jan de Vries was the one of the few historians I could find who would teach me economic history. This he did, and a great deal more besides. His characteristic mix of calm patience, polite skepticism, and intensely rigorous scholarship proved to be precisely what I needed in a graduate advisor. As an instructor and as a scholar, he taught me by example how to approach big questions from novel perspectives, and showed me that the vexed intersection of history and economics demanded a commitment to the strictures of two disciplines, not an escape from discipline altogether. I cannot imagine what about my eccentric application struck him as interesting, but I am proud and grateful to have been his last graduate student.

I first met James Vernon because I had a problem, and the first thing I remember him saying to me was that he was happy to do whatever was necessary to solve it. He has continued to say that about once or twice a week for the last five years as I have continued to find and produce new problems. In meeting after meeting he has been encouraging and reassuring while also being realistic and pragmatic; page after page and chapter draft after chapter draft have come back with his detailed, thoughtful, and incisive comments. I have heard enough horror stories from colleagues about absent or blissfully unrealistic advisors to be acutely aware of how much I—and many, many others—owe to James’ dedication to his students.

More than anyone else, Carla Hesse taught me how historians think. In the long process of translating the thicket of archival material into narrative chapters with arguments, I have returned again and again to her insistence that any historian should both know how tangible things actually worked in practice, on the ground, in people’s lives, as well as how to close the hermeneutic circle and historicize the *a priori*. Barry Eichengreen will be surprised to learn how much time and energy I have devoted to

trying to anticipate what sort of questions he will ask in our meetings, because I have not yet succeeded at anticipating correctly. Just as his probing and critical mind never ceases to surprise me, so too have I returned to his work year after year since first encountering it at the LSE in 2009, and I always find something new waiting for me. I have taken the economics part of my education seriously, and I am both surprised and grateful at how seriously he has taken my sometimes eccentric efforts. Finally, although Stefan-Ludwig Hoffmann was not conscripted into advising on this dissertation, he taught me how to ask novel questions of old subjects by changing the unit of analysis and the periodization, thereby ensuring that well-trodden historical material never grows stale, or is finished.

As a historian interested in long processes of structural change, I am anxious to state my debts to the deeper, path-dependent sources of this dissertation. It is almost certain that I never would have finished my BA at California State University, Sacramento had Ron Fox and Patrick Cannon not each, in very different ways, taken an interest in me and challenged my complacent intellect. It never would have occurred to me to do a PhD at Berkeley were it not for the enthusiasm and kindness of Patrick Wallis at the LSE, who gave purpose to a very difficult year. Despite having spent a startling fourteen years receiving university education, doubt if I have ever been an easy or ideal student, and scholarly aptitude I have developed during that time is due mainly to the hard work of my teachers.

No dissertation, especially one dependent on archival research, is ever completed without the expert assistance of local guides. I visited a lot of archives in the course of producing this dissertation, and special thanks must go to the staff of the Dublin City Library and Archive, where I whiled away many long evenings demanding volume after volume of Wide Street Commission minutes. Marie Collin at the Archives départementales du Bas-Rhin took pity on my feeble French and pointed me to some invaluable sources. Natalie Broad at the Rothschilds Archive in London went well above the call of duty and saved Chapter Five with an emergency Tube journey to the document warehouse. In Dublin I benefited from informative and entertaining meetings with Jacqueline Hill, David Dickson, and Kenneth Milne. Aisling Murray's friendship made the Dublin trip possible, as did the kind hospitality of Caoimha Fitzsimons. In London, Kit Kowol and Melissa Turoff kept me fed and housed, and produced a famous Thanksgiving. I am also very pleased to add to the number of PhD dissertations that thank Felicity Taylor for being the greatest landlady in London, and a model for us all.

Soon this dissertation will begin gathering electronic dust, interred in its electronic file, probably to be annihilated one day in a server crash. My advisors will be spared any further demands from me, the archivists will receive no more requests, and the university administrators will close my file. What will remain are the friends I have been lucky enough to make. In September of 2011, Sam Wetherell and I split a bottle of someone else's whiskey and began a conversation that has not yet ended, and I hope never will. His ability to combine a relentless positivity with an unerring critical eye has taught me more about how to be an academic, and how to be a person, than I ever thought possible. We have read and discussed a lot of books since 2011, but it is clear to me that in Sam's case, writing his own books really is the most praiseworthy method of acquiring more. Without Julia Shatz, this dissertation never would have survived the long, dark night of the soul in Strasbourg in January 2015 when I realized I had gone terribly wrong and needed to restructure the entire project. Julia believes in people, and I am grateful



that she has believed in me. Week in and week out, one paragraph at a time, she has been a constant source of support, encouragement, and, when necessary, commiseration, to the extent that I never write anything now without asking myself what Julia will think of it. Brendan Shanahan is possessed of both the most unwavering moral compass of anyone I have ever met, and an astonishing capacity for scrupulous empirical research. These are both qualities that I only ever approach asymptotically, and I continue to think that I would benefit from doing another PhD under his supervision. Joseph Kellner is sentence by sentence the best writer I have ever met. Reading him has been a humbling pleasure, and has disabused me of any notion that writing would be my comparative advantage as an academic. The hundreds of hours I have spent arguing with Tim Wright were better spent than any time in a graduate seminar. My total inability to persuade him of anything may not have caused me to change my own mind, but it has taught me a kind of humility and empathy I did not ever expect to gain. No matter where I encounter Julia Wambach she is always the ideal of a Parisian dining companion: warm, funny, erudite, effortlessly sophisticated, and ready to discuss anything. More than once she salvaged a long, cold, confusing winter day in the Archives nationales. Through the course of a long correspondence and too-infrequent meetings, Grace Ballor has been a steady and supportive friend who has made being a historian in the economist-dominated world of economic history much less lonely than it otherwise would have been. Andrej Milivojevic has been a guide, a mentor, and a friend whose precision and practicality have steered me past innumerable blunders, both conceptual and logistical.

Although they have been spared most exposure to this dissertation, vital friendship, conversation, and intellectual provocation has come from Danny Kelly, Ari Edmundson, Camilo Lund, Ron Makleff, and Erica Lee. Harry Kennard has taught me innumerable things, from Welsh phrases to guitar harmonics to what a “tog” might be. I can only marvel at his ability to make being a polymath seem easy. I cannot imagine what direction his career will take, but I look forward to following it closely. Will Jenkins, Emiliana Kissova, and Knightcarl Raymond are unlikely ever to read these words, but they all shaped me and this project, and I miss each of them. Brian Flanigan has been my stalwart friend for a quarter century. He and his wife Kristy were a surrogate home for the first lonely year of graduate school. Keith Young and Sevé Torres have never stopped challenging me, arguing with me, and recommending an endless stream of books. In many ways, this is the final product of a knowledge arms race that we all began together more than a decade ago.

My parents Pete and Laurie taught me to love books and ask questions. I always knew that I wanted to write more books, but as the child of two educators, I never thought I would want to teach. Yet here I am, looking forward to the next syllabus, the next lecture, and the next class. It does seem to be in the blood. My brother Daniel is a tireless source of grounded wisdom and common sense. Together they have been a calm, generous, supportive, and loving family in every peculiar adventure I have undertaken, and this one was no different, however time-consuming and involved it may have turned out to be.

Of course, ultimate thanks are due to my wife, Beki. Together we have been through years apart, sickness and health, many long flights and many more evening walks, more than one season of grassroots political organizing, a spot of inconvenience involving an Icelandic volcano, and all of the innumerable challenges of life under

conditions of late capitalism. From Sacramento to London to Ann Arbor, from Yangon to Bogota to Strasbourg, and most of all from New York in 2008 to Berkeley in the spring of 2017, she has been my constant companion and partner in everything, even as she has been busy becoming someone who can write SAS code all morning, swim miles in San Francisco Bay at lunch, and execute a flawless soufflé at dinner. It may not have always seemed like it, but this dissertation was always an attempt to help us into our lifetime of reading together. A dissertation about impunity is not much thanks for everything she has had to put up with in the course of my writing it, but I hope my love for her is evident here, as I hope it is in everything I do.

Berkeley, May 2017.

## Introduction

“For my friends, anything—for my enemies, the law.”  
- Getulio Vargas, President of Brazil, 1930-45 and 1951-54.

On 12 August, 1719, the journalist and Whig politician Richard Steele wrote to John Law, the Scottish financier, to announce the success of his patent on the Fish Pool Sloop, and to invite Law to invest in his project.<sup>1</sup> Law was then approaching the height of his powers as *Contrôleur général des finances* in Paris, with his Mississippi Company in total control of the French financial system, its shares having risen from 1000 *livres* on 27 July to over 5000 by the end of August. Steele, meanwhile, had spent nearly £1000 obtaining his patent and building a prototype of his invention—a sort of floating aquarium intended to bring ocean fish to the market alive—and was ready to convert it into a joint-stock company, encouraged by the dizzying enthusiasm for the trade in shares of new projects in the coffeehouses of London’s Exchange Alley. Steele’s Fish Pool Sloop was not among the more ridiculous of the over 200 new joint-stock companies floated on the London market in 1719 and the first half of 1720.<sup>2</sup> But by 1721, when only four of these projects still existed, Steele’s Fish Pool Sloop was not among them—and John Law had fled France in disgrace amid the disorderly collapse of his System.

The year 1720 witnessed the world’s first international financial crisis. For at least the next century, in the popular mind as well as in formal historical writing and nascent securities regulation, the crisis was blamed on the impunity of “projectors” like Richard Steele and international financiers like John Law. To be sure, there had been economic crises before—depending on how one views a “crisis,” these could include everything from the “general crisis” of the seventeenth century to the repeated sovereign defaults of Philip II.<sup>3</sup> But where these were

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<sup>1</sup> Richard Steele to John Law, 12 August 1719 in Rae Blanchard (ed.), *The Correspondence of Richard Steele* (Oxford: Clarendon Press, 1968), 141-42. He also wrote to John Knight, of the South Sea Company, and Isaac Newton, then Master of the Royal Mint.

<sup>2</sup> Adam Anderson, *An Historical and Chronological Deduction of the Origin of Commerce* (London: J. White, 1801), Vol. III, 108-12 lists 80 of these projects. The list includes a perpetual motion wheel and a plan “for trading in human hair.”

<sup>3</sup> On the “General Crisis,” see Eric Hobsbawm, “The General Crisis of the European Economy in the Seventeenth Century,” *Past and Present*, Vol. 5, No. 1, (1954), and Jan de Vries, “The Economic Crisis of the Seventeenth Century After Fifty Years,” *The Journal of Interdisciplinary History*, Vol. 40, No. 2 (Autumn 2009). On Philip II, see Mauricio Drelichman and Hans-Joachim Voth, *Lending to the Borrower from Hell: Debt, Taxes, and Default in the Age of Philip II* (Princeton: Princeton University Press, 2014).

international, as with the “general crisis” concept, 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 family firm rather than affecting multiple interconnected markets. The consequences of these early debt defaults were limited for the very good reason that before the European Financial Revolution of the late seventeenth century there effectively *were* no international financial markets to speak of. Shares of the Dutch East India Company and its various derivatives were traded as early as 1609, and the Amsterdam Bourse offered a continuous market for financial services after 1611, but stocks were not traded in London’s Exchange Alley until the 1690s, or in the Rue Quincampoix until after 1715.<sup>4</sup> Even in 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.<sup>5</sup> In his canonical book *Manias, Panics, and Crashes*, Charles Kindleberger identifies the Dutch Tulip Bubble of the 1636-7 as the first significant financial crisis, but subsequent scholarship has shown that in fact it was limited to a small group of professional tulip dealers in Haarlem, and had little impact on the broader Dutch economy.<sup>6</sup> Credit instruments certainly existed and were traded prior to the turn of the eighteenth century—running the gamut from maritime insurance to bills of exchange—but these were mainly means to cover payments for international trade and they were so fragmented and subject to so many non-market regulations (like usury laws) that they did not constitute an international financial market as such.

The crisis of 1720 marked the culmination of more than three decades of rapid change and innovation in financial institutions, especially in England. Following the work of P.G.M. Dickson, this period is usually referred to as the Financial Revolution.<sup>7</sup> I do not propose to challenge this terminology, but in the pages that follow I will argue that the term “revolution” is

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<sup>4</sup> Larry Neal, *The Rise of Financial Capitalism: International Capital Markets in the Age of Reason*, (Cambridge: Cambridge University Press, 1990), 14-19 and 45-54.

<sup>5</sup> 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), 142 and 150-52.

<sup>6</sup> Charles Kindleberger, *Manias, Panics, and Crashes: A History of Financial Crises*, (New York: Palgrave Macmillan, 2011), 11 and 17; Anne Goldgar, *Tulipmania: Money, Honor, and Knowledge in the Dutch Golden Age*, (Chicago: University of Chicago Press, 2007), especially Ch. 3.. A case could be made for the Kipper-und-Wipperzeit of 1621-23, but this was a case of currency debasement. Raising revenue through inflation is not the same as a financial crisis.

<sup>7</sup> P.G.M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit, 1688-1756*, (London: Macmillan, 1967).

even more apposite than Dickson intended. Modern historiography has demonstrated that the French and Russian Revolutions, to choose only two very salient examples, were not singular, unified events which ruptured historical continuity and set their respective societies permanently on new trajectories, but rather were *many* events, full of contestation and contradiction. The Financial Revolution was no different. The thirty years before 1720 featured as many false starts, missed opportunities, failed experiments, wild-eyed proposals and acrimonious political disputes as they did sober investment and rational asset pricing. Not only was the crisis of 1720 an emergent phenomenon with no clear precedent or conceptual model to render it intelligible to contemporaries, but so too were many of the preceding financial developments since 1688, from the nationalization of the Crown's debt to the founding of the Bank of England in 1694 to the Great Recoinage of 1695-6. These events, especially those of 1719-1721, 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.

By contrast, the Panic of 1825 was quickly contained through coordinated efforts between the Bank of England and the Rothschild banking house. It marked the first instance of several characteristics that would come to define the many subsequent financial crises of the nineteenth century. It was the first crisis to be generated entirely by the financial system itself, rather than by the difficulties of retiring wartime debts.<sup>8</sup> It was the first crisis driven by a mania for risky overseas lending—in effect, the first “Third World debt crisis.”<sup>9</sup> And it was the first crisis of the nineteenth century gold standard, with full convertibility at the Bank of England since 1821 and standardized steam-minted coins produced by the Royal Mint since 1798.<sup>10</sup> (France was still on a bimetallic standard, so the true international gold standard was not yet in operation, but Britain was fully on gold, which governed its behavior during the 1825 crisis). Between 1824 and 1826, 114 banks failed in England, 118 new joint-stock companies folded,

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<sup>8</sup> Larry Neal, “The Financial Crisis of 1825 and the Restructuring of the British Financial System,” *Federal Reserve Bank of St. Louis Review*, (May/June 1998), 53-76.

<sup>9</sup> Frank Griffith Dawson, *The First Latin American Debt Crisis: The City of London and the 1822-25 Loan Bubble* (New Haven: Yale University Press, 1990).

<sup>10</sup> On the gold standard, see Barry Eichengreen, “Conducting the International Orchestra: Bank of England Leadership Under the Classical Gold Standard,” *Journal of International Money and Finance*, Vol. 6, (1987), and idem, *Golden Fetters: The Gold Standard and the Great Depression, 1919-1939*, (Oxford: Oxford University Press, 1992), 42-54.

and several sovereign governments went into default. A lot of people lost a lot of money, but in marked contrast with the crisis of 1720, the Panic of 1825 was intelligible, manageable, controlled, and caused by nobody in particular. There was no Parliamentary inquiry after the crash, and the chief legislative change—the repeal of the Bubble Act of 1720—was a consequence of the boom, not the bust.<sup>11</sup> Today 1825 is remembered more for the colorful case of the loans raised by Gregor MacGregor for the fictitious country of Poyias rather than for any lasting economic impact.<sup>12</sup> The malfeasance of those few bad apples was understood not to require any structural change to the financial system. Instead, the importance of 1825 is in its similarity to subsequent crises, especially in terms of the response by central bankers. I hope to convince the reader that the model I present using the case of 1825 is enlightening and useful when applied to any other international financial crisis before the First World War: 1847, 1857, 1866, 1873, 1884, 1890, 1896, 1903, or 1907. From 1825 until 1914, it was clear who could be held accountable for crises, who was responsible for containing them, and what sorts of actions and policies were legitimate in doing so.<sup>13</sup>

Between the crisis of 1720 and the panic of 1825, the thin capital markets of Paris, London, and Amsterdam became a unified global financial market. Their immense expansion in scale and complexity allowed far more capital to be invested in far more ventures in many places, promoting overall economic growth. But along with that expansion came a gradual

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<sup>11</sup> M.J. Fenn, “British Investment in South America and the Financial Crisis of 1825-1826,” (Unpub. thesis, Durham University, 1969), 151-2 and 157.

<sup>12</sup> There is some eccentric work on this episode, but a good scholarly context can be found in Marc Flandreau and Juan H. Flores, “Bonds and Brands: Foundations of Sovereign Debt Markets, 1820-1830,” *The Journal of Economic History*, Vol. 69, No. 3, (Sept., 2009), 646-84.

<sup>13</sup> The durability of this claim partly depends on an assessment of the so-called “Long Depression” of 1873-1896. That twenty-year period is its unprecedented and continual fall in prices—year after year, almost everywhere in the world, for a total deflation of about 30%. It is explained by the mechanisms of the gold standard: a physically limited supply of gold was unable to keep up with the rapidly growing demand for it, driving up the price of gold relative to everything else. Since the price of gold is the reciprocal of the overall price level, this meant deflation. Moreover, regardless of the quantity of gold, the gold standard had a structural deflationary bias. Adjustments to trade imbalances happened through the domestic price level rather than through exchange rates, but without a clear reflationary policy tool, or a mechanism to force surplus countries not to hoard gold, so adjustments downwards in prices were never met by corresponding adjustments upwards. See S.B. Saul, *The Myth of the Great Depression 1873-1896*, (London: Macmillan, 1969); Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System*, 2<sup>nd</sup> Edition, (Princeton: Princeton University Press, 2008), 24-42; Michael Bordo, John Landon Lane, and Angela Redish, “Good Versus Bad Deflation: Lessons From the Gold Standard Era,” (NBER Working Paper 10329, 2004). For another example of the gold standard transmitting monetary contractions, see Ben Bernanke and Harold James, “The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison,” in R. Glenn Hubbard, (ed.), *Financial Markets and Financial Crises*, (Chicago: University of Chicago Press, 1991), 33-68.

change in the political and legal mechanisms through which economic inequality—especially inequality in the control of financial capital—was maintained, protected, and institutionalized.

Since 2008 there has been a boom in historical writing about capitalism, and in economic writing about financial crises. Most writing specific to the history of financial crises is deeply committed to ahistoricism, written as it is from the nomothetic discipline of economics. This is not an analytical failure, but rather a deliberate argument about the perennial nature of human folly, and our inability to learn lessons from the past. As a result, these books tend to address very long periods of time across wildly different places and contexts, and attempt to prove that financial crises (especially speculative bubbles) follow a set pattern and are made possible through universal characteristics of human behavior.<sup>14</sup> These books tend to be written during periods of crisis--to take only two of the most-cited examples, both Kindleberger's *Manias, Panics, and Crashes*, and 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" which is essentially impossible to eradicate.<sup>15</sup> The willingness of many economists and economic historians to believe that all crises are similar is quite striking, especially when compared with the well-known difficulties of explaining the sources of economic growth.<sup>16</sup> The result is something like Tolstoy inverted—every unhappy economy is alike; each happy economy is happy in its own way.

This study is also written during a period of economic dislocation, and one that has been especially well populated with instances of impunity. But I want to argue that this narrative of eternal human folly and predictable patterns of crisis is something like an act of classical Freudian repression—a comforting story that hides a more traumatic past. In part this is due to

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<sup>14</sup> Kindleberger, *Manias, Panics, and Crashes*; Edward Chancellor, *Devil Take the Hindmost: A History of Financial Speculation*, (New York: Farrar, Straus, Giroux, 1999); Carmen Reinhart and Kenneth Rogoff, *This Time Is Different: Eight Centuries of Financial Folly*, (Princeton: Princeton University Press, 2009); David Graeber, *Debt: The First Five Thousand Years*, (New York: Melville House, 2011); Tim Knight, *Panic, Prosperity, and Progress: Five Centuries of History and the Markets*, (New Jersey: Wiley, 2014).

<sup>15</sup> Kindleberger, *Manias, Panics, and Crashes*, Ch. 1, *passim*.

<sup>16</sup> A full citation of this point might involve the entirety of development economics. But for a recent scholarly overview, see Elhanan Helpman, *The Mystery of Economic Growth*, (Cambridge, MA: Belknap Press of Harvard University Press, 2004), and for a popular statement see, William Easterly, "The Anarchy of Success," *New York Review of Books*, Vol. 56, No. 15, (Oct. 8 2009).

the nature of historical memory itself. As Barry Eichengreen has recently 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.<sup>17</sup> As the public and as policy-makers attempt to reason by use of historical analogy, 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.<sup>18</sup> I want to push this point further, by showing that the memory of previous crises and assumptions about the inevitability and regularity of crises can allow for the continuation of problems of impunity in new forms and under new guises.

An example will clarify the point. Charles Calomiris and Stephen Haber's excellent *Fragile by Design* sets out to explain why some countries have unstable banking systems and others do not.<sup>19</sup> They argue that banking systems are the outcome of political processes, which they call "the game of bank bargains," where governments, the public, and financial interest groups contend for power. Governments want credit and revenues from banks, banks want state protection and secure profits, and the public wants easy access to cheap credit. The outcome of the game is dependent on the country's political system: too much populism and there will be too many state restrictions on the banking sector, reducing credit; too much authoritarianism and there will be too much revenue extraction from banks, tending to poverty traps or inflation taxes.<sup>20</sup> To test their model, Calomiris and Haber discuss the banking history of the United Kingdom, the United States, Canada, Mexico, and Brazil from roughly 1700 to 2000. Their concluding chapter is an impassioned call for more historicism: "We are not, therefore, attempting to sell a handy, timeless model to explain everything about the failures and successes of banks...As we show in this book, banking crises are not a regular occurrence across time and countries, and therefore they cannot be a consequence of any general economic characteristics

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<sup>17</sup> Barry Eichengreen, *Hall of Mirrors: The Great Depression, the Great Recession, and the Uses—and Misuses—Of History*, (Oxford: Oxford University Press, 2015).

<sup>18</sup> Barry Eichengreen, "Economic History and Economic Policy," *The Journal of Economic History*, Vol. 72, No. 2, (June 2012), 289-307.

<sup>19</sup> Charles Calomiris and Stephen Haber, *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit* (Princeton: Princeton University Press, 2014).

<sup>20</sup> I am grotesquely simplifying an elegant argument set out in Calomiris and Haber, *Fragile by Design*, Chs. 1-3. See *ibid*, 42, Figure 2.1 for a useful chart of possible combinations and outcomes.



about banks. Rather, they are the consequence of general economic characteristics about banks coupled to the specific political characteristics in which banks operate.”<sup>21</sup>

I am in complete agreement that financial systems are the outcome of contested political processes. The approach of this study differs in three key respects, and I want to make them explicit, because I think they are essential to advancing our understanding of how finance and politics have historically interacted.

The first difference is to move beyond national banking systems. Banking crises are one species of financial crisis, but they are not the only one, and this is especially important because capital markets globalized before land or labor markets. In 1720, France had no banking system to speak of: the collapse of Law’s System was a stock market crisis and a currency crisis. The years between 1791 and 1815 saw banking crises in Britain, debt crises in France, and currency crises in both. The Panic of 1825 was a banking crisis, a stock market crisis, and a sovereign debt crisis all at once. Calomiris and Haber focus on how national banking systems are the outcome of domestic politics, but speaking of financial crises more broadly requires considering how the international mobility of capital clashes with the national provision of regulation and political necessities. The historical origin of that tension, which remains at the heart of contemporary globalization, is one of the central threads of this study.

Secondly, I want to take Calomiris and Haber’s call for historicism even further. Like good social scientists, they consider each of their test countries in isolation, sealed in a specimen jar. But the British and French financial systems developed through a process of mutual emulation and rivalry. In addition to both being subject to the flows of international finance, each was subject to their own historical memories of previous crises and previous attempts at financial experimentation. Thus, debates around the formation of the Bank of France in 1800 involved interpretations both of France’s own financial history back to 1720 and of the origins and function of the Bank of England. Historicizing financial systems and crises means embedding them in time, which in turn reveals surprising non-linearities: solutions to one set of problems can produce new problems in the future, and attempts to understand a past crisis directly shape—for good and for bad—the response to future crises.

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<sup>21</sup> Calomiris and Haber, *Fragile by Design*, 480.

Third and finally, Calomiris and Haber are concerned with explaining whether or not countries get two desired outcomes: stability and access to credit. The outcome that interests me is very different, and much more restricted: the capacity for acting with impunity. The problem of impunity is something like the dark corollary to the many histories of credit, and of private property institutions.

Credit is based on trust, and trust means many things to many scholars. For historians of *Ancien Régime* France, credit is a barometer for tracking the de-legitimization of the monarchy, while for British historians it is a window into the development of a commercial society.<sup>22</sup> 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.”<sup>23</sup> 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 indicate the existence of exceptions to institutional rules. Even the most cursory exposure to the texture of historical documents produces the overwhelming impression that rules are imperfectly implemented even at the best of times, so it is worth considering how a given institutional arrangement deals with exceptions. What are the mechanisms for monitoring and commitment? How resilient is an institution to exceptions? Are exceptions themselves institutionalized in some way?

This problem of exceptions touches on questions of power and justice, thereby alluding to a large body of political thought, most obviously that which engages the ideas of Carl Schmitt, the political Left’s favorite Nazi jurist.<sup>24</sup> The first line of Schmitt’s *Political Theology* states: “The sovereign is he who decides on the state of exception.”<sup>25</sup> One need not have any sympathy

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<sup>22</sup> Influential examples include, respectively, Clare Haru Crowston, *Credit, Fashion, Sex: Economies of Regard in Old Regime France*, (Durham: Duke University Press, 2013) and Craig Muldrew, *The Economy of Obligation: The Culture of Credit and Social Relations in Early Modern England*, (New York: St. Martin’s Press, 1998).

<sup>23</sup> Avner Greif, *Institutions and the Path to the Modern Economy: Lessons From Medieval Trade*, (Cambridge: Cambridge University Press, 2006).

<sup>24</sup> Indeed, the recent revival of interest in his thought has been driven by his most thorough-going ideological opponents. For an example and an overview, see Benno Teschke, “Decisions and Indecisions: Political and Intellectual Receptions of Carl Schmitt,” *New Left Review*, No. 67, (Jan/Feb 2011), 61-95. For a balanced scholarly treatment, see Jens Meierhenrich and Oliver Simons, (eds.), *The Oxford Handbook of Carl Schmitt* (Oxford: Oxford University Press, 2016).

<sup>25</sup> Carl Schmitt, *Political Theology: Four Chapters on the Concept of Sovereignty*, trans. George Schwab, (Chicago: University of Chicago Press, 1985 [1922]), 5.

whatsoever for Schmitt's authoritarian critique of liberal democracy to find this observation compelling. Given the emphasis in the institutionalist literature on constraining the sovereign, the question of exceptions ought to be more thoroughly investigated.<sup>26</sup> In its strongest form, the institutionalist argument suggests that all economic actors are bound by institutions at all times: a world with no sovereign, save inexorable economic laws. It is possible that exceptions have become increasingly rare after 1688; more likely, the nature and location of sovereignty itself has shifted, and with it the possibilities for impunity have changed, rather than been eliminated altogether.

### Determinants, Variables, and Problems

Bearing those trends in mind, there are three main variables that allow for a clear view of how economic impunity changed over time. The first is the legal concept of "prosecutorial discretion," which captures two possibilities: the institutional limitations on what sort of activities are illegal and therefore open to prosecution, and the tendency of the economically powerful to have access to personal connections and channels of corruption to prevent them from being prosecuted. The second variable is technical knowledge. It has recently become commonplace for historians to adapt the concept of "information asymmetries" to cover a wide range of confusions, spanning from outright fraud to educational innumeracy to systemic uncertainty. I want to isolate the ability of professional financiers to grasp the jargon, mathematics, and professional practices of financial markets, all of which grew increasingly complex across the eighteenth century, and to keep that ability separate from both the moral economy of public perception and from governmental inability to monitor the entirety of financial activity. The third variable is international mobility. By this I mean both the globalization of capital, such that a panic in London can have repercussions in Amsterdam and Lisbon. But I also mean the aforementioned asymmetry between internationally mobile capital—and capitalists—and national legal jurisdictions, where financial regulation occurs.<sup>27</sup>

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<sup>26</sup> The canonical argument about constraint is of course Douglass North and Barry Weingast, "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England," *The Journal of Economic History*, Vol. 49, No. 4, (Dec 1989), 803-32.

<sup>27</sup> The latter part of this problem is known among economists as "regulatory arbitrage." International law scholars have a closely related concept which they term "jurisdictional arbitrage," and although it is a narrower term which

The interaction between these three variables explains the scope of possible economic impunity at any given time.

As a concept, impunity belongs to the world of international law, not economic history. Fortunately, the two overlap frequently enough that some transmission can be justified. Further, since 2008 a great deal of writing has 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% for Thomas Piketty.<sup>28</sup> I intend the concept of impunity to push this work further, and since the study of malfeasance and inequality is relatively new to economic history, to build it I will draw on conceptual insights from other disciplines.

The history of international law is an intuitive place to begin. Early modern European states were primarily technologies for fighting wars, but then, as now, the international activity that occupied most people most of the time was not war, but commerce. Flows of goods and capital were—and still are—more voluminous and continuous than flows of soldiers.<sup>29</sup> To be sure, international law has addressed economic questions since the start: Hugo Grotius, for instance, was commissioned to write his first treatises by the Dutch East India Company, dealing first with the property-rights implications of seizing prize ships and then with Portuguese claims to monopolies in the Indian Ocean.<sup>30</sup> But international commerce is so decentralized and generally unsupervised that it was more often governed by informal institutions than by formal law, and where disputes arose between merchants in port, there was usually a sovereign authority to render justice (however arbitrary), avoiding the structural anarchy problem of international relations.<sup>31</sup> Consequently, economics and international law have not had much to do with one

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fits my argument a bit better, “regulatory arbitrage” has become such common usage that I will likewise employ it. For an example of the concept, see Joel F. Houston, Chen Lin, and Yue Ma, “Regulatory Arbitrage and International Bank Flows,” *The Journal of Finance*, Vol. 67, No. 5, (Oct., 2012), 1845-95.

<sup>28</sup> Reinhart and Rogoff, *This Time Is Different*; George Akerlof and Robert Schiller, *Phishing for Phools: The Economics of Manipulation and Deception* (Princeton: Princeton University Press, 2014); Sven Beckert, *Empire of Cotton: A Global History* (New York: Knopf, 2014); and Thomas Piketty, *Capital in the Twenty-First Century* (Cambridge, MA: Harvard University Press, 2014).

<sup>29</sup> And flows of soldiers require huge flows of goods and capital, as will be discussed in Chapter 1 in the context of the remittance problem.

<sup>30</sup> Stephen Neff, *Justice Among Nations: A History of International Law* (Cambridge, MA: Harvard University Press, 2014), 132-35.

<sup>31</sup> The fair and open access to dispute resolution has been mooted as one of the explanations for Amsterdam’s success. See especially Oscar Gelderblom, *Cities of Commerce: The Institutional Foundations of International Trade in the Low Countries, 1250-1650*, (Princeton: Princeton University Press, 2013).

another as regards formal study, with the exception of some early Soviet jurists who attempted to re-cast states as property owners interacting through the zero-sum control of commodities.<sup>32</sup> And while international law concerns itself principally with violence, violations, and crimes, the study of international economic activity has been broadly optimistic, especially in the aforementioned institutionalist literature. It tends to emphasize trust, reciprocity, cooperation, and the hidden rationality of seemingly irrational arrangements.<sup>33</sup> For many economically-minded scholars, the absence of a supra-national authority is not a problem, but a virtue, and the non-ideological pursuit of self-interest is not a condition for ceaseless conflict, but rather for mutually-beneficial trade. The gap between the assumptions of international law and of international economics could not be more pronounced.<sup>34</sup>

Fortunately, the problem of impunity therefore occupies much more of the *practice* of international law than it does the theory and scholarship.<sup>35</sup> The notion that impunity is a problem that *can* possibly be solved is itself a recent development, associated with the controversial creation of the International Criminal Court in 2002. The spectacle of complete legal and institutional regime change paired with mass violence, as witnessed to varying degrees in Yugoslavia, East Timor, South Africa, Sierra Leone, Liberia, and Rwanda, all indicated the need to move beyond unified nation-state governments as the only recognized international legal actors, while still retaining juridical legitimacy in situations of transitional justice. The level of jurisprudence moved from the national to the international, discretion moved towards prosecuting leaders rather than away, and technology allowed for immense communication of forensic information, all of which reduced the scope of sovereign impunity.<sup>36</sup> This was a break with the historical pattern that limited attacks on sovereign impunity to either victor's justice or

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<sup>32</sup> Evgeny Pashukanis, *Law and Marxism: A General Theory*, (London: Ink Links, 1978 [1924]).

<sup>33</sup> For a general critique of this Panglossian view, see Sheilagh Ogilvie, "Whatever is, is Right"? Economic Institutions in Pre-Industrial Europe," *The Economic History Review*, Vol. 60, No. 4, (Nov. 2007), 649-684.

<sup>34</sup> This opposite reading of similar evidence dates back to the Enlightenment dispute over "*doux commerce*" or "the jealousy of trade," discussed at length in Chapter 2.

<sup>35</sup> The exception proves the rule: *Anti-Impunity and the Human Rights Agenda*, Karen Engle, Zinaida Miller, and D.M. Davis, (eds.), (Cambridge: Cambridge University Press, forthcoming January 2017).

<sup>36</sup> As least the impunity of poor sovereigns. The 2002 American Service-Members' Protection Act (Title 2 of Pub.L. 107-206, H.R. 4775, 116 Stat. 820) authorizes the President to "use all means necessary and appropriate to bring about the release of any U.S. or allied personnel being detained or imprisoned by, on behalf of, or at the request of the International Criminal Court." Human Rights Watch refers to this as the "Hague Invasion Act."

revolutionary tribunals, best instantiated in Saint-Just's declaration at the trial of Louis XIV that "One cannot reign innocently."<sup>37</sup>

These new post-conflict judicial situations have 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 I think 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 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 as well.<sup>38</sup> 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 write, "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."<sup>39</sup> These limits are different across time and space, and contested nearly everywhere. As William Shankland Andrews wrote in his dissent to the landmark 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."<sup>40</sup>

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<sup>37</sup> Saint-Just, "Sur le jugement de Louis XVI (1er discours)," speech to the National Convention, 13 November, 1792, in Saint-Just, *Discours et rapports*, ed. Albert Soboul (Paris: Editions sociales, 1957), 60.

<sup>38</sup> Thus, the 72-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.

<sup>39</sup> H.L.A. Hart and Tony Honoré, *Causation in the Law*, (Oxford: Clarendon Press, 1985), 63.

<sup>40</sup> *Palsgraf v. Long Island R.R. Co.*, 248 N.Y. 339, 162 N.E. 99 (1928), cited in Hart and Honoré, *Causation in the Law*, 85.

The precedent problem refers to the human capacity to devise new sorts of wrong-doing which were not foreseen by legislators or regulators. This 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.<sup>41</sup> These are dramatic examples, but the economic equivalent to the problem should be intuitively clear. It is a cliché that Wall Street’s financial innovations will always out-pace 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 were far greater resources and far more effort devoted to avoiding regulation than 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.<sup>42</sup> Here again the economic parallel is more complicated. Are individuals only culpable for foreseeable harm? A merchant who fails to fulfill a contract probably knows the affect 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 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 stock-jobbers 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.

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<sup>41</sup> The most recent discussion is Mark Lewis, *The Birth of the New Justice: The Internationalization of Crime and Punishment, 1919-1950*, (Oxford: Oxford University Press, 2014).

<sup>42</sup> Eichmann’s “*Befehlt ist Befehl*” 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.

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.<sup>43</sup> The culpability problem still exists in scholarship, for instance over the question of whether John Law genuinely believed in his System, and whether the South Sea Directors deliberately engineered the Bubble or were surprised by it.<sup>44</sup> This problem especially, but the other two as well, are 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.

### Applying the Concept of Impunity

How can this conceptual model be of use to writing history? The aforementioned tendency not to historicize financial crises, and the assumption that they are inevitable natural events has meant that none of these questions has 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, the taxpayer-defrauding schemes of corrupt bureaucrats, or the government-manipulating powers of foreign capitalists. In each case, the presumed impunity of the chosen villain is taken as a critique of the legitimacy of the state or economic system as a whole. For many historians, this is not very surprising. In his very influential *Critique and Crisis*, Reinhart Koselleck argued that the emergence of “public opinion” in the late seventeenth and early eighteenth century was exactly as an outlet for the bourgeois moral critique of the legally immune sovereign.<sup>45</sup> For Koselleck, this introduction of morality into politics was the “pathogenesis” of modern Europe: by denying moral legitimacy to its opponents and emphasizing the danger of a crisis, this tendency led directly to totalitarian ideology. Others take a more benign view. For John Robertson, political economy was the ideal subject of the

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<sup>43</sup> P.S. Atiyah, *The Rise and Fall of Freedom of Contract*, (Oxford: Clarendon Press, 1979), 82.

<sup>44</sup> See, respectively, Antoin Murphy, *John Law: Economic Theorist and Policy-Maker*, (Oxford: Oxford University Press, 1997) and Richard A. Kleer, “Riding a Wave: the Company’s Role in the South Sea Bubble,” *The Economic History Review*, Vol. 68, No. 1, (Feb. 2015), 264-85.

<sup>45</sup> Reinhart Koselleck, *Critique and Crisis: Enlightenment and the Pathogenesis of Modern Society*, (Cambridge, MA: MIT Press, 1988), 53-86.



Enlightenment, *exactly because* it combined moral philosophy with empiricism and public reason.<sup>46</sup> Of course, the claim that the Enlightenment’s drive to create an orderly and scientific society led to the horrors of twentieth century totalitarianism is now a commonplace, although the scholarly wars of the Enlightenment seem finally to have died down in favor of a shared enthusiasm for the practices and techniques of Enlightened communication. But many recent scholars have devoted some effort to setting Enlightenment economic practices—double-entry bookkeeping, stock trading, the business press—into a wider political context. This especially emphasizes its international character. Dutch financiers crossed the Channel with William III and reshaped English financial institutions, French war provisioners in Piedmont learned Italian bookkeeping, and English books on political economy were translated into French, German, and Italian.<sup>47</sup> Each of these was a profoundly political act, threatening vested interests, critiquing established policy, and contributing further to the centralization of economic power and knowledge in state hands. These practices, in turn, rested on new scientific concepts and metaphors: the discovery of the circulation of the blood, the emergence of the concept of legal “fact,” and the development of probability theory. We should not lose sight of how esoteric (in the literal sense of the word) this new knowledge was. From Montesquieu’s portrayal of John Law in his *Persian Letters* through Charles Dickens’ sinister Mr. Merdle in *Little Dorrit*, and at least until Friedrich Spielhagen’s 1877 *Sturmflut*, the financier was portrayed to the general public as a sort of incomprehensible and malevolent magician.<sup>48</sup> No doubt this is partly due to the fact that before the twentieth century spread of personal retirement accounts, if an average person was involved in complicated financial dealings at all, it was probably exactly because a bubble was underway. But it is also because finance combines extremely specialized technical knowledge with extremely lucrative rewards: a combination that most of the public most of the time appears to regard with a great deal of distrust. Thus, one immediate site for the importance

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<sup>46</sup> John Robertson, *The Case for the Enlightenment: Scotland and Naples, 1680-1760*, (Cambridge: Cambridge University Press, 2005).

<sup>47</sup> Jonathan Israel, “The Dutch Role in the Glorious Revolution,” in *idem*, (ed.), *The Anglo-Dutch Moment: Essays on the Glorious Revolution and Its World Impact*, (Cambridge: Cambridge University Press, 1991), 103-62; Yannick Lemarchand, “Introducing Double-Entry Bookkeeping in Public Finance: A French Experiment at the Beginning of the Eighteenth Century,” *Accounting, Business, and Financial History*, Vol. 9, No. 2, (1999), 225-54; Sophus Reinert, *Translating Empire: Emulation and the Origins of Political Economy*, (Cambridge, MA: Cambridge University Press, 2011).

<sup>48</sup> Charles de Secondat Montesquieu, *Persian Letters*, trans. Margaret Mauldon, (Oxford: Oxford University Press, 2008 [1722]); Charles Dickens, *Little Dorrit*, (New York: Signet Classics, 1980 [1857]); Friedrich Spielhagen, *Sturmflut*, (Leipzig: Verlag von L. Staackmann, 1883).

of impunity to economic history is in its importance to public opinion. Yet nowhere is the separation of technical rationality from moral critique more pronounced than in the formal discipline of economics, resulting in the separation of “positive” and “normative” economics which is now a staple of introductory textbooks.<sup>49</sup> But this neat separation is clearly still the object of much contestation, as it always has been, and it is most strongly contested in moments of crisis. Moreover, crises tend to show the gap between technical knowledge and popular morality at its widest point: to economists and economic historians, crises are either mistakes or accidents; in the eyes of public opinion, they are crimes, and *someone* is to blame.

How does this concept of “impunity” differ from either regulatory capture or corruption? Clearly they all deal with varieties of economic malfeasance, whether explicitly illegal or not. Regulatory capture and corruption each have their own substantial literatures: is a new concept really necessary?

First question first. Regulatory capture has either a broad or a narrow interpretation: it is either “the process through which special interests affect state intervention in any of its forms, which can include areas as diverse as the setting of taxes, the choice of foreign or monetary policy, or the legislation affecting R&D. According to the narrow interpretation, regulatory capture is specifically the process through which regulated monopolies end up manipulating the state agencies that are supposed to control them.”<sup>50</sup> This problem tends to be most severe when circumstances like natural monopolies call for a sole firm. There are some clear implications for the first part of my story, especially when the South Sea Company and the Mississippi Company attempted to establish monopolies not only over government debt, but also over foreign trade, tax farming, and note issue. But even this application is limited, since there were no statutory regulatory bodies for these firms to capture. Instead it was something more like “state capture,” as these firms attempted to take over the central administrative systems of their respective governments. Regulatory capture is best thought of as a subset of the impunity problem—one

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<sup>49</sup> This distinction owes its origin to John Neville Keynes (father of John Maynard) in his *The Scope and Method of Political Economy*, (London: Macmillan, 1930 [1891]), 11; squaring the hermeneutic circle, he returns to the fact/value problem articulated by David Hume in his *A Treatise of Human Nature*, (Oxford: Oxford University Press, 2000 [1740]), Book III, Part I, Section I.

<sup>50</sup> Ernesto Dal Bó, “Regulatory Capture: A Review,” *Oxford Review of Economic Policy*, Vol. 22, No. 2, (2006), 203.

particular strategy by which some actors attempt to secure impunity in a particular regulatory and institutional environment.

Corruption, on the other hand, is usually defined as the abuse of public office for private gain. This is a case of the principal-agent problem, and usually transpires when the holder of public office is engaged in work that is difficult for the public to monitor, and thus it certainly will be relevant to this study.<sup>51</sup> However, corruption is extremely difficult to study, given that by definition it lacks reliable reporting and any comparable objective measures to assess its magnitude or weigh it against a credible counterfactual. The implications of corruption for economic growth are surprisingly mixed: some authors argue that the welfare losses are minimal and likely to reduce over time on their own accord, while others go so far as to suggest that corruption may actually increase efficiency in situations of complex and obstructive bureaucracy.<sup>52</sup> Again, corruption is a subset of impunity, and one that is more closely connected to the concept of “prosecutorial discretion” than anything else. Regulatory capture may not be illegal, or even morally objectionable, since it may simply represent the greater resources, coordination, and efficiency of the capturing firms. But even when corruption is given a gloss of increasing efficiency or functioning as a social norm, it is still widely understood even among its practitioners to be illegitimate. Consequently, impunity in instances of corruption is usually achieved by avoiding prosecution for deliberate violations of existing laws, while in cases of regulatory capture it is achieved by ensuring that no laws exist under which prosecution could take place.

I argue, then, that a new concept is necessary, and is justified both by its importance to historicizing financial crises, and to its importance for how the public experiences and understands economic malfeasance and its political implications.

### Plan of the Dissertation

This dissertation posits a gradual decentering of economic impunity. In the “pre-history” of its argument, only the sovereign could act with impunity—either defaulting on his private

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<sup>51</sup> Pranab Bardhan, “Corruption and Development: A Review of Issues,” *Journal of Economic Literature*, Vol. 35, (Sept 1997), 1321.

<sup>52</sup> See Ibid, 1322-4 for an overview of this literature.

debt, or debasing the currency, or arbitrarily violating property rights, as when Louis XIV habitually made the nobility re-purchase their titles. Since there was no mechanism for prosecuting the sovereign, very little otherwise mattered—for instance there was little technical finesse to Philip II's defaults, and no sovereign needed to care about jurisdictional arbitrage.

The crisis of 1720 changed all this. The previous thirty years of financial experimentation accomplished the professionalization of finance and its increasing technical complexity. For the first time, financial instruments and techniques existed which were beyond the understanding of the educated dilettante—but at the same time, the bubbles of 1720 were emergent phenomena, unlike anything that had ever happened before, and consequently outside the understanding of even their most savvy participants, John Law included. This is the subject of Chapter 1. The Financial Revolution was a process by which all of the variables discussed above changed dramatically, and the culminating crisis in 1720 marked the spread of impunity from the legally-immune sovereign to a small set of professional, internationally mobile, state-allied financiers who understood and enforced the “rules of the game.” It also set the boundaries of financial institutions for the next 70 years. Despite the Bubble Act and Barnard's Act, Britain continued on much as before, and was able to marshal an enormous amount of tax revenue and government borrowing through an increasingly professional bureaucracy, supplemented by a relatively orderly securities market. But their public Financial Revolution did not imply a private one: the banking system remained relatively narrow and joint-stock issuances limited, such that the Industrial Revolution itself was primarily financed through small partnerships and kinship networks. In Britain the crisis of 1720 was understood as the consequence of a few corrupt individuals, not the result of the Financial Revolution itself. But the legal and social aftermath of the 1720 defined the contours of economic thought and practices for the rest of the eighteenth century.

In France the crisis stopped the Financial Revolution cold: public finance remained disorderly and insufficient while private finance was prevented from coalescing into formal institutions. The 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 until 1914; by

contrast, its value was altered 40 times under Louix XIV alone).<sup>53</sup> The absence of banks meant that essentially every large merchant also had to act as a banker, stitching French commerce into a mutually-indebted structure that was vulnerable to crises of confidence.

In both countries, the middle decades of the eighteenth century lived in the shadow of 1720, which was constantly in the mind of public opinion, economic theorists, and policy-makers. This weight of opinion as to the “lessons” of 1720 is the subject of Chapter 2. This chapter argues that the interpretation of 1720 was the most significant subject in Enlightenment political economy before Adam Smith. Many active participants in the South Sea Bubble and John Law’s System wrote extensive theoretical works in the 1720s and 1730s to explain (and justify) what happened in 1720. In doing so, they produced a set of conceptual tools, accepted practices, empirical data, and terminology which would go on to form the machinery of economic thought in the High Enlightenment of the 1750s and 1760s. Furthermore, much of this writing was concerned with solving the problem that finance posed to the supposedly pacific influence of commerce on human affairs: in short, the interdependence of commerce was supposed to reduce the dangers of sovereign despotism, but finance itself presented the specter of a new kind of economic despotism—or, in my parlance, impunity.

Chapter 3 discusses the great transition of the French Revolution. It first 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. It then describes how the integration of international capital markets came apart after 1789. 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 1795-7 with the suspension of gold convertibility in England in 1797 upended the international monetary system. Each country was separately left to deal with the fiscal and payments implications of an inconvertible paper currency. 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 re-cast after 1815 on a different basis from what had obtained before 1789.

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<sup>53</sup> Philip Hoffmann, Gilles Postel-Vinay, and Jean-Laurent Rosenthal, *Priceless Markets: the Political Economy of Credit in Paris, 1660-1870*, (Chicago: University of Chicago Press, 2000), 69-96.

The breakdown in Paris and London is told in the second half of Chapter 3, which argues that the revolutionary interregnum marked a nationalist politicization of impunity. This is an eminently political story, bound up with the radicalization of the Revolution, and the turning point arrived with the purge of the Girondins and the fall of their economics minister, who was none other than the former speculator Étienne Clavière.

Chapter 4 then investigates what exactly a “nationalist politicization of impunity” meant on the ground in a pair of case studies: namely, in Dublin and in Strasbourg. This chapter reveals that in Dublin, as in Britain more broadly, impunity was understood and practiced through the mechanisms of “Old Corruption,” in which landed aristocrats with control over the levers of government enriched themselves on the spigot of money unleashed by the war effort, thereby ultimately de-legitimizing their political position.<sup>54</sup> In France, by contrast, impunity was understood through a lens of revolutionary patriotism: economic criminals were either foreigners or in league with foreigners, even as many local officials and notables carefully avoided implemented the increasingly strident economic reforms emanating from Paris. Corruption scandals in both cities were handled and interpreted very differently, indicating how the national regulation of impunity had diverged.

The fifth and final chapter discusses the reconstruction of international finance that ended with the crisis of 1825. The perspective of this chapter, just like the first and second, is not comparative but rather international, since the crisis and its management were fundamentally international. It is intended to illustrate 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 foundation of the Bank of France in 1800-03, then through the financing of the French reparations loan of 1815-17, and finally 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 a process of all actors in the system 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

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<sup>54</sup> Philip Harling, *The Waning of “Old Corruption”: The Politics of Economical Reform in Britain, 1779-1846*, (Oxford: Clarendon Press, 1996).

mitigate a financial crisis. By the end of 1826, the institutions of nineteenth-century international finance were finally established. 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 convertibility, not to rescuing banks or investors.

John Law was not the last ambitious financial engineer; Richard Steele was not the last optimistic projector; 1720 was certainly not the last time that lots of people lost their savings and investments in a financial crisis. But the capacity and need for wholesale changes to financial architecture had passed: Europe arrived at a kind of economic stability after 1825. To inhabitants of the nineteenth century, this new system was one in which the collective—“the market”—itself could act with impunity. 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—and Britain experienced a major financial crisis at least once per decade for the entire century—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. 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. 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 any specific person clearly being at fault.

## Chapter One: The Crisis of 1720

### Introduction

The international financial crisis of 1720 was the culmination of the most compressed and dramatic episode of change in European economic institutions before the Industrial Revolution.<sup>1</sup> In volume and sophistication, the financial world of 1710-1720 in no way resembled that of 1680-1690: indeed, it resembles our own world more than the world of fifty years before. John Law's System, implemented in France between 1716 and 1720, is usually positioned as the dark side of the benevolent modern approach to economic innovation epitomized by the English Financial Revolution, thereby illustrating the dangers of speculative manias and inflationary debt financing alike. Law was the father of fiat money, a pioneer of central banking, and an instigator of a particularly modern stock market bubble. In this view, the failure of his experiments with modern economics prevented France from consummating the Financial Revolution which was then under way across the Channel, permanently crippling the fiscal system of the *Ancien Régime* and rendering the crisis of the late 1780s inevitable. But this is to appropriate the morality play of eighteenth century polemics as history, and to mis-cast the lead roles. The long-run reason why Law mattered was that the redistributive effects of his System irrevocably altered the terms of an ongoing debate over economic reform, at once limiting the policy tools of the absolutist state and the types of critiques which could be leveled against it, while still expanding the scope of economic activity that could be affected by human agency. His System at once added the possibility of experimentation to macroeconomics as a science and presented it with the new problem of understanding crises.

The South Sea Bubble, by contrast, is usually remembered as an early example of “irrational exuberance” or “the madness of crowds.”<sup>2</sup> It is proof of Britain's modernity,

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<sup>1</sup> A note on terminology and dates. I use “England” to refer to the polity before the 1707 Act of Union, and “Britain” afterwards, rather than as geographical distinctions. I use “the System” to refer to the total of John Law's activities in Paris, encompassing both the Banque Royale and the Compagnie des Indes. I use “the Scheme” to refer to the South Sea Company's debt-for-equity swap, and “the Bubble” to refer to the attendant stock market bubble which included but was not limited to the rise in Company shares. I use the dates given at the time rather than converting them to the New Style calendar, but refer to new years starting on January 1 rather than on March 25.

<sup>2</sup> This is mainly thanks to Charles Mackay, *Extraordinary Popular Delusions and the Madness of Crowds*, (London: R. Bentley, 1841).



compared with the Mississippi Bubble as proof of France's backwardness. It was the first of Kindleberger's "hardy perennials," and the popular finance writer Edward Chancellor has taken pains to show that the early eighteenth-century stock-jobber would be right at home on late twentieth century Wall Street.<sup>3</sup> Like the Mississippi Bubble, there was much about the South Sea Bubble that was new, innovative, and sophisticated, but those characteristics are best revealed in a discussion of how *strange* the Bubble was compared to previous history, not how normal it appears today. Furthermore, the conventional wisdom on the Bubble overstates the size of the crowd as well as the extent of its madness, and thereby obscures the issue of who had agency in the Bubble's creation, and who could be held responsible for its collapse.

My aim in this chapter is not to compare the two Bubbles, but to discuss them as part of a single event, the crisis of 1720. This is partly because they continually influenced one another, and partly because they precipitated smaller bubbles all over Europe.<sup>4</sup> Moreover, economic discussion at the beginning of the eighteenth century was fundamentally conducted on an international level in a kind of Economic Republic of Letters, so ideas moved between countries as readily as people, goods, and capital.<sup>5</sup> 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 Desmarests and Joseph Pâris-Duverney, and observed firsthand the workings of banks in Genoa, Venice, and Amsterdam. His financial machinations in Paris were paralleled by his dealings with Lords Stair and Londonderry on the London Stock Exchange, and his last years were spent gambling in Venice.<sup>6</sup> Beyond the famous Dutch collection *Het Grootte 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

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<sup>3</sup> Charles Kindleberger, *Manias, Panics, and Crashes*, (New York: Palgrave Macmillan, 2011), 41-43 and 140-44; Edward Chancellor, *Devil Take the Hindmost: A History of Financial Speculation*, (New York: Farrar, Straus, Giroux, 1999), 30.

<sup>4</sup> Stephano O. Condorelli, "The 1719-20 Stock Euphoria: A Pan-European Perspective," (Bern University: Center for Global Studies Working Paper, 2015) discusses an equity boom in overseas monopoly trading companies from twenty-two different polities across Europe.

<sup>5</sup> The continued importance of locating a single continental Enlightenment is attested to by John Robertson, *The Case for the Enlightenment: Scotland and Naples, 1680-1760*, (Cambridge: Cambridge University Press, 2005) and Sophus Reinert, *Translating Empire: Emulation and the Origins of Political Economy*, (Cambridge, MA: Harvard University Press, 2011).

<sup>6</sup> Larry Neal, *I Am Not Master of Events: The Speculations of John Law and Lord Londonderry in the Mississippi and South Sea Bubbles*, (New Haven: Yale University Press, 2012).

Mississippi Bubble ruined the fortunes of optimistic colonists in Louisiana.<sup>7</sup> The South Sea Bubble, meanwhile, was precipitated by an English company partly fueled by French and Dutch capital which owned the New World slave monopoly of the Spanish *asiento*, and its collapse precipitated crises in Lisbon, Genoa, Hamburg, and Berne. There are good reasons therefore to think of the crisis of 1720 as a single, Continent-wide event; but to understand it, we must first tell one story about changes in Paris and another about changes in London, all the while bearing in mind that the linkages between them, and the tensions between a national and an international view are themselves integral pieces to the final puzzle.

Ever since the very influential work of Douglass North and Barry Weingast in 1989 and John Brewer in 1990, it has become common to think of the English financial reforms of the 1680s and 1690s as vastly increasing financial stability. The core argument of this chapter is nearly the opposite. To be sure, in the long run the English Financial Revolution produced an 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. 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 disorderly and uncertain process, as well as the attempts to contain it, are the subject of this chapter.

The first half of the chapter sets the stage by describing the world of the Financial Revolution. Between about 1680 and 1720, the position of the sovereign in both England and France gradually eroded. Since legal structures remained unchanged, new technologies for international finance were not bound by effective regulation. Instead, they were monitored and judged by the reading public through the new financial press. It is intuitive that this combination of a relatively weak and needy sovereign, disorderly and decentralized legal structures, and increasingly sophisticated and democratized finance led to a crisis, but it could have been resolved in a number of ways. Thus, the second half of the chapter discusses the crisis of 1720,

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<sup>7</sup> For example, Anon., *Het Groote Tafereel der Dwaasheid*, (Amsterdam, 1720). There is no standard pagination. A useful summary can be found in Arthur H. Cole, *The Great Mirror of Folly: An Economic-Bibliographical Study*, (Boston: Kress Library of Business and Economics, 1949). See also: Anon., *Gegenwärtiger Zustand derer Finantzen von Franckreich...*, (Leipzig: Bey J.F. Gleditschens seel. Sohn, 1720); Daniel Defoe, *The Chimera, or, The French Way of Paying National Debts Laid Open: Being an Impartial Account of the Proceedings in France for Raising Paper Credit and Settling the Mississipi [sic] Stock*, (London: T. Warner, 1720).

with special attention to the aftermath. The different balance of prosecutorial discretion, technical knowledge, and international mobility in both Britain and France produced different solutions to the scale and precedent problems of the crisis. These solutions set the parameters of international finance for the next seventy years.

## I. The Situation Before 1720

### *I.i. Sovereign Immunity and Fragmented Legal Jurisdictions*

In a string of recent publications, Hans-Joachim Voth and various collaborators have argued against the older “institutionalist” view that before 1688 European sovereigns could and did default on their debts at will, but that beginning with the Glorious Revolution in England constraints by representative bodies enforced credible commitments to repay.<sup>8</sup> Taking the notorious case of Philip II (who defaulted four times), Voth and Drelichman argue that by creating informal networks, or “syndicates,” lenders could enforce risk-sharing arrangements by taking advantage of the Philip’s income-smoothing needs. In other words, lenders knew that in hard times money would be short and they would not be fully repaid, so they would compensate by demanding higher payments in good times, and this mechanism was enforced by common agreement among all lenders to prevent under-bidding.<sup>9</sup> Temin and Voth, meanwhile, argue that evidence for a sense of investor security in England after 1688 is misplaced because capital was still regulated by usury laws, and therefore not subject to market pricing, which would include risk. Consequently, adjustment to risk would happen at the level of quantities supplied rather than the prices demanded, and they provide evidence suggesting that investors still feared default.<sup>10</sup> Dierdre McCloskey has expressed an even stronger skepticism, arguing that English contracts were fully secure as early as 1272, during the reign of Edward I.<sup>11</sup> If these authors are correct, then the sovereign’s ability to act with impunity was constrained well before the

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<sup>8</sup> The “credible commitment” idea is from Douglass North and Barry Weingast, “Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England,” *The Journal of Economic History*, Vol. 49, No. 4, (Dec., 1989) and David Stasavage, *States of Credit: Size, Power, and the Development of European Politics*, (Princeton: Princeton University Press, 2011) is a more generalized application of the same point.

<sup>9</sup> Mauricio Drelichman and Hans-Joachim Voth, *Lending to the Borrower From Hell: Debt, Taxes, and Default in the Age of Philip II*, (Princeton: Princeton University Press, 2014), especially Ch. 6-7.

<sup>10</sup> Peter Temin and Hans-Joachim Voth, *Prometheus Shackled: Goldsmith Banks and England’s Financial Revolution After 1700*, (Oxford: Oxford University Press, 2013), especially Ch. 4.

<sup>11</sup> Dierdre McCloskey, *Bourgeois Dignity: Why Economics Can’t Explain the Modern World*, (Chicago: University of Chicago Press, 2010), 319.

Financial Revolution by the informal institutions of lenders, while the impunity of lenders was constrained by the law. This would directly contradict my argument.

Additional evidence for the French case will be discussed at length below, especially as regards the Crown's ability to manipulate the value of currency, and as regards the use of the *chambre de justice* to arbitrarily prosecute financiers. But at the outset, there are several general reasons to reject this optimistic view of sovereign responsibility in early modern Europe. A social problem might very well have found a solution in 1272, or 1557, or indeed 1688, but that does not imply that it was permanently solved, or that the solution was not the subject of continual dispute and contestation, even without considering how the social forces which reached the original settlement might have changed over time. Indeed, the instability of social settlements is one of the main themes of this study. Further, much of Drelichman and Voth's argument rests on the financial innovations of Genoese bankers in producing what they call "implicit state-contingent clauses" in the bankers' contracts with the Castilian crown.<sup>12</sup> These sophisticated late-sixteenth century practices did not appear in France and Britain until the end of the seventeenth century, during the Financial Revolution. Thus, Drelichman and Voth's discussion of an episode in which international lenders used sophisticated technical knowledge to restrain sovereign impunity actually seems to fit my conceptual frame, if not my periodization, rather well.

What of the French case? It is very plausible that during the weaker periods of the French monarchy, before the centralization of Richelieu, Mazarin, and the personal rule of Louis XIV, "syndicates" of lenders could discipline the Crown. But even if that were the case, it is irrelevant to my argument, because there is no evidence that such capacity existed between 1601, when the first *chambre de justice* was held since 1497, and 1716, when the last one was convened.<sup>13</sup> 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 re-purchase their own titles, conducting extensive production and sale of offices and monopolies, and resorting to increasingly extractive tax farming.<sup>14</sup> Many of these practices diluted the

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<sup>12</sup> Drelichman and Voth, *Lending to the Borrower From Hell*, Ch. 7.

<sup>13</sup> In 1614 the Estates General asked that they be held every 10 years. See Roland Mousnier, *The Institutions of France Under the Absolute Monarchy, 1598-1798*, Vol. II, (Chicago: University of Chicago Press, 1979-84), 485.

<sup>14</sup> Julian Dent, *Crisis in Finance: Crown, Financiers and Society in Seventeenth-Century France*, (Newton Abbot: David & Charles, Ltd., 1973), Ch. 2 and 3; on nobles being forced to buy back their nobility, see Franklin Ford,

exclusivity of noble office, essentially driving down the price and value of all forms of politically-constituted property.<sup>15</sup> For example, 3000 offices were created in Paris alone in 1689-1715: memorable examples include 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.<sup>16</sup> As expected, the consequence was that the Crown had very poor credit: provincial Estates could borrow at 5% for indefinite periods, while even the Crown's short-term interest rate touched 25% at the end of Louis' life.<sup>17</sup> But rather than running counter-cyclically, as Drelichman and Voth's income-smoothing hypothesis would predict, credit grew more and more expensive as the wars dragged on and Louis' financial expedients grew increasingly violent.<sup>18</sup>

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, and financiers demanding full repayment could be prosecuted and fined under a *chambre de justice* without any recourse or appeal. To be sure, this does not mean that the Crown made no efforts to coopt local elites or did not make extensive use of the personal relations of financiers as intermediaries to raise funds.<sup>19</sup> What it means is that the Crown could arbitrarily 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 him for life.<sup>20</sup> 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.

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*Robe and Sword: the Regrouping of the French Aristocracy After Louis XIV*, (Cambridge, MA: Harvard University Press, 1962), 14-15, 111.

<sup>15</sup> For instance, the nobleman and economic theorist Peirre le Pensant Boisguilbert complained about this to Desmaretz, the *Contrôleur général des finances*. See Boisguilbert to Desmaretz, 21 August 1709 in Arthur Boislisle (ed.), *Correspondance des contrôleurs généraux des finances avec les intendants des provinces*, (Paris: Imprimerie nationale, 1874-97), Vol. 3, 65. On politically-constituted property see David Bien, "Property in Office Under the Ancien Régime: the Case of the Stockbrokers," in John Brewer and Susan Staves (eds.), *Early Modern Conceptions of Property*, (New York: Routledge, 1995), 481-497.

<sup>16</sup> François Velde, "Government Equity and Money: John Law's System in 1720 France," (Federal Reserve Bank of Chicago: Working Paper 2003-13, 2003), 4, 6.

<sup>17</sup> Mark Potter and Jean-Laurent Rosenthal, "Politics and Public Finance in France: The Estates of Burgundy, 1660-1790," *The Journal of Interdisciplinary History*, Vol. 27, No. 4, (Spring, 1997), 577; Hilton Root, "Tying the King's Hands: Credible Commitments and Royal Fiscal Policy During the Old Regime," *Rationality and Society*, Vol. 1, No. 2, (Oct., 1989), 243.

<sup>18</sup> 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."

<sup>19</sup> *Ibid*, 244.

<sup>20</sup> Daniel Dessert, *Argent, pouvoir et société au Grand Siècle*, (Paris: Fayard, 1984), 847-71.

In England, the picture is complicated by the Civil War. Analyzing the shifting nature of sovereignty during that period has occupied several careers; I do not propose to attempt it in this paragraph. Still, it is worth noting in passing that the principal source of state finance during the Interregnum was the sale of confiscated property from the Church, the monarchy, and defeated royalists, which sounds a lot like the sovereign continuing to act with impunity against property rights.<sup>21</sup> Whatever the case, Charles II performed a partial default with the Stop of the Exchequer in 1672.<sup>22</sup> 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.<sup>23</sup> In 1672, 97.5% of the *total* royal debt was held by only 12 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.<sup>24</sup> These goldsmith-bankers did not have influence in Parliament, which extended the initial one-year of the Stop for two more years, at which point the old contracts expired, rendering the Stop permanent. Nor did they have informal institutional mechanisms of recourse, because they filed a lawsuit in 1685, and again in 1691, which they won in November of 1698—nobody conducts a formal lawsuit for that long if informal solutions exist.<sup>25</sup> The 1698 court victory hardly constitutes evidence against impunity: the few surviving goldsmith-bankers were paid a portion of what they were owed in 1701, three decades and an entire monarchy later.<sup>26</sup> 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.<sup>27</sup> 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.

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<sup>21</sup> H.J. Habbakuk, “Public Finance and the Sale of Confiscated Property During the Interregnum,” *The Economic History Review*, Vol. 15, No. 1, (Aug., 1962).

<sup>22</sup> John Horsefield, “The ‘Stop of the Exchequer’ Revisited,” *The Economic History Review*, New Series, Vol. 35, No. 4, (Nov., 1982).

<sup>23</sup> *Ibid*, 513.

<sup>24</sup> Bruce Carruthers, *City of Capital: Politics and Markets in the English Financial Revolution*, (Princeton: Princeton University Press, 1996), 62. One of the bankrupts was Robert Vyner, who had personally lent Charles more than £400,000, some of it through the intermediary of Samuel Pepys, who said he “commands both King and Council with his credit he gives them.” See Samuel Pepys, *The Diary of Samuel Pepys*, (New York: Croscup & Sterling Col., 1892-1899), Vol. 5, Part 1, 7 Sept 1665.

<sup>25</sup> Horsefield, “‘Stop of the Exchequer’ Revisited,” 514 and 518-20.

<sup>26</sup> *Ibid*, 522.

<sup>27</sup> P.G.M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit*, (London: St. Martin’s Press, 1967), 39.

There is no doubt that royal 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. There investment in land was still complicated by claims of heredity and seigniorial sub-contracting; 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.

Thus, for the sovereign to act with impunity is to indicate a coercive relationship unrestrained by the law. Before about 1690, both the French and the English Crowns could and did default with impunity on any of their subjects, however rich and powerful, including those formed into intermediary corporate bodies and informal networks.

What means of legal recourse did those intermediary bodies have? The legal structures of *Ancien Régime* France and post-Stuart Britain had several similar features and two utterly different foundations. Both systems had a series of courts with different jurisdictions—some over different activities and others over different territorial spaces, each arranged in a rough hierarchy. Both systems had corps of professional lawyers fulfilling specialized functions. And in the early modern period, both depended on a very high degree of local participation, especially at the stage of initiating legal proceedings. Neither country had anything like a regularized professional police force, so it was up to the plaintiff rather than an arresting officer to initiate prosecutions and provide evidence to the court.<sup>28</sup> Participation meant discretion and discretion depended on influence. As Michael Braddick puts it in the British case, “Constables, grand juries and trial juries all had the capacity to prevent formal prosecutions or punishment, and this allowed many potential convicts to escape.”<sup>29</sup>

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<sup>28</sup> Michael Braddick, *State Formation in Early Modern England, c. 1550-1700*, (Cambridge: Cambridge University Press, 2000), 138.

<sup>29</sup> *Ibid*, 139.

The scope of individual initiative was even greater in France. This was mainly due to the tendency of the monarchy to create new, parallel institutions rather than replace old ones, creating the bewildering and contradictory thicket of regulations and jurisdictions that have been a mainstay of *Ancien Régime* scholarship since at least Alexis de Tocqueville.<sup>30</sup> As David Bell puts it, this systemic redundancy meant that “several different bodies often shared the authority to take a particular action, or to judge a particular case, and the actual ability to act could depend less on the formal institutional structure than on influence or favor.”<sup>31</sup> There were a very large number of people employed by the legal system to whom this influence or favor might be directed. Notaries were responsible for contracts, wills, and conveyances, which afforded them enormous latitude over economic transactions. Philip Hoffmann, Jean-Laurent Rosenthal, and Gilles Postel-Vinay demonstrate convincingly that the notaries filled the role that commercial banks fill in a more developed financial system: they matched borrowers with savers, communicated investment information, and arranged mortgages, which were by far the largest financial asset in the very agrarian French economy.<sup>32</sup> *Procureurs*, meanwhile, were the first stop for someone initiating litigation, since they were responsible for procedures and evidence. This evidence took the form of written material, since there were no juries and few courts accepted verbal arguments. The *procureur* would then choose a barrister, whose remit covered legal advice stemming from their specialized knowledge in the arcana of precedents and regulations—this knowledge could extend to which of the many possible courts would be most likely to deliver the desired outcome.<sup>33</sup> Magistrates in a court would examine witness testimony and evidence (again, usually written, with the assistance of the *procureur*), as well as arguments from the barrister, before arriving at a verdict. This elaborate process only held for civil suits, as

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<sup>30</sup> Alexis de Tocqueville, *The Old Régime and the French Revolution*, trans. Stuart Gilbert, (New York: Anchor Books, 1983, [1856]), 52-72.

<sup>31</sup> David Bell, *Lawyers and Citizens: the Making of a Political Elite in Old Regime France*, (Oxford: Oxford University Press, 1994), 22-23.

<sup>32</sup> Philip Hoffman, Gilles Postel-Vinay, and Jean-Laurent Rosenthal, *Priceless Markets: the Political Economy of Credit in Paris, 1660-1870*, (Chicago: University of Chicago Press, 2000).

<sup>33</sup> Bell, *Lawyers and Citizens*, 30.



criminals were not entitled to a defense.<sup>34</sup> And although criminals could be imprisoned without due process, they also could be freed with an effective petition to a powerful patron.<sup>35</sup>

The Parlement of Paris, nominally the highest court in the land before the King's own Privy Council, had both a judiciary and a legislative function. It heard appeals, but also registered the Crown's edicts—something similar to an approval process, which hinged on the barristers' expert opinion as to whether a given edict contradicted the Crown's own eternal will as represented in previous actions.<sup>36</sup> This was subject to an enormous amount of politics, since the barristers represented the most powerful locus of organized public opinion in France, essentially functioning as the source of critique usually ascribed to Jürgen Habermas' "bourgeois public sphere."<sup>37</sup>

Beyond this ramshackle structure were yet further avenues for individual legal proceedings. The most notorious was the *lettre de cachet*, in which an individual could petition the monarchy for an order directly from the Crown, with no possibility of appeal, defense, or trial. Against formal bodies, *lettres de cachet* would forbid assembly; against individuals, they would order imprisonment, banishment, internal relocation, or transportation to colonies. *Lettres de cachet* were a favorite tool of the wealthy and well-connected to disappear an inconvenient person, either to avoid the scandal of a trial or to prevent an annoying marriage.<sup>38</sup> Though the *lettres de cachet* remain a potent symbol of Bourbon despotism, most evidence indicates they were mainly used to enforce elite family discipline: given the fraught nature of patrician property disputes under the principle of primogeniture, the stakes were very high.<sup>39</sup> Although *lettres de*

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<sup>34</sup> Bell, *Lawyers and Citizens*, 30.

<sup>35</sup> One small example is a 1708 petition to the elder D'Argenson, then lieutenant-general of the Paris police, in which an elderly father pleads on behalf of his son, who was imprisoned in the Bastille at the request of a banker. AN/G/7/1621.

<sup>36</sup> J.H. Shennan, "The Political Role of the Parlement of Paris under Cardinal Fleury," *The English Historical Review*, Vol. 81, No. 320 (July 1966): 520-42.

<sup>37</sup> Jürgen Habermas, *The Structural Transformation of the Public Sphere: An Inquiry into a Category of Bourgeois Society*, trans. Thomas Burger, (Cambridge, MA: MIT Press, 1991), esp. 51-89.

<sup>38</sup> Or an annoying writer, as in the famous cases of Voltaire, Sade, and Mirabeau. An economic example is the case of Le Blanc and Vanel in Jean Buvat, *Gazette de la régence*, edited by E. de Barthélemy, (Paris: G. Charpentier et Cie, 1887 [1715-1719]), 3 February 1716, 67. This story does not appear in the 1865 edition of Buvat edited by Émile Campardon.

<sup>39</sup> A great deal of fascinating evidence on this is presented in Arlette Farge and Michel Foucault, *Le désordre des familles: lettres de cachet des Archives de la Bastille au XVIIIe siècle*, (Paris: Gallimard, 1982). This claim is much older, and was strongly contested by Augustin Gazier, *Histoire générale du mouvement janséniste depuis ses origines jusu'à nos jours*, (Paris: E. Champion, 1923-24), II, 2, who found that Cardinal Fleury issued 40,000 *lettres de cachet* against Jansenists during his 17 years in office.

*cachet* were used by many individuals, they still represented a form of sovereign impunity, since they were issued by the Crown and could not be used to constrain the Crown.

What was the result of this complicated system for the exercise of economic impunity around the year 1700? Tocqueville's conclusion is still impossible to surpass: the atomized individuals of French society stood relatively equal to one another, because they all stood in essentially the same relation to state power.<sup>40</sup> The law was essentially a series of individual contracts between the Crown and various bodies or people it chose to recognize, which reproduced at every level of legal structure the problem of enforceability that is familiar to the world of sovereign lending. The sovereign's impunity was absolute; below that, impunity was a function of political influence rather than technical knowledge or geographical mobility, especially at the local level. Such was the structure of prosecutorial discretion in France. It did not change significantly through 1720: instead, change came from other quarters.

There is one final point of intersection between the law, sovereign power, and economic impunity: 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.<sup>41</sup> In France, for instance, the silver *écu*, one of the most common coins in circulation after 1577, was usually valued at around three *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 be worth three *livres* one day and two *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 40 times under the reign of Louis XIV.<sup>42</sup> As though that were not enough, by the end of the War of the Spanish Succession, the French government had begun to issue a temporary form of paper money called *billets de monoye*.<sup>43</sup> These were paper tickets that were specifically intended to

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<sup>40</sup> Tocqueville, *Old Régime*, 77-81.

<sup>41</sup> Thomas Lockett, “Imaginary Currency and Real Guillotines: The Intellectual Origins of the Financial Terror in France,” *Historical Reflections*, Vol. 31, No. 1, Money in the Enlightenment, (Spring 2005), 118-19.

<sup>42</sup> Murphy, *John Law*, 150-51.

<sup>43</sup> *Ibid*, 116-18.

cover the lack of specie: they were promises to pay the bearer in specie in the future at a fixed term with some nominal interest. Since the *billets* were issued exactly because the Treasury had no specie and since they could not be redeemed before their maturity, the promise of future payment was met with some skepticism and the *billets* immediately circulated at a sharp discount: following Gresham's Law, this provoked continual shortages of liquidity.<sup>44</sup> Even after the death of Louis and the end of the war, the silver content of the *livre* was devalued in December 1715, and again in May 1718.<sup>45</sup>

In England changing the money ratio had been a tactic used by both Henry VIII and Elizabeth I, but not since.<sup>46</sup> Instead, Britain suffered from a different source of monetary debasement, which was the clipping of coins. Since coins were made of precious metal, 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% of its legal weight.<sup>47</sup>

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.<sup>48</sup> By the spring of 1695 so many coins were clipped that the guinea—the main gold coin in circulation, nominally valued at 22 shillings—had a market price of 29-30 shillings, reflecting the general shift out of silver holdings and into gold, while the exchange rate on Amsterdam fell from 37 to 27 schellingen to the pound.<sup>49</sup> In 1694-5, the Bank of England had remitted £1,698,808 to the Continent, with a further £902,288 in 1695-6, so the falling exchange rate was producing both a balance-of-payments crisis and substantial difficulty in supplying the armies abroad.<sup>50</sup> Feeding and supplying the same number of soldiers cost at least 25% more in 1696 than it had in 1694, and Britain was running out of specie.

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 is worth

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<sup>44</sup> For a contemporary complaint about the resulting liquidity shortage, see Archives Nationales (henceforth AN) G/7/1620, Joseph Rivet and Claude de Vin, "Affaires Extraordinaires, memoires sur les billets de monnaie sans date." Internal evidence suggests this was written in 1710.

<sup>45</sup> Velde, "Government Equity and Money," 9.

<sup>46</sup> Charles Kindleberger, *A Financial History of Western Europe*, (Oxford: Oxford University Press, 1993), 28.

<sup>47</sup> Patrick Kelly (ed.), *Locke on Money*, (Oxford: Oxford University Press, 1991), 116.

<sup>48</sup> John Clapham, *The Bank of England, A History*, (Cambridge: Cambridge University Press, 1944), Vol. I, 26.

<sup>49</sup> R.G. Hawtrey, *Currency and Credit*, (London: Longmans, Green, 1919), 290.

<sup>50</sup> Jones, "London Merchants," 317.

dwelling upon for a moment. William Lowndes, the Secretary of the Treasury, argued that the occasion of the Recoinage was an opportunity to devalue the currency by 20%, in a similar maneuver to the French debasements.<sup>51</sup> Isaac Newton, then Master of the Mint, agreed, and a public pamphlet discussion of some 250 publications ensued.<sup>52</sup> Lowndes' 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*), but rather as part of his broader opinion that the government did not have the legitimate ability to exercise arbitrary authority over the economy.<sup>53</sup> 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.<sup>54</sup> Yet despite Locke's policy victory, the actual implementation of the Recoinage had a deeply unequal effect. The old coins were only exchanged as a result of payments made to the government, so as John Horsefield puts it:

“...only those persons who had taxes to pay, or could afford to lend to the persons who had taxes to pay, or could afford to lend to the Government, could be sure of obtaining the face-value of the coins which they held or received. Others were obliged to bargain for the best value they could obtain, from anybody willing to receive them, unless they were sufficiently well-connected to be able to unload coins on to the Tellers of the Exchequer or other Government officials able to feed them into the Mint... The recoinage caused immense inconvenience, and was grossly unfair, even though spasmodically mitigated by local charity or under-the-counter Government action. The public was ready to believe that a scheme so misguided in practice must be wrong in principle.”<sup>55</sup>

To the public, money was, and continues to be, an especially fraught expression of sovereignty. Early modern coins bore the image of their kings, who claimed that the value of money derived from their divine capacity to rule.<sup>56</sup> In his *Six Livres de la Republique*, Jean

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<sup>51</sup> Horsefield, *British Monetary Experiments*, 52 and Carl Wennerlind, *Casualties of Credit: the English Financial Revolution, 1620-1720*, (Cambridge, MA: Harvard University Press, 2011), 133-34. Lowndes' 1695 *Essay on the Nature of Trade* shows that he really did have the French expedient in mind. Lowndes, *Essay*, 91.

<sup>52</sup> Horsefield, *British Monetary Experiments*, 37.

<sup>53</sup> Joyce Appleby, *Economic Thought and Ideology in Seventeenth Century England*, (Princeton: Princeton University Press, 1978), 217. See also Law, *Money and Trade Considered*, 79-80.

<sup>54</sup> Wennerlind, *Casualties of Credit*, 152-53.

<sup>55</sup> Horsefield, *British Monetary Experiments*, 62.

<sup>56</sup> Jotham Parsons, “Money and Sovereignty in Early Modern France,” *Journal of the History of Ideas*, Vol. 62, No. 1, (Jan., 2001), 68.

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.”<sup>57</sup> 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.<sup>58</sup> 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 counterfeiters, and refusing them pardons from very public executions.<sup>59</sup> In France, capital punishment extended even to corrupt mint officials, as well as to clippers and counterfeiters.<sup>60</sup>

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.<sup>61</sup> 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 ways that this anxiety of control contributed to the ideology of “bullionism” and mercantilism need not detain us here. The point here is that through 1696 in England and 1726 in France, the state claimed the ability to manipulate its currency with impunity as a constitutive element of its sovereignty. This claim included the ability to unilaterally revalue all standing contracts to the benefit of debtors (like the state itself) at the expense of creditors; and even after Locke’s successful intervention in the Great Recoinage, to benefit taxpayers at the expense of non-taxpayers. And it is correct to characterize this claim as an act of impunity because it was done against any sense of public opinion or morality, and enforced through violence.

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<sup>57</sup> Cited in Thomas Luckett, “Imaginary Currency and Real Guillotines: the Intellectual Origins of the Financial Terror in France,” *Historical Reflections*, Vol. 31, No. 1, (Spring 2005), 121-22. Luckett proceeds to trace the influence of this thought throughout the seventeenth and eighteenth centuries.

<sup>58</sup> The parallel to the theory of the “king’s two bodies” is clear, and helps explain why the symbolism of coinage was such a contested site for new political culture during the Revolution. See Ernst Kantorowicz, *The King’s Two Bodies: A Study in Medieval Political Theology*, (Princeton: Princeton University Press, 1957) and Lynn Hunt, *Politics, Culture, and Class in the French Revolution*, (Berkeley: University of California Press, 1984), 113-15.

<sup>59</sup> Wennerlind, *Casualties of Credit*, 152.

<sup>60</sup> Luckett, “Imaginary Currency,” 124.

<sup>61</sup> Wennerlind, *Casualties of Credit*, 142. Clipping certainly was common, but I have never seen it legitimated by a claim to customary right, as in the classic formulation of “moral economy” in E.P. Thompson, “The Moral Economy of the English Crowd in the Eighteenth Century,” *Past & Present*, No. 50, (Feb., 1971).

*I.ii. Financial Innovation and Regulation Before the Crisis*

The South Sea Scheme and John Law's System shared the same fundamental objective. They were both gigantic debt-for-equity swaps, through which the governments of Britain and France intended to retire the unprecedented debts they had accumulated during the War of the Spanish Succession (1701-1714), by encouraging the holders of sovereign debt to exchange it for shares in a profitable joint-stock company. In 1714, Britain's outstanding debt amounted to £40,357,011 and France's to something like 2,062,138,000 *livres*.<sup>62</sup> There are no reliable GDP figures for this period, but the annual state revenue was around £5 million for Britain and 69 million *livres* for France, so the stock of outstanding government debt was respectively eight and *thirty* times the annual flow of income.<sup>63</sup> 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. 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.

By 1715 both countries had already witnessed wholesale changes to their financial sectors, amounting to the rise of an investor class, a professional body of financiers, a business press, and a transformation in both state debt and tax collection.<sup>64</sup> I do not propose to re-tell the history of the Financial Revolution here, nor do I intend to move it around in time and space.<sup>65</sup> Instead I intend first to demonstrate that financial innovations in the period 1690-1720 mattered more in how they expanded the set of people proposing financial innovations, what set of innovations that seemed plausible, and how much control over the economy the state was thought to exert, rather than the magnitude of any of those changes. The Scheme and the System happened not because they were the inevitable, teleological result of financial innovation always leading up to a point of crisis, nor because they were the most plausible options available, but

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<sup>62</sup> Brewer, *Sinews of Power*, 122; Murphy, *John Law*, 128.

<sup>63</sup> Brewer, *Sinews of Power*, Figure 4.1, 90; Murphy, *John Law*, 128. There is much confusion and disagreement about the French revenue figure.

<sup>64</sup> Dickson, *Financial Revolution* remains the definitive account.

<sup>65</sup> Anne Murphy, for instance, argues that innovations in England in 1620-1690 were at least as important as those afterwards, suggesting an indigenous English Financial Revolution, rather than an international (that is, Dutch-influenced) one. See Anne Murphy, *The Origins of English Financial Markets: Investment and Speculation Before the South Sea Bubble*, (Cambridge: Cambridge University Press, 2009), 4.

rather for very contingent political reasons which will begin to illuminate the workings of economic impunity.

In England, many of the financial structures that proved to be most important after 1688 had been invented decades previously, but had not been put to much use. The English joint-stock company existed as far back as the Merchant Adventurers in 1553, defined by its permanent capital in tradable shares and its possession of a Royal charter.<sup>66</sup> Even by 1688, the nascent 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 eighteen.<sup>67</sup> As late as 1691, the entirety of a day's trading in Exchange Alley consisted of an average of thirteen trades.<sup>68</sup>

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. Instead, private capital 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.<sup>69</sup> Consequently there was no French stock market to speak of, and French firms tended to be systematically under-capitalized, which helps to explain the aforementioned 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.

The new innovations increased the reach of finance, both socially and geographically, while its increasing complexity made causal links all the more obscure. A simple example will suffice. In 1666-67, Samuel 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 for them to keep in order to prove

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<sup>66</sup> See, at great length, Robert Brenner, *Merchants and Revolution: Commercial Change, Political Conflict, and London's Overseas Traders, 1550-1653*, (Princeton: Princeton University Press, 1993).

<sup>67</sup> Murphy, *Origins of English Financial Markets*, 15.

<sup>68</sup> *Ibid*, 25.

<sup>69</sup> George Taylor, "Types of Capitalism in Eighteenth-Century France," *The English Historical Review*, Vol. 79, No. 312, (Jul., 1964), 482-83.

their claims on the Treasury.<sup>70</sup> 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.<sup>71</sup> It was clear in 1667 that the Treasury needed to pay the bearer of Pepys' wooden stick the amount notched on it; 38 years later it was rather less clear how the 1705 refinancing of single-life annuities to 99 year annuities might affect outstanding forward contracts on the Amsterdam bourse. The ramifications of an economic event were vastly expanded, and responsibility for them correspondingly dispersed.

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.<sup>72</sup> 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.<sup>73</sup> These securities were traded by the growing ranks of "stock-jobbers," who increasingly attracted public opprobrium. The first satire of the stock-jobbers is 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.<sup>74</sup> This view was shared by Parliament, which attempted in 1697 to limit their numbers to 100 licensed brokers of whom only twelve could be foreigners, with unlicensed brokers subject to a fine of £500 and three days in the pillory.<sup>75</sup> This first act of securities regulation did nothing

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<sup>70</sup> See, *inter alia*, Pepys, *Diary*, Vol. 7, 18 June 1666. Also: William Scott, *The Constitution and Finance of English, Scottish, and Irish Joint Stock Companies to 1720*, (Cambridge: Cambridge University Press, 1910-12), Vol. III, 210 and Dickson, *Financial Revolution*, 350.

<sup>71</sup> Earl J. Hamilton, "Origin and Growth of the National Debt in Western Europe," *The American Economic Review*, Vol. 37, No. 2, (May 1937), 127.

<sup>72</sup> John Horsefield, *British Monetary Experiments, 1650-1710*, (Cambridge, MA: Harvard University Press, 1960), 246; Murphy, *Origins of English Financial Markets*, 84.

<sup>73</sup> Stuart Banner, *Anglo-American Securities Regulation: Cultural and Political Roots, 1690-1860*, (Cambridge: Cambridge University Press, 1998), 24-25; D.W. Jones, "London Merchants and the Crisis of the 1690s," in Peter Clark and Paul Slack (eds.), *Crisis and Order in English Towns, 1500-1700: Essays in Urban History*, (Toronto: University of Toronto Press, 1972), 340-42.

<sup>74</sup> Thomas Shadwell, *The Volunteers, or The Stock-Jobbers*, (London: James Knapton, 1693).

<sup>75</sup> Richard Dale, *The First Crash: Lessons From the South Sea Bubble*, (Princeton: Princeton University Press, 2004), 33. The law is 8 & 9 Will. 3, c. 32.



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 stock-jobbers seldom had any assets of their own or risked their own 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 malfeasance.<sup>76</sup>

In France, by contrast, since there were no joint-stock companies there was no securities market to regulate. Instead the most striking method of the state exerting control over finance was the practice of the *chambre de justice*. The most famous of these was held in 1716 and so will be the example, but there had been others in 1674, 1665, and even earlier.<sup>77</sup> The *chambre de justice* was a group of royal councilors and members of the sovereign courts who were commissioned by the Crown to assemble in Paris and investigate whether financiers had committed any sort of wrongdoing—whether usury, predatory lending, fraud, or failing to exercise their offices.<sup>78</sup> For a history of economic impunity, there are three striking elements to this procedure. First, the *chambres de justice* were commissioned to satisfy public opinion.<sup>79</sup> Second, following the aforementioned procedures under the *Ancien Régime*, 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. Third, although the *chambres de justice* had sweeping powers to fine or imprison, its main work was forensic, since at any given time, the Crown had no clear idea just how much debt it owed or revenue it earned.<sup>80</sup>

The results were very arbitrary, and often very cynical. Most financiers would flee with their mobile capital as soon as they learned a *chambre de justice* was going to be held. Those

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<sup>76</sup> Daniel Defoe, *Anatomy of Exchange-Alley*, 8. Defoe had a lifelong axe to grind against stock-jobbers, having lost £200 on a speculative investment in a company patenting a machine to recover treasure from shipwrecks. See Banner, *Anglo-American Securities*, 29. The theme of press manipulation will return in Chapters 3 and 5.

<sup>77</sup> Evidence for those two is in AN/G/7/1837. Mousnier, *Institutions of France*, Vol. II, 485 lists several more in 1601-1657.

<sup>78</sup> Mousnier, *Institutions of France*, Vol. II, 486-86.

<sup>79</sup> Cf. Buvat, *Gazette*, 19 June 1716, 86: “Trois choses agitent actuellement la France: la religion, le gouvernement et la chambre de justice.”

<sup>80</sup> For a thorough discussion of how exactly a *chambre de justice* worked, see Mousnier, *Institutions of France*, Vol. II, 485-89.

who remained would either find that their claims on government debt had been arbitrarily cancelled or reduced, or otherwise would find themselves subject to enormous fines and public denunciation.<sup>81</sup> During the *chambre de justice* of 1716, for instance, Samuel Bernard—probably the richest man in France, if not in Europe—paid 6 million *livres* to exempt himself from the *chambre*'s jurisdiction, while Antoine Crozat was assessed at a fine of 6.6 million *livres*. These two men were by far the largest creditors of the state, and were prominent directors of the very lucrative tobacco farm monopoly as well as the Louisiana colony.<sup>82</sup> They were but two among the 4399 names in the *Liste des Gens d'Affaires Taxés en 1716, par le chambre de justice*, albeit the two followed by the largest numbers.<sup>83</sup> As late as 1716, then, the Crown could default on its creditors, fine them, and imprison them with impunity, and this held true for its creditors as an investing class as well as powerful individuals with close personal connections to the state apparatus. In Britain, the Crown could no longer default or devalue with impunity, nor could it effectively regulate its rapidly growing financial sector. Instead, technical knowledge of finance and political connections in Parliament opened a space for economic activity that was not yet illegal, but which was as publicly condemned as it was privately profitable.

#### *I.vi. Monitoring Practices*

The increased range and complexity of finance generated an increased demand for information. The most celebrated new form of information was the financial press, but it was by no means the only one: practices of information exchange within the financial world changed just as the press arose to communicate financial news to the general public.

The rise of the press in London is a well-known story, though still quite a striking one. From John Houghton's second attempt at his *Collection for Improvement of Husbandry and Trade* in 1692 and John Castaing's *Course of the Exchange* in 1697, the London press boomed.<sup>84</sup> By 1720, London had eighteen daily and weekly newspapers producing 55 issues per week for a

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<sup>81</sup> Jean Buvat, *Journal de la régence*, edited by Émile Campardon, (Paris: H. Plon, 1865 [1715-1723]), Vol. I, 187-190 and 197-227 shows the publicity of naming and shaming financiers.

<sup>82</sup> 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 Arbor: University of Michigan Press, 1973), Vol. I, 57.

<sup>83</sup> AN/U//2506.

<sup>84</sup> Larry Neal, *The Rise of Financial Capitalism: International Capital Markets in the Age of Reason*, (Cambridge: Cambridge University Press, 1990), 22-23.

circulation of 44,000 subscribers.<sup>85</sup> Many of these, especially the *Course of the Exchange*, were dispatched on the weekly packet boat to Amsterdam, and to the Continental Huguenot diaspora.<sup>86</sup> The illicit publishing route from the Low Countries into France was already well-established, and French readers could avail themselves of the *Gazette d'Amsterdam* and the *Gazette de Leyde* as early as the 1690s.<sup>87</sup> The international hunger for news—especially financial news, complete with up-to-date lists of stock prices—illustrates the extent to which the financial system had outstripped national borders already by the beginning of the eighteenth century.

Despite the relatively limited reach of the indigenous financial press in France, the *Conseil des Finances* in general and the *Contrôleur général* in particular were inundated with proposals to reform the state's finances. Some of these were widely published and were the subject of public controversy, like the many writings of the Normandy magistrate Pierre le Pesant Boisguilbert and the military engineer Sébastien Vauban's *La Dîme royale*, but many more were the private works of obscure individuals.<sup>88</sup> These proposals make for wild reading, but have a few salient characteristics in common. They were all concerned with problems of interest rates, money, and taxes, rather than production and trade. They tended to use empiricist methods with a great deal of confusing addition, but resorted to metaphysics or theology on the question of the origin of value, apparently in agreement with the Crown that value was an expression of sovereignty. They felt no need to anchor their theories in an anthropology or theology of human nature as their mid-eighteenth century followers would, but rather took the relations of their own society as given. And they positioned their work as actionable policy interventions designed to advance France's power and plenty beyond that of its rivals, making theirs a normative rather than solely a positive attempt at science.

The outpouring of English pamphlets has already been mentioned with regards to the Great Recoinage. That is one example of many. Most English pamphlets on economic subjects

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<sup>85</sup> Dale, *First Crash*, 15.

<sup>86</sup> Neal, *Rise of Financial Capitalism*, 26-27.

<sup>87</sup> Jan de Vries and Ad van der Woude, *The First Modern Economy: Success, Failure, and Perseverance of the Dutch Economy, 1500-1815*, (Cambridge: Cambridge University Press, 1997), 149; Jonathan Israel, *Radical Enlightenment: Philosophy and the Making of Modernity, 1650-1750*, (Oxford: Oxford University Press, 2002), 142-43.

<sup>88</sup> AN/G/7/707 has dozens simply for the period October-December 1706. Some were even sent in by foreigners, as in AN/G/7/714, which covers the years 1704-08.

were directed at persuading Parliament, especially when one of the charters of the great joint-stock companies was up for renewal.<sup>89</sup> Many pamphlets were written by MPs, and many others were presented as open letters to one MP or another.<sup>90</sup> Since the big companies were fundamentally political institutions, these pamphlet wars were partisan politics by other means, albeit with a hefty dose of opinionated eccentrics. But in addition to lobbying, these publications had the effect of acquainting the reading public with the arcane vocabulary of finance: bulls, bears, time bargains, lame ducks, projectors, annuities, tontines, and subscriptions.<sup>91</sup> This specialized information was otherwise only available in personal conversations with experts, the particular rapid-fire style of which was a constant source of satirical humor in plays designed to make it accessible and unthreatening.<sup>92</sup> Just as the business press allowed Exchange Alley to monitor world events and the movement of prices, so too did it allow the public at large to monitor the strange behaviors going on in the coffeehouses of Exchange Alley.

In France, most advances in monitoring practices happened within state administration rather than in the public sphere, often with inspiration from mercantile techniques. One consequence of Antoin Murphy's rehabilitation of John Law has been the casting of the four Pâris brothers as villains, scheming to bring down Law's System and to return France to the corrupt old world of entrenched financiers. That question will be addressed below, but for now it is worth noting that the Pâris brothers also were instrumental in a more prosaic transformation of French finance: the introduction of double-entry bookkeeping. According to Yannick Lemarchand, the double-entry method was first implemented by Antoin Pâris in his reorganization of the *recette générale* of the Dauphiné, having probably learned the practice

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<sup>89</sup> For instance, Clapham, *Bank of England*, 61 on the 1707-08 renewal of the Bank charter.

<sup>90</sup> Keeping only to examples related to the South Sea Bubble, see Anon., *The Considerable Advantages of a South-Sea Trade to Our English Nation, Humbly Offer'd With Other Particulars, to the Consideration of this Present Parliament*, (London, 1711), Anon., *A Letter to a Member of Parliament, on the Settling a Trade to the South Sea of America*, (London, 1711), Anon., *A Letter to Archibald Hutcheson, Esq.* (London, 1718), Anon., *Two Letters to a Member of Parliament Concerning the Public Debts*, (London, 1718), Philanthropos, *Letter to the Earl of Sunderland*, (London: J. Roberts, 1720).

<sup>91</sup> Alex Preda, "In the Enchanted Grove: Financial Conversations and the Marketplace in England and France in the 18th Century," *Journal of Historical Sociology*, Vol. 14, No. 3, (Sept., 2001).

<sup>92</sup> Similar conversations begin Anon., *Broken Stock-Jobbers or, Work for the Bailiffs: A New Farce*, (London: Thomas Hume, 1720); Anon., *The Biters Bit: A Tragi-Comi-Pastoral Farce*, (London: J. Roberts, 1720), and Gargantua Pantagruell, *The Stock-Jobbers, or the Humors of Exchange Alley: A Comedy*, (London: J. Roberts, 1720).

from merchants he worked with while acting as an army supplier in Italy in the 1690s.<sup>93</sup> After the *chambre de justice* of 1716, the duc de Noailles appointed all four brothers, each by then powerful financiers in their own right, to reform the tax administration. Although they probably did not succeed nearly as well as Claude Pâris le Montagne's own account later claimed, it was the first attempt to apply the new principles of scientific administration to France's shambling tax structure, and did increase the state's surveillance over the receiver-generals.<sup>94</sup> Like the celebrated (and far more effective) professionalization of the English Customs and Excise, the Pâris brothers' reforms intended to reduce the scope of personal discretion available to tax collectors.<sup>95</sup> This certainly did not move the French fiscal structure all the way "from business to bureaucracy," but it did allow the state for the first time to assess its income and to detect egregious fraud.<sup>96</sup>

## II. What We Talk About When We Talk About 1720

I do not intend to re-tell the story of 1720 in all its dramatic animadversions, nor will I take issue with the main lines of its most famous historians' interpretations.<sup>97</sup> Instead I want to approach this complicated financial episode from a relatively narrow point of view, which is how the crisis of 1720 changed the incidence and distribution of economic impunity. Given that Britain and France each had differing initial conditions, it is not surprising that their experiences of the crisis were different, and were understood differently. But although the substance of change was indigenous to each country's experience, financial markets and economic discussions were so internationally entangled that the final contours of their respective outcomes were mutually reinforcing, such that it makes sense to speak of one crisis of 1720 and one change in the dimensions of economic impunity. If this formulation seems obscure now, I hope that it will become clearer as the argument progresses.

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<sup>93</sup> Yannick Lemarchand, "Introducing Double-Entry Bookkeeping in Public Finance: A French Experiment at the Beginning of the Eighteenth Century," *Accounting, Business & Financial History*, Vol. 9, No. 2, (July 1999), 230.

<sup>94</sup> Pâris le Montagne's account is in AN/KK1005C. See also Lemarchand, "Double-Entry Bookkeeping," 231-32.

<sup>95</sup> On the Customs and Excise reforms, see Brewer, *Sinews of Power*, Ch. 4. In England as in France, double-entry preceded a professional tax bureaucracy, and was a way to monitor tax farmers. See *Ibid*, 92.

<sup>96</sup> The phrase is from J.F. Bosher, *French Finances, 1770-1795: From Business to Bureaucracy*, (Cambridge: Cambridge University Press, 1970).

<sup>97</sup> These are Dickson, *Financial Revolution*; James Carswell, *The South Sea Bubble*, (London: Cresset Press, 1961); Neal, *Rise of Financial Capitalism*, Chs. 2-5; Murphy, *John Law*, Ch. 14-18. Where I disagree with their interpretations, it will be clearly noted.

*II.i. The Mississippi Bubble and the Precedent Problem.*

After the death of Louis XIV, the duc de Noailles, the hapless *Contrôleur général* of Finances, was left to grapple with the enormous debts left over from Louis' wars.<sup>98</sup> The beleaguered nobility, meanwhile, hoped for a reassertion of their power, and a move to genuine aristocratic rule, with their claims bolstered by their position as the state's creditors. These hopes were soon dashed, as the most powerful noble factions fell from grace during the politics surrounding the accession to power of the Regent, the duc d'Orléans, and others were driven into exile to escape the *chambre de justice*.<sup>99</sup> It is necessary to dwell a little longer on the *chambre de justice*, since Murphy argues that it was only in the political vacuum it created 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.<sup>100</sup>

Noailles directed Rouillé de Coudray and the two younger Pâris brothers to use the *chambre de justice* 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.<sup>101</sup> Under Noailles, the Regency partially defaulted on perpetual bonds in October 1715, outstanding wages to office holders in January 1716, on the floating debt in April 1716, and again on perpetual bonds in June 1717.<sup>102</sup> 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.”<sup>103</sup>

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<sup>98</sup> For the best purely economic narrative, see Velde, “Government Equity and Money.”

<sup>99</sup> The ever self-serving Saint-Simon discusses the fall of Pontchartrain and Louis' illegitimate son, the duc du Maine, which he blames on Noailles. See Louis de Rouvroy Saint-Simon, *Memoirs*, (Paris: Gallimard, 1953), Vol. IV, 872-922, *passim*.

<sup>100</sup> Murphy, *John Law*, 136-38.

<sup>101</sup> 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.

<sup>102</sup> Velde, “Government Equity and Money,” 9.

<sup>103</sup> “...le public demande aussi empressement depuis plus de vingt ans une chambre de justice, ses clameurs se sont redoublées depuis la mort du Roi, fondée apparemment sur la Paix, qui a paru vu temps plus favorable pour obtenir cours les gens d'affaires une recherche que devoit en être le premier faits.” AN/G/7/1837. He goes on to say they are historically overdue for one.

Two things are striking about this statement. First, 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*.<sup>104</sup> The ability of the state to remain dis-embedded from its moneyed supporters, and even to leverage public opinion against them, was in marked contrast to the situation in Britain. Second, 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. The Regent governed not through personal dictatorship as Louis XIV had, but rather through a system of eight councils called the Polysynody. These councils were filled by members of the old aristocracy, as opposed to the newly-ennobled lawyers, civil servants, and financiers.<sup>105</sup> And the Council of Finance especially wielded actual authority, so suddenly court politics and patronage enforced a split between insiders, who were safe (unlike the unfortunate Fouquet in 1659) and had the powers of prosecutorial discretion at their disposal, and outsiders, who were not, and did not. Coudray was one of these insiders, as were the Pâris brothers, and so was John Law.<sup>106</sup> Samuel Bernard, Antoine Crozat, and the Le Gendre family were not. Paradoxically, the *chambre de justice* was the first step towards 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.

To be sure, the *chambre* was not any more effective than the French state's normal fiscal activities. As with other judicial proceedings, its 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.<sup>107</sup> Most of the largest fines were paid in depreciated *billets de monnaie*, so probably had little effect on the net worth of the great financiers like Bernard and Crozet. But as Jacob Price puts it, “What was most important was the mood of the hour. By establishing the Chamber of Justice, the Regency gave official recognition to all the resentments

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<sup>104</sup> Mousnier shows the *chambre* of 1661 was announced in Sunday sermons along with a call for denunciations which promised informers one-sixth of confiscated property. Mousnier, *Institutions of France*, Vol. II, 487.

<sup>105</sup> Mousnier, *Institutions of France*, Vol. II, 160-62.

<sup>106</sup> It may be surprising to see Law and the Pâris brothers on the same side, but they were allies at least through 1719, when they collaborated on the purchase of the General Farms. See Neal, *I Am Not Master of Events*, 143; Price, *France and the Chesapeake*, Vol. I, 242-43 cites the contemporary memo of Du Tetre on the purchase which did not even mention Law, just the Pâris brothers.

<sup>107</sup> 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.

and hostile stories that had been circulating about the *financiers* and *traitants* during the previous generation. The latter were now officially labeled as robbers of the state.<sup>108</sup> Informers were encouraged to denounce them, and contemporaries wrote of terror in the world of finance.<sup>109</sup>

So, rather than entering a power vacuum, in 1715-16 John Law entered an ongoing conflict on the winning side. 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.<sup>110</sup> He made the Regent quite a lot of money, and more importantly provided him with an economic system that could be run without the consent or technical understanding of the nobility.

On 24 August, 1716, the *Gazette de la Régence* reported that one million *livres* in specie had arrived at the sumptuously-appointed *Hôtel de Mesmes* on the rue St. Avoye in the 3<sup>e</sup> arrondissement.<sup>111</sup> It is not known exactly in what form the money arrived, but given that it travelled the two kilometers directly from the Royal Mint at the *Hôtel des Monnaies*, it was probably escorted in strongboxes full of freshly-struck *louis d'or*, then valued at 24 *livres* apiece.<sup>112</sup> These million *livres* were delivered to the home of John Law, which since the issuance of *lettres patentes* dated 2 May 1716, was also the office of the Banque Générale, now publicly receiving the support and patronage of the Regent, in 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 its value, and producing enormous profits for its principal shareholders, Law and the Regent foremost among them.<sup>113</sup> But despite this gesture of royal support, the moment of stability and profit would prove to be temporary: the *lettres patentes* were only issued following years of lobbying, pleading, politicking, and persuasion conducted on the part of Law, and the normal activity of the Banque itself would

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<sup>108</sup> Price, *France and the Chesapeake*, Vol. I, 229.

<sup>109</sup> Buvat, *Gazette*, 3 August 1716, 101-102; 18 September 1716, 115-116; 30 October 1716, 116-118.

<sup>110</sup> See Neal, *I Am Not Master of Events*, 40-54.

<sup>111</sup> Murphy, *John Law*, 157.

<sup>112</sup> On the violent oscillations in French currency, see Frank Spooner, *The International Economy and Monetary Movements in France, 1493-1725*, (Cambridge, MA: Harvard University Press, 1972), esp. Ch. 3.

<sup>113</sup> When the Banque was founded, its initial capital was made up of 6 million *livres*, made up of 1200 shares of 5000 *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. See Murphy, *John Law*, 155.



soon be forgotten, as it was transformed into the Banque Royale and then into the financial core of the Mississippi Company.<sup>114</sup> The Regent merely wanted a bank that could lend vast amounts to the Crown at low interest rates, but Law had much more in mind.

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, but much like the South Sea Company, its activities soon shifted to managing public funds by buying out big existing monopolies beginning in August 1718.<sup>115</sup> 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 *Contrôleur général des finances*, and began the debt-for-equity swap. As with the 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.<sup>116</sup> And to keep his paper notes in demand, he progressively de-monetized 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.<sup>117</sup> There ensued an upward spiral of asset prices, as Law's price support of the stock drove its value up, which in turn meant his promises to buy it back 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. A series of false starts in the spring of 1720 show that Law was aware that the center could not hold, but his efforts to retire some of the notes precipitated a spectacular bank run on 17 July 1720, and the Company was forced to suspend convertibility.<sup>118</sup> The game was up. By 15 August, Law had completely fallen from the Regent's favor, and the government began issuing decrees demonetizing the Company's paper notes. By 10 October, 700 million *livres* had been recovered and burned, with a further 730

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<sup>114</sup> Edgar Faure, *La banqueroute de Law, 17 juillet 1720*, (Paris: Gallimard, 1977), 98-121.

<sup>115</sup> For a concise summary, see Velde, "Government Equity and Money," 10-22.

<sup>116</sup> He resorted to a number of other expedients to buttress the value of the stock. See Murphy, *John Law*, Chs. 17 and 18.

<sup>117</sup> Velde, "Government Equity and Money," 24 has a useful chronology.

<sup>118</sup> Faure, *Banqueroute de Law*, 477-89.

million retired and ready for the bonfire.<sup>119</sup> More than a billion *livres* were still outstanding, to be converted or burned by the Visa of 1721.

Did Law have a plan? Edgar Faure famously argued that Law had two successive plans: *le plan sage* (the wise plan) before November 1719 and *le plan fou* (the crazy plan) afterwards, when Law began the debt-for-equity swap.<sup>120</sup> Antoin Murphy, Law's most recent and most influential biographer, flatly denies this claim, arguing instead that Law's System was fundamentally sound and existed in his thinking all the way back to *Money and Trade Considered* in 1705.<sup>121</sup> Assessing what Law thought and when requires a lot of exegetical minutia, so it is useful to corroborate with what he actually *did*. My own view is that Law's writings are neither very trustworthy nor very pertinent to his activities. Had Law not achieved his later prominence, I suspect that *Money and Trade Considered* would be remembered (if at all) as just one more Locke-influenced entry into the voluminous discussion on the 1705 Scottish Land Bank proposal, rather than as anticipatory of Adam Smith and John Maynard Keynes.<sup>122</sup> Law certainly proposed a bank several times to the French monarchy—but as mentioned above, a great many people proposed a great many things, and Law was not especially persuasive before his financing of the Regent's diamond purchase. Lionel Rothkrug, Jacob Price, and Antoin Murphy have all demonstrated that a substantial portion of Paul Harsin's edition of Law's *Œuvres* were probably written by Jean Pottier de la Hestroye, while post-1720 assessments of the System once attributed to Law were instead written by Nicolas Dutot.<sup>123</sup> Law's *Mémoire justificatif* of 1723 is interesting for his reasoning, but obviously must be taken with several grains of salt. What remains of his writings is the documentation of his practical work, not his theoretical expositions. Two points emerge from this documentation. First, Law was far more committed to the establishment of a bank under his personal control than to any other part of the eventual System.<sup>124</sup> Law contended that increasing the amount of money in circulation would

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<sup>119</sup> Velde, "Government Equity and Money," 33. These figures are stated in the *arrets* of the time, so this is the state's accounting.

<sup>120</sup> *Ibid*, Ch. 19.

<sup>121</sup> Murphy, *John Law*, 6-7.

<sup>122</sup> See Murphy, *John Law*, 55 for the Smith claim, and *Ibid*, 6 and 51 for Keynes.

<sup>123</sup> Rothkrug, *Opposition to Louis XIV*, 435-47; Price, Vol. I, 197; Murphy, *John Law*, 8-10. Cf. Paul Harsin (ed.), *Œuvres complètes*, 3 vols., (Paris, Librairie du Recueil Sirey, 1934).

<sup>124</sup> For his proposals, see AN/G/7/1468 for 1706; AN/G/7/1622 for 1709; Law's 1715 reworking of Pottier is relevant too, see AN/K//884, reel 1, MSS 1. For accounts of his 1715 meetings with Parisian financiers see Philippe de Courcillon, *Journal du marquis de Dangeau*, ed. Félix de Conches, (Paris, 1854-60), Vol. XVI, 212.

increase trade, which in turn would increase state revenue and provide higher living standards and subsequent population growth.<sup>125</sup> Unlike his mercantilist contemporaries, he rejected precious metals as the only reliable form of money.<sup>126</sup> To be sure, he thought that a note-issuing bank would facilitate commerce and payment of the state's debts, but he was still fundamentally proposing to be a banker, and not even a central banker as we would now understand it, since even the Bank of England did not yet behave as we would today expect a central bank to behave.<sup>127</sup> Where the Keynes parallel most strongly holds is in Law's sense of human agency: he maintained that economic problems had technical rather than moral solutions, and that he had mathematically determined which solution was best.<sup>128</sup>

Second, Law understood very quickly that his opponents would be the holders of the great monopolies—the tax farms, the tobacco monopoly, and the overseas trade monopolies. His consistent efforts to exclude Samuel Bernard suggest that his moves in 1718 and 1719 to buy out the tax farms were less about rationalizing the state's fiscal structure, and more about denying financial resources to the opponents of his bank. At the height of the System, he even repeatedly suggested repurchasing all venal offices with the paper money his Company printed.<sup>129</sup> In sum, rather than executing a well-developed plan, Law began with the central goal of establishing a bank, and then improvised to stay one step ahead of his opponents.

Law's centralizing policies and assault on the nobility produced a panic over the role of the nobility in economic affairs. His monetary innovations also destabilized previously stable ideas about the source of value, the security of Royal credit, and the function of money. At first that destabilization seemed like a good thing. What we now recognize as the early phase of the Bubble appeared to many contemporaries to be the first man-made instance of economic growth. As the stock of the Mississippi Company continued to rise in value in 1719 and 1720, it was not yet clear that this was in fact a bubble (which was itself a new phenomenon), rather than the solution to all questions of economic science. To the domestic investor, mainly drawn from the lower nobility and the professional bourgeoisie, it appeared that the riches of the closed world of finance—previously available only to well-connected families—were now open to all.

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<sup>125</sup> Law, *Money and Trade Considered*, Ch. 2

<sup>126</sup> *Ibid.*, 70-71

<sup>127</sup> See the analysis of the Minute Books in Horsefield, *British Monetary Experiments*, 142.

<sup>128</sup> Keynes also saw the parallel. See John Maynard Keynes, *A Treatise on Money*, (London, 1930), Vol. I, 15.

<sup>129</sup> Murphy, *John Law*, 279-80; Saint-Simon, *Memoirs*, Vol. VII, 693-4.

Moreover, the notion that the public debt was a drain on the nation's wealth was so widely held that a plausible claim to eliminate it was taken as a sure sign of prosperity ahead. If Law could eliminate the chief obstacle to national wealth, and unshackle the potential output of the mighty French nation from the chains of limited specie, maybe all wealth would increase as rapidly as the price of Mississippi shares.

It was not only Edgar Faure who split Law's System into a "*plan sage*" and a "*plan fou*": it appeared that way to contemporaries as well. But while Faure placed the transition with the debt-for-equity swap, contemporaries thought the madness began with paper money. I suspect those contemporaries were right, but for the wrong reasons. Law intended to support the price of Mississippi stock by increasing the money supply, and intended to increase the demand for his paper money through legal restrictions. This was within his power, and as his modern defenders never tire of pointing out, he had a stronger grasp of monetary theory than his contemporaries, especially the impact of money demand on the velocity of circulation.<sup>130</sup> But what he could not control was the impact on the exchange rate, which turned spectacularly against him.<sup>131</sup> As capital and capitalists departed Paris for London, Law tried fruitlessly to reduce the quantity of money in circulation, which precipitated the collapse of confidence and the end of his System.

The inflation of 1720 is so readily associated with the romantic character of John Law that it is easy to forget how remarkably novel it was, and how frightening, to contemporary observers. It is worth putting Law's audacity in perspective. Under normal conditions, altering (for instance) the regulations of thread-count density in cloth production, or regulations governing the entirely separate offices for loading, unloading, and rolling barrels in the city of Paris might take months of consultation between merchants, their barristers, the local Chamber of Commerce, various intendants, the *Conseil de Commerce*, and the *Contrôleur général*. In England, the policy change that provoked Locke's most thorough reflections on economics was a proposed reduction of the interest rate from 6% to 4%.<sup>132</sup> In the course of seven months, John Law de-monetized 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

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<sup>130</sup> Murphy, *John Law*, 51-64.

<sup>131</sup> Neal, *Rise of Financial Capitalism*, Figure 4.1, 65. Neal has the livre depreciating by about 75% against the pound between May and September 1720.

<sup>132</sup> John Locke, "Some of the Consequences That Are Like to Follow Upon Lessening of Interest to 4 Per Cent," in *Locke on Money*, edited by Patrick Hyde Kelly, (Oxford: Oxford University Press, 1991), Vol. I, 167-202.

money.<sup>133</sup> The inflation of the latter days of the System scrambled relative prices, rendering some common goods unaffordable, and some wages worthless.<sup>134</sup> The younger d'Argenson, taking up his intendency at Valenciennes, 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."<sup>135</sup> 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.<sup>136</sup> In Thomas Kaiser's view, the damage was done: "As holders of government paper, ordinary citizens with no previous experience in government finance became, in effect, members of the financial public. In so doing, they also became judges of the Crown's financial conduct, rendering verdict after verdict through their decisions to purchase or sell Bank notes and Company shares."<sup>137</sup>

The question of why Law's System failed matters because it is a fundamentally a question about economic agency, and the uniqueness of Law's position. 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.<sup>138</sup> Law certainly had powerful political opponents: for instance, on 21 July 1720, at the height of the System, the Parlement of Paris was sent into exile after refusing to register Law's *édits* and provoking violence in the streets. And Law did not keep allies for long: he eventually fell out not only with the Pâris brothers, but also with Richard Cantillon, Lords Stair and Londonderry and Chandos, and Joseph

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<sup>133</sup> 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 Exxon Mobil, which is then placed in control of both the Internal Revenue Service and the Federal Reserve. Only more so.

<sup>134</sup> The complexity of the inflationary effects on the real economy are detailed in Earl J. Hamilton, "Wages and Prices at Paris Under John Law's System," *The Quarterly Journal of Economics*, Vol. 51, No. 1, (Nov 1936).

<sup>135</sup> "J'y trouvai beaucoup de soulèvements de garnisons par l'excessive cherté que causaient les augmentations de monnaie du système de Law...je fis cesser les séditions sur la cherté du pain, à cause des changements de monnaie de M. Law. J'apaisai tout avec vingt pistoles qu'il en couta au roi." D'Argenson, *Journal*, Vol I., April 1720, 30.

<sup>136</sup> Velde, "Government Equity and Money," 37.

<sup>137</sup> Thomas Kaiser, "Money, Despotism, and Public Opinion in Early Eighteenth-Century France: John Law and the Debate on Royal Credit," *The Journal of Modern History*, Vol. 63, No. 1, (March 1991), 4.

<sup>138</sup> Murphy, *John Law*, 164-5, 263. He bases a lot of his conclusions on the Poitiers manuscript, attributed to Nicholas Dutot, but Velde, "Life and Times," 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 catspaws of a shadowy group of rich nobility who orchestrated Law's downfall. Dessert, *Argent, pouvoir et société*, Chapter IX on his protagonists, and 423-24 on Law's downfall.

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.<sup>139</sup> His employees at the Banque were held and interrogated, but released when the books were found to be perfectly in order.<sup>140</sup>

John Law spent the next five years in search of patronage, pardons, and prestige in London, Brussels, Munich, and Venice. He occupied much of his time writing letters and memoirs defending his System and his intentions. He may well have finally died in disgrace in Venice, 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.<sup>141</sup>

#### *II.ii. The South Sea Bubble and the Scale Problem.*

The history of the South Sea Company is inextricable from the politics of its origins. The years 1710-11 saw a brief financial crisis in Britain when court politics pushed out the long-serving Sidney Godolphin as Lord High Treasurer, and replaced him with Robert Harley.<sup>142</sup> Though Godolphin was a Tory, the system of finance he engineered depended on the supremacy of the Whig Bank of England and the Whig-heavy Parliament of 1708.<sup>143</sup> His fall in 1710 corresponded to a substantial electoral shift to the Tories, and in that context, the South Sea Company was founded specifically as a Tory competitor to the Whiggish Bank of England and East India Company. This would have several consequences. On the one hand, the South Sea Company had powerful friends in Parliament, eventually up to and including Walpole; on the other, the Directors used the credibility of these connections as cover for their activities. The flow of patronage that accompanied any institutional pooling of capital produced friends and

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<sup>139</sup> Murphy, *John Law*, 310-11.

<sup>140</sup> The treasurer, Louis Bourgeois, and the clerk Nicholas Dutot both retired wealthy men. See Velde, "Life and Times," 19 and 23.

<sup>141</sup> Th. P.M. Huijs, "Inventaire des Archives de John Law et de William Law, 1715-1734," (Maastricht, 1978), 10.

<sup>142</sup> Wennerlind, *Casualties of Credit*, 168.

<sup>143</sup> Carruthers, *City of Capital*, 43.

enemies in equal quantities. The Company could dismiss criticism as politically-motivated, and could rely on the partisan press to help them do so; but at the same time, political motivations almost certainly attracted to them more sustained criticism than they might otherwise have received. From the beginning, Harley's principal claim to legitimacy was in offering what Carswell calls "homespun finance for the squirearchy," as opposed to his Whig opponents, who had spent a decade manipulating the public purse for the benefit of foreigners, the Marlborough circle, and the Bank of England.<sup>144</sup>

The transition from the South Sea Company to the South Sea Scheme was, in turn, inextricable from the influence of Law's System. By the late summer of 1719, when the first plans for the South Sea conversion were mooted, the System was at its apogee. Law appeared not only to have solved France's continual fiscal woes, but also seemed to have unlocked a mechanism for producing an unprecedented increase in national wealth at unprecedented speed. Here again it is vital to remember that there was no clear reason why Law's System should have been any less credible than the Great Recoinage, or the founding of the Bank of England. His success demanded emulation in Britain. Lord Stair, the British ambassador in Paris, continually wrote back to London urging Parliament to take competing steps.<sup>145</sup> Both Blunt and Aislabie later claimed that their proposal was a direct copy of Law's System, as did Toland's (or Janssen's) *Secret History*.<sup>146</sup> Moreover, 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.<sup>147</sup> Personal speculation aside, the flow of speculative capital from Paris to London was already beginning to inflate a stock bubble, giving the South Sea Scheme its initial momentum.

The plan was as follows.<sup>148</sup> 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

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<sup>144</sup> Carswell, *South Sea Bubble*, 45. And more generally, *Ibid*, Ch. 3.

<sup>145</sup> Stair to Craggs, 9 Sept 1719, in Hardwicke (ed), *Miscellaneous State Papers*, Vol. II, 594.

<sup>146</sup> Toland, *Secret History*, 406-7, Carswell, *South Sea Bubble*, 100.

<sup>147</sup> Among them, the Duke of Chandos, William Sloper, Joseph Gage, Lord Islay, Lord Londonderry, Lady Mary Herbert, and Richard Cantillon. See Carswell, *South Sea Bubble*, 101; Neal, *I Am Not Master of Events*, Ch. 5; Murphy, *Cantillon*, Ch. 7.

<sup>148</sup> Naturally, I am massively simplifying the very convoluted history of the Company's maneuvers.

for the privilege of carrying out the conversion.<sup>149</sup> 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% per year) for a liquid asset that was certain to constantly increase in value.<sup>150</sup> They would, in short, trade income for liquid wealth. As Carswell put it:

“First, the less stock he was given, the more the new stockholder could rejoice in the profit thereby accruing to the Company of which he was now a member, and the Company’s consequent power to pay him a better dividend later on. Secondly, and still more important, the higher the price of the stock went, the greater would be the attraction of converting quickly and making a capital gain by promptly selling out.”<sup>151</sup>

This 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.<sup>152</sup> This injection of money catalyzed the general stock bubble. 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%, East India Company stock by 70%, Million Bank stock by 246%, Royal Africa Company stock by 483%, and the stock of the South Sea Company by 498%.<sup>153</sup> In addition to the new domestic entrants, this stock bubble was fueled by French capital which by July 1720 was fleeing the collapse of Law’s System, and by speculative lending

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<sup>149</sup> Richard Kleer, “Riding a Wave: the Company’s Role in the South Sea Bubble,” *Economic History Review*, Vol. 68, No. 1, (Feb., 2015), 266.

<sup>150</sup> Julian Hoppitt, “The Myths of the South Sea Bubble,” *Transactions of the Royal Historical Society*, (Sixth Series), Vol. 12, (Dec., 2002), 143.

<sup>151</sup> Carswell, *South Sea Bubble*, 107.

<sup>152</sup> 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, (Aug., 1955), Table 1, 205, and then generously rounded up.

<sup>153</sup> Dale, *First Crash*, Table 6.2, 107. The accuracy of these figures depends on whether they derive from Castaing’s *Course of the Exchange*, or Freke’s *Price of Several Stocks*. Neal, *Rise of Financial Capitalism*, Figure 5.4, 109, uses Freke and shows even more dramatic results.



on the part of the South Sea Company Directors themselves, using the proceeds of their stock sales.<sup>154</sup>

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).<sup>155</sup> 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.<sup>156</sup> This assessment was not far off: of the 200 Bubble companies, only four survived the crash.<sup>157</sup> The well-established avarice of stock-jobbers 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.<sup>158</sup> Even more surprisingly, and 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.<sup>159</sup>

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

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<sup>154</sup> Hoppitt, “Myths,” 157. The director John Lambert was especially involved in these “Lower Alley” speculations. See Carswell, *South Sea Bubble*, 155.

<sup>155</sup> 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 Bubbles Bubbl’d or, Devil Take the Hindmost*, (London: 1720); Anon., *The Bubbler’s Medley, or a Sketch of the Times*, (London: 1720); Anon., *The Bubbler’s Mirrour, or England’s Folly*, (London: 1720).

<sup>156</sup> Anon., *Exchange Alley, or The Stock-Jobber Turn’d Gentleman: A Tragi-Comical Farce*, (London: T. Bickerton 1720), 15.

<sup>157</sup> Dale, *First Crash*, 107.

<sup>158</sup> Scott, *Joint Stock Companies*, Vol. 3, 324. *Scire facias* attempts to annul patents or letters of incorporation.

<sup>159</sup> Ron Harris, “The Bubble Act: Its Passage and Its Effects on Business Organization,” *The Journal of Economic History*, Vol. 54, No. 3, (Sept., 1994). The Act is 6 Geo. I, c. 18. Dickson, *Financial Revolution*, 148-49 suggests it *caused* the crash. The effects of the Act are complicated, and will be discussed more fully in Chapter 2.

involvement in the South Sea Bubble that he killed himself on 16 March 1721.<sup>160</sup> There was also continuity in institutional forms: even discounting its peculiar antecedents in the Sword Blade Company, the South Sea Company itself existed as a normal, mildly profitable joint-stock company from 1711-1719. 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.<sup>161</sup> The practice was not new in 1720; what was new was its scale.

For eight years the South Sea Company conducted itself very similarly to the other great joint-stock companies, with one important exception: it was massively over-capitalized given the scale of its trade.<sup>162</sup> 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 of England, the East India Company, and the Royal Africa Company combined.<sup>163</sup> In Scott's opinion, 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 as with the modern "global savings glut" argument advanced by Ben Bernanke, 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.<sup>164</sup> Why it took eight years for the Directors to think of something to do with their excess capital is a mystery. Whatever the case, it took the example of Law's System to provoke them to action.

The result of institutional and individual continuity is that questions around the South Sea Bubble are not about precedent, but about knowledge. The idea of a "secret history" of the South Sea Scheme arose contemporaneously with the Bubble itself, and nearly all subsequent

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<sup>160</sup> Chancellor, *Devil Take the Hindmost*, 50. This book is not especially reliable, but is a rich source of ironies.

<sup>161</sup> Wennerlind, *Casualties of Credit*, 190.

<sup>162</sup> Scott, *Joint Stock Companies*, Vol. III, 296-98.

<sup>163</sup> Carswell, *South Sea Bubble*, 52-53; Scott, *Joint Stock Companies*, Vol. 3, 296.

<sup>164</sup> The "global savings glut" argument was first stated in Ben Bernanke, "Sandridge Lecture," Virginia Association of Economists, March 10, 2005.

investigations have asked who knew what, and when.<sup>165</sup> 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 the first chapter of a study about impunity? Two points show that the Directors were knowingly engaged in economic 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.<sup>166</sup> 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. To be sure, bribing Parliament was 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.<sup>167</sup> 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, and returns to the model of impunity discussed above. 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

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<sup>165</sup> John Toland, *Secret History of the South Sea Scheme*, (London: 1726). 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*, Vol. 3, 304.

<sup>166</sup> Scott, *Joint Stock Companies*, Vol. III, 315. Carswell, *South Sea Bubble*, 125 helpfully annotates £81,000 to 27 members of the House of Commons, £38,100 to six Peers, and £216,000 to ministers and courtiers.

<sup>167</sup> Murphy, *Origins of English Financial Markets*, 81. For a contemporary account, see *A Collection of the Debates and Proceedings in Parliament in 1694 and 1695 Upon the Inquiry into the Late Briberies and Corrupt Practices*, (London: 1695).

(or immediately past directors) sat in the House of Commons, and the Company counted among its strongest supporters both John Aislable, 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 538 MPs in both Houses bought into at least one subscription.<sup>168</sup>

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 sold at the top of the market.<sup>169</sup> 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.<sup>170</sup> 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.<sup>171</sup> This capital flight, along with the credit crunch provoked by the Directors' moves against their Lower 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.<sup>172</sup> 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.<sup>173</sup> Archibald Hutcheson, the MP for Hastings, churned out 14 pamphlets in 1720 alone,

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<sup>168</sup> Subscription lists can be found in House of Lords Archive, HL/PO/JO/10/2/158, especially No. 20.

<sup>169</sup> Carswell, 179-80; Peter Temin and Hans-Joachim Voth, "Riding the South Sea Bubble," *American Economic Review*, Vol. 94, No. 5, (Dec., 2004).

<sup>170</sup> Neal, *Rise of Financial Capitalism*, 113-15. This plan mostly worked.

<sup>171</sup> De Vries and van der Woude, *First Modern Economy*, Figure 4.3, 135.

<sup>172</sup> The first two Subscriptions were spot prices; the Third was only forward prices, and was probably intended to limit participation, but backfired. See Neal, *Rise of Financial Capitalism*, 109.

<sup>173</sup> On capital flight, see *The Daily Post*, 5 August 1720; *The Whitehall Evening Post*, 13-15 September 1720; *The London Journal*, 5-12 November 1720.

meticulously demonstrating that the Company's math was impossible.<sup>174</sup> The possibility of manipulating the market through false reports dates to the very first book ever written on the subject: the 1688 *Confusion de Confusiones* by the Amsterdam-based Portuguese Jewish trader Joseph de la Vega.<sup>175</sup> 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 24 September, 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. 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.<sup>176</sup> It discovered a web of deception that was remarkable in 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."<sup>177</sup> John Knight, the

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<sup>174</sup> Dale, *First Crash*, esp. 82-90 considered Hutcheson the hero of the whole affair. 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.

<sup>175</sup> Joseph de la Vega, *Confusion de Confusiones*, trans. Hermann Kellenbenz, (Cambridge, MA: Harvard University Press, 1957 [1688]), 32-34.

<sup>176</sup> Carswell, *South Sea Bubble*, 22-25. Reports of their proceedings, as well as the Commons discussion of it can be found in Great Britain, Parliament, *Parliamentary History*, ed. William Cobbett, (London: T.C. Hansard, 1806-20), Vol. VII, 711-803.

<sup>177</sup> "First Report of the Secret Committee," *Parliamentary History*, VII, 713.

Company's cashier, had entered the sales of fictitious stock into the account books, but had left the names of the buyers blank. Lord Stanhope's involvement was supposed to be concealed by changing his name to "Stangape," but his real name remained in the indices.<sup>178</sup> When interviewed, Knight repeatedly attempted to turn over multiple pages in his ledgers without the interviewers noticing.<sup>179</sup> Two Directors claimed they thought the fictitious stock was entered to balance the ledgers as demanded by standard double-entry procedures, which they attested to not understanding.<sup>180</sup> Knight continued to refuse to answer questions until on 21 February he and his son absconded to Antwerp, along with his famous and mysterious "green book."

The notion that a multi-million 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.<sup>181</sup> Walpole argued there was no precedent or procedure to legitimate this maneuver, and that impeachment

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<sup>178</sup> "First Report," 726.

<sup>179</sup> Ibid, 717. See also House of Lords Archive, HL/PO/JO/10/2/157, No. 2 for more instances of his transparent dissembling.

<sup>180</sup> Ibid, 716.

<sup>181</sup> The trials are found in "Second Report of the Committee of Secrecy," *Parliamentary History*, VII, 743-56.

was as far as the House could go, but Broderick, 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.”<sup>182</sup> 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.

Many authors have commented on what seems 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 which was consequently difficult to organize, while Walpole was able to marshal his supporters to protect anyone he needed. Stanhope and Sunderland were voted not guilty—Stanhope by a margin of only three.<sup>183</sup> Aislabie and Caswall went to the Tower briefly, while Craggs killed himself with laudanum before he could be questioned. As to the recipients of the Company’s bribes, Scott writes: “in 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.”<sup>184</sup> 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.<sup>185</sup> 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.<sup>186</sup>

To emphasize the parallel about the scale problem, consider that the Black Act of 1723 introduced the death penalty for upwards of 50 crimes, including being disguised near a forest.<sup>187</sup> 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

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<sup>182</sup> Carswell, *South Sea Bubble*, 241.

<sup>183</sup> *Parliamentary History*, VII, 747.

<sup>184</sup> Scott, *Joint Stock Companies*, Vol. III, 343.

<sup>185</sup> Currency comparisons are perilous, but £10,000 in 1720 was roughly equivalent to £1,260,000 in 2010.

<sup>186</sup> Carswell, *South Sea Bubble*, 258. Blunt left his family £13,000 in his will.

<sup>187</sup> 9 Geo. 1 c. 22. See, of course, E.P. Thompson, *Whigs and Hunters: the Origin of the Black Act*, (New York: Pantheon Books, 1975).

was sentenced to transportation to America for seven years.<sup>188</sup> She managed better than Thomas Rogers of Bishopsgate, who stole a 2-shilling silk handkerchief, and was sentenced to death.<sup>189</sup> Perhaps even more neatly, Benjamin Shambler was sentenced to death on 7 September 1722 for collecting £82 from a counterfeit South Sea Company subscription.<sup>190</sup> He would have been better off defrauding hundreds of Parliamentarians.

*II.iii. Public Morality, Financial Innovation, and the Panic of Redistribution.*

At several points in the foregoing discussion I have attributed causal agency to public opinion, investor confidence, and a popular notion of moral economy. What can we know about how the general public interpreted the events of 1720? Was contemporary understanding so far removed from the concept of “economic impunity” that it is an unacceptable anachronism?

I am skeptical that surviving published pamphlets are an immaculate window into the public mind, but in the case of the South Sea Bubble the importance of pamphlet discussion is undeniable. Figure 1 below shows that the terms of understanding of the Bubble were produced simultaneously with the Bubble itself.

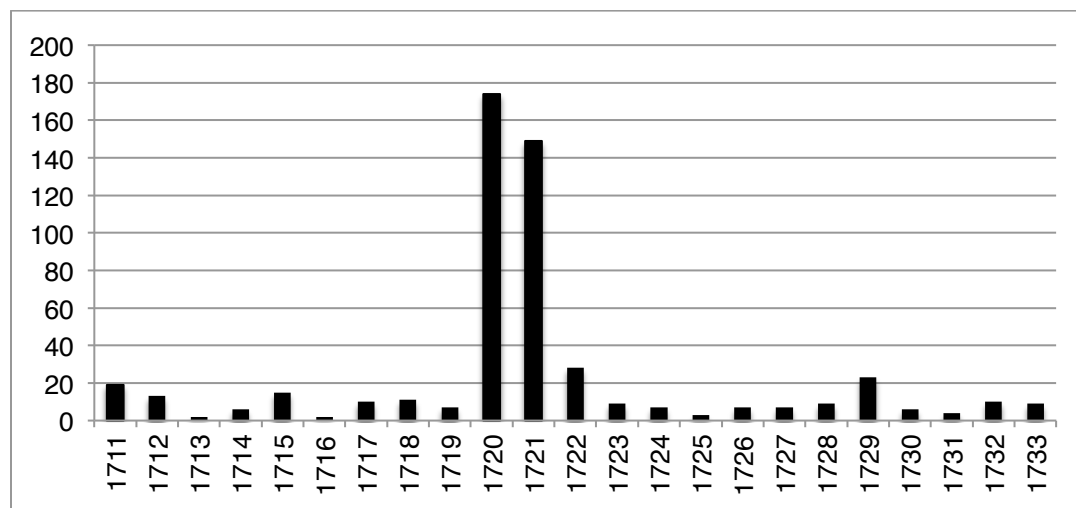
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<sup>188</sup> *Old Bailey Online*, February 1721, trial of Ann Harris, (t17210301-6).

<sup>189</sup> *Old Bailey Online*, March 1721, trial of Thomas Rogers, (t17210525-1). Granted, he had a prior conviction.

<sup>190</sup> *Old Bailey Online*, 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.



**Figure 1.** Number of English-Language Publications on the South Sea Company, by Year.<sup>191</sup>

These pamphlets show a few clear thematic patterns that can be corroborated with surviving letters, diaries, and newspapers. First, and already mentioned, is a general moral hostility towards stock-jobbers, who were seen as violating the virtues of hard work, thrift, and honesty in exchange for avarice and duplicity.<sup>192</sup> Many authors were happy to attribute these excesses to their least favorite minority groups, whether Jews, Quakers, Dutchmen, or foreigners in general. This animosity was specific to the financial sector, and in direct contrast to the optimistic pamphleteering on the prospects of “improvement” which had characterized the last decades of the seventeenth century.<sup>193</sup> Again and again authors return to the dangers of finance being difficult to understand and therefore susceptible to secrets and manipulations.<sup>194</sup> 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. Many pamphlets on the South Sea Bubble take the form of short satirical

<sup>191</sup> Tabulated from John Sperling, *The South Sea Company: An Historical Essay and Bibliographical Finding List*, (Cambridge, MA: Harvard University Press, 1962).

<sup>192</sup> Cf. John Houghton, *Collection for Improvement*, No. 102, July 1694, 1; Shadwell, *The Volunteers*; Anon., *A New Way of Selling Places at Court, in a Letter From a Small Courtier to a Great Stock-Jobber*, (London: John Morphew, 1712); Anon., *The Yea and Nay of Stock-Jobbers, or ‘Change-Alley Quakers Anatomiz’d*, (London: J. Roberts, 1720); *Journals of the House of Commons*, Vol. XI, Nov. 25, 1669, 595; John Evelyn, *Diary*, Vol. V, 246; Defoe, *Villainy of Stock-Jobbers Detected*; Erasmus Phillips, *An Appeal to Common Sense*, (London: T. Warner, 1720).

<sup>193</sup> Slack, *Invention of Improvement* discusses these at length.

<sup>194</sup> Hence the frequency with which words like “detected,” “revealed,” “secret,” or “true” appear in the titles of these pamphlets.

plays with archetypal characters. The plot of *every single one* of these extant plays revolves 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.<sup>195</sup> Not only were women making fortunes on Exchange Alley, but so too were religious, national, and class hierarchies upended. One characteristic bit of doggerel reads:

Our *Courtiers, Merchants, Mob* and *Citizens*  
Run to '*Change-Alley*, without Wit or Sence  
And there, like Men possest 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.<sup>196</sup>

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."<sup>197</sup> 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.<sup>198</sup> 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 fundamentally aesthetic (and xenophobic) critique of the practices of Exchange Alley later took on an explanatory valence as the "madness of crowds." 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.<sup>199</sup>

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<sup>195</sup> 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 sub-plot to these plays.

<sup>196</sup> Anon., *The Yea and Nay of Stock-Jobbers*, 6.

<sup>197</sup> Anon., *The Biters Bit*, 16.

<sup>198</sup> Natalie Zemon Davis, *Society and Culture in Early Modern France: Eight Essays*, (Stanford: Stanford University Press, 1975), Ch. 4.

<sup>199</sup> Carswell, *South Sea Bubble*, 131.

Many of the same patterns obtained in France. John Law of Lauriston appears several times in Montesquieu's *Persian Letters*, as a sort of magician-huckster, born of a nymph and Aeolus, god of the wind, who uses his voice and his wiles to deceive the citizens of mythical Betica into imagining that they were rich.<sup>200</sup> This unenviable bit of literary fame signals how the Law affair changed the components and constituents of economic thought. Montesquieu was, of course, the *président à mortier* of the Bordeaux *parlement*, and his ridicule of Law captures some of the actual experience of people who lived through the rise and fall of the System. To Montesquieu, Law raised the stakes of economic discussion by demonstrating just how much change a theorist could wreak on the social order, if given sufficient power unfettered by intermediary bodies. In some ways this raised the hopes of reformers as to the capacity for human agency in the economic sphere. It is worth remembering here that the crisis of 1720 happened precisely at the end of what Paul Hazard characterized as a general crisis of the European mind, now associated with the early, radical phase of Enlightenment in which the scope for human reason to act upon the material world was vastly expanded.<sup>201</sup>

But for most, Law's System was a terrible warning, demonstrating just how much damage a despotic government could do, and how little public opinion could be counted on to preserve social stability.<sup>202</sup> Far more tangible than the destabilization of economic concepts was the destabilization of the social order. 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.”<sup>203</sup>

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<sup>200</sup> The most detailed parodies are Letters 132 and 142. Charles-Louis de Secondat Montesquieu, *Lettres persanes*, trans. C.J. Betts, (London: Penguin Classics, 1973 [1721]), 235-37; 254-58.

<sup>201</sup> Paul Hazard, *The Crisis of the European Mind, 1680-1715*, (New York: New York Review of Books, 2013 [1953]).

<sup>202</sup> On Law and despotism, see Kaiser, “Money, Despotism, and Public Opinion.”

<sup>203</sup> “Ce commerce de papier, qui n'était véritablement qu'un leurre et une chimère, causa la ruine de nombre de bonnes familles, et fit faire des fortunes immenses et incroyables à de misérables valets. Les gens d'église, évêques, abbés et autres : les personnes de qualité, princes et seigneurs, se confondirent avec le tiers-état pour faire ce commerce odieux, qui occasionna une infinité de meurtres et d'assassinats.” Pierre Narbonne, *Journal des règnes de Louis XIV et Louis XV, de l'année 1701 à l'année 1744*, (Paris : A. Durand et Pedone Lauriel, 1866), July 1721, 65.

Though probably not an accurate depiction of reality, Narbonne's dramatic tone is 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 the following to the 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.”<sup>204</sup>

And again, echoing the English bitterness towards the newly-enriched stock-jobbers, he wrote: “Only those who bought Mississippi are truly rich: people who had nothing two years ago have two or three million today.”<sup>205</sup>

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, even as crowds thronged the rue Quincampoix below Law's windows in an apparent carnival of avarice. The younger d'Argenson recalled in his journal:

“A pleasant scene I remember well is when Law went to the rue Quincampoix to enjoy the triumph of his System and the whirlwind of his stock. He went to a window with velvet curtains and below were tiny Savoyards shouting, ‘Sir, give us a drink and we will bid up your stock.’”<sup>206</sup>

The marquis was not the only observer of Law ruling over the festivities. Daniel Defoe characterized Law as a “manager” of people and wealth, representing Law as the world's first

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<sup>204</sup> “Nous ne savons plus sur rien au monde à quoi nous en sommes. J'étais prêt à toucher mon remboursement, j'avais mon arrêt. L'argent n'a plus de valeur; nous ne savons plus ce que nous en pouvons faire. Les constitutions de rentes deviennent de jour en jour plus mauvaises. Bien heureux qui a des terres comme vous, bien malheureux qui comme moi n'en a point.” Caumartin de Boissy to Balleroy, 1 September 1719, in Edouard de Barthelemy (ed.), *Les correspondants de la marquise de Balleroy*, (Paris : Hachette et cie, 1883), Vol. II, 71.

<sup>205</sup> “Il n'y a que ceux qui ont mis au Mississipi de véritablement riches: tel a deux ou trois millions de bien aujourd'hui qui n'avait rien il y a deux ans.” Caumartin de Boissy to Balleroy, in Barthelemy, *Les correspondants*, 72.

<sup>206</sup> “Une plaisante scène dont il me souvient, est quand Law alla dans la rue Quincampoix pour jouir du triomphe de son système & du tourbillon des actions. Il était a une fenêtre, avec un tapis de velours; des petits Savoyards étaient au bas de la maison qui lui criaient: ‘Monseigneur, donnez-nous pour boire, nous ferons monter vos actions.’” D'Argenson, *Journal du marquis d'Argenson*, Tome I: 1697-1738, (Paris: Paleo, 2002) February 1720, 29.

technocrat, albeit one who ruled over a “chimera.”<sup>207</sup> A clerk named Pyot at the British embassy in Paris wrote in September 1719:

“The rue de Quinquempoix [sic], which is their Exchange Alley, is crowded from early in the morning to late at night with princes and princesses, dukes and peers and duchesses, etc, in a word all that is great in France. They sell estates and pawn jewels to purchase Mississippi.”<sup>208</sup>

As with the early critiques of stock-jobbing in England, much of this rhetoric predated 1720 in a more confined form. The many writings of the administrator and theorist Pierre le Pesant Boisguilbert are a good example.<sup>209</sup> For Boisguilbert, all of France’s economic woes under Louis XIV were due to the rise of a moneyed “leisure class.” In his view, money created a world of illusions, obscuring the true value of goods and services, and hiding the mechanisms of social order. The leisure class continually received resources (mainly, but not only in the form of taxes) but never gave any back, so the economy reached equilibrium at a sort of one-way circuit, constantly transferring resources from the real economy to the parasitic leisure class. This, for Boisguilbert, is the origin of all social ills, to the extent that in his memoranda he makes enormous promises as to how his simple solutions could improve the state of France.<sup>210</sup> His “leisure class” was not the idle nobility as such, but rather the financiers—those engaged in the fiscal structure, especially in taxation—who maintain their position through obfuscation and obscurity, capitalizing on the illusions that money creates, exactly at the expense of landowners and farmers. “The great word ‘financier,’” he writes, “means nothing other than an income administrator...this term impresses the simple and ignorant majority, leading them to believe the absurdity that it is a very rare science, requiring lengthy training to acquire, and that anyone without great experience could not hope to serve the King without ruining it, though it is quite

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<sup>207</sup> Defoe, *The Chimera*, 53, 57, 72. He also concludes that the real reason for Law’s failure was the mismatch of Law’s imagination with the mercurial French temperament.

<sup>208</sup> Quoted in Murphy, *Cantillon*, 105.

<sup>209</sup> His main ideas are scattered through six long and digressive works written over 12 years, as well as in a host of minor or official writings. The major works are, in order: *Le Détail de la France* (1695); *Traité sur la dîme royale* (1700); *Traité de la nature, culture, commerce et intérêt des grains* (1704); *Factum de la France* (1705); a revised *Factum de la France* (1707); and *Dissertation de la nature des richesses* (1707). I use the edition of these works with continuous pagination collected in Jacqueline Hecht, (ed.), *Pierre de Boisguilbert, ou la naissance de l’économie politique*, 2 Vols., (Paris : INED, 1966).

<sup>210</sup> For instance the subtitle of the *Détail* is: *la cause de la diminution de ses biens et la facilité du remède, en fournissant en un mois tout l’argent dont le Roi a besoin, et enrichissant tout le monde.*

the opposite.”<sup>211</sup> They present themselves as natural and necessary by “covering themselves with constant confusion, [they] obscure any perspective on the cause of poverty, and close off all avenues for remedying the situation.”<sup>212</sup> This type of complaint would have been unintelligible in the 1660s, then was made by a robe noble against “two or three thousand” financiers in 1695-1707, and was completely generalized by the 1720s, indicating the degree of transition this chapter is attempting to address.<sup>213</sup>

And, of course, the Law affair elicited debate, discussion, and ridicule all over the Continent. Satirical medals (resembling coins but not made of precious metal) were minted in Germany and circulated as souvenirs and curiosities all over Europe.<sup>214</sup> Early on, these expressed doubt and wonder at Law’s successes; later, they turned acerbic and scatological. At the same time, hundreds of woodcuts illustrating Law and the mania of the speculative crowd were collected in Amsterdam. Like Montesquieu’s depiction of Law, their theme is wind: wind-buyers being paid in wind, by the wind-peddler, followed by scenes of madness and destruction.<sup>215</sup> The same motif appears in several satirical Dutch poems of that year.<sup>216</sup> These materials illustrate that the System had been so dramatic and public in its rise and fall that it was perhaps the first “event” understood in specifically economic terms as it happened—rather than famines or depressions, often understood in moral or theological grounds—to be discussed by regular people all over Europe.

The System not only set a conceptual and analytical precedent, but a legal one as well. After Law fled in December of 1720, the Regency government was confronted with the problem of cleaning up the wreckage of the System while still needing to deal with the original debt problem that gave Law his opening in the first place. The Pâris brothers were appointed to manage the task. I doubt Murphy’s argument that their appointment represented their final victory in a long political struggle with Law, who they had always opposed and whose work they gladly dismantled. Rather, I suspect that they were experienced financiers who were not implicated in the System and who had managed the last cleanup effort in 1716, which made them

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<sup>211</sup> Boisguilbert, revised *Factum*, 819.

<sup>212</sup> Boisguilbert, *Détail*, 644, cited in Faccarello, 121.

<sup>213</sup> Boisguilbert’s estimation of the “leisure class” in *Factum*, 742.

<sup>214</sup> These are depicted and translated in John W. Adams, *The Medals Concerning John Law and the Mississippi System*, (New York: American Numismatic Society, 2005).

<sup>215</sup> Anon., *Het Groote Tafereel der Dwaasheid*.

<sup>216</sup> New York Public Library, Maitland Collection, MSS Coll. 1848, M1.

the logical choice. Whatever the case, their procedures do not resemble victor's justice, but rather the efforts of technical managers confronted with unprecedented problems. Through the Visa of 1721 they allowed holders of the System's securities to exchange them for new debt instruments according to a complicated matrix that attempted to judge the legitimacy and fairness of the creditors' claims.<sup>217</sup> Surprisingly, small claimants (under 500 *livres*) were subject to no reduction at all; the average "haircut" on the remainder was 40%.<sup>218</sup> The *Compagnie des Indes* was put into receivership until 1723, when it re-emerged and continued as a trading company until 1769.<sup>219</sup> The Banque Royale was saddled with all of the *Compagnie's* liabilities and was allowed to collapse. But nobody was prosecuted, banished, or executed: the Banque was the only permanent casualty. The dismantling of the System appears total because Law had exerted so much effort to centralize the financial sector within the System, but all the Pâris brothers really did was strip away the unprecedented innovation—the Banque and the paper money—and not attempt to adjudicate the legality of the System. Further devaluations of the *livre* followed until it was finally stabilized at a much lower level in 1726, at which point many of the annuities issued by the Visa of 1721 were arbitrarily cancelled by a new administration led by Cardinal Fleury.<sup>220</sup>

## Conclusion

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.<sup>221</sup> In no other case did the state attempt a debt-for-equity swap, so the eventual bursting of these bubbles caused much less damage than their famous counterparts. But for the first time, credit conditions in one country

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<sup>217</sup> Regrettably, most of the documentation on this process was burned in 1722, but this was aim stated in Pâris le Montagne's account in Archives des Affaires Étrangères, Mémoires et Documents, France 1258, fols. 61–67. For a contemporary account by a lawyer in the Paris *Parlement*, see Mathieu Marais, *Journal et mémoires*, (Paris: Libraire de Firmin Didot Frères, 1864 [1715-1737]), Vol. II, 52, 64-65, 75. Saint-Simon, *Mémoires*, Vol. VI, 660-74 has much to say about Law's downfall and the confusion of the System's collapse, but nothing about the Visa of 1721.

<sup>218</sup> Velde, "Government Equity and Money," 38.

<sup>219</sup> Velde, "Government Equity and Money," 36-40 on the details.

<sup>220</sup> François Velde, "French Public Finance Between 1683 and 1726," Federal Reserve Bank of Chicago Working Paper, 2006, 30-33.

<sup>221</sup> See Stefano O. Condorelli, "The 1719-20 Stock Euphoria: a Pan-European Perspective," (Bern University: Center for Global Studies Working Paper, 2015) for a detailed discussion of these smaller bubbles. On Lisbon specifically, see Dickson, *Financial Revolution*, 152-53. 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.

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 or the Sword Blade Bank suspended payments. This meant real hardship for very many people, and it was directly the fault of some other people, but there was no mechanism for adjudicating culpability.

Why should counterfeiting a South Sea Company dividend yield the death penalty, while the Directors of the Company retired in comfort to their country estates? Why were the discursive consequences of Law's upending of the French financial system more lasting than the material consequences? The violence of Britain's eighteenth century criminal code is usually explained as a protection of bourgeois property, but the South Sea Bubble was the most thoroughgoing threat to property until the French Revolution and its orchestrators lost only their fraudulent profits. Clearly inequality is part of the story, but a simple interpretation should be resisted. Blunt wrote that the Bubble was due to the "madness of the times," while Law maintained that he "was not master of events."<sup>222</sup> Each could ascribe, with good reason, the downfall of his project to the concerted opposition of political opponents, but mainly they blamed the blind collective action of the public. Does the crisis of 1720, then, mark the point at which public opinion represented a substantial brake on economic impunity?

Only in some ways. By 1720 the public's demand for economic knowledge and ability to render judgment in the popular press were far greater than in 1680. But the continual representation of financiers as baffling alchemists is any indication, developments in the press did not keep up with financial innovation. Regulation and prosecutorial institutions lagged even further behind, and the state's need for skilled financiers was far greater than it had been when Charles II defaulted on his twelve creditors, or when Samuel Pepys raised war debts with a stick. Consequently, 1720 illustrated that a small set of professional financiers could act with impunity in the economy, so long as their victims were the general public rather than each other. The Law affair especially revealed how much an economy could be shaped by human agency: that is, how powerful economic ideas could be in the real world. As an act of secularization and de-naturalization, it was difficult to surpass. The economy could no longer be thought of as part of the divine order of the world: fixed, immutable, and moral. After 1720 it was clear that

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<sup>222</sup> This delightful phrase, which Larry Neal takes as his title, is in a letter from Law to his Genoa art dealer. See Neal, *I Am Not Master of Events*, 108.



prosperity and crisis were the result of human activity, and could be judged accordingly, but acting on that judgment was still restricted to within that same small set of financiers. The impact of the historical memory of 1720 over the rest of the eighteenth century will be discussed in the next chapter.

## Chapter Two: The Memory of 1720 in Enlightenment Theory and Policy

“Although normally a banker makes a very poor galley slave.”<sup>1</sup>

--Voltaire.

### Introduction

Two letters were published in October of 1767, one in the *Journal d'agriculture du commerce et des finances*, and the other in the *Correspondance littéraire*, both complaining about the peculiarly annoying vocabulary of economists. “They have a devout and apocalyptic language,” one wrote, “and they want to make agriculture a mystical science and a divine institution in which they volunteer to play the role of theologians.”<sup>2</sup> The other presented a detailed criticism of all the new economic words employed by four unnamed authors, which he found “mutilating and degrading” to good French and clear reasoning.<sup>3</sup> This second letter drew an exasperated response from François Quesnay in the *Ephémérides du citoyen*, then the mouthpiece of the Physiocrats. Quesnay argued that the vague terms and imprecisions of his interlocutor caused him to systematically confuse cause and effect—only new scientific words could clearly demonstrate the true nature of economic relationships.<sup>4</sup>

These letters were not abnormal for the middle decades of the eighteenth century. A full twelve years before, Friedrich Melchior Grimm wrote in his *Correspondance littéraire* that “nothing has been so common in France during the last six months as works about commerce.”<sup>5</sup> By at least 1755 there was a diverse group of professional

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<sup>1</sup> “Quoique d’ordinaire un banquier soit un fort mauvais forçat.” In “Questions sur l’Encyclopédie” (1770). *Oeuvres de Voltaire*, ed. A.J.Q. Beuchot (Paris: Lefevre, 1829-34), Vol. 27, 286.

<sup>2</sup> “Ils ont un langage apocalyptique et dévot. Ils voudraient faire de l’agriculture une science mystique et d’institution divine, et ils joueraient volontiers le rôle de théologiens dans cette partie.” Friedrich Melchior Grimm, *Correspondance littéraire*, Vol. VII, (1767), 434.

<sup>3</sup> Anonymous, *Journal d’agriculture du commerce et des finances*, August 1767. This was in fact an extract from François Véron de Forbonnais, *Principes et observations économiques*, (Amsterdam: Chez Marc Michel Rey, 1767), which the new editor of the *Journal* published through the summer of 1767 in response to the full publication of Quesnay’s *Tableau économique*.

<sup>4</sup> “Lettre de M. Alpha, maître des-arts, a l’auteur des *Ephémérides* sur le langage de la science économique,” *Ephémérides du citoyen*, October 1767, 666-7.

<sup>5</sup> Grimm, *Correspondance littéraire*, Vol. II, No. 6, 15 March 1755, 67.

writers on economic subjects producing a self-authorized science of economics for a public readership. Contrary to Grimm's impression, this was not peculiar to France, though the French did occupy an outsized role in both writing and reading about economics.<sup>6</sup> Ever since Voltaire famously joked that "Around the year 1750, the nation...turned to reasoning about grain," most historians have associated the mid-century boom in economics writing with the Physiocrats.<sup>7</sup> But as Liana Vardi has recently shown, the Physiocrats were in fact a much smaller and stranger group than most modern authors have presented them.<sup>8</sup> They held no sort of hegemony over Enlightenment economic thought, and were far from popular with their contemporaries. Although Quesnay, the leader of the Physiocrats, was the public defender of the new economic science in the *Ephémérides du citoyen*, his interlocutor was François Véron de Forbonnais, the professional financier and the author of a two-volume history of John Law's System.<sup>9</sup> The discursive complaints of these writers in 1767 were a late public expression of a much deeper conversation: how to understand the crisis of 1720—the world's first international financial crisis—and what lessons could be learned from it.

John Law's enduring eighteenth-century infamy is well known. It is no secret that he appears in Montesquieu's *Lettres persanes*, or that his name was invoked in the 1789 National Assembly debate on nationalizing the royal debt.<sup>10</sup> It is common knowledge to historians of the Enlightenment that David Hume read Richard Cantillon and that Jean-François Melon's *Essai politique sur la commerce* was widely read all over eighteenth-century Europe. But because some of the key players have been neglected, the coherence

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<sup>6</sup> Two influential demonstrations of this point are Sophus Reinert, *Translating Empire: Emulation and the Origins of Political Economy*, (Cambridge, Mass.: Harvard University Press, 2011) and John Robertson, *The Case for the Enlightenment: Scotland and Naples, 1680-1760*, (Cambridge: Cambridge University Press, 2005).

<sup>7</sup> Voltaire, "Blé ou Bled," *Dictionnaire philosophique* in *Oeuvres complètes*, Vol. II, (Paris: Chez Antoine-Augustin Renouard, 1819), 241. The full quote is much longer, and more sarcastic.

<sup>8</sup> Liana Vardi, *The Physiocrats and the World of the Enlightenment* (Cambridge: Cambridge University Press, 2012).

<sup>9</sup> François Véron de Forbonnais, *Recherches et considérations sur les finances de France, depuis 1595 jusqu'en 1721* (Liege, 1758).

<sup>10</sup> Charles-Louis de Secondat Montesquieu, *Lettres persanes*, Trans. C.J. Betts, (London : Penguin Classics, 1973 [1721]), 235-37 ; 254-58; Assemblée Nationale, *Archives parlementaires de 1787 à 1860*, (Paris: P. Dupont, 1875-1889), Vol. 10, 681-9; Vol. 12, 602-11; Vol. 13, 54-5 and 63; Vol. 18, 530-56.

and impact of this conversation has been overlooked.<sup>11</sup> Jonathan Sheehan and Dror Wahrman provide a useful recent example:

“Each one [Isaac Gervaise and Richard Cantillon] was an isolated voice in the aftermath of 1720, each one experimenting with self-organizing models of economic order, each one prefiguring the political economists of the second half of the eighteenth century, each one having no immediate echo—one delayed by a generation, the others having no known echo at all.”<sup>12</sup>

This chapter argues that this view does not go far enough. The crisis of 1720 was the single most important subject in writing on political economy before Adam Smith, and it was discussed in a sustained international conversation that fed directly into the familiar debates of the high Enlightenment. Political economy writing in the 1730s and 1740s was dominated by men who had been personally involved in John Law’s System: Richard Cantillon, Nicholas Dutot, Jean-François Melon, Joseph Pâris Duverney, Claude Pâris le Montagne, Barthelemy Marmont du Hautchamp, the younger d’Argenson, and Law himself. Cantillon, Law, and the Pâris brothers were members of a small group of international financiers who were 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.<sup>13</sup> Much of the argument in this chapter is concerned with how their theories caught up to their practices. Some of these writers sought to defend Law’s innovations while others denounced the pernicious intrusion of foreign ideas, but regardless of their verdicts, all of them attempted to derive general economic principles from the episode of the System, especially regarding questions about money and the origin of value; the danger of luxury and corruption; the threat of despotism; and the problem of the national

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<sup>11</sup> The one exception is Thomas Kaiser, “Money, Despotism, and Public Opinion in Early Eighteenth-Century France: John Law and the Debate on Royal Credit,” *The Journal of Modern History*, Vol. 62, No. 1, (March 1991): 1-28. Although an excellent article, Kaiser limits his attention to the political implications of declining public confidence in the French monarchy.

<sup>12</sup> Jonathan Sheehan and Dror Wahrman, *Invisible Hands: Self-Organization and the Eighteenth Century* (Chicago: University of Chicago Press, 2015), 132.

<sup>13</sup> Other members included speculators like Lord Londonderry, Lady Mary Herbert, Lord Chandos, and Joseph Gage, 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, for their subscriptions to South Sea Stock and The National Archives, C108/420/13, for copious examples of deals between Londonderry, Stair, Pulteney, Pels, and Colebrook in both the South Sea and Mississippi stock bubbles.

debt. John Shovlin has recently argued that Law himself was trying to work out in practice a theory of the post-Utrecht international system, based on commercial competition and the “jealousy of credit,” rather than confessional or dynastic conflict.<sup>14</sup> I concur with this interpretation, and argue that the first generation of political economy writers after 1720 were trying to solve a similar set of problems. Their various texts in turn formed the intellectual furniture of Enlightenment political economy, influencing David Hume, Isaac de Pinto, François Véron de Forbonnais, Malachy Postlethwayte, the Encyclopedists, the Physiocrats, and practical reformers like Jacques Necker. By the time these later authors were at work, the contextually-specific questions raised by Law’s System had become deracinated and reified through the standard discursive practices of the Enlightenment, while the memory of Law himself lingered on as a specter to be invoked whenever a terrible warning or a vicious denunciation was needed.<sup>15</sup>

What exactly did the traumatic experience of 1720 mean for eighteenth century economic thought? I want to offer a contemporary parallel. Recently several eminent economic historians have devoted some attention to showing how the memory of the Great Depression among economists and policymakers shaped responses to subsequent crises, especially the Great Recession of 2008. Harold James has argued that “policy recommendations for the following eighty years have consistently been made on the basis of analyses or presumptions of what went wrong in 1929.”<sup>16</sup> Expanding greatly on the same theme, Barry Eichengreen has argued that the Great Depression functioned as a sort of mental template, or set of analogies through which policymakers interpreted the Great Recession—in no small part because many of them, like Ben Bernanke and Christina Romer, were academic economists with expertise in the history of the Great

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<sup>14</sup> John Shovlin, “Jealousy of Credit: John Law’s ‘System’ and the Geopolitics of Financial Revolution,” *The Journal of Modern History*, Vol. 88, No. 2 (June 2016). Though slightly different in interpretation, on the idea of an “Utrecht Enlightenment” see J.G.A. Pocock, *Barbarism and Religion, Vol. I: The Enlightenments of Edward Gibbon, 1737-1764* (Cambridge: Cambridge University Press, 1999), 110-13.

<sup>15</sup> For constructive recent work on communicative practices of Enlightenment see the articles in the *European Review of History*, Vol. 13, No. 3, (Sept, 2006), esp. the summary afterward by Carla Hesse, “Towards a New Topography of Enlightenment,” 499-508.

<sup>16</sup> Harold James, “1929: The New York Stock Market Crash,” *Representations*, Vol. 110, No. 1, (Spring 2010), 129.

Depression.<sup>17</sup> In Eichengreen’s view, the assumption of having “learned lessons” from the history of the Great Depression turned out to be pernicious because it led policymakers to the complacent conclusion that since the Great Recession was not as severe as the Depression, no drastic policy interventions were needed once the initial panic had been halted. The Great Depression has remained a point of reference exactly because of its greatness: it is used to gauge the severity of all subsequent economic crises, and consequently has prevented recognizing the ways in which each crisis is unique and strange.

A similar process was at work during the eighteenth century. The crisis of 1720 lingered on as a reference point, not just because of its severity but also because of its novelty. The authors I have invoked 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 engaged in trade and commerce was subject to the same rules and institutions, most writers of the eighteenth century believed that peace and prosperity would be the inevitable result.<sup>18</sup> But the crisis of 1720 showed that finance was different from commerce: more complex, more dangerous, and more concentrated in a few hands such that the pursuit of rational “interests” could be just as destructive and insidious as the pursuit of “passions.” In a similar vein, Anoush Terjanian has detailed the ways that slavery, piracy, and monopoly presented the advocates of *le doux commerce* with tensions and contradictions.<sup>19</sup> 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 finance. Like Terjanian’s discontents, the new finance was another contradiction to the benefits of commercial society, and it was also a destabilizing force working against the self-organizing systems discussed by Sheehan and Wahrman. To adapt some modern economic terminology, in the sphere of public virtue, all of these

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<sup>17</sup> Barry Eichengreen, “Economic History and Economic Policy,” *The Journal of Economic History*, Vol. 72, No. 2, (June 2012), and idem, *Hall of Mirrors: the Great Depression, the Great Recession, and the Uses—and Misuses—of History* (Oxford: Oxford University Press, 2015).

<sup>18</sup> For the seminal text on *le doux commerce*, see Albert O. Hirschman, *The Passions and the Interests: Political Arguments for Capitalism Before Its Triumph* (Princeton: Princeton University Press, 1977).

<sup>19</sup> Anoush Terjanian, *Commerce and its Discontents in Eighteenth-Century French Political Thought* (Cambridge: Cambridge University Press, 2013).

writers (and their hypothetical common merchants) were “price takers.” As bureaucrats, well-connected journalists, and wealthy men of affairs, they had to accept the costs of any economic malfeasance they may have undertaken, and were subject to economic forces outside their control. Although the Mississippi and South Sea schemes failed, they raised the specter of a “price setter,” an entity able to act in the economy on its own terms, not subject to external costs or punishments. This immune actor was similar to the more familiar problem of despotism, but its power derived not from the arbitrary authority of violence or divine right, but from its unique ability to navigate the confusing technical world of finance.

It is an understatement to say that despotism was one of the central problems of eighteenth century thought. In many ways it is a strange debate to 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.<sup>20</sup> “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, the theory of Enlightenment civic virtue seems partly to have been a response to the intractability of impunity.<sup>21</sup> In short, virtue was meant to guarantee that anyone with impunity used it for beneficial pursuits rather than despotic ones.<sup>22</sup>

Framed in this way, rarefied philosophical debates about education and republican virtue appear more clearly to be efforts to solve what Michael Sonenscher calls the problem of “committing to commitments.”<sup>23</sup> To act with impunity is fundamentally the

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<sup>20</sup> Jonathan Israel, *Democratic Enlightenment: Philosophy, Revolution, and Human Rights, 1750-1790* (Oxford: Oxford University Press, 2013), Ch. 10 gives a detailed and opinionated summary.

<sup>21</sup> The idea of virtue specifically in the context of state power and standing armies is discussed in J.G.A. Pocock, *The Machiavellian Moment: Florentine Political Thought and the Atlantic Republican Tradition*, (Princeton: Princeton University Press, 1975), Chs. 12 and 13.

<sup>22</sup> Cf. Hirschman, *The Passions and the Interests*.

<sup>23</sup> Michael Sonenscher, *Before the Deluge: Public Debt, Inequality, and the Intellectual Origins of the French Revolution*, (Princeton: Princeton University Press, 2007), 36.

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, but the subsequent sixty years marked another sort of shift. For the first time there was an informed public who could observe whether commitments 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 Avner Greif calls "private order" institutions to "public order" ones, necessitated by the increase in scale and complexity of finance after the 1680s.<sup>24</sup> I argued in the previous chapter that 1720 conclusively marked the point after which individual sovereigns could no longer act with impunity. This chapter explores the corollary: how demanding accountability ceased to be the private prerogative of the sovereign.

The second part of this chapter shows how the memory of 1720 persisted in the "political culture" of the eighteenth century. I use this term guardedly, since it seems to combine two infelicities. To some historians, it is an empty and over-used concept; to others, especially historians of France, it signals membership on one side of the polemics of the late 1980s.<sup>25</sup> I understand "political culture" to be a function of popular print culture, institutional inertia, and rhetorical appeals of reformers to public opinion, even as those appeals may be producing public opinion rather than merely representing it.<sup>26</sup> I employ the term purely to restrict the scope of this discussion, since I think the processes discussed in this chapter only produced changes in how a few powerful people made a few big decisions. By using "political culture," I hope to indicate to the reader that I do not consider these decisions from either a public-choice or an economic-determinist approach, which is exactly the binary the term "political culture" was intended to escape. The term is also in contrast to "economic culture," which concerns many people making many normal decisions, not to mention other more clearly unrelated spheres of activity

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<sup>24</sup> 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.

<sup>25</sup> For a useful overview of the concept, including its origins in political science, see Ronald P. Formisano, "The Concept of Political Culture," *Journal of Interdisciplinary History*, Vol. 31, No. 2, (Winter, 2001).

<sup>26</sup> Here I agree with the classic formulation of Keith Michael Baker, *Inventing the French Revolution*, (Cambridge: Cambridge University Press, 1990), although I think his assertion on p. 5 that "there are no social realities independent of symbolic meanings" is neither accurate nor necessary to the concept.



like “religious culture,” or “material culture.” My hope is that employing this potentially dangerous term is more precise than asserting that something changed European culture in general.

Bearing that limitation in mind, the second section of this chapter traces the memory of 1720 in poems, novels, ballads, pamphlets, plays, and newspapers through the central decades of the eighteenth century, especially it was invoked either for or against proposals for economic reform. From John Trenchard and Thomas Gordon’s “Cato’s Letters” in the *London Journal* in 1723 to Jacques Mathieu Augeard’s “Lettre de M. Turgot à M. Necker” in 1780, the threat of a financial power unrestrained by the laws of nature or popular morality was invoked again and again as a preeminent threat to both the English and the French conceptions of liberty. Since “liberty” denoted very different things in each country, and was guarded by very different cultural and institutional practices, each country interpreted the content of this threat differently, and consequently responded differently to prevent it from returning.

The first part of the chapter describes a fundamentally international process. As will be detailed at some length, my findings support the notion of a single, unified, pan-European Enlightenment in which political economy was a central concern.<sup>27</sup> The second part of the chapter is comparative rather than international. It assumes “political culture” to be specific to the cultural mores and institutions of a given political community, so although 1720 was an international financial crisis, and although Enlightenment writers discussed it in a sort of international Republic of Letters, the way it was used as a political and cultural tool differed between France and Britain. In general, the events of 1720 were interpreted in France as being the result of dangerous foreign imports—of personnel, and of financial innovations. Despite the overbearing presence of the state in governing the French economy, eighteenth-century France exhibited a consistent hostility to anything that sounded like a “System.” It was foreigners who had committed an economic crime with impunity, and Systems were the

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<sup>27</sup> Thus, I disagree with either the Parisian reductionism of Robert Darnton, “The Case for the Enlightenment: George Washington’s False Teeth” in idem, *George Washington’s False Teeth: An Unconventional Guide to the Eighteenth Century*, (New York: W.W. Norton, 2003), 3-25, or the “many Enlightenments” approach of Roy Porter and Mikuláš Teich, (eds.), *The Enlightenment in National Context*, (Cambridge: Cambridge University Press, 1981).

means they had used to defraud the public and upend the social order. By contrast, 1720 in Britain was wholly comprehensible through a set of moral clichés: it denoted a few bad apples tarnishing an otherwise sound and functioning system. A few corrupt politicians had attempted to act with impunity, but had been caught, (which only proved the efficacy of the system) and the way to prevent a future recurrence was careful and continual self-discipline. As a consequence, the political cultures of France and Britain entered the rupture of 1789 with very different notions of who might act with economic impunity, and how that threat might be prevented.

### I. Analyses of 1720 in Enlightenment Political Economy

The most influential political economy writers between 1720 and the publication of Quesnay's *Tableau économique* in 1758 were four personal acquaintances of John Law, all of whom were deeply imbricated in the System, albeit in very different ways. Of these, Richard Cantillon, the great opponent of Law, was certainly the most important, though he represents a whole collection of anti-Law figures commonly associated with the Club L'Entresol.<sup>28</sup> Arrayed against him were Law's defenders, Jean-François Melon and the mysterious Nicolas Dutot, each of whom had been employed in the Mississippi Company.<sup>29</sup> They, in turn, provoked the ire of Joseph Pâris-Duverney, one of the most powerful financiers in France. Their public controversies would ensure that the memory of the System remained fresh in the mind of economic thinkers for decades to come.

Richard Cantillon was born in Ireland sometime in the 1680s, took French citizenship in 1708, and during the 1710s was often present in London's Exchange Alley and in the square before the Amsterdam Bourse.<sup>30</sup> He was a private banker, which meant

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<sup>28</sup> Nick Childs, *A Political Academy in Paris, 1724-1731: the Entresol and its Members* (Oxford: Voltaire Foundation, SVEC 10, 2000), also Franklin Ford, *Robe and Sword: the Regrouping of the French Aristocracy After Louis XIV* (Cambridge, Mass.: Harvard University Press, 1953), 234-35. The definitive work on Cantillon remains Antoin Murphy, *Richard Cantillon: Entrepreneur and Economist* (Oxford: Oxford University Press, 1986). On Cantillon's relation to L'Entresol, see *ibid.*, 58.

<sup>29</sup> All knew each other personally. Murphy, *Cantillon*, 75.

<sup>30</sup> Murphy, *Cantillon*, 191. Cantillon was well connected enough by 1708 that he was not legally bound by the prohibitions and restrictions faced by foreigners in France. For more on this form of citizenship, see Peter Sahlins, *Unnaturally French: Foreign Citizens in the Old Regime and After* (Ithaca: Cornell University Press, 2004).

that his main business was acting as a counterparty on bills of exchange that facilitated the transfer of funds to pay Marlborough's troops in Flanders and to ransom British prisoners in Spain.<sup>31</sup> In this capacity he was well connected to the financial and administrative elite in England, France, and the Low Countries, all of whom were bound together in reciprocal nets of indebtedness. Thus, Cantillon later partnered with the English speculator Lord Chandos to bet against Lord Londonderry's hedge purchase of English East India Company stock; he shared a house in Amsterdam with John Colebrook, who was the Dutch agent of Law's brother; and he did business with the Amsterdam banker Andrew Pels, who was the Dutch agent of Lord Stair, the British Ambassador to Paris.<sup>32</sup> As with the Pâris brothers, his work in financing the War of the Spanish Succession provided him with his first fortune, his entry into elite circles, and his technical knowledge of finance. After 1717 he was occasionally a business partner of Law's, but by late summer of 1719 he realized that Law's Banque Royale was funding the Compagnie des Indes with worthless money, so he sold his shares and took a very rational vacation to Italy.<sup>33</sup> During the height of the Mississippi Bubble, Cantillon's private bank was able to evade Law's edicts banning the export of specie from France, allowing Cantillon to save his English clients and himself from ruin. Cantillon's technical knowledge allowed him to make another fortune when he concluded in the early spring of 1720 that Law's exchange rate policies were contradictory to his monetary policies, so he placed enormous bets that the System would soon collapse.<sup>34</sup> Law exiled him from Paris in May 1720, and he spent the rest of his life involved in tortuous

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<sup>31</sup> For much detail, see Murphy, *Cantillon*, Chs. 3 and 4.

<sup>32</sup> Most of this information comes from the watchful eye of Londonderry's own Amsterdam banker, Bernard Vandergrift. See TNA C108/420, Vandergrift to Londonderry, April 16, 1720; April 26, 1720; July 30, 1720, and August 13, 1720. The web of credit is corroborated by Londonderry's accounts in TNA C108/419/13 and Crawford's letters to Londonderry in TNA C108/417/10.

<sup>33</sup> Murphy, *Cantillon*, 81-3.

<sup>34</sup> Hence his letters to his partner John Hughes in May 1720. See Murphy, *Cantillon*, 146-7. For the modern interpretation, see François Velde, "French Public Finance between 1683 and 1726," in Fausto Piola Caselli (ed.), *Government Debts and Financial Markets in Europe*, (New York: Taylor and Francis, 2008).

litigation with people who had been on the losing side of his speculations, before dying in very mysterious circumstances in 1734.<sup>35</sup>

Cantillon's single theoretical work, the *Essai sur la nature du commerce en général* (henceforth *Essai*) was written sometime between 1728 and 1730, and circulated widely in manuscript to his friends and correspondents, but was not published until 1755.<sup>36</sup> Its influence was championed by William Stanley Jevons in the late nineteenth century and by Joseph Schumpeter in the early twentieth, while more recent Cantillon enthusiasts are apt to claim him as the inventor of all macroeconomics.<sup>37</sup> It is not necessary to go that far in order to recognize how Cantillon's thought presaged many of the standard claims, arguments, and practices of Enlightenment economic thought.

The *Essai* is composed of three parts.<sup>38</sup> The first builds a model of what economists today call the "real" economy: the sphere of production, population, and market-clearing prices. The second part discusses the domestic financial economy: money, circulation, and the overall price level. The third part analyzes foreign trade, mercantile trade policy, and exchange rates. There certainly is much in the *Essai* that exactly prefigures a modern macroeconomics textbook, from an endogenous theory of population growth to a robust theory of supply and demand and the use of *ceteris paribus* reasoning to isolate the effect of individual variables. There is also much in it that is bizarre, and the former qualities tend to be exaggerated over the latter in part because the *Essai*'s peculiar publication and translation history ensured that it appeared in English under the auspices of enthusiastic proponents who were eager to render it intelligible. Two points from the *Essai* are especially salient: Cantillon's view of crisis as unnatural, and his notion of economic agency.

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<sup>35</sup> Murphy, *Cantillon*, contends that he was almost certainly murdered, but devotes pp. 293-7 to the theory that the charred, headless body that Bolingbroke found in the ashes of Cantillon's London house was someone else, and Cantillon escaped to Suriname under a false identity.

<sup>36</sup> Anthony Brewer, introduction to Richard Cantillon, *Essay on the Nature of Commerce in General*, (New Brunswick: Transaction Publishers, 2001), x-xi.

<sup>37</sup> Murphy, *Cantillon*, 1; Mark Blaug, *Economic Theory in Retrospect*, (Cambridge: Cambridge University Press, 1979), 21. Going even further see, Murray Rothbard, *An Austrian Perspective on the History of Economic Thought*, (Brookfield, VT.: E. Elgar, 1995), Vol. I, Ch. 12, "The Founding Father of Modern Economics: Richard Cantillon." I suspect that the line of influence from Cantillon to Keynes is quite a bit more attenuated than these authors claim.

<sup>38</sup> The publication history of the *Essai* is complex, with much dispute over whether it was originally written in French or English. I will use the standard 1931 English edition by Henry Higgs except where otherwise noted.

Cantillon begins by producing a theoretical model of a “natural” economy, considering a single estate “as though there were no other in the world.”<sup>39</sup> Again, the line of influence is unclear because of the difficulty of assessing how widely the *Essai* circulated in manuscript, but a similar stylized model begins Melon’s 1734 *Essai politique sur le commerce* and from there became a common rhetorical procedure. In Cantillon’s view, land is indeed the basis of all wealth, and for that reason, the incidence of taxation eventually always falls on landowners.<sup>40</sup> The value of all goods is fundamentally an expression of how much land is required to produce them, modified slightly by the vagaries of human demand.<sup>41</sup> Under natural conditions, the wealth of a state is dependent upon its population—that is, how much labor it can produce—and to what productive ends that labor is directed, since human labor is the mechanism that turns land into useable wealth. Inequality is a natural and necessary characteristic of human society, grounded in the division of labor--because landownership is always concentrated--but in return the landowner, having control over the original source of wealth, provides the upkeep for all the diverse forms of labor who transform his land into useable goods and services.<sup>42</sup> 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.<sup>43</sup> In other words, Cantillon’s model depicts a state of nature, while leaving behind the digressive theology of earlier writers like Boisguilbert and Vauban. It is a world capable of growth in both wealth and population, but it is also a world of stability and predictability, with fixed social relations and naturally occurring equilibrating mechanisms.

There is only one exception in the *Essai*, and that is the figure of the entrepreneur. Having set out his natural state, Cantillon recognizes that he has an allocation problem, and needs to connect his spheres of production to the market. This is accomplished by the entrepreneur, of which there are many sorts (merchants, manufacturers, wholesalers,

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<sup>39</sup> Cantillon, *Essai*, 27-28.

<sup>40</sup> Ibid, 5. This is asserted in the first line.

<sup>41</sup> Cantillon, *Essai*, 29-30.

<sup>42</sup> Ibid, Ch. 11 and 12, *passim*.

<sup>43</sup> This is the central argument of Part II of Ibid, 49-87.

retailers, and so on), but who carry all of the risk in the circulation of goods and money.<sup>44</sup> These entrepreneurs are the only individuals in his model who are physically mobile, and who do not have fixed, knowable incomes. They are the only economic actors with specific esoteric knowledge, and in consequence they conduct finance and foreign trade. This position makes them the only source of crisis in his model, and crisis results only from financial innovation.

John Law is never mentioned by name in the *Essai*, but the concluding chapters are dedicated to a jeremiad against financial innovations, monetary manipulations, and overconfident government intervention.<sup>45</sup> 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.”<sup>46</sup> 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 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.”<sup>47</sup> Although financial innovation produced these sorts of corrupting dangers, crises remained exogenous rather than inherent to the financial system, which still possessed equilibrating mechanisms. 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 thought of his *Essai* as a work of high theory and claimed that his work was an improvement on all previous political economy. He criticized Locke, Davenant, and Petty directly for their lack of empirical rigor: “Their calculations,” he wrote, “seem to be purely imaginary and drawn up at hazard.”<sup>48</sup> And, discussing Petty’s political

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<sup>44</sup> Ibid, Ch. 13.

<sup>45</sup> Murphy hypothesizes that the absence was due to Cantillon’s ongoing lawsuits. Murphy, *Cantillon*, 248-50.

<sup>46</sup> Cantillon, *Essai*, 128.

<sup>47</sup> Ibid, 130.

<sup>48</sup> Ibid, 37 and 78. According to the reconstructions of José Benítez-Rochel and Luis Robles-Teigeiro, he had also read Boisguilbert. See their “The Foundations of the *Tableau Economique* in Boisguilbert and

arithmetick: “the research which he has made into it in passing is fanciful and remote from natural laws, because he has attached himself not to causes and principles but only to effects, as Mr Locke, Mr Davenant and all the other English authors who have written on this subject have done after him.”<sup>49</sup> Cantillon thought that his superiority derived from the clarity of his reasoning rather than from his personal expertise, but he is still an example of the new technical knowledge possessed by professional financiers being turned to broader social ends. And he used his technical knowledge specifically to critique the dangers powerful innovators like John Law posed to the peaceful, orderly functioning of the natural economy.

Although the *Essai*'s peculiar publication delayed the full realization of its influence, it shaped economic thought almost immediately. One indication of how widely the *Essai* must have circulated is that Malachy Postlethwayte appropriated at least 6,000 words of it in his 1749 edition of the *Universal Dictionary of Trade and Commerce*, six years before the *Essai*'s publication. It seems unlikely that he worked from the same physical copy that Mirabeau claimed circa 1750 to have possessed for 16 years. Postlethwayte's *Universal Dictionary* was essentially a compendium of everything an educated businessman needed to know, so probably by the late 1740s the *Essai* was common knowledge in commercial circles across Europe. Despite its wide currency, between 1721 and 1755 economic discussions in French, and especially interpretations of the System, were dominated by Dutot, Melon, and Pâris-Duverney, to whom I will return below. After the 1750s, however, those authors mainly disappeared from public conversation and were replaced by Cantillon and the many writers inspired by him. In 1755, reviews of the *Essai* appeared in Grimm's *Correspondance littéraire*, Freron's *Année littéraire*, and the *Journal des Sçavans*.<sup>50</sup> Grimm was especially positive, finding Cantillon not only more coherent and useful than most economics writers, but also in agreement with him on questions of luxury and population.<sup>51</sup> In that same year an

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Cantillon,” *The European Journal of the History of Economic Thought*, Vol. 10, No. 2, (Summer 2003), 233.

<sup>49</sup> Cantillon, *Essai*, 21.

<sup>50</sup> Élie Freron, *Année littéraire*, Vol. V, (Amsterdam, 1755), 355; *Journal des Sçavans*, (Paris, 1755), 201.

<sup>51</sup> Grimm, *Correspondance littéraire*, Vol. II, (Ferney-Voltaire: Centre international d'étude du XVIIIe siècle, 2006), No. 13, 1 July 1755, 133-139.

edition of the *Essai* was published in Amsterdam in the same volume as a French translation of Hume's *Political Discourses*.<sup>52</sup> The line of influence from Cantillon to Quesnay is well established, and Quesnay cited Cantillon in his article on "Grains" in the *Encyclopédie*.<sup>53</sup> But Cantillon's most significant influence was on the elder Mirabeau, whose *L'Ami des hommes* was by far the best-selling book on economics of the entire French Enlightenment. According to Michael Kwass, it ran through twenty editions in its first three years, and was the thirteenth best-selling book of any sort in French between 1750 and 1780.<sup>54</sup> In 1767 Mirabeau wrote to Rousseau that he had first developed his ideas after reading Cantillon in manuscript: "This author, a fine genius in many ways, educated in commerce, has with his speculations and research refined that error of the last century of looking at commerce merely as a principle of wealth."<sup>55</sup>

The core group of Physiocrats (that is, Mirabeau, Quesnay, and Du Pont de Nemours) all drew heavily on Cantillon's ideas, and specifically on his land-theory of value. They adapted his circular flow model of income and his view of endogenous population growth, which were the distinctive characteristics of Physiocracy as a school of thought. What they changed was his idea of agency. The Physiocrats were concerned not just with the natural functioning of the economy, but also with questions of power and morality—they were fundamentally concerned with who could act in the economy, under what constraints, and what damage they might do. Quesnay attempted to remove agency entirely with his rigid notion of "legal despotism," while Mirabeau wanted representative assemblies to mediate between provincial landlords (like himself) and central authority.<sup>56</sup> For Cantillon, the natural equilibrating mechanisms of the economy were the main disciplinary structures: anyone breaking natural economic laws would

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<sup>52</sup> Eléazar de Mauvillon, *Discours politiques de Mr. David Hume*, (Amsterdam: J. Schreuder & P. Mortier, 1754).

<sup>53</sup> See Joseph Schumpeter, *History of Economic Analysis*, (London: Routledge, 1954), 222; Brewer, introduction to Cantillon, *Essai*, xix. And François Quesnay, "Grains" in *Encyclopédie ou Dictionnaire raisonné des sciences, des arts et des métiers*, (Paris, 1757) Vol. 7, 812–831.

<sup>54</sup> Michael Kwass, "Consumption and the World of Ideas: Consumer Revolution and the Moral Economy of the Marquis de Mirabeau," *Eighteenth-Century Studies*, Vol. 37, No. 2, Spaces of Enlightenment (Winter, 2004), 188.

<sup>55</sup> "Cet auteur beau génie d'ailleurs a bien des égards, élevé dans le commerce n'avoit fait par ses spéculations et ses recherches que perfectionner l'erreur éclos dans le dernier siècle qui regarde le commerce comme principe de richesse." Mirabeau to Rousseau, 30 July 1767, in Jean-Jacques Rousseau, *Correspondance complète*, ed. R.A. Leigh, (Oxford: Voltaire Foundation, 1979), Vol. 33, 261, Lettre 5998.

<sup>56</sup> Vardi, *Physiocrats and the World of the Enlightenment*, 181.



eventually be punished by crisis and ruin. Quesnay wanted the natural order to be preserved by a totalizing despotism that made agency and autonomy impossible. Mirabeau granted that some wealthy and powerful individuals would always be able to act with impunity, but he hoped that through cultivating their virtue, elite sociability would triumph over cupidity.<sup>57</sup> But they both recognized that their attempt to push impunity from the economic sphere to the legal and political one was limited by national jurisdictions in a world of international commerce. “The wealthy merchant, trader, banker,” they wrote in their *Philosophie rurale*, “will always be a member of a republic. In whatever place he may live, he will always enjoy the immunity which is inherent in the scattered and unknown character of his property... It would be useless for the authorities to try to force him to fulfill the duties of a subject: they are obliged, in order to induce him to fit in with their plans, to treat him as a master, and to make it worth his while to contribute voluntarily to the public revenue.”<sup>58</sup> Impunity for them was a function of mobility, which would be eliminated in a natural land-based rural economy. The “legal” character of their “legal despotism” would restrain sovereign impunity, and thus political and economic crises would be impossible.

The importance of Law’s System to the development of economic thought was not merely as a terrible warning. His defenders Nicolas Dutot and Jean-François Melon developed influential economic ideas in the 1730s by attempting to understand the Law episode historically rather than theoretically. In doing so, they gathered empirical data to support their claims, produced long narratives of monetary history, and advanced new ideas about how the economy worked. For Dutot and Melon, the collapse of the System was not Law’s fault, so the example of his powers over the economy showed that poverty, bankruptcy, and discredit were not permanent and natural, but within the scope of human agency.

The first of these eyewitness historical accounts was Melon’s 1734 book *Essai sur le commerce*, published first in French in Amsterdam and translated into English by

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<sup>57</sup> Michael Sonenscher, *Before the Deluge: Public Debt, Inequality, and the Intellectual Origins of the French Revolution* (Princeton: Princeton University Press, 2007), 194; Kwass, “Consumption and the World of Ideas,” 199-202.

<sup>58</sup> Quoted in Hirschman, *Passions and the Interests*, 95.

1738.<sup>59</sup> Something of a career functionary, he had been Law's personal secretary, had worked for the elder d'Argenson and the duc de la Force, and was also secretary to the Regent after 1721.<sup>60</sup> Like Cantillon, there is much in Melon's book that is familiar and modern: a stylized model of specialization and comparative advantage, as well as his rejection of bullionism.<sup>61</sup> There is also much in it that is deeply unfamiliar: not just his defense of slavery and inequality, but also his alarming suggestion that criminal executions would be more useful if they were conducted as living medical experiments.<sup>62</sup> Amid all of his formidable digressions, Melon offered an adapted mercantilist defense of Law, arguing with admirable contrarianism that Law's monetary manipulations had simply been a good idea that everyone had failed to understand.<sup>63</sup> Having related a history of French currency back to Philip the Fair, he argued that the experiment with paper money was well within the tradition of sovereign monetary manipulations, and was a good-faith effort to increase the quantity in circulation in order to alleviate a postwar monetary recession.<sup>64</sup> These recessions, very common to eighteenth century France, and usually termed "money famines" were indeed caused by a flight to the limited amount of specie during crises of confidence.<sup>65</sup> Following Law's own terminology, Melon called these crises of confidence episodes of "discredit."<sup>66</sup> In his view, these discredits and their attendant spate of bankruptcies were not natural events, but rather the result of a panicked reaction to bad political news. In other words, they were crises of public confidence. Theorists of *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

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<sup>59</sup> It was also published in Swedish in Stockholm in 1751 in German in Copenhagen in 1756, and in Italian in Naples in 1795. In 1754, a volume was published in Venice entitled "Delle monete controversia agitata tra due celebri scrittori oltramontani" containing most of both Melon and Dutot's books.

<sup>60</sup> Antoin Murphy, "The Enigmatic Monsieur Du Tot," in Gilbert Faccarello (ed.), *Studies in the History of French Political Economy: From Bodin to Walras*, (London: Routledge, 1998), 57. Melon's book ran through eight editions after 1734; Dutot's only ran to six.

<sup>61</sup> Melon, *Essai sur le commerce*, Ch. 1 and 2, and 313-314.

<sup>62</sup> Melon, *Essai sur le commerce*, 77-82 and 150.

<sup>63</sup> *Ibid*, 264.

<sup>64</sup> *Ibid*, 217-264, *passim*.

<sup>65</sup> See the discussion of money famines in Thomas Luckett, "Credit and Commercial Society in France, 1740-1789," (Princeton: PhD Dissertation, 1992), 128-45.

<sup>66</sup> The Law reference would have been clear, thanks to attribution of Jacques Savary des Bruslons, *Dictionnaire universel de commerce* (Amsterdam: Jansons, 1726), Vol. I, Col. 1698.

institutionalized banks meant that the collective periodically generated irrational panics, to the harm of everyone involved. In Melon, then, we see the first indication that the market itself may be able to act without constraint or human control, and that its powers may far exceed even those of the sovereign's control over money.

Much like Cantillon's book, Melon's *Essai* continued to be widely read throughout the eighteenth century. Two elements of his argument drew the most interest over the next few decades: his defense of luxury and his idea that conquest and commerce are incompatible. By the 1750s, Melon was mostly considered as a leading exponent of the "progressive consumption" view that luxury could be a social good, or at least separate from moral concerns.<sup>67</sup> This is not the place to revisit that extensive controversy, but it is worth noting that he came under extensive attack from Mirabeau in *L'Ami des hommes*, and from Rousseau, who in his appeals to the virtues of classical republicanism called Melon's theories "poisonous" and "odious."<sup>68</sup>

The luxury debate was not the end of Melon's influence. Michael Sonenscher writes that "Almost everything that Forbonnais published, beginning with his *Elemens du commerce* in 1754, was an elaboration of Melon's principles."<sup>69</sup> Likewise, John Robertson has demonstrated at length the centrality of Melon to Neapolitan intellectual life.<sup>70</sup> Turgot wrote that he preferred Cantillon to Melon, while Adam Smith's *Lectures on Jurisprudence* drew from Melon's stage theory of economic development.<sup>71</sup> Jean-Baptiste Say gave Melon a central place in the development of political economy in his 1828-29 *Cours complet d'économie politique pratique*.<sup>72</sup> What is most striking about

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<sup>67</sup> See Ellen Ross, "Mandeville, Melon, Voltaire: The Origins of the Luxury Controversy in France," *Studies on Voltaire and the Eighteenth Century*, 155 (1976): 1897-1912; John Shovlin, "The Cultural Politics of Luxury in Eighteenth-Century France," *French Historical Studies*, Vol. 23, No. 4, (Fall 2000): 577-606; idem, *The Political Economy of Virtue: Luxury, Patriotism, and the Origins of the French Revolution*, (Ithaca: Cornell University Press, 2006).

<sup>68</sup> Sonenscher, *Before the Deluge*, 194; Kwass, "Consumption and the World of Ideas," 191 and 204; Rousseau, "Last Reply by J.J. Rousseau of Geneva," in *The Discourses and Other Early Political Writings*, trans. Victor Gourevitch (Cambridge: Cambridge University Press, 1997), 63-85. For more on Melon versus Rousseau, see Jeremy Jennings, "The Debate about Luxury in Eighteenth- and Nineteenth-Century French Political Thought," *Journal of the History of Ideas*, Vol. 68, No. 1, (January 2007), 79-81.

<sup>69</sup> Sonenscher, *Before the Deluge*, 179.

<sup>70</sup> Robertson, *Case for Enlightenment*, 340-7.

<sup>71</sup> A.R.J. Turgot, *Oeuvres*, (Paris, 1913), Vol. II, 819; Adam Smith, *Lectures on Jurisprudence*, (Oxford: Clarendon Press, 1978), 27-32.

<sup>72</sup> Sonenscher, *Before the Deluge*, 262.

these responses to Melon is that he quickly entered the canon of political economy not because of the content of his opinions, which nearly everyone disagreed with, but rather because of his methods. Opinions for or against Melon were based on how later writers reacted to his attempts to strip moral judgment out of luxury consumption, population growth, and the value of money—in other words, to make economics into a practical science. For many writers the utility of moral judgment was too important to the public sphere that had only recently acquired it.<sup>73</sup> Economics writing needed to be sufficiently scientific to continue escaping censorship, but without moral conclusions its political utility would be moot, and worse, it could lead a nation into degeneration and collapse, just as 1720 demonstrated.

Melon's first and most collegial interlocutor was his former colleague at the 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. Born in 1684 to a Norman carpenter, Nicolas Dutot worked as a minor tax official in the bishopric of Strasbourg in 1708-1713 before getting his big break as a clerk for the *chambre de justice* of 1716.<sup>74</sup> He was arrested in April 1717 and spent several months in the Bastille for taking part in a conspiracy to solicit bribes in exchange for reducing the fines levied by the *chambre*.<sup>75</sup> From there he disappeared from view for a few years, but Antoin Murphy's earlier investigations have concluded that by 1720 Dutot was essentially in charge of the day-to-day operations of the John Law's Banque.<sup>76</sup> This would have made him a relatively late arrival to Law's endeavors, and positions him as an element of institutional permanence and continuity between old finance and Law's System. He was closer to an eyewitness than even Cantillon, and an unromantic one, since he had plenty of prior experience in the less savory elements of Old Regime finance. He also presided over the forensic

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<sup>73</sup> On the moral judgment of the public sphere, see Reinhart Koselleck, *Critique and Crisis: Enlightenment and the Pathogenesis of Modern Society*, (Cambridge, MA: MIT Press, 1988) and Lionel Rothkrug, *Opposition to Louis XIV: The Political and Social Origins of the French Enlightenment* (Princeton: Princeton University Press, 1965).

<sup>74</sup> François Velde, "The Life and Times of Nicolas Dutot," *Journal of the History of Economic Thought*, Vol. 34, No. 1, (March 2012), 74-5.

<sup>75</sup> Velde, "Dutot," 76.

<sup>76</sup> Murphy, "Enigmatic Monsieur Du Tot," 63.

accounting after the collapse of the System, which eventually descended into recriminations between himself and the perfectly-named treasurer Bourgeois.<sup>77</sup> 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.

In late May 1720, exactly at the beginning of the System's terminal crisis, Dutot wrote a long manuscript entitled *Réflexions sur le nouveau Systeme des finances*, which went unpublished and unknown until Antoin Murphy discovered it in the d'Argenson archives in Poitiers and published it in the year 2000.<sup>78</sup> This manuscript is fascinating for its insider view of the System and its enthusiastic defense of Law, but it seems to have been a first draft, and had no effect on public discussion. Its main significance is contemporary: Murphy accepts many of Dutot's conclusions, which has the effect of presenting Dutot as a firm defender of Law. This is at odds with the many reservations in Dutot's later works, and can therefore be a source of some confusion.

Dutot's *Réflexions politiques sur les finances et le commerce* (published anonymously in 1738, and henceforth *Réflexions*) 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 cabal organized against him.<sup>79</sup> He writes in a tragic mode and is at pains to present Law as honest, brilliant, and sincere, rather than as a fool or a charlatan. Dutot did not draw the same lessons from the System as his interlocutors, nor indeed were his views in 1738 the same as they had been in May 1720. Thus, he defends Law's paper money but is against monetary manipulations; he draws a sharp contrast between commerce and finance, but thought financiers had earned their fortunes through their special skills.<sup>80</sup> These apparent contradictions are reconciled by an

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<sup>77</sup> Bourgeois seems to have been Dutot's nominal supervisor, but this remains very unclear. See Velde, "Dutot," 79-80.

<sup>78</sup> The original is in Bibliothèque universitaire de Poitiers, Fonds d'Argenson, P18/II. Nicolas Dutot, *Histoire du Systeme de John Law*, edited and translated by Antoin Murphy, (Paris: L'institut national d'études démographiques, 2000).

<sup>79</sup> He wrote: "One was too rushed, one wanted to do in a month what should have taken a year, credit was pushed too far so as to do good as quickly as possible." Quoted in Murphy, "Enigmatic Monsieur Du Tot," 67.

<sup>80</sup> Nicolas Dutot, *Réflexions politiques sur les finances et le commerce*, (The Hague: Frères Vaillant & N. Prevost, 1738), Vol. I, 40-1; Vol. II, 290-2.

understanding of what Dutot thought Law was doing. 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.<sup>81</sup> The fundamental constraint was an 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 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—would only be to the detriment of French trade, since it would turn the exchange rate against them, and enrich their foreign competitors.

Melon, by contrast, defended the ability of the sovereign to produce inflation through monetary manipulation, on the grounds that debtors should be considered politically and morally more valuable than creditors.<sup>82</sup> It was easy to read this argument as a positive referendum on Law's paper money experiment, but Melon's 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 Dutot's disputes. He continued throughout his life to argue that the instability of 1721-26 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 financial problems were Law's fault, and the disaster would have been even worse without the timely efforts of the Pâris circle.

As an example of the various confusions that can result in the writing of economic history—from periodization to endogeneity problems to *post hoc, ergo propter hoc* reasoning, this dispute is difficult to surpass. Dutot was aware of many of these problems, so he constructed a dataset to prove his points illustrating the course of foreign exchange from 1709 to 1726—with the notable and deliberate gap of 1717-21, thereby omitting the period of Law's System.<sup>83</sup> He was extremely scrupulous in his approach, attempting to show that the real long-run value of money was determined by the balance

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<sup>81</sup> Shovlin, "Jealousy of Credit," 299.

<sup>82</sup> Melon, *Essai sur le commerce*, Chs. 16 and 18.

<sup>83</sup> Dutot, *Réflexions politiques*, Vol. I, 196. Sections explicitly defending Law were added later, but were omitted from the 1739 English translation.

of payments rather than monetary manipulations, and to prove it he even constructed a price deflator by measuring a constant bundle of goods at different times.<sup>84</sup> He was essentially trying to show that movements in the domestic price level correlated with movements in the exchange rate, not with changes in monetary policy, so This was less impressive to his contemporaries than it is to the modern reader. Mirabeau complained that the *Réflexions* was too arid and mathematical.<sup>85</sup> D'Argenson, unmoved, wrote in his journal that Dutot's "grand discovery" of a monetary barometer missed the point that one should simply never tamper with the currency.<sup>86</sup>

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 in 1736-38. It received at least seven lengthy discussions in the budding French financial press.<sup>87</sup> Voltaire read it, and although he still preferred Melon, he predicted that Dutot's book was the beginning of many more. "Never was the study of the belles-letters so closely connected with that of the revenues," he wrote, "which is an additional merit in the age in which we live."<sup>88</sup> The 22-year old Turgot read it in 1749, as well as the Abbé Terrason's utterly forgotten three letters defending the System, and emerged enduringly skeptical of the utility of paper money.<sup>89</sup>

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.<sup>90</sup> 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.<sup>91</sup> He continued to follow the French

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<sup>84</sup> Dutot, *Réflexions politiques*, Vol. I, 135. Velde, "Dutot," 95-6 shows that Dutot owned a copy of Bishop Fleetwood's 1707 *Chronicon Preciosum*, which was indeed the first attempt at a long-run price index.

<sup>85</sup> Victor de Riquetti Mirabeau, *L'ami des hommes, ou, Traité de la population*, (The Hague, 1756), Vol. III, 68-9.

<sup>86</sup> Rene-Louis d'Argenson, *Journal*, (Clermont-Ferrand: Paleo, 2002), Vol. I, 271.

<sup>87</sup> Listed in Velde, "Dutot," 88.

<sup>88</sup> Voltaire, "On John Law, Melon, and Dutot. On Commerce and Luxury," [1738] in *Dialogues and Essays, Literary and Philosophical* (Glasgow, 1764), 193.

<sup>89</sup> A.R.J. Turgot, "Letter on Paper Money," [1749], in P.D. Groenewegen, (ed.), *The Economics of A.R.J. Turgot*, (The Hague: Martinus Nijhoff, 1977), 1-8.

<sup>90</sup> *Scots Magazine*, Vol. II, (1740), 276-77 and 335-37; *Scots Magazine*, Vol. IV, (1742), 298-304 and 365-67.

<sup>91</sup> Ernest Campbell Mossner, "Hume's Early Memoranda, 1729-1740: The Complete Text," *Journal of the History of Ideas*, Vol. 9, No. 4, (Oct., 1948), Section III, entries 15, 68-74, 125-27.

reactions to Dutot for quite some time: indeed, 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.<sup>92</sup> 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.<sup>93</sup> 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 which 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.<sup>94</sup>

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.<sup>95</sup> Banks were certainly necessary to conducting commerce, but even they should be under strict public control rather than left

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<sup>92</sup> Istvan Hont, "The Rhapsody of Public Debt: David Hume and Voluntary State Bankruptcy," in *Jealousy of Trade: International Competition and the Nation-State in Historical Perspective*, (Cambridge, Mass.: Harvard University Press, 2005), 342.

<sup>93</sup> David Hume, "Of Public Credit," in T.H. Green and T.H. Grose (eds.), *Essays Moral, Political, and Literary by David Hume*, Vol. I, (London: Longmans, Green, and Co., 1898), 373-74. 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.

<sup>94</sup> Hume, "Of Public Credit," 365.

<sup>95</sup> Hume, "Of the Balance of Trade," in *Essays*, 337-41.



in private hands, as with the private bankers of Dublin who will be discussed at length in Chapter 4.<sup>96</sup>

Lest Hume seem definitive, or the international dimension of this discussion seem to end in the Scottish Enlightenment, all of these arguments were disputed by Isaac de Pinto, a Sephardic Jewish financier from Amsterdam.<sup>97</sup> 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.<sup>98</sup> 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.<sup>99</sup> 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.<sup>100</sup> “There are enormous abuses,” he wrote, “yet even these abuses prove the vigor of the constitution. The substance saves the form.”<sup>101</sup> Consequently, these abuses could be cured with enough public transparency and economic literacy.<sup>102</sup> Put anachronistically, of all of the writers discussed here, Isaac de Pinto most closely approximated the views of a twentieth-century economist.

David Hume and Isaac de Pinto were far enough removed, physically and personally, from the events of 1720 to be disinterested in their learning from Melon and Dutot. Even in the 1740s, that was still not the case in Paris. Joseph Pâris-Duverney, the third of the Pâris brothers, subjected Dutot’s *Reflexions* to a painstaking 800-page attack in his *Examen du livre intitulé Réflexions politiques sur le commerce*, published at The

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<sup>96</sup> Hume, “Of Money,” in *ibid*, 311-12.

<sup>97</sup> For an interesting 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).

<sup>98</sup> 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.

<sup>99</sup> De Pinto, *Circulation and Credit*, 14, 17, 37-38, 120.

<sup>100</sup> *Ibid*, 40-44. He knew whereof he spoke: having been one of the largest investors in the VOC, he went bankrupt in 1763.

<sup>101</sup> *Ibid*, 117.

<sup>102</sup> *Ibid*, 57-58, 75.

Hague in 1740.<sup>103</sup> 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.<sup>104</sup> Amid the thicket of calculations and extracts from old *arrêts*, two themes stand out as central to how this discussion shaped the eighteenth century understanding of economic impunity.

In seeking to position himself as an arbiter between the claims of Melon and Dutot, Pâris-Duverney continually claimed to be re-evaluating the relationship between the particular evidence of the controversy and general economic principles (or in his terms, “maxims”).<sup>105</sup> In his view, Dutot’s general principles were invalid, because they had been invented ex-post to justify whatever particular actions Law had taken between 1717 and 1721.<sup>106</sup> This, in turn, led Dutot into contradiction and error, because he could not see that much of what he condemned in the “old finance” proceeded from the same principles as the fundamental basis of the System.<sup>107</sup> For Pâris-Duverney, the question was not whether a particular emergency (like a postwar debt crisis) justified financial innovations or monetary manipulations, but rather whether the principle of justice was better upheld by benefiting creditors or debtors.<sup>108</sup> Thus, he argued that the various manipulations before 1717, including the Visa and the *chambre de justice* of 1716, were essentially legitimate, because they stemmed from this same principle, while Dutot maintained (according to Pâris-Duverney) that they were illegitimate because they were the work of old finance.<sup>109</sup> Naturally, the positions reversed when it came to Law’s System. In Dutot’s view, the System failed because Law was forced by the exigencies of

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<sup>103</sup> Velde, “Dutot,” 89 has this written by François-Michel Chrétien-Deschamps, who was a minor playwright occasionally employed in finance. Velde, “French Public Finance between 1683 and 1726,” 276 n. 44, says that a record of Deschamps’ interrogation in 1726 (to be found in Bibliothèque de l’Arsenal, Paris, 10949, fol. 290) “confirms his authorship,” but I do not see how an interrogation in 1726 can prove who wrote a book in 1740. The Bibliothèque Nationale lists both Deschamps and Pâris-Duverney as joint authors. Pâris-Duverney is listed elsewhere as the sole author, and as will be discussed further, the *Examen du livre* recapitulates some of the points in Charles Pâris le Montagne’s autobiography, so it is reasonable to characterize the *Examen* as the view of the Pâris brothers.

<sup>104</sup> Joseph Pâris-Duverney, *Examen du livre intitulé Réflexions politiques sur le commerce* (The Hague: V. & N. Prevôt, 1740), Vol. I, 18-23, 31-33, and 37.

<sup>105</sup> Pâris-Duverney, *Examen du livre*, Vol. I, 26-31 and 40.

<sup>106</sup> *Ibid.*, 185, 203.

<sup>107</sup> *Ibid.*, 116-18, and again 181.

<sup>108</sup> *Ibid.*, 18-23, 31-40.

<sup>109</sup> *Ibid.*, 124, 136, and 145.

his opponents to take particular measures that were sound in theory, but ruinous in practice. Pâris-Duverney, on the other hand, maintained that Law destroyed himself because he did not fully understand the general principles of money and public credit.<sup>110</sup>

This dispute may sound a lot like finger-pointing, which it certainly was, but it also contains a fundamental disagreement about whether the 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 economic malfeasance was inherently self-destructive.<sup>111</sup> 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. Law's efforts were legitimate because he had accurately discerned the cause of France's woes, and was employing rational market mechanisms to fix them.

The second theme that emerges from the *Examen du livre* is the total disagreement between Dutot and Pâris-Duverney on basic facts. In part this reflects the fractured and contested nature of executive power under the Regency, even during the period of Law's highly centralized administration. Thus, several *arrêts* were issued in the spring of 1720 to apparently contradictory purposes, leading Dutot and Pâris-Duverney—both of whom, it should be remembered, were personally very well connected to the highest levels of financial administration—to flatly disagree about who was the driving force behind each of them.<sup>112</sup> Apparently the actual participants in the System were just as confused by the deluge of *arrêts*, *édits*, diminutions, augmentations, and issuances of stock as the modern reader. When the relatively slow pace of information and non-uniformity in implementation are added to all of that administrative confusion, it is easy to understand why cause and effect were so difficult to distinguish.<sup>113</sup>

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<sup>110</sup> Ibid, 206, 222, and 264-65. And see also Ibid, 395: "M. Law ruinoit lui-meme son ouvrage, et travailloit contre ses propres principes."

<sup>111</sup> Hence, Pâris-Duverney, *Examen du livre*, Vol. II, 217: "C'est un principe de credit de confondre le juste et l'unjuste?"

<sup>112</sup> Cf. Pâris-Duverney, *Examen du livre*, Vol. I, 351-61 and 367.

<sup>113</sup> The confusion of cause and effect in the South Sea Bubble motivates the argument of Sheehan and Wahrman, *Invisible Hands*, 93-137.

Unsurprisingly, this confusion extended to the empirical evidence as well. Dutot devotes many pages to calculations that are intended to demonstrate that the Compagnie des Indes was solvent, but forced into temporary illiquidity by the stock manipulations of Law's opponents. Pâris-Duverney devotes at least as many pages to refuting Dutot's calculations.<sup>114</sup> Likewise they disagreed on the amount of paper money Law issued, the number of people affected by the Visa of 1721, and the consequences of the devaluation of 1726. Aside from Dutot's well-sourced foreign exchange data, both produce page after page of utterly unsubstantiated calculations. Velde has suggested that it was exactly the weight of these abstruse calculations that limited the public resonance of the debate, and ensured that its legacies were general principles, not empirical history.<sup>115</sup> There is likely some truth to that: similar to the dueling *comptes rendus* of the 1780s, using dubious accounting to attack dubious accounting guaranteed that only the clear moral judgments resonated.<sup>116</sup>

Just as the *Examen du livre* argued that Law's incoherence destroyed the System from within, Claude Pâris le Montagne claimed that Law tried to do too much too quickly, producing widespread disorder and discredit.<sup>117</sup> The disorderly records of the Banque that were uncovered by the forensic accounting of 1721 certainly suggest that Law did not share their enthusiasm for careful bookkeeping, and that the acrimony of politics was mirrored in very different methods.<sup>118</sup> The source of the Pâris brothers' break with Law was his use of paper money: de-monetizing gold and replacing it with monetized *Compagnie* shares was too much for them, just as it was for Cantillon, and for

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<sup>114</sup> Pâris-Duverney, *Examen du livre*, Vol. II, 35-50, for example.

<sup>115</sup> Velde, "Dutot," 100. He also suggests that the years of monetary stability after 1726 made the stakes of the debate moot. See *Ibid*, 91.

<sup>116</sup> Soll, "From Virtue to Surplus," 41.

<sup>117</sup> AN KK/1005D, "Discours de M. Pâris le Montagne à ces enfants," fols. 138-57.

<sup>118</sup> On the Pâris brothers and bookkeeping practices, see Yannick Lemarchand, "Introducing Double-Entry Bookkeeping in Public Finance: A French Experiment at the Beginning of the Eighteenth Century," *Accounting, Business & Financial History*, Vol. 9, No. 2 (July 1999), which draws heavily on AN KK/1005C, "Traité des administrations des recettes et dépenses du Royaume." See also Velde, "Dutot," 82-3. Importantly, although the Pâris brothers were tasked with saving the Compagnie des Indes, they were not responsible for the initial assessment of the System's wreckage; that was entrusted to a scion of the Danykans, a Saint-Malo merchant family.

the general estimation of eighteenth century economic thought.<sup>119</sup> That was simply too much power for anyone: as Montesquieu put it, “Mr. Law through ignorance both of a republican and monarchical constitution, was one of the greatest promoters of despotism ever known in Europe.”<sup>120</sup>

Moreover, they were not the only instances of continuity in personnel across 1721. Of the 12 directors appointed by the crown on 30 August 1723 to run individual departments of Company, nine were from Law’s time.<sup>121</sup> Finally, in this regard the Pâris brothers had another, more prosaic, legacy. They were the patrons of Madame de Pompadour, to whom they advanced 600,000 *livres* from the office of the *contrôleur général*, and arranged a pension of 50,000 *livres* per month. Pompadour was, in turn, the patron of François Quesnay, to whom she paid 20,000 *livres* per year for his services as court physician. When he was at Versailles, he stayed in her basement apartments.<sup>122</sup> Whether that social reality was independent of the symbolic order I leave for the reader to judge.

Just as the crisis of 1720 was international, so too were the attempts to understand it. Law’s machinations were far more audacious and destructive than the malfeasance of the Directors of the South Sea Company, but the manifestation of the bubble in Exchange Alley presented the same set of problems as it did in the Rue Quincampoix. 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 libertarian Whig opposition to Walpole. Like Swift and Bolingbroke in subsequent years, for Trenchard and Gordon the two great threats to peaceful commerce and English liberty

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<sup>119</sup> On money and despotism, see Thomas M. Lockett, “Imaginary Currency and Real Guillotines: The Intellectual Origins of the Financial Terror in France,” *Historical Reflections/Reflexions Historiques*, Vol. 31, No. 1, Money in the Enlightenment (Spring 2005): 117-39.

<sup>120</sup> Charles-Louis de Secondat Montesquieu, *The Spirit of the Laws*, Anne M. Cohler, Basia Miller, and Harold Stone, eds., (Cambridge: Cambridge University Press, 1989 [1750]), 19.

<sup>121</sup> 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 Arbor: University of Michigan Press, 1973), Vol. II, 932, n. 88.

<sup>122</sup> For Pompadour’s relation with Pâris-Duverney, see Pompadour, *Correspondance de mme Pompadour*, (Paris: J. Baur, 1878), 121-31. For the Quesnay connection, see Vardi, *Physiocrats*, 41 and 46.

were Whig wars and Whig finance.<sup>123</sup> What began in the first ten letters as a specific critique of the methods used to save the South Sea Company soon became a broader reflection on what I have called the “precedent problem.”<sup>124</sup> 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.<sup>125</sup> 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.”<sup>126</sup> 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...”<sup>127</sup>

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.<sup>128</sup> 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.”<sup>129</sup>

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<sup>123</sup> Pocock, *Machiavellian Moment*, 447-8.

<sup>124</sup> 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), Vol. I, Letters 2-10, 12 November 1720-3 January 1720, 40-86. Letter 1 is about Gibraltar. A note on dating is important here: until 31 December 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 dating to ease navigation of the references.

<sup>125</sup> Trenchard and Gordon, *Cato’s Letters*, Letter 3, 19 November 1720, 42.

<sup>126</sup> Trenchard and Gordon, *Cato’s Letters*, Letter 11, 7 January 1720, 87-93.

<sup>127</sup> *Ibid*, 89.

<sup>128</sup> *Ibid*, Letter 13, 21 January 1720, 103.

<sup>129</sup> *Ibid*, Letter 4, 26 November 1720, 46.

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 that was strikingly similar to ideas usually associated with the Parisian Enlightenment of the 1750s.<sup>130</sup>

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 embroil 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.”<sup>131</sup>

Molesworth's suggestion was not taken up, and as discussed at the end of the previous chapter, most of the Directors retired in comfort, if also in public disgrace. Some 75 years later, the grandson of one of the Directors, the historian Edward Gibbon, remembered this episode in his memoirs, though for its severity rather than its leniency:

“Of the use or abuse of the South-Sea scheme, of the guilt or innocence of my grandfather and his brother-directors, I am neither a competent nor a disinterested judge. Yet the equity of modern times must condemn the violent and arbitrary proceedings, which would have disgraced the cause of justice, and rendered injustice still more odious. No sooner had the nation awakened from its golden dream, than a popular and even a parliamentary clamour demanded its victims; but it was acknowledged on all sides, that the directors, however guilty, could not be touched by any known laws of the land.”<sup>132</sup>

He was not alone in worrying about how Parliament had solved the precedent problem. One anonymous pamphleteer considered the outcome contrary to the institutions of property rights and contracts.<sup>133</sup> These were not popular arguments, but nor were they necessarily cynical. As with Montesquieu's *Lettres persanes* or

<sup>130</sup> See especially *Ibid*, Letter 25, 15 April 1721; Letter 27, 29 April 1721; Letter 35, 1 July 1721; and Letter 42, 26 August 1721.

<sup>131</sup> Cobbett, *Parliamentary History of England* (London: 1806-20), Vol. VII, col. 683.

<sup>132</sup> Edward Gibbon, *Memoirs of My Life*, (London: Nelson, 1966), 8. He goes on to cite the same speech by Molesworth.

<sup>133</sup> Anonymous, *Laws Ex Post Facto, or, The Annulling of Legal Bargains Inconsistent with the British Constitution and the Privileges of a Free People*, (London, 1721).

Mirabeau's reading of Cantillon, 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 J.G.A. 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 religion was no longer the idiom of public censure.<sup>134</sup> The new anti-clerical republican virtue of Trenchard and Gordon, as of Montesquieu, 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.<sup>135</sup>

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 Clinton Rossiter thought they were more widely read and quoted than John Locke, and Bernard Bailyn showed that they were the single most important reference point for mid-eighteenth century political controversies.<sup>136</sup>

Like the *Cato's Letters* in Britain, in France the 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 produced in 1738 by du Hautchamp

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<sup>134</sup> Pocock, *Machiavellian Moment*, 462-75.

<sup>135</sup> Pocock, *Machiavellian Moment*, 482-88. Koselleck, *Critique and Crisis* and Rothkrug, *Opposition to Louis XIV* would place the origin of this language elsewhere in time and space.

<sup>136</sup> Clinton Rossiter, *Seedtime of the Republic: the Origin of the American Tradition of Political Liberty*, (New York: Harcourt, Brace, 1953), 141. Cf. Bernard Bailyn, *The Origins of American Politics*, (New York: Knopf, 1968), 54, 117, 137, 141-44, and idem, *The Ideological Origins of the American Revolution*, (Cambridge, Mass.: Harvard University Press, 1992), 35-37 and 44-45.



in length, but exceeding it in popularity.<sup>137</sup> But he was best known for his *Elemens 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.<sup>138</sup>

In defending Melon, Forbonnais critiqued Dutot extensively, mainly on empirical grounds.<sup>139</sup> 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. To be sure, Forbonnais drew on Melon's ideas to develop his own broader contributions to economic theory, mainly centering around what today would be called the ways that liquidity preference determines interest rates.<sup>140</sup> But Forbonnais was a different sort of writer from Melon, Dutot, Cantillon, and Pâris-Duverney, and not just because he belonged 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 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 Mamers.<sup>141</sup> He lived long enough to be named to the *Institut national des sciences et des arts* at its foundation in 1795.

In his lengthy and rather repetitive article on “Commerce” in the *Encyclopédie*, Forbonnais directs the interested reader to “the excellent *Essai* by M. Melon; the *Réflexions politiques* by M. Dutot, together with the critique of this book [meaning the *Examen du livre*]; *Le parfait négociant*; *Le Dictionnaire du commerce*; *L'Esprit des lois*; the regulations and ordinances of France; The statutes of England. These, together with

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<sup>137</sup> Barthélémy Marmont Du Hautchamp, *Histoire du système des finances sous la minorité de Louis XV pendant les années 1719 & 1720*, (The Hague: P. de Hondt, 1738).

<sup>138</sup> Sonenscher, *Before the Deluge*, 179-88 is the only extended treatment of Forbonnais in English that I am aware of.

<sup>139</sup> Forbonnais, *Elemens du commerce*, Vol. II, 172; idem, *Recherches et considerations*, Vol. IV, 52-54; 99; 162; 207; 391-2; Vol. V, 18-20; 261-8; 375; and Vol. VI, 133-43.

<sup>140</sup> See especially *Elemens*, Vol. II, 143-50.

<sup>141</sup> For a contemporary recapitulation of his early work, see *Correspondance littéraire*, Vol. II, No. 6, 15 March 1755, 67-68; No. 15, 1 August 1755, 167; No. 20, 15 October 1755, 217-22.

almost all English books on commerce, are the most reliable sources.”<sup>142</sup> His article then recapitulates what he believes to be the economic history of the entire world from earliest antiquity, and attempts to draw from it general principles of national commerce, which he views the English and the Dutch as having already developed into a “science.” That science emphatically differed from the self-proclaimed science of the French *économistes* in that land was not the source of all value, while commerce and finance were elevated and granted conceptual autonomy. And of course Forbonnais’ science was rooted in history, not metaphysics, as he never tired of explaining.

Just as Forbonnais’ article illustrated the existence by the 1750s of an autonomous and self-authorizing public science of macroeconomics, the Chevalier Louis de Jaucourt’s 1765 article on “Money” pointed to how thoroughly the scientific principles of the supply and demand for money had banished the earlier metaphysics of value. “Goods derive their value from the uses to which they are employed,” he writes. “If they had no use they would have no value. The value of goods is higher or lower depending on their supply in proportion to demand.” And later, critiquing a mis-translation of Locke: “I cannot conceive how men of different nations, or even those of the same province, could agree to put an imaginary value upon anything, especially upon money, by which the value of all other goods is measured, and that is given as the price of all things, or that any one country would want to receive a value in exchange or payment for more than it was worth, or how that imaginary value could have been kept up.”<sup>143</sup> Taken together, these two quotations indicate how far the analysis of economic activity had changed since the time of Boisguilbert. Emerging from an international conversation, it rejected the need for any supplementary subjects to make itself intelligible, with the sole exception of history. Moreover, finding this account of economic activity in one of the canonical texts

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<sup>142</sup> François Véron de Forbonnais, “Commerce,” *Encyclopédie ou Dictionnaire raisonné des sciences, des arts et des métiers*, (Paris, 1753), Vol. III, 690–699.

<sup>143</sup> Louis, chevalier de Jaucourt, “Money,” *The Encyclopedia of Diderot & d’Alembert Collaborative Translation Project*, translated by Thomas M. Lockett, (Ann Arbor: MPublishing, University of Michigan Library, 2011), <http://hdl.handle.net/2027/spo.did2222.0001.707> (accessed 10 December 2015). Originally published as “Monnoie,” *Encyclopédie ou Dictionnaire raisonné des sciences, des arts et des métiers*, (Paris, 1765) Vol. 10: 644–648. Lockett’s footnotes to his translation even argue that five paragraphs of this article are an unacknowledged summary of Law’s *Money and Trade Considered*.

of the Enlightenment indicates how thoroughly the efforts to make sense of the Law crisis solidified a new set of claims and practices of argumentation in economic thinking.

## II. The Impact of Economic Impunity on Political Culture.

Did all of these books cause anything other than the production of more books? Any claim that “economic impunity” has diffused over time implies evidence that the people acting with impunity changed, and that the realm of economic activity changed, ideally both in the direction of diffusion. In the first chapter, I have attempted to show that the ability to act with impunity shifted from the sovereign to a group of technically proficient financiers between 1680 and 1720; in doing so, I have also hoped to show that this first expansion of impunity happened because innovations in economic practices outstripped theoretical understanding and juridical practice. In this chapter I have attempted to show that between 1721 and 1789, theory caught up with practice as many writers on both sides of the English Channel argued about how to interpret 1720. For the remainder of this chapter, I hope to show that the intellectual space of economic activity also expanded in that same time period, from the closed jargon of those same technically skilled financiers to the educated reading public, who considered themselves an authority capable of judging the morality of economic actions.<sup>144</sup> The importance of public opinion will be fully realized in Chapter 3.

As discussed at the end of the previous chapter, the South Sea Bubble immediately became a source of ridicule and opprobrium in Britain. Though writings on the Bubble itself tapered off after 1721, those early works set the parameters for public representations of finance for the rest of the eighteenth century. In poems, plays, songs, and novels, a polycentric cultural infrastructure continually reproduced the immediate popular moral judgments of the Bubble, not lessening their condemnation even while limiting the scope of its application.

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<sup>144</sup> This point is inspired by Martin Jay’s discussion of how “the political” expanded in his *The Virtues of Mendacity: On Lying in Politics*, (Charlottesville: University of Virginia Press, 2010), 76-129.

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 towards generalizing and diffusing the economic sphere into everyday life.

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.<sup>145</sup> This was in stark contrast to the optimistic spirit of “improvement” which had prevailed during the previous fifty years.<sup>146</sup> This disenchantment with commerce later found expression in the great mid-century “luxury debate,” but it reflected 1720 finance as much as 1750s consumption patterns. Luxury was as much a consequence as a cause of corruption. 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.”<sup>147</sup> Hence the critique of Walpole’s sinking fund policies in particular soon became a critique of decadent consumer society in general. The pattern was set by Jonathan Swift’s 1721 poem “The South-Sea,” continued by Samuel Johnson’s 1738 poem “London,” and

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<sup>145</sup> This is the judgment of John McVeagh, *Tradefull Merchants: the Portrayal of the Capitalist in Literature*, (London: Routledge & Kegan Paul, 1981), 72-84.

<sup>146</sup> For an exhaustive catalogue of “improvement,” see Paul Slack, *The Invention of Improvement: Information and Material Progress in Seventeenth-Century England*, (Oxford: Oxford University Press, 2015).

<sup>147</sup> McVeagh, *Tradefull Merchants*, 72.

sharpened by Alexander Pope's "Epistle to Lord Bathurst on the Use of Riches."<sup>148</sup> As with the broader luxury debate, fears about the power of paper money and credit instruments were articulated through a gendered conception of the economy. Defoe probably originated the imagery of Fortune as a capricious woman in 1706, but it soon became a fixture of anti-market critiques, as prevalent as the frequent recourse to anti-Semitism.<sup>149</sup> As the literary scholar Catherine Ingrassia puts it:

"This pattern of provocative imagery underscores the profound mark the South Sea Bubble crisis left on eighteenth-century society. But the 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. The new objects of widespread cultural anxiety were 'feminized' men led by their passions and emotions, empowered women diverted from their prescribed interests, and economies determined, in part, by the pursuit of pleasure."<sup>150</sup>

Beyond the new imagery, 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 one hundred thousand pounds, 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 Walker's 1819 *Critical Pronouncing Dictionary*, where it is spelled "plum."<sup>151</sup> Trenchard and Gordon provide 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

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<sup>148</sup> Samuel Johnson, "London" in I.P. Fleming (ed.), *Dr. Johnson's Satires*, (London: Longmans Green, 1893), 23-39. Jonathan Swift, "The South-Sea" in *The Works of Jonathan Swift*, (London: Bathurst, 1760), Vol. III, 132-38. Alexander Pope, "Epistle III" in Adolphus William Ward (ed.), *The Poetical Works of Alexander Pope*, (London: Macmillan and Co., 1873), especially lines 114-174, on 249-50.

<sup>149</sup> On Defoe and Lady Credit, see Marieke de Goede, *Virtue, Fortune, and Faith: A Genealogy of Finance*, (Minneapolis: University of Minnesota Press, 2005), esp Ch. 2.

<sup>150</sup> Catherine Ingrassia, *Authership, Commerce, and Gender in Early Eighteenth-Century England: A Culture of Paper Credit*, (Cambridge: Cambridge University Press, 1998), 38. See also Terry Mulcaire, "Public Credit: Or, The Feminization of Virtue in the Marketplace," *Proceedings of the Modern Language Association*, Vol. 114, No. 5, (Oct., 1999), 1029-31.

<sup>151</sup> John Walker, *A Critical Pronouncing Dictionary, and Expositor of the English Language*, (New York: Collins and Hannay, 1819), 409

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.”<sup>152</sup>

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.<sup>153</sup> 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 stock speculation than to work.<sup>154</sup> The author of the *Courrier* clarifies that these happy words must have been produced before the recent *arrêt* de-monetized paper money. But, he goes on, “Messieurs les Millionnaires 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.”<sup>155</sup>

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 *Turcaret*, sometimes subtitled “The Financier.” He employs 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, *La valise trouvée*, published in 1740.<sup>156</sup> Here again the usage

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<sup>152</sup> Trenchard and Gordon, *Cato’s Letters*, Letter 20, March 11, 1720, 146.

<sup>153</sup> Murphy, *John Law*, 3 and 242. The word gives the title to a popular biography of Law: Janet Gleeson, *Millionaire: The Philanderer, Gambler, and Duelist Who Invented Modern Finance*, (New York: Simon and Schuster, 1999). “Philanderer” is only the first of its overstatements.

<sup>154</sup> *Courrier Politique et Galant*, (Amsterdam: Chez du Villard et Changuion, et N. Viollet), Vol. III, No. XLV, June 3, 1720.

<sup>155</sup> *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.

<sup>156</sup> Interestingly, but also confusingly, authorship of Lesage’s 1707 *Le diable boiteux* was often attributed in foreign publications to Laurent Bordelon, who in turn wrote a 1725 book entitled *Lettres familières instructives et amusantes, sur divers sujets, à un nouveau millionnaire*. Whether this evidence of collaboration, rivalry, or coincidence is difficult to establish.

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 army lieutenant.<sup>157</sup> This little plot is essentially the same as Moliere’s *Bourgeois gentilhomme* of 1670 and Lesage’s own *Diabre 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 pretensions, capable of doing strange new things that circumvented the social order.

From Lesage the word “millionaire” entered general use. It appeared in the 4<sup>th</sup> edition of the *Dictionnaire de l'Académie française* in 1762. It also appeared twice in the *Encyclopédie*, once in the article on “Commerce,” and once in the article on “Virtue.” In “Commerce” it is part of an appeal against inequality, claiming that it is better to have twenty merchants with a hundred thousand crowns than six millionaires.<sup>158</sup> The reference in “Virtue” is even more illuminating:

“Newton in London, and Leibnitz in Leipzig, were calculating geometric infinity, and reached the same result by the same method variously presented, were clear and could not be contradicted. In the same city, the haughty courtier, the insolent millionaire, and the humble worker, gathered in the cubbyhole of a philosopher and asked about the meaning of decency, would argue and disagree. It’s because mathematicians all speak the same language; but men, treating of morality, do not pronounce similar sounds; their ideas vary depending on the method and extent each individual interest is in opposition to the public interest.”<sup>159</sup>

<sup>157</sup> Alain-René Lesage, *La valise trouvée*, (Paris : Imprimerie nationale éditions, 2002 [1740]), 130-133.

<sup>158</sup> Forbonnais, “Commerce,” *Encyclopédie*, Vol. 3: 690–699.

<sup>159</sup> Jaucourt, “Virtue,” *Encyclopédie*, Vol. 17: 176–182. “Newton à Londres, et Leibnitz à Leipsick, calculaient l'infini géométrique, parvenaient aux mêmes résultats par une même méthode diversement présentée, s'éclairaient et ne se contredisaient point. Dans la même ville, l'altier courtisan, l'insolent millionnaire, l'humble manœuvre rassemblés dans le réduit d'un philosophe, et interrogés sur le sens du mot décence, disputent et ne s'entendent pas. C'est que les géomètres parlent tous une même langue ; mais les

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.’”<sup>160</sup> The slow diffusion is probably easily explained by the exchange rate: at roughly 25 *livres* to the pound, one becomes a *livre* millionaire faster than a pound millionaire.

Unfortunately, the new post-1720 terminology was not all large fortunes and upwardly mobile millionaires.<sup>161</sup> Montesquieu was the first to 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.<sup>162</sup> 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.<sup>163</sup> It appeared in Buvat’s *Gazette de la Regence*, and from there entered wide usage, appearing in Melon and Cantillon.<sup>164</sup> It was still in common use in 1781.<sup>165</sup> 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 the absence of that business quality was indicated either by “banqueroute” or “faute,” not “discredit.” 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

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hommes, en traitant de la morale, ne prononcent que les mêmes sons ; leurs idées varient suivant le mode et le degré d’opposition de l’intérêt de chaque individu de l’intérêt general.”

<sup>160</sup> Byron to Hobhouse, 23 June 1816 in Leslie Marchand (ed.), *So Late Into the Night: 1816-1817*, (Cambridge, Mass.: Harvard University Press, 1976), Vol. 5, 80.

<sup>161</sup> Indeed, I have chosen only those words which I considered most illuminating to my argument. For the many new words in political economy, finance, and commerce, see Ferdinand Brunot, *Histoire de la Langue Francaise des Origins a 1900*, (Paris: Armand Colin, 1930), Vol. VI, Livre I, Ch. 5, 6; Livre II, Ch. 4, 6; and especially 149, 153-54, 161-71 on words invented from the Law affair.

<sup>162</sup> Charles de Secondat Montesquieu, *L’esprit des Lois*, (Paris: Garnier, 1973), XXII, x. 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*, Vol. I, [1738], 315. It also seems more likely that a widely published book like *L’esprit des Lois* would be more important in popularizing a term than a private journal.

<sup>163</sup> Archives des affaires étrangères, Memoires et Documents, 53MD140, fol. 15, verso.

<sup>164</sup> Buvat, *Gazette de la Regence*, Vol. II, 1721, 201; Melon, *Essai sur le commerce*, Ch. 22 and 23; Cantillon, *Essai*, 426.

<sup>165</sup> “Sur l’Administration de M.N. Par un Citoyen Francais” in *Collection Complete de Tous Les Ouvrages Pour et Contre M. Necker*, (Utrecht, 1781), Vol. I, section on “Discredit generale,” 39-40.



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.”<sup>166</sup> Thus, “discredit” did not simply indicate a business failure, but rather a loss of public legitimacy and a consequent 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*, where the aforementioned articles by Forbonnais and Jaucourt explained their origins and meanings. 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 22 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*.<sup>167</sup> 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,”

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<sup>166</sup> Malachy Postlethwayte, *The Universal Dictionary of Trade and Commerce*, Fourth Edition, (London: W. Strahan, 1774), “Bankrupt.” Challengingly, the author’s name is sometimes spelled without the terminal “e,” and the *Universal Dictionary* is not paginated. On bankruptcy, see also Luckett, “Commercial Society,” 81-90.

<sup>167</sup> Edward Hatton, *Comes Comercii, 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 14 editions up to 1794.

“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?... This vigilant inspection, this constant scrutiny of the most judicious proprietors, who have no share in the direction of public companies, is certainly the way to prevent those calamities, which have been so often experienced.”<sup>168</sup>

In Postlethwayte’s assessment, the danger of finance was that it “introduced a spirit of gaming amongst all degrees of men” which was so infectious that it could never be eliminated, only mitigated through careful public accounting practices.<sup>169</sup>

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. The first thing everyone learns about John Law is that he was a very successful professional gambler. Murphy has provided good evidence to the effect that Law essentially played as the “bank” in games of chance, since he had a sufficient grasp of the relatively young science of probability to understand that he could consistently win by betting his opponents that they could *not* roll six sixes (for instance). His colorful personality aside, speculation on stock during the Bubbles was interpreted by many observers as gambling, and surely worked to popularize state lotteries, which were one of the main systems of government finance at the turn of the eighteenth century.<sup>170</sup> Thousands 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.<sup>171</sup> 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

<sup>168</sup> Postlethwayte, *Universal Dictionary*, “Bubble.”

<sup>169</sup> Ibid, “Monied Interest.” Note again the linking of accounting and accountability.

<sup>170</sup> 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.

<sup>171</sup> Kavanagh, *Enlightenment and the Shadows of Chance*, 60 and 68.

celebrated trials.<sup>172</sup> Not surprisingly, references to the System frequently appeared in handbooks on gambling, such as Ange Goudar's *L'histoire de Grecs, ou, De ceux qui corrigent la fortune au jeu*.<sup>173</sup> 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 to the public.

Just as the *Encyclopédie* was a technology for producing Enlightened Frenchmen, so too was Postlethwayte's *Universal Dictionary* a machine for making honest, prudent English merchants. It cemented the British interpretation of 1720 as an episode of mania and corruption, which could be avoided in the future if the educated public learned the right lessons from its history.

### III. Conclusion: The Situation in the 1780s.

In Britain, Christopher Anstey's 1780 poem "Speculation; or, a Defence of Mankind" shows the continuity of attitudes to finance across the eighteenth century. It begins by observing what was new: the lexicographical shift of the word "speculation" from the purely visual and imaginative sense to the modern financial meaning.<sup>174</sup> But the word was all that was new in Anstey's poem. The remaining 55 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.<sup>175</sup> Finance, it seems, had expanded to incorporate new people, new words, and new activities, but popular attitudes to it had changed very little. Despite that, participation in the investment market continued to grow steadily. In 1720

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<sup>172</sup> De Goede, *Virtue, Fortune, and Faith*, 52; Cf. Lorraine Daston, *Classical Probability in the Enlightenment*, (Princeton: Princeton University Press, 1988), 163-82.

<sup>173</sup> Ange Goudar, *L'histoire de Grecs, ou, De ceux qui corrigent la fortune au jeu*, (Liege: Chez Dessain, 1758) v-xii. The gambling rhetoric will return in Chapter 3.

<sup>174</sup> 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, 1 May 1774, in *Letters of Horace Walpole to Sir Horace Mann*, (London: R. Bentley, 1843-44), Vol. I, 355. According to Brunot, *Histoire*, 169, it existed in French as early as 1740.

<sup>175</sup> Anstey, *Speculation*, *passim*, but esp. 6-7, 12-13, 25-27 and 38.

approximately 40,000 people owned shares in Britain's national debt; by 1750, the number was 60,000.<sup>176</sup> Some of these were the oft-cited widows and orphans, and many were educated professionals, like appellate court judges.<sup>177</sup> The several subsequent financial crises of the eighteenth century were contained in space or incidence, and provoked no noticeable changes in attitudes or laws.<sup>178</sup> Although the lessons of 1720 were contested, they were not easily supplanted.

In France, the best examples of the legacy of 1720 were the pamphlets against Jacques Necker during his tenure as *Contrôleur général* between 1777 and 1781.<sup>179</sup> The fabricated "Lettre de M. Turgot à M. Necker" harped continually on the shared foreignness and frightening power of both Necker and Law.<sup>180</sup> "The example of 1720 is still before our eyes," the author wrote, "look 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."<sup>181</sup> The author of "Sur l'Administration de M.N. Par un Citoyen Francais" drew even more parallels, producing a chronological chart of the steps Law took to centralize his power, and the corresponding machinations of Necker.<sup>182</sup>

The consequences of 1720 for the history of economic thought can now be summarized. John Law thought that he had solved the problem of economic growth, but in fact he had invented the problem of understanding economic crises. By the early nineteenth century, 1720 had already taken on its modern connotation: as an episode of the perennial "madness of crowds." No doubt much of this was due to Charles Mackay's memorable and colorful (and probably fictitious) accounts, replete with hunchbacks who rented themselves out as mobile writing desks in the Rue Quincampoix and elegant ladies

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<sup>176</sup> Banner, *Anglo-American Securities Regulation*, 94.

<sup>177</sup> *Ibid.*, 119.

<sup>178</sup> For a typology, see Julian Hoppit, "Attitudes to Credit in Britain, 1680-1790," *The Historical Journal*, Vol. 33, No. 2, (June 1990), and *idem*, "Financial Crises in Eighteenth-Century England," *Economic History Review*, Vol. 39, No. 1, (January, 1986).

<sup>179</sup> They were republished in *Collection Complete de Tous Les Ouvrages Pour et Contre M. Necker*, (Utrecht, 1781), Vol. I.

<sup>180</sup> *Ibid.*, 8-9, 14.

<sup>181</sup> *Collection Complete de Tous Les Ouvrages*, 9. "L'exemple de 1720 est encore sous nos yeux...voila a quoi vous exposez l'Etat au sein de la plus terrible guerre qui ait jamais existe! Toute la base de la puissance est une feuille, l'opinion et votre parole."

<sup>182</sup> *Ibid.*, 17, 19-20, 22, 23, 32, 33, and 47.

who were so desperate for Law's advice that they would deliberately crash their carriages to attract his attention.<sup>183</sup> By putting the events of 1720 in line with alchemy, fortune-telling, witches, and haunted houses, as Mackay does, they are confined in time and space, and their historical impact limited to a dire, if fruitless, warning to posterity. Adam Anderson's conclusion in his 1801 *Origins of Commerce* is a typical example of this pattern. "The unaccountable frenzy in stocks and projects of this year 1720," he wrote, "may by some be thought to have taken up too much room in this work: but we are persuaded that others, of superior judgment, will approve of the perpetuating, in so large a work, the remembrance thereof, as a warning to after ages."<sup>184</sup>

A warning indeed: well beyond the substantive invocations of Law in the National Assembly in 1789, his specter continued to be raised in response to financial innovations 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 générale de commerce* claimed that their present problems were the latest in a series of speculations that began with Law.<sup>185</sup> When William Pitt began issuing paper money after the Bank Restriction Act of 1797 he was immediately portrayed by the political cartoonist James Gillray exactly as Law had been depicted in the famous 1720 *Het Groot Tafel der Dwaasheid*.<sup>186</sup> It was only with the regularization and institutionalization of financial crises under the nineteenth century gold standard that invocations of Law began to fade. The figure of alien financial impunity had been banished, at least until 1914.

In Britain more and more people actively participated in financial markets throughout the eighteenth century, even as finance continued to be publicly demonized, and even as securities regulation failed to keep pace with financial innovation, such that investment continued to be dangerous. It certainly is striking that the canonical

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<sup>183</sup> Charles Mackay, *Extraordinary Popular Delusions and the Madness of Crowds*, (London, 1841), 15-18.

<sup>184</sup> Adam Anderson, *An Historical and Chronological Deduction of the Origin of Commerce, From the Earliest Accounts*, (London: William Combe, 1801), Vol. III, 123.

<sup>185</sup> Bank of France, Box 1397199403/142, which appears to be a manuscript copy of Joseph Claramond comte de Pelet, *Opinions de Napoleon sur divers sujets de politique et d'administration*, (Paris: Firmin Didot frères, 1833), Ch. 26; Conseil générale de commerce, procès-verbaux, 9 January 1811, AN F/12/971/B doss. 6.

<sup>186</sup> James Gillray, *Midas, Transmuting All, Into Paper*, (London, 1797).

technologies of the Industrial Revolution were financed through small groups of personally connected investors, rather than through stock flotations. Some authors have attributed this peculiarity to the dampening impact of the Bubble Act, but the Act was almost never enforced. Indeed, the one example of criminal prosecution under the Act occurred immediately after its passage: *Rex v. Caywood* in 1722.<sup>187</sup> Instead, the consolidation of the Financial Revolution with Walpole's bailouts and the subsequent expansion of participation in finance was an entirely public-sector affair.<sup>188</sup> Whether this "crowded out" investment by directing it into the wasteful fiscal-military and thereby slowed the early stages of the Industrial Revolution remains an open question.<sup>189</sup>

In France, by contrast, the political impossibility of a national bank or an active monetary policy ensured that their Financial Revolution was an entirely decentralized, private affair. Hoffmann, Rosenthal, and Postel-Vinay have shown at length that the Parisian notaries were an effective means of matching savers with borrowers in long-term investment, and Thomas Lockett has provided some evidence that the absence of formal banks required virtually all merchants to diversify into informal banking activities.<sup>190</sup> Some of the tradecraft manuals, *Encyclopédie* articles, journal discussions, and political economy books discussed in this chapter probably went some way to filling the formidable information asymmetries that resulted from this bifurcated financial settlement.

Even with the stunted banking sector in France, by the 1780s, more Europeans than ever had direct knowledge of or experience with the world of finance, and many more still were well informed on the subject. Did that have any actual consequences for the real world?

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<sup>187</sup> Ron Harris, "The Bubble Act: Its Passage and Its Effects on Business Organization," *The Journal of Economic History*, Vol. 54, No. 3, (Sept., 1994), 623-24. He goes on to argue that neither 7 Geo. II, c. 8 of 1734 nor 10 Geo. II, c. 8, of 1737 had any practical effect on regulating the stock market. See also Banner, *Securities Regulation*, 78.

<sup>188</sup> This is the argument of Peter Temin and Hans-Joachim Voth, *Prometheus Shackled: Goldsmith Banks and England's Financial Revolution After 1700*, (Oxford: Oxford University Press, 2013).

<sup>189</sup> The classic "crowding-out" argument is Jeffrey Williamson, "Why Was British Growth so Slow During the Industrial Revolution," *The Journal of Economic History*, Vol. 44, No. 3, (Sept., 1984).

<sup>190</sup> Hoffmann, Postel-Vinay, and Rosenthal, *Priceless Markets*; Lockett, "Credit and Commercial Society."

There is a robust literature on the idea that political economy was the preeminent subject on which the public began to feel entitled to critique the state.<sup>191</sup> Those critiques, in turn, are taken as a large contribution to the avalanche of scandals that engulfed the French monarchy in the decades before the Revolution.<sup>192</sup> In this view, the court of public opinion shut off certain options for managing the economy: the French Crown had altered the value of the *livre* forty times under Louis XIV, but after a substantial devaluation in 1726, the silver content remained unchanged and out of the realm of policy until the Revolutionary *assignats*—and even afterwards, the Napoleonic franc remained stable at roughly the same parity until 1914.<sup>193</sup>

More than any lingering anxiety about usury or morality, the arcane technical knowledge and international mobility of capital explain why finance and stockjobbing were always kept scrupulously separate from *le doux commerce* in eighteenth century writing. It was hoped that commerce would substitute calm interests for the violent passions that led to war, but finance brought to commerce the renewed potential for crisis and instability. As Jacob Soll has shown, one weapon against the threat of economic impunity was public accounting.<sup>194</sup> The authors discussed by Jonathan Sheehan and Dror Wahrman argued that another solution was the construction of self-regulating systems with clear causality, to remove the advantage of arcane technical knowledge. Mirabeau's preferred option was to inculcate virtue: if there must be an immune actor, it should at least be a benevolent one. Hume famously thought that the growth of public credit under a ruling class of stockjobbers must inevitably lead to either bankruptcy or foreign conquest.<sup>195</sup> In each case the authors of the second generation of Enlightenment thinkers were still trying to solve the problems of 1720. Commerce was supposed to bring peace in the post-Utrecht order, but 1720 showed that finance threatened to bring bankruptcy or conquest. The science of political economy was supposed to allow the backwards

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<sup>191</sup> Kaiser, "Money, Despotism, and Public Opinion"; Lockett, "Imaginary Currency and Real Guillotines." Of course the origin is Habermas, *Structural Transformation of the Public Sphere*, esp. Chs. 7 and 8.

<sup>192</sup> For another very practical example, see Ken Alder, *Engineering the Revolution: Arms and Enlightenment in France, 1763-1815*, (Chicago: The University of Chicago Press, 2010).

<sup>193</sup> Hoffmann, Postel-Vinay, and Rosenthal, *Priceless Markets*, 69-96.

<sup>194</sup> Soll, "From Virtue to Surplus," and more broadly, idem, *The Reckoning: Financial Accountability and the Rise and Fall of Nations* (New York: Basic Books, 2014).

<sup>195</sup> Hume, "Of Public Credit," 362, 372, and 374.

periphery of Europe to catch up with Britain and the Netherlands, but 1720 showed that ambitious centralizing reforms born from foreign ideas could bring ruin and disorder. The writers of the 1720s and 1730s could not definitively solve these problems, even as monetary disequilibrium persisted in France and the securities market continued to expand in England, so they remained to challenge the thinkers of the high Enlightenment. By the 1760s, those problems were central to the thinking of the new, formalized science of economics. 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, they continued, with their peculiar vocabulary, to try to solve the question of who could act in the economy, and with what consequences. The next chapter will discuss how the financial world created by the 1720 settlement contributed to its own destruction, as speculators used public claims of impunity against one another, ultimately delegitimizing both themselves and the French monarchy.



### Chapter Three: The End of the Old Financial Regime, 1780-1800

“There are two kinds of corruption: one, when the people no longer observes the laws; the other, when the people is corrupted by the laws; an incurable disease, because it is in the remedy itself.”<sup>1</sup>

-- Montesquieu

#### Introduction

The first half of 1787 was a particularly vexing time for the French state. On the 20<sup>th</sup> of January, François-Joseph Harvoin abandoned his *caisse* and absconded to a monastery near Antwerp.<sup>2</sup> 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.<sup>3</sup> 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.<sup>4</sup> He left behind at least 600,000 *livres* in unpayable 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 accounts over to Crown investigators.<sup>5</sup> 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 Calonne, the reformist *Contrôleur général des 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

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<sup>1</sup> ““Il y a deux genres de corruption : l’un, lorsque le peuple n’observe point les lois ; l’autre, lorsqu’il est corrompu par les lois ; mal incurable, parce qu’il est dans le remède même.” Charles-Louis Secondat de Montesquieu, *The Spirit of the Laws* (1748), Book IV, 12.

<sup>2</sup> AN T//\*/594, *Journal de tous les évènements relatifs à la malheureuse affaire de Monsieur Harvoin père, receveur général des finances de Tours*. This is a dense and difficult source, but the outline of the story is not in doubt.

<sup>3</sup> J.F. Boshier, *French Finances, 1770-1795: From Business to Bureaucracy* (Cambridge: Cambridge University Press, 1970), 49.

<sup>4</sup> See *Ibid*, 67-8 for an explanation of how a *caisse* worked.

<sup>5</sup> Denise Ozanam, *Claude Baudard de Sainte-James, Trésorier général de la Marine et Brasseur d’Affaires, 1738-1787* (Geneva: Librairie Droz, 1969), 167-86.

network, and he voluntarily went to the Bastille on 2 February to protect himself from his creditors.<sup>6</sup>

On 17 February Louis-René-Marchal de Saincy 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 the office was abolished in 1792. Not to be outdone, on 5 March Antoine Bourboulon went bankrupt. He was the private treasurer of the Comte d'Artois (that is, the younger brother of Louis XIV, 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.<sup>7</sup> Even after all his possessions were sold, his office was left with a deficit of about 250,000 *livres*. Finally on 1 June, Antoine-Jean-François Mégret de Sérilly, one of the two Treasurer-Generals of the War Department, failed with a debt of nearly 5 million *livres*.<sup>8</sup> 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 begin a systemic collapse.<sup>9</sup>

These failures were notorious public political scandals, revealing as they did the extent of corruption and mismanagement in the fiscal bureaucracy. They also came at a moment when the Crown could literally least afford it, 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.<sup>10</sup> As though this were not bad enough, these failures exactly coincided with a series of spectacular financial scandals on the Paris bourse, one of which ultimately implicated Calonne himself.

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<sup>6</sup> It eventually turned out that he had not mismanaged his public offices, but he died in July and left 13 million *livres* in debt to various people, most of which was never paid.

<sup>7</sup> Herbert Luthy, *La banque protestante en France, de la révocation de l'Édit de Nantes à la Révolution* (Paris: S.E.V.P.E.N., 1959), Vol. 2, 693.

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

<sup>9</sup> Ozanam, *Baudard*, 182-5.

<sup>10</sup> AN H/1/1454. 29 million *livres* according to fol. 19, 27 million according to fol. 38.

Chapter 1 concluded with the argument that the resolution of the 1720 crisis shifted the exercise of impunity from the unitary sovereign to a small but internationally-mobile group of technically skilled managers of capital. It is one thing to claim such a shift, but another to demonstrate it. Chapter 2 claimed that economic thought during the middle decades of the eighteenth century devoted substantial effort to understanding the 1720 crisis historically, and arrived at a general political critique of immune economic actors. It concluded with several claims about the importance of shifts in public attitudes towards finance and in the inclusion of economic concepts into French political culture. This chapter will first attempt to unify these two arguments by discussing several notorious financial scandals of the 1780s in order to illustrate how eighteenth century finance actually worked, before turning to a discussion of how the revolutionary process that began in 1789 closed off much of this exceptional space, substituting national politics for technical knowledge. The figure of Étienne Clavière will unite both sections.

Clavière's is a familiar name to scholars of the French Revolution, thanks mostly to his appearance in Robert Darnton's work on the Girondin leader Jacques Pierre Brissot de Warville, and more recently thanks to Richard Whatmore's excellent monograph *Against War and Empire*.<sup>11</sup> 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. I do not mean to challenge these interpretations, but Étienne Clavière was first and foremost a banker and financier who later became the Minister of Finance in the Girondin ministry of 1792-3 and who was perhaps the most important architect of economic policy before the Terror, including the issuance of the *assignats*. Although Clavière's republican political proclivities are well known, the actual content of his financial speculations and economic policies have not been thoroughly investigated, and I contend that his politics have therefore been somewhat misinterpreted. Further, the history of the finances of the early Revolution remain relatively neglected, and despite the immense volume of

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<sup>11</sup> Robert Darnton, "The Pursuit of Profit: Rousseauism on the Bourse," in *George Washington's False Teeth: An Unconventional Guide to the Eighteenth Century* (New York: W.W. Norton & Co., 2003); Richard Whatmore, *Against War and Empire: Geneva, Britain, and France in the Eighteenth Century* (New Haven: Yale University Press, 2012).

scholarly interest in the fiscal dilemma of the Old Regime, there is relatively little work on the financial scandals of the late 1780s that were the proximate cause of the failure of Calonne's reforming ministry and the calling of the Estates General.<sup>12</sup> Each of these stories is related, and Clavière features prominently in all of them.

In his 1992 PhD dissertation, Thomas Luckett described the commercial society of late eighteenth-century France as follows:

“In the absence of any effective lender of last resort, the commercial credit market brought together French business people in a vast web of interdependence that came to shape their cultural norms, their patterns of socialization and their perceptions of themselves as a class. Faced with the constant threat of both individual insolvency and collective financial crisis, they developed the strategies of risk-aversion and mutual aid that constituted the commercial ideal of honor. At the same time through private credit they were tied inextricably to the market for royal credit. By defaulting on the royal debt the finance ministry could provoke a financial crisis of the private economy, but by panicking, the commercial community could also raise interest rates and make it impossible for the state to float new loans. Simply to survive, the state had to maintain the confidence of the financial public, which thereby in turn gained a de facto veto power over the activities of the state itself.”<sup>13</sup>

My own view on these commercial ideas of honor and mutual aid, as well as the special dangers that finance posed to them was elaborated in the previous chapter. But unlike Luckett, and most other historians of the 1780s, I am not principally concerned here with the causes of the French Revolution. To be sure, the realities of the monarchy's fiscal dilemma, the public reaction to financial scandals, and the contingencies of corruption and policy failure in 1787-8 all contributed to the decision to call the Estates General. But my objective is not to explain a political outcome, it is the differing capacities for acting with impunity. For that reason, this chapter will explore what kinds of impunity were available in the 1780s, and what kinds were available after the politics of the Revolution began to change prosecutorial discretion and international mobility. According to Luckett's argument—and, to some extent, the arguments of historians like

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<sup>12</sup> The only major account of these scandals is George V. Taylor, “The Paris Bourse on the Eve of the Revolution, 1781-1789), *The American Historical Review*, Vol. 67, No. 4 (July 1962).

<sup>13</sup> Thomas Luckett, “Credit and Commercial Society in France, 1740-1789” (Princeton: PhD Dissertation, 1992), 3-4.

Darnton, Keith Michael Baker, and Roger Chartier—public opinion was ultimately sovereign.<sup>14</sup> The state governed only so long as it held public confidence, and the desacralization and de-legitimization of the monarchy in the public mind is the ultimate explanation for the outbreak of the Revolution. If this argument is correct, only the sovereign public should have been able to act with any degree of impunity, as it collectively decided on whether or not to veto the activities of the state.

My objection to this account is twofold. First, I will present a great deal of evidence in this chapter that public opinion was frequently and easily manipulated. Clavière’s publicists were repeatedly capable of turning public opinion against a targeted stock regardless of the accuracy or validity of their claims. Even Jacob Soll, in arguing for the significance of Necker’s 1781 *Compte rendu* for the development of political discourse, observes that the public had no way to verify any published figures, or evaluate competing claims.<sup>15</sup> Luckett’s own figures show a persistent “money famine” in 1787-89, which frequently raised private discount rates above the royal consol rate, but aside from stating that this “forced ordinary business people to take a direct interest in the questions of tax-reform, high finance, and default that currently occupied the political elite at Versailles,” the closest he comes to showing a public veto is the Parisian Parlement’s refusal to register Brienne’s stamp tax in mid-August 1787.<sup>16</sup> Moreover, even if public opinion was a powerful force, very few servants of the Crown acted as though they had much respect for it. As will be discussed below, public opinion contributed to Calonne’s fall, but it did not factor into his decisions to pursue an elaborate scheme in the first place. None of the five failed accountants in 1787 seem to have given much thought to the court of public opinion. And that speaks to my second objection. Public opinion might have been able to sway short-term interest rates and heap calumny on reputations in 1787, but by 1792 public opinion was storming prisons and palaces and

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<sup>14</sup> Cf. Robert Darnton, *The Forbidden Best-Sellers of Pre-Revolutionary France* (New York: Norton, 1996); Keith Michael Baker, *Inventing the French Revolution: Essays on French Political Culture in the Eighteenth Century* (Cambridge: Cambridge University Press, 1990), esp. 167-99; Roger Chartier, *The Cultural Origins of the French Revolution* (Durham, N.C.: Duke University Press, 1991), esp. 20-38 and 136-69.

<sup>15</sup> Jacob Soll, “From Virtue to Surplus: Jacques Necker’s *Compte rendu* (1781) and the Origins of Modern Political Rhetoric,” *Representations* Vol. 134, No. 1 (Spring 2016), 45-6.

<sup>16</sup> Luckett, “Commercial Society,” 213. His chart of interest rates is 219, Figure 13.b.

murdering hundreds of people. In a periodization that ends in 1789, public opinion certainly seems more formidable in 1787 than it was in the 1750s, but with a view that extends a few years into the future, the sovereignty of public opinion was not nearly so dangerous nor so immune before 1789 as it was afterwards. For these reasons, I contend that before 1789, impunity was a function of the control of international capital; only afterwards was it a characteristic of political rhetoric.

### I. Finance and the Terminal Crises of the Old Regime

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.<sup>17</sup> He was related by marriage to Jacques Vieuxseux, who was a leader of the non-aristocratic *représentant* faction in Genevan politics, and a friend of Jean-Jacques Rousseau. 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 Necker's life annuities on young Genevan girls.<sup>18</sup> Clavière had a leading role in the failed 1782 Genevan Revolution, in which the *représentants* attempted to force an extension of the franchise but were defeated by a French intervention. He subsequently fled to Britain with his compatriots. He attempted to set up a colony of New Geneva outside of Waterford in the south of Ireland, and hoped to transfer essentially the entire Genevan watchmaking industry there.<sup>19</sup> As Whatmore puts it, "The Irish experiment was based on the Waterford colony's enjoying the benefits of free commerce. It promised to be an example of economic power that would show France the mistaken consequences of

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<sup>17</sup> Whatmore, *Against War and Empire*, 87.

<sup>18</sup> This demands some explanation. Essentially, it was possible to buy and sell annuities that paid annually for the lifetime of a third party. Using advanced actuarial knowledge, several bankers determined that the longest-lived people would be pools of Genevan girls under the age of 7 who had already survived smallpox. Starting in 1771, Necker 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, 5 February 1786. For a modern account, see Taylor, "Paris Bourse," 961-2.

<sup>19</sup> AN T//\*/646/1, Clavière to Roman l'aine, 26 November 1782 and Clavière to Alexandre Joffray, in *ibid*, 21 October 1783. See also Jennifer Powell McNutt and Richard Whatmore, "The Attempts to Transfer the Genevan Academy to Ireland and to America, 1782-1795," *The Historical Journal*, Vol. 56, No. 2 (June 2013).

invading smaller neighbors and taking away the liberties of industrious citizens.”<sup>20</sup> 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 the MP for Waterford, one John Claudius Beresford, had not taken any steps to actually build a viable town on the banks of the Suir.<sup>21</sup> 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.<sup>22</sup> This group, more than Clavière’s own business undertakings, is the point of significance here.

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 38 times, and to Delessert 79 times; in 1786 he wrote to Gaillard Grenus 22 times.<sup>23</sup> 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.<sup>24</sup>

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<sup>20</sup> Whatmore, *Against War and Empire*, 179.

<sup>21</sup> Clavière was not the last person to be disappointed by a land deal with Beresford, as much of Chapter 4 will make clear.

<sup>22</sup> 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.

<sup>23</sup> My counting from his outbound letter books in AN T//\*/646/2 and /3. He wrote to 115 different people in 1786.

<sup>24</sup> On the Chaurands, see Robert Stein, “The Profitability of the Nantes Slave Trade, 1783-1792,” *The Journal of Economic History*, Vol. 35, No. 4 (Dec., 1975): 779-793, and Yannick Lemarchand, “Comptabilité marchande et crédit au XVIIIe siècle: étude d’une relation d’affaires de la maison nantaise Chaurand frères,” HAL Working Paper, 2015/05.

It is worth dwelling for a moment on what is known about the financial activities of Clavière's partners. Pierre Stadnitski (really Pieter, but Pierre throughout Clavière's correspondence) was a prominent Amsterdam banker who invested heavily in American independence. 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.<sup>25</sup> After getting his start as a merchant in the 1760s, he began speculating on the Amsterdam beurse in the 1770s and by the 1780s was a prominent broker, commission merchant, and guarantor.<sup>26</sup> Much of his business consisted of placing subscriptions in the Russia, Poland, and Sweden loans issued by Hope's. 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."<sup>27</sup>

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 including publishing two brochures describing the benefits of the new American political experiment.<sup>28</sup> In 1789, Stadnitski's syndicate sent Theophile Cazenove, one of their young protégés, as their factor in the Holland Land Purchase, which entailed negotiating the acquisition of 5077 square miles of upstate New York, ostensibly for the purpose of setting up a maple sugar empire.<sup>29</sup> Theophile Cazenove, in turn, had been a somewhat erratic broker in Amsterdam since 1763, with experience in commodity trade

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<sup>25</sup> James Riley, "Pieter Stadnitski and Dutch Investment Banking, 1770-1815" (University of North Carolina, PhD Dissertation, 1971), 76 and 85-8.

<sup>26</sup> 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.

<sup>27</sup> James Riley, *International Government Finance and the Amsterdam Capital Market, 1740-1815* (Cambridge: Cambridge University Press, 1980), 13. The demise of Hope's will return in Chapter 5.

<sup>28</sup> These were Pieter Stadnitski, *Ophelderend bericht wegens het fonds, genaamd Liquidated Debt, of vereffende schulden, ten lasten de Vereenigde Staaten 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 gegeven heeft* (Amsterdam, 1787).

<sup>29</sup> 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.), *Housing and Mortgage Markets in Historical Perspective* (Chicago: University of Chicago Press, 2014), 287-304.



with Russia and plantations in Suriname.<sup>30</sup> His brother established the counting house of James Cazenove and Company in London, through whom Clavière bought and sold English annuities and East India Company stock.<sup>31</sup> In 1823 James' son Philip established Cazenove's stock brokerage, which still exists today under the ownership of JP Morgan Chase. (They handle the stock portfolio for the English royal family.) It appears that Clavière and Stadnitski were brought together by Theophile Cazenove, and despite a failed attempt 1782 by Clavière to interest Stadnitski in Parisian life annuities, they soon did brisk business together.<sup>32</sup>

Étienne Delessert, having presided over one of France's largest banking houses, which his father had founded in Lyon in 1725, became the first director of the *Caisse d'escompte* upon its foundation in 1776. (His son Benjamin was one of the first directors of the Bank of France, and will return in Chapter 5.) 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 Hottinguer, originally from Zurich.<sup>33</sup> They were deeply involved in the foundation of the *Compagnie générale des eaux* (the Paris Water Company, about which more later in this chapter) before being forced to flee the Revolution. They returned in 1796 as one of Talleyrand's favorite bankers, got involved in the XYZ Affair of 1797, and emerged as one of the most powerful surviving private banking houses after Napoleon's regime. Boyd-Ker was a minor Parisian banking house but became a major broker for the Bank of England after fleeing to London in 1793—they too will return in Chapter 5. After 1776, Le Couteulx and Company were private bankers to the French

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<sup>30</sup> See, for example, Alexander Hamilton to Theophile Cazenove, 12 October 1796, in *The Papers of Alexander Hamilton*, edited by Harold C. Syrett (New York: Columbia University Press, 1974), Vol. 20, 346.

<sup>31</sup> AN T//\*/646/5, fol. 5.

<sup>32</sup> 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."

<sup>33</sup> Alain Plessis, "La révolution et les banques en France: de la Caisse d'escompte à la Banque de France," *Revue économique*, Vol. 40, No. 6, Révolution de 1789: Guerres et Croissance économique (Nov. 1989), 1004.

monarchy, and after 1781 the Paris bankers for the fledging American republic.<sup>34</sup> Along with the younger Delessert, the son of the original Le Couteulx 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. They are most notable for having failed during the suspension of payments by the *Caisse d'escompte* in 1783 and losing their capital of 3 million *livres*.<sup>35</sup> Finally, Clavière was on the opposite side of deals with the Abbé d'Espagnac, who was the sometime agent of Calonne, a clerk at the Paris *parlement*, and one of the most disastrous failed financial speculators of the eighteenth century.

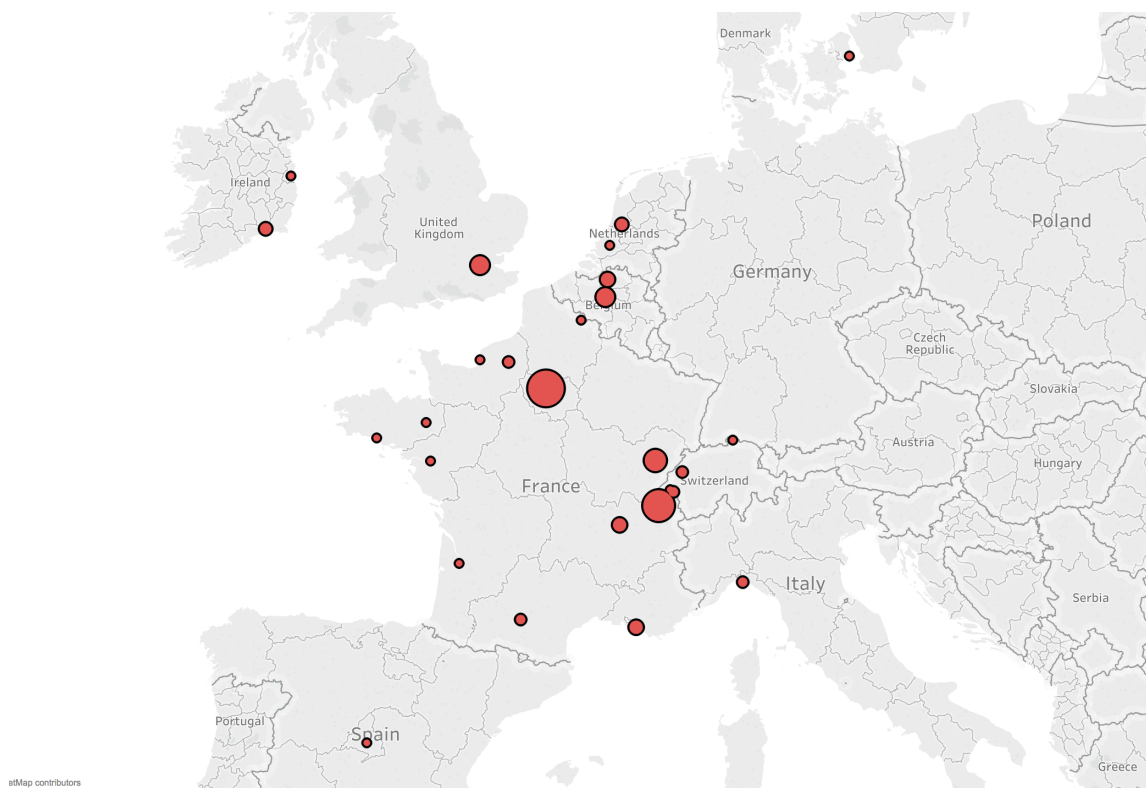
Map 1 below illustrates the geographical spread of Clavière's business partners.

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<sup>34</sup> Robert Morris to Le Couteulx, 8 June 1781 in *The Diplomatic Correspondence of the American Revolution*, edited by Jared Sparks (Washington, D.C.: John C. Rives for Department of State, 1857), Vol. 4, 269.

<sup>35</sup> Matthew Ridley to John Adams, 26 October 1783, in *Papers of John Adams*, (Cambridge, MA: Harvard University Press, 2010), Vol. 15, 320.

Map 1. Étienne Clavière's Financial Network in the 1780s.<sup>36</sup>



Since there were no official banks, 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.<sup>37</sup> 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 merchants rather than actually conducting it, and finally to specializing in the trade of credit instruments themselves.

<sup>36</sup> Compiled from AN T//\*/646/1-5, geocoded to city latitude and longitude. Larger circles mean more correspondents

<sup>37</sup> Luckett, "Commercial Society," 39. See also Eugene White, "The Paris Bourse, 1724-1814: Experiments in Microstructure," in Stanley Engerman, et al., *Finance, Intermediaries, and Economic Development* (Cambridge: Cambridge University Press, 2003), 36.

Guy Antonetti's careful reconstruction of the financial network of the Greffulhe, Montz, and Company bank provides some 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.<sup>38</sup> 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.<sup>39</sup> 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.<sup>40</sup> Six cities accounted for half of Greffulhe and Montz' business, measured by volume of transactions: London at 10%, Amsterdam and Bordeaux each with 9%, Lyon with 8%, Nantes and Geneva with 7% each.<sup>41</sup> Saint-Malo, Le Havre, Rouen, Amiens, Dunkirk, Rotterdam, and Bremen together amounted for 18%, and Paris accounted for the remaining 32%.<sup>42</sup> 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.<sup>43</sup> Clavière's main partner in Geneva was Mallet and his father in law Vieussieux; Greffulhe and Montz' 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. These networks were necessary for

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<sup>38</sup> 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. Greffulhe will return briefly in Chapter 5.

<sup>39</sup> Antonetti, *Maison de banque*, 3. About Girardot and Haller, more later in this chapter.

<sup>40</sup> Antonetti, *Maison de banque*, 64-65; Darnton's calculations in "Pursuit of Profit," 138. Laisse 66 in AN T//646/3 shows Clavière's capital at 998,000 *livres* in 1786.

<sup>41</sup> Antonetti, *Maison de banque*, 100.

<sup>42</sup> *Ibid*, 109.

<sup>43</sup> *Ibid*, 100-1.

facilitating international payments, and for matching capital in one part of Europe with investments in another, but they also had a regulatory function. If, say, Greffulhe and Montz were tempted to cheat Stadnitski on a deal, they would very likely find themselves locked out of Clavière's entire network, and vice-versa. These multilateral trust systems seem to have been very effective at ensuring that these bankers did not cheat each other. Clavière's records show a legal dispute with someone called Petitcolas in Besançon in 1785-6, but no mention of anyone in his network cheating or being cheated by another banker.<sup>44</sup> Speculating against each other in futures contracts was perfectly legitimate, and all means were justified to ensure that stock prices rose or fell according to necessity, but acts of outright fraud and cheating was reserved for the government and for unsophisticated investors.

In summary, then, the general structure of the eighteenth century financial world was as follows. Several relatively large pools of investors 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. These investors 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. As Hoffman, Rosenthal, and Postel-Vinay have demonstrated, in the French land market the role of intermediaries was filled by notaries.<sup>45</sup> Financiers, especially those operating the tax farms, traded in French government debt and *rentes perpétuelles*, which were annuities of indefinite duration.<sup>46</sup>

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<sup>44</sup> AN T/646/3, Lotte to Clavière, 8 June 1785; AN T//\*/646/2, memoire March 1785; Petitcolas to Clavière, 9 September 1785; Landry to Clavière, 15 February 1786.

<sup>45</sup> Philip Hoffman, Gilles Postel-Vinay, and Jean-Laurent Rosenthal, *Priceless Markets: the Political Economy of Credit in Paris, 1660-1870* (Chicago: University of Chicago Press, 2000).

<sup>46</sup> George V. Taylor, "Noncapitalist Wealth and the Origins of the French Revolution," *The American Historical Review*, Vol. 72, No. 2, (January 1967), 480-1.

And the international network of private bankers described above 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 54 shares of *Caisse d'escompte* stock and 30 *billets de lotterie* with Theophile Cazenove in Amsterdam; 10 *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.<sup>47</sup> 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, they would collect the dividends or interest payments, and forward them along through bills of exchange.

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 1% commission.<sup>48</sup> 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 above in which Dutch financiers marketed 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.<sup>49</sup> 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

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<sup>47</sup> AN T//\*/646/1, Clavière to Delessert, 27 May 1782.

<sup>48</sup> 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.

<sup>49</sup> White, "Paris Bourse," 41-4.

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.”<sup>50</sup> 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. This meant that more and more financial activity was conducted outside of the regulated, supervised arena of the brokers, and in the purview of more technically complex, internationally-connected private bankers.<sup>51</sup> The scope of potential malfeasance correspondingly expanded, especially in the 1780s.

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*.<sup>52</sup> Its purpose was to discount bills of exchange and other notes at a maximum of 4%, 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.<sup>53</sup> 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

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<sup>50</sup> White, “Paris Bourse,” 44.

<sup>51</sup> Another indication of the growing importance of private bankers: they were first listed in the *Almanach royale* starting in 1781. 68 of them are listed in Paris in that year. See *Almanach royale*, Laurent D’Houry ed., (Paris: printed for the Duke d’Orleans, 1781), 461-3.

<sup>52</sup> Charles Kindleberger, *A Financial History of Western Europe* (Oxford: Oxford University Press, 1993), 98.

<sup>53</sup> Taylor, “Paris Bourse,” 969.

Switzerland, the Low Countries, and northern Italy.<sup>54</sup> 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 generale 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 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*.<sup>55</sup> 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 until 1789. One of the key players in that boom was Étienne Clavière, and the public scandals of the speculators would ultimately contribute to the destruction of the entire ramshackle financial system.

In practice, most late eighteenth century financial scandals were cases of speculation rather than fraud or theft. Bearing in mind the above summary, 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 1000 shares of New Indies stock at 1500 *livres* each on October 31. If the market price on October 31 is less than 1500 *livres*, Clavière will profit because he will buy at that lower price and sell to Espagnac at 1500; if it is more, then Espagnac will profit, because he will get shares at 1500 and sell at the higher market price. Naturally the reality was far more complicated. 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 1700 *livres* on October 31, Clavière could still profit if he had bought at, say, 1200 on October 15, just not as much as if he had sold in the spot market instead of to Espagnac. Eugene White shows evidence of the house of Greffulhe selling one call option at a high strike price and

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<sup>54</sup> Taylor, "Paris Bourse," 958.

<sup>55</sup> White, "Paris Bourse," 49.



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.<sup>56</sup> 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.

The point here is that 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 publicists, who would write sensational pamphlets to either destroy the public's confidence in a company (as in the case of bear speculators), or to bolster the public's belief in rising prices and dividends from the same company (for bull speculators). This public battle of rhetoric and manipulation has attracted the interest of many historians, given the widespread scholarly interest in public opinion. My own interest here is not limited to the discursive claims made by the publicists, because I suspect it is always easier to destroy trust and confidence than to create it, however profound the philosophical underpinnings of an argument may be. But the evidence strongly suggests that Clavière's arguments were not purely cynical. He seems to have genuinely believed in his objections to the various joint stock companies he speculated against, and his arguments of the mid 1780s formed the basis of his ideas and policies when he moved into government in 1791-92. For that reason, it is necessary to devote some time to analyzing the actions of his publicists.

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.<sup>57</sup> Brissot and Clavière met in Paris in 1780, when Clavière was attempting (and failing) to

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<sup>56</sup> White, "Paris Bourse," 37 n. 14.

<sup>57</sup> Robert Darnton, "How Historians Play God," *European Review*, Vol. 11, No. 3 (2003) shows that Brissot was a police spy during at least some of 1784-1789.

secure French support for the movement of expanding the Genevan franchise. Brissot was then in London, trying to establish a *lycee* for independent philosophes while Clavière was in Ireland, trying to set up his colony of republican Swiss watchmakers, which kept them in close contact.<sup>58</sup> By September 1784 they were both in Paris, and were close enough that Clavière rescued Brissot from bankruptcy and began to employ him in writing pamphlets against Necker and Calonne's projects.<sup>59</sup>

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 Du Pont de Nemours.<sup>60</sup> Below is the most thorough list I have been able to reconstruct of their publications. It forms a useful chronological guide to the major financial scandals of the late 1780s.

#### Publications by "Mirabeau"<sup>61</sup>

- *De la Caisse d'escompte* (1785)
- *De la Banque d'Espagne, dite de Saint-Charles* (1785).
- *Lettre du comte de Mirabeau a M. Le Couteulx de la Noraye, sur la Banque de Saint-Charles et sur la Caisse d'escompte* (1785)
- *Sur les actions de la Compagnie des eaux de Paris* (1785)
- *Réponse du comte de Mirabeau à l'écrivain des administrateurs de la Compagnie des eaux de Paris* (1785)
- *Dénonciation au public d'un nouveau projet d'agiotage* (1786)

<sup>58</sup> Richard Whatmore, "Commerce, Constitutions, and the Manners of a Nation: Étienne Clavière's Revolutionary Political Economy, 1788-93," *History of European Ideas*, Vol. 22, No. 5/6, (1996), 354.

<sup>59</sup> Darnton, "Pursuit of Profit," 139-42.

<sup>60</sup> The contemporary evidence on the people behind the "Mirabeau" pamphlets is gathered in J. Bénétruy, *L'atelier de Mirabeau: Quatre proscrits genevois dans la tourmente révolutionnaire* (Geneva: A. Jullien, 1962). The real Mirabeau here is the younger Mirabeau, son of the Mirabeau who featured in Chapter 2.

<sup>61</sup> This list is derived from Bénétruy, *L'atelier de Mirabeau*, 477-9. Brissot, *Mémoires* (Paris : A. Picard et Fils, 1911 [1830]), Vol. 2, 31 says, for instance, that the real Mirabeau wrote Chapters 7 and 8 of *De la Caisse d'escompte*, Nemours wrote another chapter, and Clavière wrote the rest.

- *Seconde lettre contre la compagnie d'assurances pour les incendies a Paris et contre l'agiotage en générale* (1786)
- *Tableau raisonné de l'état actuel de la Banque de Saint-Charles* (1786)
- *Dénonciation de l'agiotage au Roi et à l'Assemblée des Notables* (1787)
- *Suite de la Dénonciation de l'agiotage* (1788)
- *Point de banqueroute, ou lettre à un créancier de l'Etat sur l'impossibilité de la banqueroute nationale* (1787)
- *De la foi publique envers les créanciers de l'état* (1788)

So, following the list, Clavière's publicists first attacked the *Caisse d'escompte*, which had only recently returned to convertibility, having been forced off it by successive runs in 1783.<sup>62</sup> Their aim was to reduce the *Caisse's* dividend payments, which Clavière had speculated against, and they succeeded.<sup>63</sup> 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 generale*.<sup>64</sup> They succeeded in driving the price of St. Charles stock from 800 *livres* to around 320. Finally, they ended 1785 by attacking the Paris Water Company, and drove its share price down 44% by the end of the year.<sup>65</sup> 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. 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.

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<sup>62</sup> Robert D. Harris, *Necker and the Revolution of 1789*, (Lanham: University Press of America, 1986), 41-2.

<sup>63</sup> 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. Bouchary's article contains a wealth of useful text transcribed from Clavière's correspondence. See also the letter from Strangman in Waterford, 16 June 1785, congratulating Clavière on his successful attack on the *Caisse*, in AN T//646/3.

<sup>64</sup> Kindleberger, *Financial History of Western Europe*, 146.

<sup>65</sup> Taylor, "Paris Bourse," 972.

Robert Darnton has characterized the “Mirabeau” pamphlets as expressing a consistent ideology of “Rousseauist moralizing.”<sup>66</sup> For Richard Whatmore, Clavière’s biographer, they set out a coherent political economy premised on the notion that straightforward adaptation of English institutions would fail in France without a transformation of French social structures and public virtue.<sup>67</sup> Clavière’s own *De la France et des Etats-Unis* (published 1787 under Brissot’s name) fits this view. There Clavière argued that national strength was predicated on trade and commerce, and commerce on trust and virtue, so a public culture of dishonesty or unequal social structures would pervert commerce and cause it to destroy both virtue and national strength.<sup>68</sup> In this sense, reforms proposed by Necker especially, but also by Calonne, were counterproductive: they were predicated on inequality and exceptional elite consumption, which ensured that they would only corrupt the beneficial character of commerce. As Darnton argues, Clavière shared Rousseau’s overriding concern with public virtues and anxieties about inequality, though of course Rousseau despised commerce and merchant society. Clavière squared the circle in very similar terms to the arguments of Hume and the elder Mirabeau, discussed in Chapter 2: cultivating the virtue of people engaged in commerce, especially overseas trade and finance, would ensure that their social power was used for beneficial purposes rather than despotic ones.<sup>69</sup> But Clavière had the bitter experience of the failed Genevan revolution behind him, so he knew well that the need for private virtue was no guarantee of its provision. Increasingly, and especially in his writings between 1789 and 1791, he argued that the many crises facing France were due to private immorality of politically powerful factions: a banker denouncing the malign power of bankers. Richard Whatmore is blunt on this point: “He [Clavière] was certainly hypocritical in many of the accusations leveled against other financiers. For example, when he created companies involved in the provision of water

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<sup>66</sup> Darnton, “Pursuit of Profit,” 148.

<sup>67</sup> Whatmore, “Commerce, Constitutions,” 353-4.

<sup>68</sup> Étienne Clavière, *De la France et des Etats-Unis* (London, 1787).

<sup>69</sup> Clavière, *De la France*, 20-24.

and life assurance, between 1786 and 1787, he sought privileges from the government identical to those he had vehemently condemned when solicited by others.”<sup>70</sup>

For my purposes, it is not necessarily essential that Clavière and his publicists were committed republicans, or followers of Rousseau. Rather, it matters that they framed their arguments using the tools, practices, and tropes described in the previous chapter. His private journal and personal letters show consistent themes throughout the 1780s: he worried about how the spirit of industriousness and republican virtue could work together, he wondered how to reconcile a cosmopolitan society with patriotism, and he increasingly believed it was impossible to have a great society that was based on exclusive privileges.<sup>71</sup> In public expression in the “Mirabeau” pamphlets, the specter of the *agioteur* and the special despotism of finance proceeded directly from the arguments of Hume, Forbonnais, Cantillon, and the elder Mirabeau. These arguments and anxieties, drawn from the political economy writing and historical memory discussed in the previous chapter, had actual economic impacts through their effect on stock prices; and once Clavière moved into government after 1791, they also affected actual policy.<sup>72</sup>

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. The *Caisse* affair was blamed on the speculations of its directors, and d’Ormesson, the *Contrôleur général*, was forced to resign as a consequence.<sup>73</sup> 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.<sup>74</sup> The other scandals, though, were more clearly the result of conscious market manipulation the part of bankers,

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<sup>70</sup> Whatmore, *Against War and Empire*, 211. Clavière himself would probably have argued that only bulls were true *agioteurs*, because when they inflated stock prices they created imaginary value for their own ends. See Lockett, “Commercial Society,” 203.

<sup>71</sup> AN T//\*/646/1, this is my gloss on his journal from 15 June 1781-December 1785.

<sup>72</sup> Lockett, “Commercial Society,” 204 argues that Rousseauism happened to coincide with deeply held values in commercial society. I do not disagree, but hope to have shown in Chapter 2 that these values themselves originated in the 1720 bubble and the historical understanding of its aftermath rather than emerging spontaneously from the mind of Rousseau.

<sup>73</sup> In the course of this affair, *Caisse* stock fell abruptly from 5000 *livres* to 3500, almost bankrupting Clavière, who had only recently arrived from Ireland. This apparently convinced him to be a bear rather than a bull speculator. See Bouchary, “Un manière d’argent,” 31-2 and 38-40.

<sup>74</sup> For a clear explanation, see Lockett, “Commercial Society,” 192-5.

brokers, and 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 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.<sup>75</sup> 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.<sup>76</sup> 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 anti-monopoly campaign conducted by the Chambers of Commerce located in various port cities, and the new Company likewise immediately came under merchant assault.<sup>77</sup> 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.

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<sup>75</sup> Frederick L. Nussbaum, "The Formation of the New East India Company of Calonne," *The American Historical Review* Vol. 38, No. 3, (April 1933), 483-4.

<sup>76</sup> Nussbaum, "Formation," 483-4.

<sup>77</sup> Malick W. Ghachem, "At the Origins of Public Credit: A Story of Stock-Jobbing and Financial Crisis in Pre-Revolutionary France" in Martin Rogoff (ed.), *The Financial Crisis of 2008: French and American Responses*, Proceedings of the 2010 Franco-American Legal Seminar, (2011), 161-4.

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 purchase a new share for every old share they owned. Some authors argue that the current shareholders were illiquid, so sold portions of their old shares in order to buy shares from the new issuance.<sup>78</sup> 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.<sup>79</sup> 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.<sup>80</sup> They, in turn, worked with the Abbé d’Espagnac, who was among the largest existing shareholders of New Indies stock. Seneffe and Pyron immediately 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 contracts. 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 *Denonciation de l’agiotage au Roi et a l’Assemblée des Notables*, exposing the conspiracy, personally denouncing Calonne’s

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<sup>78</sup> Ghachem, “Origins of Public Credit,” 171.

<sup>79</sup> Taylor, “Paris Bourse,” 970, n. 60 helps clarify the point.

<sup>80</sup> 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.

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 an option than royal default was, but the spectacle of Calonne rescuing his *agioteur* friends from his own failed plans was a political disaster. As 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."<sup>81</sup> To make matters worse, Calonne appointed two bankers, Haller and 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.<sup>82</sup> (Clavière's own records show that he held 344,750 *livres* in Indies contracts with Espagnac, just to tie the point together).<sup>83</sup> 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.<sup>84</sup> This soon went into arbitration with a notary named Duclos Dufresnoy, who ruled against the government. At that point, the Parlement of Paris

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<sup>81</sup> Darnton, "Pursuit of Profit," 152.

<sup>82</sup> AN F/12/789/C, report of 1 May 1789 shows that they had tracked down 8,868 shares, at the cost of 13.5 million *livres*.

<sup>83</sup> AN T//\*/646/5, fol. 63.

<sup>84</sup> This story is found in the report of Tillet, a lawyer in the Committee of Administration in AN F/12/798/C.



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.<sup>85</sup> The investigation into 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 Dantonists in 1794; the government lost something like 25 million *livres*, or 5% 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 8 April 1787.<sup>86</sup> Lockett claims that the whole affair was a response by the bankers to a fall in their profit margins, squeezed between rising private discount rates and (briefly) lower royal interest rates. He writes: "Only by rendering the crown less credit-worthy than themselves in the eyes of the public could the *agioteurs* hope to restore the gap between royal and private interest rates that was their stock in trade."<sup>87</sup> There is no evidence in Clavière's papers, or the interrogations following the Indies Affair to support this claim. Rather, it appears that the bear speculators were furious at the prospect of their competitors underwriting the bull positions with government money. Moreover, although the Agiotage Affair drove Calonne from power and made the political system far worse, even it 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 that opened this chapter. Even further, it was also revealed at the same time that throughout 1786 a syndicate of

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<sup>85</sup> See Laisse 2 of "Agiotage Affair" in AN F/12/798/C and P. Chevallier, "Memoire sur l'agiotage de Le Couteulx de la Noraye," in F/12/798/C, fol. 128. This was not improbable: Lockett presents evidence of La Noraye working out an elaborate arbitrage mechanism between Spanish and French silver which contributed to the run on the *Caisse d'escompte* in 1783. See Lockett, "Commercial Society," 193-4.

<sup>86</sup> On Espagnac's reimbursement, see the claim in AN F/12/798/C, memoire of 28 April 1789.

<sup>87</sup> Lockett, "Commercial Society," 209.

*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.<sup>88</sup> 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, 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* without holding any reserve capital of his own.<sup>89</sup> Baroud was a notorious *agioteur* who sometimes did business with Clavière, and had been part of the initial syndicate set up by Calonne.<sup>90</sup> 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 surely significant.

Thus, in describing the financial world of the 1780s, I hope it is clear that the major scandals directly associated with Calonne and Clavière were not the only ones. The point here is that 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 uniquely capable of causing immense social and political harm. Moreover, that structural situation produced so many scandals and crises that malfeasance was endemic to the normal working of the financial system. I have argued repeatedly throughout this study that prosecutorial discretion, technical knowledge, and international mobility contribute to acts of economic impunity. The scandal of the Agiotage Affair involved all three. 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. Clavière's own accounts track the consequences of these scandals. In the calendar year 1786, he conducted 431 transactions; in 1787 he did 342; in 1788 only 251, even as the stock of capital available expanded.<sup>91</sup> Here Clavière was not typical: according to Braudel, by 1789 the total market value of all French joint

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<sup>88</sup> Luckett, "Commercial Society," 211. For a gossipy contemporary account, see "Suite des anecdotes de la Bastille" in *Journal des révolutions de l'Europe*, (February 1789), Vol. 4, 14.

<sup>89</sup> Taylor, "Paris Bourse," 968.

<sup>90</sup> AN T//\*/646/5, fol. 2.

<sup>91</sup> This is tabulated from his account books in AN T//\*/646/5.

stock companies was double the best estimates of GNP.<sup>92</sup> Whether this qualifies as a genuine “Minsky moment” might be debated—whatever the case, a lightly regulated financial market with that much liquid capital chasing so few safe assets with so little reliable information was certainly primed for a crash.

Again, my aim here is not to convince the reader that financial impunity caused the French Revolution. My goal is much more modest. The point of this section is to show why the rupture of 1789 was so drastic and so permanent, and I hope that the evidence presented here shows why the financial system of the eighteenth century was not durable or effective enough for its restoration in 1815 to be either possible or desirable. It is to the rupture that we now turn.

## II. From Legal Exceptions to Political Exceptions

The revolutionaries of 1789 were overridingly concerned with eliminating exceptions, and Old Regime France was perhaps the limit case of exceptional jurisdictions. All law was private law that was ultimately derived from a legally immune sovereign. As discussed in Chapter 1, any given dispute would likely fall within the jurisdiction of several different competing courts. The geographical generalities of the *pays d'état*, *pays d'élection*, and *pays d'imposition* each negotiated their fiscal policies with different degrees of autonomy from the central government, while corporate bodies like guilds and religious orders regulated many of their own internal affairs. Mobile property was governed by different legal codes than immobile property, as was noble property from non-noble property, and acquired property from inherited property. Some of the deep ferment against this situation has already been touched upon, and I hope the preceding section has illustrated how this jurisdictional fragmentation allowed for rich opportunities in the exercise of economic impunity. 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

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<sup>92</sup> Fernand Braudel, *L'identité de France* (Paris: Flammarion, 1990), Vol. 3, 374.

night of 4 August 1789.<sup>93</sup> 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.<sup>94</sup> They also abolished personal serfdom without compensation, although the usufructuary land implications took longer to settle.

How did this radical transformation of property affect the capacity for acting with impunity in the economy? The influential interpretation of Francois Furet is that the August Decrees created a nation of “modern, autonomous individuals, free to do whatever was not prohibited by law.”<sup>95</sup> By contrast, Thomas Kaiser, following the work of Marcel Garaud, argues for continuity on the grounds that the Revolution codified a gradual shift away from property that was held under seigneurial or local customary law and towards property governed by the “natural law” of social utility.<sup>96</sup> His study of allodial land (that is, non-seigneurial land owned directly 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 on behalf of the Feudal Committee in 1790, “You did not intend to destroy properties, but to change their nature.”<sup>97</sup> In Kaiser’s view, old property rights were only gradually destroyed, especially during and immediately after the Terror, not in the judicial moment of 1789-90.<sup>98</sup>

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<sup>93</sup> John Markoff, *The Abolition of Feudalism: Peasants, Lords, and Legislators in the French Revolution* (University Park: Pennsylvania State University Press, 1996), 561-88.

<sup>94</sup> “Surplice money” was payments to clergy for performing rites at births, weddings, burials, and other ministerial duties.

<sup>95</sup> Francois Furet and Mona Ozouf, *A Critical Dictionary of the French Revolution* (Cambridge, MA: Harvard University Press, 1989), 112.

<sup>96</sup> Thomas Kaiser, “Property, Sovereignty, the Declaration of the Rights of Man, and the Tradition of French Jurisprudence,” in Dale van Kley, (ed.), *The French Idea of Freedom: the Old Regime and the Declaration of Rights of 1789* (Stanford: Stanford University Press, 1994).

<sup>97</sup> *Moniteur universel*, 10 February 1790, Vol. 3, 331.

<sup>98</sup> Kaiser, “Property, Sovereignty,” 333. Indeed, only on 25 August 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.

These views can be reconciled. Just as Article 6 of the Declaration of the Rights of Man claimed that law would be an expression of the general will, with all the implications of natural right and social equality contained in that concept, so too did Article 3 declare the principle of national sovereignty. With the establishment of radical jurisdictional integration, suddenly sovereignty was concentrated in Paris, and became the result of political activity rather than an exercise of tradition or divine will. In other words, the winners of political debate in Paris could determine the scope and distribution of institutional exceptions anywhere in France. If, as Furet argues, everyone was equal and atomized before the law, then the producers of the law in Paris determined whether, for instance, *agiotage* or currency speculation were crimes or not. And if, as Kaiser argues, crimes against property could be permitted if they seemed natural and socially useful—or, to the reverse, if inequality and repression themselves seemed natural and useful—then that too could be decided through political argument and codified in law. The point here is that beginning in 1789, the capacity for impunity was no longer the province of anyone who could marshal large volumes of capital from many different places, and put it into sophisticated financial speculations. Rather, it accrued to those people who made the laws and decided on targets for prosecution.

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 18 September finally forced them to suspend payments, turning their notes into fiat money, and removing the last institutional pillar of the French monetary system. It was in these circumstances that the Assembly decided to expropriate the Church: the first act of politically-constituted economic impunity of the Revolutionary period. The Church had relatively few political allies, unlike the very large population of rentiers who had acquired government debt after the onset of the American war.<sup>99</sup> The remainder of the Assembly decided not to recognize their property rights, and designated them as an exception population. In this way, the Church would be followed in 1793 by émigrés and counterrevolutionaries, whose property rights were likewise exceptional, and finally in

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<sup>99</sup> Eugene White, "The French Revolution and the Politics of Government Finance, 1770-1815," *The Journal of Economic History*, Vol. 55, No. 2 (June 1995), 235.

1797 the holders of government debt, whose property had been degraded by inflation and delay, were subject to a two-thirds default. Until then, domestic rentier property remained conspicuous in its inviolability.<sup>100</sup>

It has already repeatedly been observed that the intellectual tradition of the Girondins hoped to cultivate individual virtue to restrain and ultimately eliminate the despotism originated in economic inequality. Their preferred solution for the abolition of seigneurial property was voluntary renunciation, and early stages of the Revolution indeed gave some indication that this method was plausible.<sup>101</sup> But beginning with the recalcitrance of the Church, and accelerating with organized counterrevolution at home and abroad, the Revolution had to decide how to manufacture virtue if it was not going to be volunteered. The Girondins, like good liberal technocrats, opted for a series of technical, market-driven incentives; their successors preferred a rather more activist vision of how virtue could be produced.

The Church lands, of course, were used to prop up another exceptional tool: the *assignats*.<sup>102</sup> 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 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 long before them) would unleash the vast dormant resources of the French economy.

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<sup>100</sup> 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. The Assembly went so far as to forbid even using the word "bankruptcy."

<sup>101</sup> Cf. Kaiser, "Property, Sovereignty," 320.

<sup>102</sup> The best modern accounts are White, "Politics of Government Finance," and Thomas Sargent and Francois Velde, "Macroeconomic Features of the French Revolution," *Journal of Political Economy* Vol. 103, No. 3, (June 1995).

The first issuances of *assignats* were interest-bearing coupons that the Assembly thought would be immediately redeemed, either as payment for Church lands or for specie from a special fund set aside for that purpose. It was not until April 1790 that the *assignats* became legal tender and the first substantial issue was delayed until that autumn.<sup>103</sup> Jérôme Pétion, the Girondin representative from Chartres, argued that “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.”<sup>104</sup> Other defenders of the *assignats* claimed that they would destroy speculation, as Gouges-Deslandes claimed to the Paris Jacobin Club in July 1790, while others argued that the *assignats* were the creation of speculators, who were hoping to socialize the losses of their recent failures.<sup>105</sup> The Monarchist representative Nicholas Bergasse spoke at length on the 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...By means of the *assignats*, for which--and observe this well--they are careful to carry a lesser interest than that of the effects which they wish to sell...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 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.”<sup>106</sup>

Clavière was defending the *assignats* against Necker’s attacks as early as 1790, but especially championed them after he moved into the Legislative Assembly in October 1791. He rejected the parallel with John Law on the grounds of national transformation,

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<sup>103</sup> John Shovlin, *The Political Economy of Virtue: Luxury, Patriotism, and the Origins of the French Revolution* (Ithaca: Cornell University Press, 2006), 188.

<sup>104</sup> *Archives parlementaires*, Vol. 18, 561, cited in E. Levasseur, “The Assignats: A Study in the Finances of the French Revolution,” *The Journal of Political Economy*, Vol. 2, No. 2 (March 1894), 182.

<sup>105</sup> *Archives parlementaires*, Vol. 18, 538.

<sup>106</sup> *Archives parlementaires*, Vol. 10, 687.

from the servitude of the 1720s to the freedom of the 1790s.<sup>107</sup> National unity would legitimate 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.<sup>108</sup>

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*.<sup>109</sup> He claimed they were manufacturing and circulating counterfeits, that they were prejudicing foreign 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.”<sup>110</sup> To be sure, there is something unsavory about Clavière, the foreign banker and bear speculator denouncing a conspiracy of foreign bankers and bear speculators, 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.<sup>111</sup>

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 15 December allowing armies to loot any foreign territory they conquered.

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<sup>107</sup> Étienne Clavière, *Réponse au Mémoire du M. Necker, concernant les assignats, et a d’autres objections contre une création qui les porter a deux milliards* (Paris, 1790), 200.

<sup>108</sup> Mirabeau, *De la constitution monétaire* (Paris, 1791).

<sup>109</sup> Étienne Clavière, *De la conjuration contre les finances de l’état, et des moyens a prendre pour en arreter les effets* (Paris, 1792). It was serialized in the *Chronique du mois*, which I will cite below to establish the chronology of his arguments.

<sup>110</sup> *Chronique du mois*, February 1792, 87.

<sup>111</sup> *Chronique du mois*, January 1792, 132-3.



But by early 1793, the terms of national unity had shifted against Clavière's technical solutions. The Declaration of the Rights of Man of 1789 had proclaimed a commitment to a unified and irresistible general will, but the legitimacy of that claim had repeatedly been contested in the subsequent four years as exceptional groups argued for their right to be included in the unified political nation. The boundaries of exceptional populations were in permanent political contestation. Thus, even as the refractory priests, the émigrés, and foreigners in general were being specially designated as subject to fines, imprisonment, or confiscation, Olympe de Gouges was simultaneously arguing for the inclusion of women into full citizenship; Toussaint Louverture and the Société des Amis des Noirs for the inclusion of slaves; and Anacharsis Cloots for the inclusion of all people regardless of political borders.<sup>112</sup> 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 sovereignty remained unsettled. 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 banker and former speculator: as 1792 became 1793, he was increasingly denounced as such in the popular press.<sup>113</sup> 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; their votes against executing Louis XIV made them

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<sup>112</sup> Each of these figures has their own substantial literature. For an argument about attempts to expand the “circle of the we” during the early stages of the Revolution, see Lynn Hunt, *Inventing Human Rights: A History* (New York: W.W. Norton and Co., 2007), Ch. 4.

<sup>113</sup> Joseph-Marie Belgodere, *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: 1793); Anon, *Journal du Soir de la République française*, No. 409, July 1793.

look like royalists.<sup>114</sup> High-profile defections, especially the turning of 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 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.<sup>115</sup>

On 31 May 1793 a Jacobin-instigated insurrection erupted in the streets of Paris, resulting in the purge of 29 Girondin deputies from the Convention and the arrest of Brissot, Clavière, and most of their associates on 2 June.<sup>116</sup> 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.<sup>117</sup> He committed suicide in prison on 8 December before he could be called to the Revolutionary Tribunal. By then the political economy of the Revolution had changed entirely. The closure of the Bourse and liquidation of the joint stock companies in July 1793, the collapse of international trade and payments mechanisms, and the increasingly stringent price-fixing in the General Maximums of May and September separated France from the broader European economy. The new Constitution was first postponed, and then suspended indefinitely on 10 October as the Convention declared that France was “revolutionary until the peace”—that is, in a permanent state of

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<sup>114</sup> On the inconsistency of their views towards revolutionary government, see Theodore DiPadova, “The Girondins and the Question of Revolutionary Government,” *French Historical Studies*, Vol. 9, No. 3, (Spring 1976). On the trial of Louis, see Albert Soboul, *Le procès de Louis XVI* (Paris: Juillard, 1966).

<sup>115</sup> Thus, I (precariously) concur with the account of the political radicalization of the Revolution in François Furet, *Interpreting the French Revolution* (Cambridge: Cambridge University Press, 1981), 65-70. I hope it will be clear that I do not otherwise subscribe to Furet’s political, historiographical, or methodological commitments.

<sup>116</sup> With all his usual verve, see the account of this story in Albert Mathiez, *The French Revolution* (New York: A.A. Knopf, 1928), 324-6.

<sup>117</sup> At least that is his account in Clavière, *E. Clavière a ses concitoyens* (Paris: Impr. de la Commission générale des monnoies, 12 July 1793)

exception.<sup>118</sup> In its place was rule by the Penal Code, and the legal mechanisms of the Terror. The implications of this for property and impunity are the subject of the next chapter.

Already in 1790 the exchange rate implications of the *assignats* had already started the breakdown in the mechanisms of international trade. The abrupt move to an inconvertible paper currency certainly altered the European monetary architecture, but bankers and merchants were sufficiently versed in dealing with paper promissory notes, strange currencies, and short-term credit instruments that the *assignats* alone probably would not have been sufficient to destroy the old system. Instead, the old financial regime only truly collapsed with the outbreak of the war in the spring of 1792. The loss of feudal property rights and the expropriation of Church land was certainly alarming, but the sequester of foreigner's property in late February 1792 and the later seizure of foreign property owned by Frenchmen in 1794 completely paralyzed international trade. The loss of markets meant several things. First and most obviously, it reduced the demand for British exports, first in sections of the Continent, then in the Mediterranean, and culminating in the Continental System of 1806-14. But as markets disappeared, so too did the counterparties on British bills of exchange, meaning that increasingly international payments had to be settled in terms of specie rather than bills of exchange drawn on London, as had been the case before the war.<sup>119</sup> The Convention closed the Paris bourse in June of 1793, officially ending Paris as a hub in the international financial network. They also liquidated all extant joint stock companies with no compensation, thereby wiping out an enormous amount of mobile wealth.<sup>120</sup> The loss of Holland to French armies in late 1794 broke apart the Amsterdam component, leaving only Hamburg and Lisbon as significant sources of foreign specie. Larry Neal has reconstructed some evidence of capital flight, as merchants and bankers on the Continent used bills of exchange to move their liquid capital to London ahead of the victorious

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<sup>118</sup> See the speech of Saint-Just in *Oeuvres Complètes de Saint-Just* (Paris: Charpentier et Fasquelle, 1908), Vol. 2, 83-88.

<sup>119</sup> Larry Neal, "A Tale of Two Revolutions: International Capital Flows, 1789-1819," *Bulletin of Economic Research*, Vol. 43, No. 1, (1991), 62.

<sup>120</sup> Taylor, "Paris Bourse," 957.

Revolutionary armies.<sup>121</sup> In his view, this flight capital increased the amount of loanable funds in the British economy exactly when it was needed, helping to alleviate the “crowding out” of wartime spending and partly funding the increase in joint stock companies. This point will return in Chapter 5; for now the timing is most significant. Once this capital got to England in 1793-5, it was effectively stuck there until 1815.

With many aspects of the international economic system no longer functioning, and the exceptional demands of continental warfare increasingly stringent, both Revolutionary France and Britain alike used the period of relative isolation and autonomy to centralize economic discretion.

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.<sup>122</sup> 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 all payments abroad to keep English forces fed, armed, and provisioned. Sterling began to depreciate on the Hamburg and Lisbon exchanges, and the Bank increasingly restricted non-government lending.<sup>123</sup> This slow and continual drain of gold meant that when crisis hit in early 1797, the Bank’s reserves were already very low.

Likewise, Pitt’s fiscal projects 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 by July.<sup>124</sup> Boyd and Benfield, who were the bankers in charge of placing the loan, asked the government for £500,000 to be secretly

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<sup>121</sup> Neal, “Tale of Two Revolutions,” Table 2, 68 puts the amount of foreign holdings of British government debt in 1801 at £17.4 million. That would be the minimum amount of foreign capital in Britain at that time, not capturing whatever might have been held as book credit by private banks or invested in other joint stock companies.

<sup>122</sup> R.G. Hawtrey, “The Bank Restriction of 1797,” *The Economic Journal*, Vol. 28, No. 109 (March 1918), 53.

<sup>123</sup> Bank of England Archive, M5/472, Private Minute Book, fols. 11-13.

<sup>124</sup> The Bank itself thought this was the fatal moment. See Bank of England Archive, M5/472, Private Minute Book, 2 December 1795, fol. 1 and Committee of Treasury Minutes, G8/6, fol. 367.

deployed in buying shares of the loan in order to support its price.<sup>125</sup> At the same time Pitt asked the Bank to remit £300,000 in silver to Berlin, and increasingly 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.<sup>126</sup> 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.<sup>127</sup> 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 justification that it would be “impossible to avoid the most serious and distressing embarrassment to the public service” without full accommodation.<sup>128</sup> 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.<sup>129</sup> In November 1796 the Bank was prepared to advance Pitt £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.<sup>130</sup> This the government had no means to accomplish. The Bank could not stop the continual external drain on its gold reserves through domestic contraction, because on the one hand the government also needed a functioning London money market and on the other, the collapse of normal mechanisms of trade meant that there was no countervailing force to offset the huge outflow of gold.

On 1 December, 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. There is great reason to hope that many Persons possessed of considerable Income both in the Capital and in the Country will be induced without waiting for this measure being performed, voluntarily to contribute in a larger proportion than would be required of them, but the extent of such a contribution will in a great degree depend upon the effect of example and particularly on the degree of countenance which the measure may receive from the Bank. I will request the

<sup>125</sup> TNA PRO 30/8/195/1, Memoranda, 25 July 1794, fols. 43-44.

<sup>126</sup> TNA PRO 30/8/195/2, Pitt to Bank of England, 20 May 1794, fol. 107; Pitt to Bank of England, 20 June 1796, fols. 136-7; Pitt to Bank of England, 20 July 1796, fol. 139.

<sup>127</sup> Bank of England Archive, Court Minutes, 26 November 1796, fols. 22-3.

<sup>128</sup> TNA PRO 30/8/195/2, fols. 137-43.

<sup>129</sup> Bank of England Archive, Court Minutes, 12 May 1796, fol. 85.

<sup>130</sup> Bank of England Archive, Court Minutes, 3 November 1796, fol. 135.

favor of You to lay these considerations before the Court of Directors in the first instance and afterwards if they think fit, before a Court of proprietors and to express my earnest hope that from their Zeal for the Public Service and their sense of the importance of the present Crisis, they will not be dis-inclined to take the lead in a Measure, which must have the most beneficial Effect on the Public Credit and the most evidence tendency to accelerate the Restoration of Peace on secure and honourable terms.”<sup>131</sup>

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 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% 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 (which will be the centerpiece of Chapter 5), these were very 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% in March of 1797. Patriotism, it seemed, would only stretch so far.

In an emergency meeting of the Privy Council on 26 February 1797, the government decided that the Bank would have to suspend payments.<sup>132</sup> This they communicated to the Bank on their own authority, 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.”<sup>133</sup> On 3 May, Parliament passed the Bank Restriction Act, which gave legal authority to the executive decision.

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<sup>131</sup> Bank of England Archive, Court Minutes, 1 December 1796, fols. 144-5. The memorandum is in TNA PRO 30/8/195/2.

<sup>132</sup> Bank of England Archive, G4/27, Court of Director Minutes, 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.”

<sup>133</sup> Bank of England Archive, M5/472, Private Minute Book, fol. 62.

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 the end of the Napoleonic Wars.

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, then to obtain American dollars, then to obtain silver for the Bank, then to buy the only 4000 gold *louis* still extant on the market.<sup>134</sup> At the end of May, the Bank authorized Goldsmid to charter Navy frigates to move one hundred thousand pounds of bullion from Hamburg, or twice as much in 64-gun ships of the line.<sup>135</sup>

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 restriction 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 10 May 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.<sup>136</sup> 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.<sup>137</sup>

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.<sup>138</sup> 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

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<sup>134</sup> Bank of England Archive, G8/8, Committee of the Treasury Minutes, fols. 12-28.

<sup>135</sup> Bank of England Archive, G8/8, Committee of the Treasury Minutes, fol. 30.

<sup>136</sup> Bank of England Archive, G6/129, Court of Director Minutes, fol. 44.

<sup>137</sup> Randall McGowen, "The Bank of England and the Policing of Forgery, 1797-1821," *Past & Present*, No. 186 (February 2005), 85.

<sup>138</sup> Bank of England Archive, G8/8, Committee of the Treasury Minutes, fol. 59.

stream of potential convictions.<sup>139</sup> 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.<sup>140</sup> In the face of high legal costs and low success rates, the Bank lobbied Parliament in 1801 to pass a bill criminalizing the possession, not just the production, of counterfeit notes, with a special provision that the proof of innocence lay with the accused.<sup>141</sup> True counterfeiting was a capital offense, but possession was a lesser charge, carrying a penalty of “only” 14 years transportation. In practice, this meant that people being prosecuted for counterfeiting would usually opt for confessing to the lesser charge, and the Directors of the Bank 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 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.”<sup>142</sup> Between 1805 and 1818, about one in three people executed in London, and about one in five in England and Wales as a whole were convicted of forgery or counterfeiting.<sup>143</sup> The Bank was so effective and enthusiastic in its new role that by 1818-1821, the Bank’s prosecutions were the central *cause celebre* 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.”<sup>144</sup>

The Restriction had a broadly deranging effect on public financial discussion. William Cobbett, writing from prison in 1810, was as outspoken as ever: “What! Stop

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<sup>139</sup> McGowen, “Bank of England,” 100-101.

<sup>140</sup> This was especially true outside of London. See John Styles, “‘Our Traitorous Money Makers’: the Yorkshire Coiners and the Law, 1760-83,” in John Styles and John Brewer (eds.), *An Ungovernable People: the English and Their Law in the Seventeenth and Eighteenth Centuries* (New Brunswick, NJ: Rutgers University Press, 1980), 182.

<sup>141</sup> Randall McGowen, “Managing the Gallows: the Bank of England and the Death Penalty, 1797-1821,” *Law and History Review*, Vol. 25, No. 2 (Summer 2007), 251-2.

<sup>142</sup> McGowen, “Managing the Gallows,” 269.

<sup>143</sup> Philip Handler, “Forgery and the End of the ‘Bloody Code’ in Early Nineteenth Century England,” *The Historical Journal*, Vol. 48, No. 3 (Sept. 2005), 690.

<sup>144</sup> G.B. Mainwaring, “Observations on the Present State of the Police of the Metropolis,” *Pamphleteer*, No. 19, (1822), 544. Cited in McGowen, “Bank and Forgery,” 83.



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.”<sup>145</sup> 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. In the popular mind, the Bank had abruptly moved from being a private company that could be prosecuted to an immune and violent arm of the government that was conducting its own prosecutions. Cobbett also invoked the *assignats* again and again, and on terms remarkably similar to those of Clavière, though where Clavière had seen benefits, Cobbett saw tyranny.<sup>146</sup> Just as Clavière had promised in 1791, Cobbett warned that paper money would inextricably tie the entire nation’s survival to the success of the government.<sup>147</sup> Writing from Paris, Thomas Paine agreed. Paper money, he wrote, “changes the seat of power and the order of things; for it puts it in the power of even a small part of the holders of banknotes...to control any measure of government they found to be injurious to their interest.”<sup>148</sup>

The political fallout was not limited to radicals like Cobbett or satirists like the cartoonist James Gillray.<sup>149</sup> Immediately after the Restriction Act in May 1797, Pitt had to mobilize his Parliamentary support to oppose an attempt by William Pulteney to charter a rival Bank of England.<sup>150</sup>

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<sup>145</sup> William Cobbett, *Paper Against Gold, or, The History and Mystery of the Bank of England, of the Debt, of the Stocks, of the Sinking Fund, and of All the Other Tricks and Contrivances Carried on by Means of Paper Money* (London: J. M’Creery, 1815), 24. Italics in the original.

<sup>146</sup> Cobbett, *Paper Against Gold*, 57-8, 70, 199, 210, 249, 308, 353-5, 364, inter alia.

<sup>147</sup> Ibid, 71. He invokes Paine’s *Decline and Fall of the English System of Finance* on this point.

<sup>148</sup> Thomas Paine, *The Decline and Fall of the English System of Finance* (Paris: Hartley, Adlard and Son, 1796), 40. He was writing before the Restriction, predicting that the recourse to paper money in order to fund the national debt would inevitably destroy English commerce.

<sup>149</sup> An original copy of Gillray’s famous cartoon that first depicted the Bank as the “Old Lady of Threadneedle Street” is in usually in Bank of England Archive, M6/4, but has been on display at the Bank museum since May 2013.

<sup>150</sup> John Clapham, *The Bank of England: A History* (Cambridge: Cambridge University Press, 1944), Vol. 2, 4.

To the modern eye, these popular fears are ridiculous, and begin the long and deplorable history of anti-Semitic gold standard paranoia. It is worth bearing in mind that the three experiences with paper money in the minds of late eighteenth and early nineteenth century writers were Law's System, the American Continentals, and the French *assignats*, all of which had ended in inflationary disaster. It was not unreasonable to predict that the Restriction would likewise fail, however unsavory those predictions may have been. What were these writers missing?

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.<sup>151</sup> 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.<sup>152</sup> 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."<sup>153</sup>

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

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<sup>151</sup> A classic formulation is Michael Bordo and Finn Kydland, "The Gold Standard as a Rule: An Essay in Exploration," *Explorations in Economic History*, Vol. 32 (1995).

<sup>152</sup> Patrick O'Brien and Nuno Palma, "Danger to the Old Lady of Threadneedle Street? The Bank Restriction Act and the Regime Shift to Paper Money, 1797-1821," EHES Working Paper No. 100, (July 2016) would disagree, arguing that the Bank had demonstrated a century of prudent behavior by not inflating during wartime. I agree that contemporaries were confident in the Bank's prudence, but suspending convertibility is a more obvious and drastic step than wartime inflation.

<sup>153</sup> The phrase is from the Whig MP George Tierney in 1800. H.V. Bowen, "The Bank of England During the Long Eighteenth Century, 1694-1820," in Richard Roberts and David Kynaston (eds.), *The Bank of England: Money, Power, and Influence, 1694-1994* (Oxford: Clarendon Press, 1995), 7.

by the full faith and credit of the British state.<sup>154</sup> 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. Moreover, between 1797 and 1808, the Bank kept its discounts rationed and pursued no consistently inflationary policies, either because the Directors were divided between bullionist and non-bullionist views, or because they were never certain how long the Restriction would last.<sup>155</sup> 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.<sup>156</sup> 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 towards turning the Bank of England into a modern central bank with unified discretionary authority over monetary policy.

#### Conclusion: Politics over Property

When the Committee of Public Safety abolished all of the existing French joint stock companies on 24 August 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, including the radical Jacques René Hébert, but led by 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.<sup>157</sup> Chabot immediately denounced his accusers, claiming to have infiltrated rather than initiated the plot, and that it in fact originated in a

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<sup>154</sup> This should not be overstated: the government did not directly underwrite any of the Bank's obligations. Bowen, "Bank of England," 13.

<sup>155</sup> Ian Duffy, "The Discount Policy of the Bank of England During the Suspension of Cash Payments, 1797-1821," *The Economic History Review*, Vol. 35, No. 1 (Feb. 1982), 68-9.

<sup>156</sup> Clapham, *Bank of England*, Vol. II, 42-5.

<sup>157</sup> 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.

conspiracy between the royalist Baron de Batz, Dufourny, and the British government to corrupt and slander the virtuous members of the Convention.<sup>158</sup> 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 swirl of denunciation and counter-denunciation had eventually (without any clear evidence) implicated Georges Danton, who was arrested on 30 March. Danton, Desmoullins, and the other anti-Jacobin moderates were added to Chabot's trial, turning Chabot himself into a minor player in a vast political drama.<sup>159</sup> All fifteen defendants were guillotined on 5 April 1794, Chabot as a new category of enemy person: "un fripon," or, a crook.

The political, legal, and institutional ruptures of 1789-93 irrevocably changed the ways that prosecutorial limits and the insufficiency of regulation interacted in international capital markets to produce impunity. The Terror and the first Revolutionary war did not mark the end of this transition. In Britain the exceptional status of the Bank of England extended through 1821, even in spite of 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. Even in 1799-1802 the Consulate declared many areas of France outside of the

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<sup>158</sup> 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 AN F7/4637, "François Chabot a ses concitoyens." 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.

<sup>159</sup> It is surprisingly difficult to find good scholarly work on Danton. A masterful summary of this is in R.R. Palmer, *Twelve Who Ruled: the Year of the Terror in the French Revolution* (Oxford: Oxford University Press, 1941), 295-303.

Constitution and in a permanent state of siege, which ensured that the judicial system and police powers were in the hands of the military operating in exceptional circumstances.<sup>160</sup>

Thus far I have only sketched out what this new centralized and politicized world of impunity looked like. It remains to show how it actually worked on the ground. That is the work of the next chapter.

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<sup>160</sup> Howard Brown, *Ending the French Revolution: Violence, Justice, and Repression from the Terror to Napoleon* (Charlottesville: University of Virginia Press, 2006), 211

## Chapter Four: The Rule of Property in Dublin and Strasbourg, 1780-1820

“The provinces of absolute monarchies are always better treated than those of free states. Compare the *pais conquis* of France with Ireland, and you will be convinced of this truth.”<sup>1</sup>

- David Hume

### Introduction

The Irish Rebellion of 1798 barely touched Dublin. The capital was intended to serve as the epicenter of a general national uprising, but instead the heavily Protestant metropolis organized its own militias to immediately disperse the rebel assemblies. But the rebels found one point of consensus with the city’s population: they gathered together all of the available notes of the Beresford and Company bank and burned them in the street between the bank and Custom House, with a crowd apparently dancing jubilantly and declaring that Beresford’s bank would surely be ruined.<sup>2</sup> The crowd was quite wrong: those banknotes were liabilities to Beresford and Company, so burning them left the bank in a stronger position than it had started. But their hatred of Beresford was not random or arbitrary: as a politician and a banker, he personified every axis of inequality at work in the social and economic structure of late eighteenth and early nineteenth century Ireland.

A sufficiently observant bird flying southeast in May 1798 from the smoke of Beresford’s banknotes would eventually have reached Alsace, where heaps of worthless paper *assignats* and *mandats* were likewise being publicly burned. The Directory had issued the *mandats territoriaux* to replace the worthless *assignats* in early 1797, but by the end of the year they too were worthless, and heavily counterfeited, especially on France’s border with the German lands. By early 1798, monetary stability had finally returned to France, following the Directory’s forced loan of December 1795, the two-thirds default of September 1797, and the remittances of specie from Napoleon’s conquests. Eight years of mandatory use of rapidly depreciating paper money had come

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<sup>1</sup> David Hume, “That Politics May Be Reduced to a Science,” in *Essays Moral, Political, and Literary*, T.H. Green and T.H. Grose, eds. (London: Longmans, Green, 1882), Book I, Part III, Section 9, 103.

<sup>2</sup> Malcolm Dillon, *The History and Development of Banking in Ireland from the Earliest Times to the Present Day* (Dublin: Alex Thomas and Co., 1889), 3.

to an end, and the various *départements* were left to destroy the worthless banknotes still in circulation, except for those few examples that they preserved in their archives.

These two acts of public property destruction differed in most important respects, but nevertheless were both illustrative of the changing intersection of property and sovereignty in Britain and France during the Revolutionary interregnum. The previous chapter has detailed how the rupture of international capital markets after 1789 allowed for dramatic changes in the scope of prosecutorial discretion in both Britain and France, and argued that these changes constituted a “nationalization” of economic impunity. A national transition requires an expansion in the unit of analysis beyond the metropolises of London and Paris. The crisis of 1720 could plausibly be told entirely from the vantage points of Exchange Alley and the Rue Quincampoix, and the legal innovations of 1789 could be explained without leaving the halls of the City of London or the National Assembly. But if my argument about nationalization is correct, it should have caused practical changes in people’s lives, even at the borders of each state’s territorial jurisdiction. Furthermore, the years 1780-1820 witnessed an enormously complex series of events that are more easily apprehended and assessed through tangible examples rather than through a view limited to high politics and legislation. For those reasons, this chapter turns its attention to a pair of case studies.

The choice of Dublin and Strasbourg deserves some justification. There are good precedents for using each city to reflect on national trends: it is uncontroversial that much can be learned about imperial Britain from what happened in Dublin, and much about France from events in Strasbourg. Each alone makes intuitive sense, but the juxtaposition of the two is not immediately obvious. Nevertheless, the two cities shared a set of characteristics and structural positions that make a comparison profitable. Both cities were ancient metropolises that culturally and economically dominated a large agricultural hinterland. Both cities had enjoyed substantial political autonomy for long stretches of the distant past, and in an attenuated sense, within recent memory.<sup>3</sup> Both cities were places where religious factionalism, linguistic nationalism, and the domestic

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<sup>3</sup> For deeper history, see David Dickson, *Dublin: Making of a Capital City* (Oxford: Belknap Press, 2014) and Thomas Brady, *Ruling Class, Regime and Reformation at Strasbourg, 1520-1555* (Leiden: E.J. Brill, 1978).

imperialism of early modern state formation intersected, such that a long-standing local urban patriciate quickly came to be seen by the general population as an illegitimate caste of foreign occupiers. The periodization is also illustrative: both cities lost substantial political autonomy in the 1680s, and in both cases efforts to impose central authority accelerated after 1800: in Dublin by the Act of Union and in Strasbourg by the Napoleonic regime and the demands of the Continental System.

Between 1780 and 1800 Dublin was the second largest city in Britain, with a population of 180,000, and actively attempted to claim status as the second capital of the empire, on par with London. Strasbourg was a much smaller city: its population was level around 50,000 between 1787 and 1826, out of a total Bas-Rhin population that reached 466,000 in 1815.<sup>4</sup> Strasbourg could not claim to be the second capital of France, but it still occupied an outsized place in French politics. Before it was surpassed in 1874 by St. Nikolai's in Hamburg, the single spire of Strasbourg's cathedral was the tallest building in the world. A revolutionary banner on the pinnacle would have been visible throughout the entire Alsatian basin, from the Vosges to the Black Forest. Strasbourg also occupied an outsized position in France's intellectual and cultural life. The *Courrier de Strasbourg* was the most widely circulated provincial newspaper in France, and counted the Paris Jacobin club among its subscribers. The mighty publishing house of Berger-Levrault was one of the lynchpins of European print culture, supplying books to 318 bookstores, 326 individuals, 13 institutions, and 18 printers from St. Petersburg to Livorno to New York.<sup>5</sup> Before the extension of English copyright law to Ireland in 1801, Dublin was also a dominant center of the book trade, especially for the pirating and re-export of English books to America and the rest of the Anglophone empire.<sup>6</sup> Far from being provincial consumers of cultural life, both cities aggressively produced and protected their own cultural heritage and autonomy.

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<sup>4</sup> Paul Leuilliot, *L'Alsace au debut du XIX<sup>e</sup> siècle*, Vol. II: *Les Transformations économiques* (Paris: S.E.V.P.E.N., 1959-60), 12.

<sup>5</sup> "Grand Livre General de Liquidation de Levrault," Archives départementales du Bas-Rhin (henceforth AD BR) 40J/429.

<sup>6</sup> On the Dublin book trade, see Mary Pollard, *Dublin's Trade in Books, 1550-1800* (Oxford: Clarendon Press, 1989) and James Phillips, *Printing and Bookselling in Dublin, 1670-1800* (Dublin: Irish Academic Press, 1998).



Most of all, Strasbourg was on the frontier, and Dublin was in Ireland. These were both crucial places where national governments needed to enforce their claims to sovereignty against local interests and foreign competitors alike. In both cities, the overriding necessity of retaining the loyalty of local elites ensured that they were left a free hand to protect their interests and govern their subject populations. But in both cities, the administrative chaos of the 1790s and early 1800s resulted in economic disorder and crises in the legitimacy of sovereign rule, necessitating the imposition of more direct national control. This imposition completed the transition in the exercise of impunity from powerful local elites who maintained their position through their control of property to the national government, which legitimized itself through claims to providing administrative competence and economic stability.

### I. Municipal Governance in Conditions of Contested Sovereignty

At the turn of the nineteenth century, the city of Dublin was governed by a thicket of overlapping authorities. The Dublin Corporation had nominal jurisdiction over everywhere within the city limits, except for the four “Liberties”—territorial remnants of medieval manorial courts with their own legal jurisdictions, privileges, external tariffs, and internal taxes. The Liberties occupied a substantial portion of southwest Dublin, and the Earl of Meath’s Liberty in particular was a vital component of the city’s economy, since it was the center of Dublin’s textile manufacturing industry. The decline of its increasingly crowded and impoverished tenement housing stock tracked the gradual collapse of the silk industry after 1750, as did the Liberty’s continually waning jurisdictional privileges.<sup>7</sup> In many ways, Meath’s Liberty recapitulated in miniature the transitions experienced by Dublin as a whole.

In addition to these four areas of territorial exception, there were several arenas of governance in which the Corporation had no authority, because they were instead under the jurisdiction of some other corporate body. The most prominent of these were of course ecclesiastical, but some were secular: the Port of Dublin, for instance, was

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<sup>7</sup> For the only specific discussion of the Liberties, see Kenneth Milne, *The Dublin Liberties, 1600-1850* (Dublin: Four Courts Press, 2009).

governed by its own corporation until 1786.<sup>8</sup> Most social welfare provision and cultural activities were conducted by charitable organizations, and most economic coordination was organized by the Dublin Society and later by the Chamber of Commerce.<sup>9</sup> The Corporation's authority was bounded from above by the royal executive bureaucracy, which was vested in the office of the Lord Lieutenant, residing permanently in Dublin Castle since 1767.<sup>10</sup> And finally, between 1783 and 1800, the Irish Parliament sat in Dublin, making national legislation that frequently overrode the decisions of the municipal Corporation.

Rather than persistently defending its monopoly of governance over a bounded geographical space like the City of London Corporation, or occupying the local level of a federal structure like a modern city, the Dublin Corporation was one corporate body among many, an environment rather like a small-scale version of J.H. Elliott's "composite monarchies."<sup>11</sup> The Corporation was composed of representatives from Dublin's 25 guilds, with the 600-member Merchant's Guild by far the largest and most powerful among them.<sup>12</sup> It met quarterly, with most of the practical day-to-day administrative work conducted by freemen who held the much-resented part-time offices of sheriffs and clerks.<sup>13</sup> Freemen—that is, Protestant, adult male, property-holding citizens who had been granted the "freedom of the city" through birthright, payment of a fee, or reward for services, and who were entitled to full civil and political rights—numbered about 3,000 out of a total urban population of 180,000 in the last half of the 18th century.<sup>14</sup> As elsewhere in Britain, although access to the various forms of Dublin's

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<sup>8</sup> For an exhaustive discussion of the Port, see Henry A. Gilligan, *A History of the Port of Dublin* (Dublin: Gill and Macmillan, 1988).

<sup>9</sup> Jacqueline Hill, *From Patriots to Unionists: Dublin Civic Politics and Irish Protestant Patriotism, 1660-1840* (Oxford: Clarendon Press, 1997), 171.

<sup>10</sup> James Quinn, "Dublin Castle and the Act of Union," in Michael Brown, Patrick M. Geoghegan, and James Kelly (eds), *The Irish Act of Union, 1800: Bicentennial Essays* (Dublin: Irish Academic Press, 2003), 95.

<sup>11</sup> J.H. Elliott, "A Europe of Composite Monarchies," *Past & Present*, No. 127, (Nov. 1992).

<sup>12</sup> Hill, *From Patriots to Unionists*, 29, 130.

<sup>13</sup> Sean Murphy, "The Corporation of Dublin, 1660-1760," *Dublin Historical Record*, Vol. 38, No. 1, (Dec. 1984), 22.

<sup>14</sup> Hill, *From Patriots to Unionists*, 28.

politics was by no means restricted to the freemen, they did monopolize the formal levers of institutional power.<sup>15</sup>

To the modern observer, this collection of governing bodies can easily obscure what was in fact a very small and consistent group of people who, through their presence on virtually every Board and Committee, were able to coordinate a consistent approach to city governance. The proliferation of governing bodies produced a sort of asymmetry: to the citizen or petitioner, the location of authority and the jurisdiction of any given body was never entirely clear, but to the governing elite a relevant body existed, or could be created, to enact any desired policy. Jacqueline Hill, the pre-eminent historian of Dublin's corporate politics, argues that the city's Protestant elite were bound together by a "corporatist ideology," which justified their social position and cast them as patriots responding to the demands of centuries of royal absolutism.<sup>16</sup> Just as in Old Regime France, both the corporations and the privileged individuals who constituted them were viewed as vital intermediaries between the monarchy and its subjects. This intermediation was seen as something of a public good, providing cohesion, stability, and order.<sup>17</sup> Surprisingly, in Dublin this corporatist ideology appears to have been strongest outside of the Corporation itself, especially in the 1730s and 1740s, when the apothecary Charles Lucas led a successful political campaign asserting ancient guild privileges against the closed oligarchy of the Corporation's 24 aldermen, thereby weakening the formal Corporation relative to its constituent corporate elements.<sup>18</sup> And, of course, this corporatist ideology was firmly rooted in a particular vision of Christian order and hierarchy, solidified by the *de jure* exclusion of Catholics and Protestant dissenters from corporate bodies until 1793, and *de facto* until around 1810.<sup>19</sup>

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<sup>15</sup> For forms of politics beyond the franchise, see James Vernon, *Politics and the People: A Study in English Political Culture, c. 1815-1867*, (Cambridge: Cambridge University Press, 1993).

<sup>16</sup> Hill, *From Patriots to Unionists*, and *idem*, "Corporatist Ideology and Practice in Ireland, 1660-1800," in S.J. Connolly (ed.), *Political Ideas in Eighteenth-Century Ireland*, Dublin: Four Courts Press, 2000.

<sup>17</sup> The classic depiction of the dire consequences resulting from the erosion of these intermediaries is Alexis de Tocqueville, *The Old Régime and the French Revolution*, (New York: Doubleday & Co., Inc., 1955 [1856]), 14-19 and 81-108.

<sup>18</sup> Hill, *From Patriots to Unionists*, 112-123 and *idem*, "Corporatist Ideology," 76.

<sup>19</sup> This is a complicated issue. Much controversy was excited in the mid-18th century over the question of "quarterage": whether or not Catholics could pay fees to enter guilds as quarter-members and thereby gain the rights to practice a trade. But quarterage was never enacted. See Dickson, *Dublin*, 196-97. Even 1810

All of this suggests that in Dublin coordination of urban governance occurred at the level of elite sociability, not through the working of any one specific formal organization. Rather, the organizations were themselves coordinated by the tight social, cultural, and familial ties of their personnel. The roughly 3,000 bourgeois citizens who were actively represented in Dublin politics were themselves subordinate to the approximately 550 Members of the Irish Parliament: a collection of the landed aristocracy who still dominated Irish society as well as social and cultural life in the capital. They were the link to London and the mechanism through which impunity in Dublin was eventually nationalized. But until then, the few Members from the boroughs around Dublin and from the city itself were the most powerful actors in the city's governance. In the 1780s, the formal inequalities of property and religion ensured that this "Protestant Ascendancy" could act with impunity in Dublin, but by the 1820s, they were bound by Parliamentary supervision and the total loss of their political legitimacy in the face of populist moral sentiment emanating from rising Catholic nationalism.<sup>20</sup>

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Ancien Régime France was, of course, nearly the limit case of conflicting and overlapping jurisdictions, and Alsace was no exception. Strasbourg's long experience of independence came to an end with Louis XIV's annexation of Alsace in 1681. Strasbourg spent the eighteenth century as a fortified garrison town on the frontier, but aside from the royal military presence was mainly left to its own autonomous economic and cultural devices.<sup>21</sup> Even in 1789, most of the land in Alsace was owned by the German nobility, and the old German-speaking patriciate still dominated the city's

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may be too early: there was dispute over allowing Catholics onto the Board of the Bank of Ireland in 1826. See the *Freeman's Journal*, 12 November 1826.

<sup>20</sup> The term "Protestant Ascendancy" was their own, but is in wide historiographical use. In the 1780s it was repeatedly invoked in the Irish House of Commons as a principle to be defended. For an excellent example, see the speech of George Ogle, MP for Wexford, on 6 February 1786, reprinted in Richard Woodward, *The Present State of the Church of Ireland* (Dublin, 1786). See also James Kelly, "The Genesis of 'Protestant Ascendancy': The Rightboy Disturbances of the 1780s and their Impact Upon Protestant Opinion," in Gerard O'Brien (ed.), *Parliament, Politics, and People: Essays in Eighteenth-Century Irish History* (Dublin, 1989): 93-127.

<sup>21</sup> The classic discussion is Franklin Ford, *Strasbourg in Transition: 1648-1789* (Cambridge, MA: Harvard University Press, 1958).

municipal and corporate politics, though after the 1750s it was heavily influenced by French culture, just like every other ruling elite in Europe. Nearly all Alsatians spoke Swabian German, and nearly half of them were members of the Augsburg Protestant church rather than French Catholics.<sup>22</sup> Throughout the eighteenth century, Alsace remained outside the French tariff zone, ensuring that its economy was more tightly bound to the German principalities across the Rhine than to its immediate French neighbors. Though Alsatians were willing to recognize the civic demands of French citizenship, they showed no interest in becoming Frenchmen: even as Enlightenment vernacular publishing sharpened nationalist divisions, Alsace continued to defend its local particularism.<sup>23</sup>

Unlike in Dublin, there was no continuity in the personnel of Strasbourg's municipal government after 1789. Indeed, Strasbourg's political situation recapitulated in miniature the oscillations in Paris. With the outbreak of the Revolution, the city's guilds elected the two deputies representing the Third Estate in the Estates General, while the Catholic clergy and one representative from the Lutheran university elected their own deputy to the First Estate.<sup>24</sup> The 126 electors for the Third Estate easily chose Jean de Turckheim, a pillar of the Protestant patriciate, and a Baron of the Holy Roman Empire who was authorized under a royal *lettre de dérogeance* to hold commoner status for political purposes; after more considerable deliberation, they also chose Joseph Schwendt, a Catholic commoner in the tobacco industry.<sup>25</sup> These moderate, established figures carried to Paris a *cahier de doléances* with 135 demands, mainly centered around the protection and maintenance of Alsace's special customs position, the retention of all municipal autonomy, the vigorous exclusion of Jews, and full civic and political rights

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<sup>22</sup> David Bell, "Nation-Building and Cultural Particularism in Eighteenth-Century France: The Case of Alsace," *Eighteenth-Century Studies*, Vol. 21, No. 4 (Summer, 1988), 473.

<sup>23</sup> *Ibid.*, 483.

<sup>24</sup> Ford, *Strasbourg*, 238.

<sup>25</sup> *Ibid.*, 240; This should not obscure differences between the two deputies. Schwendt personally opposed Alsatian tax privileges, but promised to represent his constituents. See Timothy Tackett, *Becoming a Revolutionary: The Deputies of the French National Assembly and the Emergence of a Revolutionary Culture, 1789-1790* (Princeton: Princeton University Press, 1996), 92 and 237. Eugene Seigneurlet, *Strasbourg pendant la Révolution* (Paris: Berger-Levrault, 1881), 32, meanwhile, writes of Turckheim: "Turckheim était la personnification la plus élevée d'une fraction de la bourgeoisie strasbourgeoise, qui ne voyait pas s'accomplir sans de vifs regrets l'anéantissement des anciennes franchises municipales, ni sans de fortes appréhensions l'enfantement, qu'on prévoyait devoir être pénible, d'un nouvel état de choses."

for commoners.<sup>26</sup> The patriciate's initial enthusiasm for reform did not outlive July 1789: on 18 July news reached Strasbourg of the storming of the Bastille and a jubilant mob formed, first with the intention of hanging the fabulously wealthy Ammeister Lemp, then demonstrating in front of the Hotel de Ville, drinking and reveling through the night. On the 21<sup>st</sup> a rumor blossomed that the city's Magistrat had betrayed his promises to uphold the demands of the *cahier*, and the crowd stormed the Hôtel de Ville. They were finally cleared out the next day, with the only loss of life resulting from some enthusiasts who apparently drowned in the Magistrat's wine casks.<sup>27</sup> Though the violence was relatively moderate, the precedent had been set: the "people," in the form of the revolutionary crowd, were in a position to adjudicate the legitimacy of political actions. The relative impunity of the old patriciate was broken.

Strasbourg remained essentially ungovernable through the summer and autumn of 1789, prone to occasional outbursts of mass violence, barely contained by the frantic mediating efforts of Frédéric de Dietrich, scion of an old Protestant merchant-banking family, and himself a scientist and factory commissioner. Finally, after the National Assembly passed the Law of Municipalities in December of 1789, the first election of Strasbourg's full civic administration returned Dietrich as the mayor.<sup>28</sup> There was some continuity with the old elite: the two city attorneys and nine of the seventeen councilmen had previously been in the municipal administration.<sup>29</sup> But Dietrich marked the beginning of a phase of constitutional revolution in civic government, and the long elections of February-March 1790 greatly expanded the number of people involved in politics, the forms of their organizations, and the range of issues that divided public opinion. Under Dietrich's direction, Strasbourg's middle-class professionals formed the Société des Amis de la Constitution to implement the abolition of all privileges. Dietrich's administration undertook a vast project of public pedagogy, translating decrees

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<sup>26</sup> Ford, *Strasbourg*, 238-39.

<sup>27</sup> Ford, *Strasbourg*, 246. The spectacle was also witnessed by the omnipresent Arthur Young, *Travels in France* ed. Constantia Maxwell, (Cambridge: Cambridge University Press, 1929), 183.

<sup>28</sup> Seigneurlet, *Strasbourg*, 39. Seigneurlet's book contains a wealth of detail, but is occasionally inaccurate. Here he overstates the number of votes Dietrich received by almost 6,000.

<sup>29</sup> Ford, *Strasbourg*, 253-54.

and pamphlets into German and organizing public newspaper reading sessions.<sup>30</sup> They had a lot of persuasion to do: the commercial patriciate resented the loss of Strasbourg's customs status, the predominantly German-speaking Lutheran population resented further cultural and linguistic incorporation into Catholic France, and even French-speaking Catholics resented the continued dominance of Lutherans over the city's administration.<sup>31</sup> For Dietrich's supporters, though, coming to municipal power did not change any basic conceptions of property and political legitimacy. As David Bell puts it, "Rather than owing allegiance to a sovereign king, they now owed it to a sovereign people, but their concept of sovereignty itself did not change. To them, the nation remained a purely political and legal entity (now infused, to be sure, with a new spirit and new principles) that had no rights of Alsace's autonomous cultural sphere."<sup>32</sup>

By early 1790, the old regime was dead in Strasbourg, but the new one had not yet been born. As in Paris, the rupture came with the question of the King's guilt following the flight to Varennes.<sup>33</sup> In Paris the King's flight and the consequent collapse of the possibility of constitutional monarchy precipitated a crisis of political legitimacy, creating a vacuum to be filled by anyone who could claim to speak for the undivided people.<sup>34</sup> As in Paris, so too in Strasbourg. The Société des Amis divided over the question of the King's guilt on 7 February 1792, with 157 members, including Dietrich, ultimately leaving and forming the rival Feuillant Club. The 286 remaining members reconstituted themselves as Strasbourg's Jacobin Club, and the two groups began bitter factional combat in their newspapers, their meeting rooms, and in the streets.<sup>35</sup> Dietrich

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<sup>30</sup> See Friedrich Karl Heitz, (ed.), *Les sociétés politiques de Strasbourg pendant les années 1790 à 1795, extraits de leurs procès-verbaux* (Strasbourg, 1863), 24-26 for an early, optimistic speech by Dietrich to the Society given in March 1790.

<sup>31</sup> Hugh Gough, "Politics and Power: The Triumph of Jacobinism in Strasbourg, 1791-1793," *The Historical Journal*, Vol. 23, No. 2, (June 1980), 330-31. Gough does not draw a distinction between the Société des Amis and the Jacobin Club in order to argue that the turn from liberalism to dictatorship was internal to the clubs.

<sup>32</sup> Bell, "Nation-building," 484.

<sup>33</sup> Timothy Tackett, *When the King Took Flight* (Cambridge, MA: Harvard University Press, 2003).

<sup>34</sup> That is, I agree with the model of revolutionary politics presented in François Furet, *Interpreting the French Revolution* (Cambridge: Cambridge University Press, 1981), Part I, though I do not endorse his general interpretation of the Revolution.

<sup>35</sup> For instance, Dietrich arrested Jean-Charles Laveaux, the editor of the *Courrier de Strasbourg*, and suppressed his paper, allowing only the sale of his own *Feuille de Strasbourg*. See Michael Kennedy, "The Jacobin Clubs and the Press: 'Phase Two,'" *French Historical Studies*, Vol. 13, No. 4, (Autumn, 1984),

used the police to close the Jacobin Club on 24 June, and the municipal council publicly declared its loyalty to the King on 7 August—exactly at the wrong time, three days before the Tuileries uprising abolished the monarchy and permanently radicalized the Revolution. Dietrich was summoned by the new and far more aggressive National Assembly to answer for his actions in defending the monarchy, and instead fled to Basel. He was captured and tried at Besancon in February 1793.<sup>36</sup> Forty-three Strasbourgeois presented depositions against him, and he was transported to Paris, where on Robespierre's personal intervention he was condemned to death. He was guillotined on 28 December 1793.<sup>37</sup>

Jean de Turckheim nominally governed Strasbourg through the summer of 1793, but by then the levers of municipal power were entirely in the possession of the Jacobins. At least 83 members of the Strasbourg Jacobin club held political office between 1789 and 1795, and the Jacobin-allied *Courrier de Strasbourg* achieved its status as the most significant provincial newspaper in France.<sup>38</sup> The rule of the clubs was radicalized through late 1793 and early 1794 under two pressures: the war and the central government. By October 1793 the war on the Rhine had turned against the French, and allied armies occupied the northern half of Bas-Rhin, while the French army fell back to the fortifications of Strasbourg. The presence of the radical “people's army” made the general national wartime crisis very literally tangible in Strasbourg, and the army remained one of the major players in municipal politics throughout the Terror, personified in the figure of Euloge Schneider, the anti-clerical ex-priest and newspaper publisher who became one of Strasbourg's most enthusiastic revolutionary prosecutors. He soon came into conflict with Pierre Monet, the new radical mayor and president of the

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492. For an example, see the satire in the *Courrier de Strasbourg*, No. 2, 3 January 1793 about the honest poverty of the Jacobins and the rich bankers among the Feuillants.

<sup>36</sup> *Courrier de Strasbourg*, No. 298, 18 December 1792, 1.

<sup>37</sup> Dietrich's crimes changed over time. At Besancon he was acquitted of conspiring with monarchists, but then was charged with conspiring with émigrés during his time in Basel. Albert Mathiez did demonstrate that he was indeed a correspondent of Lafayette's. See Albert Mathiez, “Un complice de Lafayette, Frédéric Dietrich d'après des documents inédits (suite et fin),” *Annales révolutionnaires*, T. 12, No. 6 (November-December 1920): 471-99.

<sup>38</sup> Kennedy, “Phase Two,” 491 calls it “by far the most successful provincial journal,” subscribed to by 11 other Jacobin clubs. It was one of only three provincial papers with more than 1000 subscribers: see Hugh Gough, “The Provincial Jacobin Club Press During the French Revolution,” *European History Quarterly*, Vol. 16, (1986), 68-69.



Jacobin club. Shortly after assuming office in the fall of 1793, Monet sent invitations to patriotic Jacobins in the surrounding provinces, asking them to join in his effort to hold and purify the frontier. At least sixty responded, and formed a group called “Revolutionary Propaganda,” which roamed the streets of Strasbourg in peculiar costumes, intimidating the locals and getting into brawls with Schneider’s revolutionary soldiers.<sup>39</sup>

In late October, the famous delegation of Saint-Just and La-Bas arrived in Strasbourg, partly to calm the radicalization contest between Monet and Schneider. They dissolved Revolutionary Propaganda, arrested Schneider, purged the local administration, and together with Monet began to implement their version of the Terrorist regime without any impediment.<sup>40</sup> After their departure in January 1794, Monet continued Terrorist rule, especially in regards to economic policies. He fled from Strasbourg after Thermidor, leaving the office of Mayor to Jean-Frédéric Hermann, who held it almost continuously from 1795-1806. Under his stewardship Strasbourg ceased having an active and autonomous role in determining its own administration. It also avoided the sectarian conflict that was endemic in the provinces under the Directory.<sup>41</sup> Strasbourg had been an active partner in the radicalization of the early Revolution, and later found space in which to oppose and limit the demands of the late Directory, but, as will be discussed at length below, no such discretion existed under Napoleon’s regime.

The foregoing outline of Strasbourg’s political vicissitudes is intended to illustrate two points. First, despite the destruction of old privileges in 1789-92, the construction of new parameters for economic impunity in Strasbourg happened between the imposition of the Terror in late 1793 and the Code de Commerce of 1808. For that reason, the majority of this chapter’s discussion will focus on those years, resulting in a narrower periodization than the more gradual transitions in Dublin. Second, despite the many differences between how each city was governed, and by whom, and for what purpose,

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<sup>39</sup> Michael Kennedy, *The Jacobin Clubs in the French Revolution, 1793-1795* (Oxford: Berghahn Books, 2000), 59-60; R.R. Palmer, *Twelve Who Ruled: The Year of the Terror in the French Revolution* (Princeton: Princeton University Press, 2005 [1941]), 187-88.

<sup>40</sup> See the classic account in Palmer, *Twelve Who Ruled*, Ch. 8. Records of Schneider’s trial can be found in *Moniteur universel*, no. 201, 21 germinal II.

<sup>41</sup> Described in Colin Lucas, “The Rules of the Game in Local Politics Under the Directory,” *French Historical Studies*, Vol. 16, No. 2, (Autumn, 1989): 345-71.

the large-scale transitions in Dublin and Strasbourg were very similar. In both cases local elites steadily lost their positions and power to national administration, and in both cases sovereignty was exercised primarily through the control of property and the decision over which groups could have their property rights violated with impunity.

### I.i. The Rule of Property

Against the fractured political background of Dublin, the Commissioners for Making Wide and Convenient Ways, Streets, and Passages, known colloquially (and hereafter) as the Wide Streets Commission, was established by an Act of Parliament in 1757. As a statutory body with its own funding, it could overrule the Corporation, and was answerable only to Parliament, which devoted little to no attention to the Commission's activities. As Europe's first modern urban planning authority, the Commission had "powers of compulsory purchase, the right to assess property valuations, and the duty to compensate persons displaced by the clearance. The valuations were adjudged by special juries comprised mainly of Dublin merchants, on whom attendance was enforced by an often threatened but rarely implemented system of fines. The Commissioners were also required to sell the necessary building leases to ensure the rebuilding of the cleared area on either side of the new street."<sup>42</sup>

Despite the Wide Streets Commission's expansive powers, the Dublin elite appears to have had little idea of what to do with it for the first several decades of its existence. Partly this is because Parliament only intended it to clear a straight line of access to Dublin Castle, not to supplement private development, or to "improve" the entire city as a single coherent unit.<sup>43</sup> The early phase of the Commission's activity has been well-documented in the very detailed literature on Dublin's Georgian architecture.<sup>44</sup> Its first project was completing the widening of Essex Bridge (already begun in 1755), which would be the central artery of the planned north-south thoroughfare terminating in

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<sup>42</sup> Murray Fraser, "Public Building and Colonial Policy in Dublin, 1760-1800," *Architectural History*, Vol. XXVII, (1985), 104.

<sup>43</sup> Nuala Burke, "Dublin, 1600-1800: A Study in Urban Morphogenesis," (Dublin: Trinity College, PhD Thesis 354A, 1972), 290.

<sup>44</sup> See, Fraser, "Public Building,"; Edward McParland, "Strategy in the Planning of Dublin, 1750-1800," in Paul Butel and L.M. Cullen, (eds), *Cities and Merchants: French and Irish Perspectives on Urban Development, 1500-1900*, (Dublin: Trinity College, 1986); and Burke, "Dublin," 410-424.

Dublin Castle. Essex Bridge, now known as Grattan Bridge, was then the last crossing before the sea (today there are nine more), and was the location of the old Custom House, which meant that fully half the city's area was bisected by the Liffey, packed with ships, skiffs, and barges loading and unloading along the as-yet undeveloped quays. The Dublin Corporation's records indicate that their monopoly of the Liffey ferries brought them upwards of £1,400 per annum in revenue.<sup>45</sup> It is tempting to imagine the Liffey in this period as almost analogous to Venice's Grand Canal: it both strikingly divided the city and ensured that the presence of maritime traffic penetrated far more deeply into the city's economy and character than it has subsequently done. The medieval walled city on the southern bank, comprising the dense and congested area around the Castle and Temple Bar, housed the administrative center as well as the commercial base of the guilds comprising the Dublin Corporation. The eastern half of the city had been sufficiently underdeveloped that the full name of Trinity College is "the College of the Holy and Undivided Trinity of Queen Elizabeth *near* Dublin." By the 18th century, parts of this area had been filled in by wealthy residential squares like St. Stephen's Green, but the extensive remainder of this empty space would prove to be the principal area of the Commission's work.

Aside from widening Essex Bridge (with the Pont Royal in Paris serving as a model), the Commission did very little in its first two decades, meeting rarely in the 1760s, and not at all between 1773 and 1776.<sup>46</sup> But by the early 1780s, large-scale speculative developers had begun on their own initiative to expand the city eastwards.<sup>47</sup> Luke Gardiner, later an active member of the Wide Streets Commission, began construction along what became Sackville Street (today O'Connell Street) north of the river and laid out the plans for Mountjoy Square.<sup>48</sup> The Duke of Leinster and the Fitzwilliam family led construction on a series of expansive residential squares south of

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<sup>45</sup> Rosa M. Gilbert, (ed), *The Calendar of Ancient Records of Dublin, in the Possession of the Municipal Corporation of that City*, Vol. XVI, (Dublin: J. Dollard, 1889), 369. Henceforth *CARD*.

<sup>46</sup> McParland, "Strategy," 100-101.

<sup>47</sup> The model of speculator-led development obtained in London as well, though since the bulk of London's extensive development occurred in the mid-19th century, it is more accurate to suggest that Dublin set the model instead. See H.J. Dyos, "The Speculative Builders and Developers of Victorian London," *Victorian Studies*, Vol. 11, Supplement: Symposium on the Victorian City (2) (Summer, 1968).

<sup>48</sup> Burke, "Dublin," 403-5 and 424-8.

the river: Merrion Square and Fitzwilliam Square.<sup>49</sup> These families were titled nobility with extensive estates in rural Ireland and seats in Parliament. Their commitment to these new upscale eastern suburbs was signaled by the location of their own new Dublin townhouses. Though all of them were influential in their own right, John Claudius Beresford was their most powerful advocate on the Board of the Wide Streets Commission. He is the best example to illustrate my argument, though far from the only one.

The Beresford family was sufficiently sprawling that only a small selection of their activities should give an indication of the reach of their political, economic, and social power. The La Poer Beresford branch were Marquesses of Waterford, one of whom was also the Bishop of Raphoe from 1807 to 1819 (he will return again below). John Claudius Beresford was variously an MP for Swords, for the City of Dublin, and for County Waterford. At different times, he was also the Lord Mayor of Dublin, the Inspector General of Exports and Imports, the Chief Commissioner of Wide Streets, First Commissioner of the Board of Revenue, and a partner in the House of Beresford and Company bank.<sup>50</sup> His father John had sat on the Privy Council and his nephew Marcus was Archbishop of Armagh and Primate of All Ireland, the most senior Protestant church position in the country.<sup>51</sup> There could be no more staunch representative of the Irish landed aristocracy than John Claudius Beresford when he first sat on the Wide Streets Commission in 1790.

Beresford was also a substantial property speculator in his own right: there are still four streets in Dublin bearing his name. His first major campaign as Chief Commissioner was to build a bridge linking the large new eastern developments on either side of the river. This took six years of argument with the Corporation, and its political audacity should not be overlooked. Begun in 1791, the new bridge (then called Carlisle

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<sup>49</sup> Burke, "Dublin," 428-30.

<sup>50</sup> This is not an exhaustive list. See James Quinn, "Beresford, John Claudius," in James McGuire and James Quinn (eds), *Dictionary of Irish Biography*, (Cambridge: Cambridge University Press, 2009). From 1798-1802, Beresford also held the enviable position of "taster of wines," which itself carried a salary of £1000 per year.

<sup>51</sup> As though this were not enough to secure the Beresfords a place in history, a drunken fox-hunting incident involving Henry Beresford, the third Marquess of Waterford, in 1837 was the origin of the phrase "paint the town red."

Bridge after the Lord Lieutenant who intervened to settle the dispute in the Commission's favor, now much better known as O'Connell Bridge) cut off the old Custom House from the sea, necessitating its removal and reconstruction one kilometer downriver. The new Custom House, built in a grand neoclassical style by James Gandon, was a pet project of Beresford's, running vastly over budget and prompting a political scandal when several members of the Irish Parliament were shocked by the Commission's impunity. Henry Grattan, then at the height of his power in the Irish Parliament, called it "more proof of the prodigality of the directors than of taste in the architect."<sup>52</sup> Apparently members of the Dublin Corporation, including several sheriffs, led a large mob to disrupt the foundation laying, further illustrating the limited range of recourse available to the Commission's opponents.<sup>53</sup> Its eventual completion permanently undercut the Corporation's revenue, ensuring that the Wide Streets Commission never again faced a local rival in urban development. Edward McParland, Dublin's principal architectural historian, is worth quoting at length on this point:

"The Wide Streets board was an efficient machine for co-ordinating different schemes tending to benefit the Gardiner Estate: Frederick Trench, a commissioner, developed North Frederick Street; with David La Touche and Luke Gardiner, both commissioners, he sat on the committee directing work at the Rotunda; Beresford, another commissioner, was on the revenue board which was charged with the building of the new bridge, the building committee of the House of Lords which erected the monumental entrance to the Parliament House, marking the junction of the new thoroughfare with College Green included the commissioners Lord Carlow and the Duke of Leinster and was assisted by Frederick Trench. No wonder early nineteenth century satirists mocked the 'communion of commissioners.'"<sup>54</sup>

By the 1780s, then, the Wide Streets Commission operated with little oversight and even less jurisdictional constraint. Through its chief helmsman, Beresford, it bound together representatives from every institution of the Protestant Ascendancy, and its purpose was to enact a particular vision of how to protect, enhance, and aesthetically glorify the continued rule of the city's elite.

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<sup>52</sup> Quoted in Fraser, "Public Building," 112.

<sup>53</sup> Fraser, "Public Building," 113-14; David Dickson, "Death of a Capital? Dublin and the Consequences of Union," in Peter Clark and Raymond Gillespie, (eds), *Two Capitals: London and Dublin, 1500-1840*, (Oxford: Oxford University Press for the British Academy, 2001), 112.

<sup>54</sup> McParland, "Strategy," 105.

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In Strasbourg, the early exercise of impunity occurred through the mechanisms of political Terror: the Jacobin clubs, the Revolutionary Tribunals, and the Army. The Terror, it should be emphasized, was not merely a phase in Revolutionary history, or an outburst of atavistic violence, but rather a style of governance.<sup>55</sup> The Terrorist regime was concerned with many things: saving the Republic from enemies foreign and domestic, producing more Revolutionary Frenchmen, and reconstituting French civilization on a Republican basis. It was not explicitly concerned with social leveling as an end in itself. It was certainly willing to strip categories of people of their rights and property, but it did so based on the political threats those people posed to the Republic. Aristocrats, refractory priests, and émigrés became categories of suspects not necessarily because of their ascriptive characteristics, but rather because of their rejection of the Revolutionary social contract.<sup>56</sup> Hugh Gough argues that “The Strasbourg Jacobins may have regretted social inequality, but they had no intention of interfering with the rights of property and, despite the recurrent economic problems that plagued the city from the early months of 1792 onwards, showed a marked reluctance to interfere with the free market system.”<sup>57</sup> But, he goes on to conclude, “the idle rich, the speculators and hoarders, the academic pedants and political conservatives were regarded as public enemies capable of betraying the revolution in the pursuit of their own selfish aims.”<sup>58</sup>

The guillotine remains the enduring image of the Terror, but in Strasbourg, the Terror was fundamentally exercised through the control of property. Fifty-four people were executed in the province of Bas-Rhin during the year of the Terror, twenty of them condemned by Euloge Schneider in his capacity as *accusateur public* of the Revolutionary Tribunal. But the guillotine as an instrument of public pedagogy did not

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<sup>55</sup> I owe this formulation to Carla Hesse.

<sup>56</sup> Thus the categories of the Law of Suspects, 17 September 1793. In Keith Michael Baker (ed.), *The Old Regime and the French Revolution* (Chicago: University of Chicago Press, 1987), 353-4.

<sup>57</sup> Gough, “Politics and Power,” 338. He goes on to mention their persecution of profiteers and speculators, but maintains their ideology was moral, not social or economic.

<sup>58</sup> *Ibid.*, 339.

work in Strasbourg.<sup>59</sup> The citizens hated the sight of it, and the proximity of the frontier made the business of apprehending suspects too difficult. The guillotine was no use against the 25,000 émigrés who had fled across the Rhine, nor could it fund the army encamped around the city.

Starting on 25 brumaire II (15 November 1793), Mayor Monet, presiding over the Committee of Surveillance and Public Safety and on the “advice” of the Parisian representatives, announced the levy of a contribution of 9 million *livres* from the people of Bas-Rhin, especially the wealthy and the un-patriotic, in order to fund the war effort.<sup>60</sup> Though administered through Strasbourg, each commune in the province had a required contribution: 400,000 *livres* from Geispolzheim, 200,000 from Oberschaeffolsheim, 150,000 from Duttlenheim, 100,000 each from Duppigheim and Achenheim, 10,000 from Holtzheim, and 7,000 from Avlezheim. Though this came to be known as the first forced loan (*emprunt forcée*), the initial order that circulated throughout Bas-Rhin called it a “special tax on aristocrats.”<sup>61</sup> On 26 frimaire II (16 December 1793), a list of 248 people was read out to the Committee of those who, along with their families, were to be considered suspects and who would face the steepest required contributions. Some, like Marx Baerr, were found to have fulfilled their patriotic duties and had their contributions reduced (in his case to 10,000 *livres*), while others, like the unfortunate M. de Papelier, were known to have immense fortunes and so were held under arrest until their payments of 100,000 *livres* were received.<sup>62</sup> This sort of coercive progressive taxation continued as the Committee met several more times throughout frimaire and

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<sup>59</sup> The large literature on Schneider’s life is usefully reviewed in Roger Jaquel, “Euloge Schneider et l’historiographie allemande,” *Annales historiques de la Révolution française* 8<sup>th</sup> Series, No. 47, (September-October 1931): 399-417.

<sup>60</sup> The Jacobins had been calling for this measure all year. See *Courrier de Strasbourg*, No. 19, 11 January, 1793. For the original text, see Andreas Ulrich (ed.), *Recueil de pieces authentiques servant a l’histoire de la Revolution a Strasbourg* (Strasbourg, 1795), henceforth *Livre bleu*, 11. This source requires some introduction. It is a compilation published in 1795 of several hundred official documents printed in Strasbourg, assembled by Andreas Ulrich, the editor of the German-language newspaper *Wöchentliche Nachrichten für die deutschsprechenden Einwohner Frankreichs, besonders aber für Handwerker und Bauer*. Ulrich was eager to instruct his fellow Alsatians on the fine points of French citizenship and was a key figure in Strasbourg’s intelligentsia since the late 1770s. The compilation not comprehensive and is not coherently paginated, but its texts are accurate, so under the common name *Livre bleu* it has become a standard source for the history of the French Revolution in Strasbourg. For more on Ulrich, see Bell, “Nation-building,” 485-6 and Seigneurlet, *Strasbourg*, 307.

<sup>61</sup> *Livre bleu*, extraits, No. 99, 177.

<sup>62</sup> *Livre bleu*, procès-verbaux, 19 and 34.

nivôse II, each time reviewing certificates of patriotism offered by wealthy citizens, and either approving them with a consequent reduction in their contribution, or rejecting the certificates and arresting their bearers. The reservoir of potential contributors grew constantly as citizens turned up at the Committee's meetings to denounce each other, and as the range of un-patriotic activities became ever more comprehensive. Enthusiasm and efficiency was rewarded, as when the commune of Heiligenstein received a reduction in its total contribution because it collected 50,000 *livres* from its aristocrats within 24 hours.<sup>63</sup> Just as the more dramatic instruments of the Terror were intended as tools for public pedagogy in the regime's project of teaching Frenchmen to be republicans, so too was the control of property in Alsace a way to show the population how to be good patriots.

To that end, even Schneider, the bloodiest of the Terrorists, mostly used fines to punish unpatriotic citizens. Under his orders, for instance, anyone not accepting *assignats* was subject to a fine of 25 *livres*.<sup>64</sup> Indeed, at his own trial Schneider himself was accused of economic crimes: issuing death sentences in order to enrich himself and issuing fines purely out of self-interest.<sup>65</sup> Likewise, the famously violent Saint-Just focused his efforts on taxing the Alsatian nobility, redistributing public land, and seizing property in punishment for failures of patriotism.<sup>66</sup> On 3 nivôse II (22 December 1793), Saint-Just and La Bas decreed that anyone found guilty of *agiotage* or violating the Maximum was to have their house burned down. This was no idle threat: four days later the house of Citizen Schauer at No. 76 Place Marché aux Poissons was demolished.<sup>67</sup> Between 3 July 1793 and the fall of the Terrorist regime in Thermidor (28 July 1794), over 200 houses were destroyed in and around Strasbourg, at an estimated cost of 846,247 *livres*.<sup>68</sup> Especially under the encouragement of Saint-Just and the earlier *representat* Marc-Antoine Baudot, the Law of Suspects was employed against more and

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<sup>63</sup> *Livre bleu*, procès-verbaux, 63.

<sup>64</sup> Deliberation du Conseil municipal de la ville de Haguenau, 4 Dec 1792, in Freidrich Karl Heitz, *Notes sur la vie et les écrits d'Euloge Schneider* (Strasbourg: 1862), 49.

<sup>65</sup> Henri Wallon, *Histoire du tribunal révolutionnaire de Paris*, Vol. 3, (Paris: Librairie Hachette et cie, 1800-82), 108. See also Heitz, *Notes*, 155-58.

<sup>66</sup> J.P. Gross, "L'emprunt forcé du 10 brumaire an II et la politique sociale de Saint-Just," in Albert Soboul (ed.), *Actes du colloque Saint-Just* (Paris, 1968), 86-90.

<sup>67</sup> *Livre bleu*, représentants du peuple, No. 51, 47-8.

<sup>68</sup> *Livre bleu*, No. 101, 182.



more categories of people.<sup>69</sup> This increasingly took on a characteristic of social leveling, but still preserved its overriding concern for enforcing national patriotism. According to Seigneurlet:

“There were proceedings against those who were insolvent or refused to pay, but they were not equal for all: they treated the nation of debtors in proportion to their citizenship. Some, who could not be suspected of being in bad faith, obtained deadlines; the others, who were suspected of evil will towards the Republic, were then harshly treated, sometimes by prison, sometimes by the public exhibition on the guillotine. One of the richest merchants, Mayno, who had nearly won election to the National Assembly, was taxed 300,000 *livres*, but could muster only 180,000.”<sup>70</sup>

The contribution of frimaire II was only the first of several forced loans extracted from the Alsatian population, though it was the most significant before the forced loan of the Year VII. Only half of it was ever paid, less because of evasion and more because the government lost control of the monetary situation.<sup>71</sup> Its significance lay less in its actual effect on the fiscal balance of the Revolutionary government, and more in the techniques of its implementation. It was highly coercive, but it was a coercion exercised at the discretion of its administrators, who could appeal to patriotism as a reason for leniency. For all its moral absolutism, the Terrorist government was still one with substantial scope for discretion at the periphery—perhaps more so even than at the center, given the necessity of preserving political legitimacy under the watchful eyes of the Parisian sections. This discretion meant that large segments of the Alsatian population could be stripped of their rights to life and property without any clear recourse, and meant that the administration had tremendous power over local institutions and resources. But local discretion during the Terror also created numerous problems, especially over contracts

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<sup>69</sup> On Baudot in Alsace, see A. Trimoulier, *Un missionnaire de 93: Marc-Antoine Baudot* (Paris: Dorbon-Aine, 1908), Ch. 4.

<sup>70</sup> “Il y eut des poursuites dirigées contre ceux qui étaient insolvables ou qui refusèrent de payer, mais elles ne furent pas égales pour tous: on traita les débiteurs de la nation proportionnellement à leur civisme. Les uns, qu’on ne pouvait soupçonner d’être de mauvaise foi, obtinrent des délais; les autres, qui étaient suspects de malin vouloir envers la République, furent puis durement, tantôt par la prison, tantôt par l’exposition publique sur la guillotine. Un des plus riches négociants, qui avait failli être nommé député lors des élections à l’Assemblée nationale, Mayno, taxe à 300,000 livres, n’en put réunir que 180,000.” Seigneurlet, *Strasbourg*, 183.

<sup>71</sup> *Livre bleu*, documents, no. 99-101.

and property rights, the solutions to which would eventually end the ability of the Strasbourg ruling elite to act with autonomy, let alone impunity, in the local economy.

### I.ii. Mechanisms of Controlling Property: Enumeration and Confiscation

With their political victory over the merchants on the Dublin Corporation assured by the construction of Carlisle Bridge, all histories of the Wide Streets Commission end in the 1790s, gesturing towards the Act of Union as the final curtain.<sup>72</sup> But the post-1800 decline of the Commission reveals at least as much about the consequences of institutional change as does its eighteenth century rise. As in Strasbourg, the exercise of local discretion in the short run precipitated a series of larger structural crises that were resolved by removing power from the city's administration and locating it instead in the national government.

Throughout its existence, the bulk of the Commission's income came from the coal tax, levied in 1782 at 1 shilling per ton arriving in Dublin Harbor.<sup>73</sup> This produced roughly £14-16,000 per year, though it was very sensitive to the overall economic climate. The Commission also levied a Club and House Card Tax on coffeehouses and clubhouses, which produced much less, slightly over £1,000 per year, and which was very difficult to collect. The second large component of the Commission's revenue was directly Parliamentary grants, usually in the amount of £10,000 per year, but very occasionally subject to the politics of renewal—this was a key arena in which Beresford's influence was paramount. Finally, the Commission drew rents from its properties and profits from the sales of land and leases.

When the coal tax was granted to the Commission in 1782, so too was the ability to issue debt through La Touche's Bank, secured by the future proceeds of the tax. This the Commission did with enthusiasm, essentially using debt to allow itself a far wider latitude of fiscal autonomy than Parliament intended. The subsequent 25 years of the Commission's work under the guidance of Eden, Carlisle, Gardiner, and Beresford cost a

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<sup>72</sup> See Fraser, "Public Building," McParland, "Strategy," Burke, "Dublin," 346-57; and Dickson, *Dublin*, 223-31.

<sup>73</sup> 21 & 22 Geo. III, C. 15. See Fraser, "Public Building," 114.

total of about £700,000.<sup>74</sup> Most authors agree that this sustained burst of activity during the period of Ireland's legislative independence (1782-1800) was very much an expression of an aspirational form of Protestant colonial nationalism.<sup>75</sup> The Irish Parliament had been granted as a response to the loss of the American colonies, and was thought by many to mark a permanent transition in the structure of the British Empire away from subordination to London and towards a multipolar system of many equal parliaments united under one monarchy. If Dublin was to be the second and equal capital of the British Empire, it had better look the part.

This aesthetic interpretation suggests a far greater degree of coherent and sustained activity than the Commission's actual records can substantiate. These same authors also note that during the exact same period, attendance at the Commission's meetings was quite uneven, and dictated strongly by the individual financial interests involved.<sup>76</sup> Rather than the Wide Streets Commission being a vehicle for the optimistic expression of Irish nationalism, between 1782 and 1800 the locus of authority was relatively unclear and the power of the Irish Parliament relatively weak compared to what London's would be after 1800, meaning that the few active members of the Commission could deploy their powers without much opposition. This they did, ensuring that no development could proceed without their approval, that their aesthetic guidelines and skyline regulations were followed, and extending their jurisdiction to a half-mile beyond the circular road that marked the city limits.<sup>77</sup> With their financial independence assured, and their rivals for municipal governance marginalized, the decades around 1800 demonstrated the Commission's strong influence in the weak Irish Parliament, not of Parliament's ideology realized through the Commission's work. The Commission's work, like the maintenance of the Protestant Ascendancy as a whole, was predicated on their total control over property and the exclusion of Catholics and non-propertied Protestants from any political voice.

What exactly was the work of the Wide Streets Commission? The Commissioners would first decide on a project. Occasionally this would be ordered by

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<sup>74</sup> Dickson, *Dublin*, 223.

<sup>75</sup> See Burke, "Dublin," 342; Dickson, *Dublin*, 223; Fraser, "Public Building," 116.

<sup>76</sup> Burke, "Dublin," 397; Dickson, *Dublin*, 224; Fraser, "Public Building," 118.

<sup>77</sup> 30 Geo. III, C19 and 32 Geo. III, C30. See Fraser, "Public Building," 117.

Parliament or proposed by some persuasive group of enfranchised citizens, but most frequently it would be decided upon by the Board themselves, allowing for a wide latitude in personal interest. Once settled, they would dispatch their surveyor Thomas Sherrard to determine the best route (or, in their parlance "line") to follow. Although Beresford's influence cannot be overstated, at the level of actual practice probably no single person is more responsible for the reshaping of Dublin than Thomas Sherrard. He personally measured and surveyed every property on the over 800 maps he personally drew for the Commission over the course of some fifty years. The process of rendering Dublin "legible" and orderly in an administrative and aesthetic sense was almost entirely carried out by Sherrard alone. Once he had arrived at the best (meaning shortest and straightest) line, Sherrard would return to the Commission, and a notice would be placed in the three largest newspapers as to which areas would be affected, allowing proprietors to register their input.<sup>78</sup> Sherrard would then draw up a list of the names of the affected proprietors, who would be duly notified, and the Board would empanel a jury to value the properties in question.<sup>79</sup>

This is where problems began to crop up. Serving on this jury was apparently wildly unpopular, and the Minute Books are littered with long lists of names to be fined for non-attendance and orders for Sherrard to try again.<sup>80</sup> When the jury was finally formed, it would occasionally take a very long time to reach its valuation, which would then bear little resemblance to the claims of the proprietors themselves. Since so much land was tenanted and sub-tenanted, tied up in lawsuits or estate proceedings, in disrepair or in actual collapse, or used for both commercial and residential purposes, the owners of buildings would write with passionate and detailed claims as to the losses they would

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<sup>78</sup> This ideal-type description follows Dublin City Archive, Wide Streets Commission Minutes (henceforth WSC/Mins) WSC/Mins/16, 11 Dec 1800-8 Jan 1801, but similar examples are legion. The newspaper contract was stripped in 1813 from the *Freeman's Journal*, at that time Dublin's largest newspaper, and shifted to the *Hibernian Journal*. See WSC/Mins/24, 21 July 1813.

<sup>79</sup> See, for instance, the auditing of juries in House of Commons, *Parliamentary Papers*, 1830, col. 149, "Returns of the Number of Inquests Held Under the Statutes for the Improvement of the City of Dublin," 1 Jan 1820-1 Jan 1830.

<sup>80</sup> For instance, WSC/Mins/25, 14 April 1813.

suffer from the demolition of their property.<sup>81</sup> These could involve lost trade, lost rent, wasted apprentice time, damaged tools and machinery, the cost of relocation and alternate locations both for family lodging and for retaining business customers, and indeed "Rent lost by my Tenants running away in consequence of dangerous state of said House."<sup>82</sup> These petitions never took the form of an outright rejection of the Commission's plans, only a plea for more generous compensation. Since the Board was also its own judge, sometimes this worked, sometimes not. The Board frequently rejected valuations that Sherrard considered too high, but also showed itself willing to cut deals in which dispossessed owners were variously granted leases elsewhere, rights to the reconstructed property, lump sums, or staggered payments.<sup>83</sup> After a long delay, awards would be decided and paid. To offer only one example, several properties on Park Gate Street were valued in 1815 for eventual demolition, "on which occasion Memorialists were put to serious trouble and Cost, in going through the requisite formalities of proving their Titles," but by 1833 still nothing had been done on the project and in the interim the unlucky owners were neither able to sell nor to rent their condemned properties.<sup>84</sup>

At this point the properties in question would be knocked down, and then very frequently nothing at all happened, leaving heaps of building materials, "waste lots," and open pits all over Dublin, to the great consternation of its citizenry. Eventually a public auction would be held, again advertised in the major newspapers, and the heaps of building materials would be sold off.<sup>85</sup> Once cleared, the street would be widened and new properties would be mapped, surveyed, and sold. These were subject to strict regulation: anyone buying property or entering into a lease with the Board had to agree to begin building within a set period of time (usually one or two years) and had to build

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<sup>81</sup> WSC/Mins/16, 8 Jan 1801; WSC/Mins/17, 18 April 1802; John Carleton to Commission, WSC/Mins/20, 21 February 1806; and in *ibid.*, 24 June 1806, John Claudius Beresford wrote to complain that two of his own properties near Custom House had been scheduled for demolition but now stood idle.

<sup>82</sup> John Nowlan to Commission, WSC/Mins/34, 26 July 1822.

<sup>83</sup> WSC/Mins/18, 3 March 1803 and WSC/Mins/30, 10 March 1819.

<sup>84</sup> WSC/Mins/41, 3 July 1833.

<sup>85</sup> For nearly a decade, the principal buyer was Humphrey Manders, who in 1822 turned out to be bankrupt and in arrears to the Commission. No trace of him survives except a listing for "Manders, H" in Kilmainham Jail in 1823. See WSC/Mins/33, 21 Sept 1822.

according to a strict set of aesthetic regulations.<sup>86</sup> Finally, sewer lines, paving stones, masonry, and footpaths would be ordered, and the new wide street would be finished, fronted by freshly constructed, aesthetically regular, Georgian buildings. The total time elapsed would be several years, meaning that at any given time, the sight and sound of ongoing projects would be evident all over the city. Occasionally projects would be even more obvious than that: sometimes the wrong houses would be knocked down, or the demolition of one building would undermine the structural integrity of its neighbor. During the first two decades of the 19<sup>th</sup> century, the Board even found itself the owner of about 40 residential properties, as well as a glass factory, a tavern, a police station, and several dockside warehouses.<sup>87</sup> Moreover, although Sherrard appears to have done the bulk of the Board's actual leg-work, their projects employed a small army of laborers, porters, guards, masons, carpenters, bricklayers, revenue collectors, and quite a lot of lawyers. From the tax assessments to the direct and indirect experience of demolition and construction to the wholesale aesthetic reconfiguration of Dublin's built environment, it is safe to assert that every resident of the city experienced the work of the Wide Street Commission in some way, at some point, for almost an entire century.

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In Revolutionary Strasbourg, control over property was exercised not through designating territorial spaces that were exceptions to normal jurisdiction, but through designating groups of people who were exceptions to the Revolution's claims to universal civil and political rights. No group more clearly existed in a state of exception than the émigrés. As a consequence of its territorial position, from the first moments of the Revolution the émigrés constituted the most overriding political threat to Strasbourg.

Foreignness was an eminently political quality. As Gough carefully illustrates, nearly every prominent member of Strasbourg's government between 1790 and 1794 was from somewhere else: Schneider was from Bonn, Laveaux was from Troyes but had been

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<sup>86</sup> David Dickson, "Large-Scale Developers and the Growth of Eighteenth-Century Irish Cities," in L.M. Cullen and Paul Butel, *Cities and Merchants: French and Irish Perspectives on Urban Development, 1500-1900*, (Dublin: Trinity College, 1986), 119.

<sup>87</sup> WSC/Mins/20, 3 August 1807 and WSC/Mins/25, 23 Dec 1812.

living in Stuttgart, Monet was from Savoy, and even the Strasbourg-born Jean-Antoin Mainoni came from a family only recently arrived from northern Italy.<sup>88</sup> The religious and linguistic politics of Alsace also meant that Frenchness was a contested and unstable political category itself, and one that the Terrorist government was very concerned to define and enforce. If Rodolphe Reuss is correct that some 25,000 people emigrated, that would be something like 6% of the Alsatian population, as compared with 3% of all clergy and 1% of all nobility.<sup>89</sup> Even if Reuss' figures are too high, clearly emigration represented a more salient social phenomenon in Alsace than anywhere else in France.

The Alsatian émigrés were symbolically led by the Cardinal of Rohan, bishop of the Strasbourg cathedral, whose lands before the Revolution contained over 25,000 inhabitants and generated 800,000 *livres* in annual income.<sup>90</sup> Rohan fled across the Rhine after the imposition of the Civil Constitution of the Clergy in July 1790, and devoted his considerable fame and fortune to opposing the Revolution—first through exhorting others to emigrate, then through threatening to excommunicate any participants in Revolutionary activity, then finally through raising a private military force called the Black Legion. He was not alone. The long particularism of Alsace under the Ancien Régime meant that dozens of minor German princes owned land in Alsace from which they collected feudal rents and retained legal jurisdiction, sometimes even resulting in commercial cases being appealed from French courts to princely courts within the Holy Roman Empire.<sup>91</sup> These people had contractual legal claims to land and income, religious and traditional claims to authority, and in some cases claims to sovereignty within the ramshackle structure of the Holy Roman Empire. The division of physical

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<sup>88</sup> Gough, "Politics and Power," 333-35. Dietrich was from Strasbourg, but his wife's family was from Basel.

<sup>89</sup> Rodolphe Reuss, *La grande fuite de décembre 1793 et la situation politique et religieuse du Bas-Rhin de 1794 à 1799* (Strasbourg: Librairie Istra, 1924), vii and Donald Greer, *The Incidence of Emigration During the French Revolution* (Gloucester, MA: Peter Smith, 1966), 115.

<sup>90</sup> Seigneurlet, *Strasbourg*, 42-43. Rohan was involved in the "affair of the diamond necklace," which one historian argues was an illustration of how the Rohan family's status under the *Ancien Régime* was based exactly on their foreign status. See Rory Browne, "The Diamond Neckace Affair Revisited: the Rohan Family and Court Politics," *Renaissance and Modern Studies*, Vol. 33, No. 1 (1989): 21-40. On the wider significance of the affair, see Robert Darnton, *The Literary Underground of the Old Regime* (Cambridge, MA: Harvard University Press, 1982), 203 and 206-7.

<sup>91</sup> Palmer, *Twelve Who Ruled*, 178-79. Some of these German princes were not so minor: the Bishop of Spier, the Margrave of Baden, the Duke of Wurtemberg, the Prince of Hesse-Darmstadt, and the Prince of Nassau-Sarrebruck all owned extensive Alsatian lands. See Seigneurlet, *Strasbourg*, 69.

space with the enforcement of the border and the imposition of unified national sovereignty with no seigneurial privileges abrogated all of these claims, rendering the property rights of all these princes and nobles not only void but actually unintelligible because the usual system of legal appeals also evaporated. This happened in stages. Those, like the Cardinal of Rohan, who derived their position from religious authority tended to emigrate first, in 1791-92. With the nationalization of church property in early 1791, 64 properties in the city of Strasbourg were confiscated, including 11 churches and several people's houses.<sup>92</sup> Germans with territorial claims in Alsace lost their property with the coming of the war in the spring of 1792, and by the end of that year reports on the "disposition" of foreigners were being collected by the Mayor of Strasbourg.<sup>93</sup> The largest wave of émigrés crossed the Rhine in November 1793 following the imposition of the Terror.<sup>94</sup> In consequence, by the beginning of 1794 some 25,000 implacably furious émigrés were congregated around Koblenz and Worms, a few days march from Strasbourg.<sup>95</sup> Their reciprocal was found in the many aforementioned foreigners constituting the Strasbourg elite, who were eager to spread the Revolution to their homelands and thus continually urged the expansion of the war effort.<sup>96</sup>

The émigré presence across the Rhine destabilized the presumption of patriotic unity that underpinned the Revolutionary exercise of national sovereignty. Their Germanness cast suspicion on German-speaking Alsatians.<sup>97</sup> Their religious positions cast suspicion on religious Alsatians, Catholic and Protestant alike. Their proximity cast suspicion on anyone who regularly crossed the border, either for personal or commercial reasons. And above all their wealth cast suspicion on a variety of economic actors, from wealthy Strasbourg citizens to cosmopolitan merchants to anyone failing to support the *assignats*. Each of these groups under suspicion required surveillance and governance,

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<sup>92</sup> See the later registry in Archives de la ville du Strasbourg (henceforth Arch. Strasb.), 283MW93, 18 prairial VI.

<sup>93</sup> Dietrich to Turckheim, 29 October 1792, Arch. Strasb., 283MW16.

<sup>94</sup> Reuss, *Grande fuite*, 5-6.

<sup>95</sup> Seigneurlet, *Strasbourg*, 67. Despite their salience during the Revolution, the émigrés are surprisingly underrepresented in modern historiography. For one of the few overviews, see the essays in Kirsty Carpenter and Philip Mansel (eds.), *The French Emigrés and the Struggle against Revolution, 1789-1814* (London: Macmillan Press, 1999).

<sup>96</sup> Gough, "Politics and Power," 339.

<sup>97</sup> *Livre bleu*, extraits, No. 55, 52-5 from Lacoste and Baudot, 6 pluviôse II, that Alsace and Bas-Rhin was full of people "qui conspiraient nuit et jour, pour rentrer sous la domination de leurs anciens maîtres."



especially over the uses of their property. In November 1793, in the midst of extracting the forced loan, the Strasbourg Revolutionary Tribunal ordered the seizure of all papers and specie “of all the bankers, exchange agents, notaries, and all those others having relations with the countries warring against France,” yielding upwards of 2 million *livres*.<sup>98</sup> Mainoni, presiding over the meeting of the Committee of Public Safety on 15 frimaire II (5 December 1793), forced several merchants to open their mail in front of the Committee, in order to prove they were not concealing correspondence with foreigners.<sup>99</sup> Under the guise of reporting on the war, the *Courrier de Strasbourg* continually updated its readers on the machinations of émigrés and the government’s efforts to stop them.<sup>100</sup>

This obsession with the difficulty of controlling foreigners manifested itself through the exercise of national sovereignty on property. Beginning on 9 nivôse II (29 December 1793), the property of all French people residing abroad was placed under sequester, and the *Caisse de Payer* began to regulate all bills of exchange drawn on foreigners, effectively bringing all cross-border commerce under its purview.<sup>101</sup> This had the effect of freezing the assets of several patriotic French citizens who happened to be doing business abroad, and ground most of Strasbourg’s central trades (the tobacco trade and the Rhine carrying trade) to a halt.<sup>102</sup> Some merchants attempted to re-route payments through their counterparties in Basle.<sup>103</sup> Others, like Jacques-Francois Moyaux, wrote from Germany asking to be given special exemptions and removed from the list of émigrés.<sup>104</sup> By the end of frimaire III (November 1794), neither of these options was admissible. In that month Citoyen Fischer of the Administration du Commerce in Strasbourg wrote to several merchants, demanding to know why they were still sending money to foreigners. He received plaintive replies, some explaining the basics of how bills of exchange worked, others enumerating their dozens of angry debtors

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<sup>98</sup> Seigneurlet, *Strasbourg*, 185. “De tous les banquiers, agents de change, notaires, et de tous les autres ayant des relations avec les pays en guerre contre la France.”

<sup>99</sup> *Livre bleu*, procès-verbaux, 45.

<sup>100</sup> See *Courrier de Strasbourg*, No. 41, 16 February 1793, and No. 45, 21 February 1793, for instance.

<sup>101</sup> In Strasbourg there were 25 such bills between 1 nivôse II and 1 frimaire III (21 Dec 1793-21 Nov 1794), mostly to Basle and Amsterdam. Arch. Strasb., 283MW67/17.

<sup>102</sup> See for instance the response of the Administration du Commerce to Citoyen Hugare, 28 frimaire III, Arch. Strasb., 283MW67/17.

<sup>103</sup> Ganzinotty to Bruswick, 13 vendémiaire III, Arch. Strasb., 283MW67/17.

<sup>104</sup> For several examples, see Arch. Strasb., 1MW144, 22 messidor II (10 July 1794).

and their impending bankruptcies.<sup>105</sup> In an effort to win over the administration, the booksellers of Hohlenfeld and Embser provided Fischer with a list of their foreign business contacts and an accounting of all their outstanding contracts on 5 pluviôse II (24 January 1794), but to no avail: they were bankrupt by 1 frimaire III (21 November 1794).<sup>106</sup>

This seizure of foreign property and rupture of financial transactions was justified by an appeal to unity and sovereignty. On 21 floreal II (10 May 1794), Mayor Monet gave a “Discourse on the Foreign Conspiracy in Bas-Rhin” to the Municipal Committee. This speech was something like his own personal narrative of the history of the Revolution thus far. “The depravity of luxury,” he declared, “the egotism of wealth, and all the prejudices that tend to isolate man from his neighbor, came to bolster the tottering throne and to fight against the audacious genius of liberty which already hung over its ruins.”<sup>107</sup> This international class conspiracy underpinned the entirety of his narrative in a dramatic example of Tocqueville’s argument that by 1789 the nobility were seen as a parasitic foreign appendage to the body politic.<sup>108</sup> Without recapitulating the entire historiography on populist social leveling during the French Revolution, it is perhaps sufficient to show that Monet was far from alone in connecting wealth and foreignness. As Paul Kennedy puts it, “More commonly, [Jacobins] deplored the very existence of the rich. An orator at Douai took as his text: ‘Millionaires Are Dangerous in a Republic.’ Castres decided not to accept in its midst ‘anyone who has a monstrous fortune, unless he is recognized as a pure patriot and has done everything in his power to make this inequality disappear.’”<sup>109</sup> The *Courrier de Strasbourg* likewise reported to its wide readership that class conflict was especially strident in Strasbourg: a November 1793 letter from *representants en mission* Milhaud and Guyardin to their comrades in Paris

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<sup>105</sup> Arch. Strasb., 283MW67/17 has 32 such examples, mostly from late 1794.

<sup>106</sup> Arch. Strasb., 283MW67/17. One of their customers was Benjamin Franklin. See Franklin to Johann Valentin Embser, 9 May 1782, in Ellen R. Cohn (ed), *The Papers of Benjamin Franklin*, Vol. 37, (New Haven: Yale University Press, 2003), 347-48.

<sup>107</sup> “La dépravation du luxe, l’égoïsme des richesses, tous les préjugés, qui tendent à isoler l’homme de son semblable, vinrent étayer le trône chancelant et lutter avec le génie audacieux de la liberté qui planait déjà sur ses ruines.” *Livre bleu*, discours, no. 71, 113-31.

<sup>108</sup> Tocqueville, *Old Régime and the French Revolution*, 30-31.

<sup>109</sup> Kennedy, *Jacobin Clubs*, 131. He goes on to summarize: “In principle, therefore, riches were held to be suspect and unseemly.”

declared that “They have imposed a forced loan of 9 million on all the rich, and we, we have ordered the arrest of all the bankers, stockbrokers, notaries, and all people of the city and the countryside against whom was raised some suspicion; we did even more: all their wealth is sequestered and will be placed in the hands of the nation, while the people will remain hostages until the peace...the selfish rich and the hoarders who refuse to obey the salutary Law of the Maximum are struck down by vengeful justice: the guillotine is permanently in Strasbourg.”<sup>110</sup>

The last component to controlling the nefarious relations between the domestic rich and the émigrés was physically controlling the border itself. Passports were issued and the legal cross-border population was registered starting as early as July 1791, but passage over the Kehl bridge was increasingly restricted through floréal V (April-May 1797).<sup>111</sup> The Strasbourg-Kehl crossing was the site of two pitched battles in the spring of 1796, culminating in French military control of both banks of the Rhine and a siege of Kehl by Swabian militia. Before the Rhine was straightened around Basel after 1817 and the water level changed by a series of late-nineteenth century canals, the river was something like three times as wide as it is today, and the Strasbourg-Kehl bridge—built by Vauban in the 1680s—was the only crossing between Mainz and Basel. The militarization of the crossing in the winter of 1796-97 and the destruction of the village of Kehl effectively severed the border in practice, even before the bridges themselves were destroyed in reality by Austrian artillery in January 1797.

Finally, on 8 pluviôse III (27 January 1795), the Committee of Public Safety issued an *arrêt* recognizing that the freezing of foreign payments made it impossible to import or export to the detriment of the French economy, so the use of money abroad would once again be allowed.<sup>112</sup> The military situation had changed with Napoleon’s

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<sup>110</sup> “Ils ont impose un emprunt force de 9 millions sur tous les riches; et nous, nous avons ordonne l’arrestation de tous les banquiers, agents de change, notaires, et de tous les individus de la ville et de la compagne, contre lesquels s’élevé quelque suspicion; nous avons fait plus; toutes leurs richesses sont séquestrées et seront au moins prêtées a la nation, pendant que leurs personnes resteront comme otages enterrées jusqu’a la paix...Les riches égoïstes et les accapareurs qui refusent d’obéir a la salutare loi du maximum sont frappes par la justice vengeresse; la guillotine est en permanence a Strasbourg.” *Courrier de Strasbourg*, no. 264; *Live bleu*, decrees, no. 86, 159.

<sup>111</sup> AD BR 79J/16 on municipal police records of 1791 through 1813, and Arch. Strasb. 1MW149, fol. 357 on the Kehl bridge.

<sup>112</sup> A copy is found in Arch. Strasb., 283MW67/17, signed by Cambaceres and Boissy.

victories in northern Italy, and the Directory was beginning to reconstruct France's economy. Obviously for many merchants this was too little too late. But for the remainder, the temporary exceptions of the Terror produced a host of problems relating to property rights, the adjudication of which continued to occupy the Strasbourg administration throughout the Directory and which were only resolved under the imperial phase of Napoleon's rule.

## II. The Contested Shift from Local Impunity to National Control

Although dry bureaucratic activity occupied the bulk of the Wide Street Commission's regular meetings, the litany of paving stones and ground rents obscured several major scandals that occurred when the Commission encountered the boundaries of its impunity. By far the most notorious of these scandals was the case of Henry Ottiwell. Ottiwell was a land speculator, who through unclear means had business dealings with John Claudius Beresford in 1792. In 1793 the Irish House of Commons opened an investigation into the conduct of the Wide Streets Commission as it pertained to Ottiwell, who had recently rented essentially every property on both sides of Sackville Street—the itemized list runs to five closely-written pages.<sup>113</sup> George Graydon and John Blaquier, who led the inquiry, alleged that Ottiwell had used his contacts to obtain the leases at below-market rates. “The rent reserved by Ottiwell,” Graydon declared, “of that part of the ground which he let was £4,444, and the rent he was to pay the Commissioners was £1,860, which left him an annual profit rent of about £2,560, which at 20 years purchase, amounted to £51,000--and this was but one-third part of the ground which was set to Ottiwell: and by the whole of the agreement there was a loss to the public of £150,000.”<sup>114</sup> A sergeant-at-arms was dispatched to arrest Ottiwell. He promptly went into hiding, and his attorney, along with Beresford's attorneys and personal clerk were ordered to testify before Parliament. A motion was raised to dissolve the contract with Ottiwell, and to strip the Wide Streets Commission of its powers.<sup>115</sup>

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<sup>113</sup> WSC/Mins/18, 6 January 1803.

<sup>114</sup> *Freeman's Journal*, 21 May 1795.

<sup>115</sup> *Freeman's Journal*, 7 February 1796.

Naturally, the principal drivers of this investigation were Beresford's political opponents. He spoke up personally in the House of Commons in his own and the Commission's defense, and appears to have pulled some strings in the House of Peers, since their own investigation was abruptly shelved.<sup>116</sup> The witnesses against him perjured themselves and were sent to Newgate prison, and Ottiwell emerged from hiding to declare "in the most solemn manner, that none of the Commissioners of Wide Streets, their relations, friends, and connexions, or any person for them, had now, nor at any time, any share or concern whatsoever in his interest in the bargain with them."<sup>117</sup> Ottiwell himself then spent three weeks in Newgate prison, while Beresford promptly used his position on the Board of Revenue to open his own investigation against his opponents. This Parliamentary scrutiny provoked a public exchange of pamphlets for and against Ottiwell, the one side accusing the Wide Streets Commission of wholesale corruption, and the other that Ottiwell had merely gambled audaciously and lost, as so many other speculators had.<sup>118</sup>

Since the contract was never actually dissolved, the Ottiwell's properties remained on the Commission's books, occupying a sizable portion of their landholdings and rental income for decades to come. But Ottiwell immediately ran into arrears, and by the end of 1802 owed the Commission £11,004.<sup>119</sup> This, incidentally, provoked the first itemization of Ottiwell's properties: even during the height of the Parliamentary dispute in 1795-96, with all of its rhetorical use of empirical facts, the Commission had no clear idea just how many leases Ottiwell held, nor how much rent was actually due to them. Ottiwell in turn claimed that he had been unable to sub-tenant the properties as planned through no fault of his own, but rather *entirely because* of the Commission's own dilatory practices. "I trust," he wrote, "that a little concession on your part may be reasonably expected when you consider how many Individuals have lost the whole of their property

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<sup>116</sup> *Freeman's Journal*, 24 January 1796.

<sup>117</sup> *Freeman's Journal*, 17 February 1796. Beresford to Auckland, 5 March 1796 in William Beresford, (ed), *The Correspondence of the Right Honourable John Beresford, Illustrative of the Last Thirty Years of the Irish Parliament* (London: Woodfall and Kinder, 1854), 120-121.

<sup>118</sup> Against Ottiwell and the Commission, see Anon. *Remarks on the Propriety and Expediency of the Agreement...*, (Dublin, 1794); in their defense, Anon. *A Refutation of the 'Remarks'...*, (Dublin: 1795) and Anon. *An Impartial View of the Conduct of the Commissioners of Wide Streets*, (Dublin: 1795).

<sup>119</sup> WSC/Mins/18, 6 January 1803.

in the undertaking from the disappointments they have met with and when you consider that the public are every day suffering by the Inconveniences that arise owing to the Improvements *not being carried on.*"<sup>120</sup> This inaugurated a stream of complaints from Ottiwell about the lack of paving, the abandoned rubbish lots, and the heaps of building materials, which he considered to be constant visible proof of the Commission's overreach.<sup>121</sup> He ultimately sued the entire Commission, as well as some of its individual members, claiming that their delays had caused the viable rent for his properties to decline by half.<sup>122</sup>

Despite his admirable persistence, Ottiwell's suit failed, and on October 9, 1807 he was publicly declared a bankrupt and his possessions auctioned.<sup>123</sup> Sherrard began the laborious process of repossessing and re-valuing his properties, as well as issuing new leases in an effort to collect the arrears.<sup>124</sup> By 1811 the Commission had recouped £9,000, and in 1813 Ottiwell died, turning over the thicket of bankruptcy arbitration to his heirs, who continued fighting the Commission until 1824.<sup>125</sup>

Despite all this scandal and litigation, Ottiwell and Beresford remained business associates. They appear together in 1810 on a series of leases held by the Gardiner Estate for property on Dorset Street, and apparently served as executors for someone called James Kenny.<sup>126</sup> And, most strikingly of all, Beresford ended up the sole assignee of the Ottiwell estate: a dubious privilege to be sure, but one which suggests a close relation indeed.<sup>127</sup>

Beresford himself had gone bankrupt in 1810, along with the failure of the Beresford and Company Bank.<sup>128</sup> He claimed that the cause was none other than the Wide Streets Commission itself, which had tied up his funds in buildings which he could neither sell nor rent, rendering him temporarily illiquid during the 1807 recession.<sup>129</sup>

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<sup>120</sup> Ottiwell to Commission, WSC/Mins/18, 5 May 1803. Emphasis added.

<sup>121</sup> WSC/Mins/19, 20 April 1805.

<sup>122</sup> WSC/Mins/20, 18 April 1806 and 19 May 1806.

<sup>123</sup> *Freemen's Journal*, 9 October 1807.

<sup>124</sup> WSC/Mins/21, 12 May 1808 and 6 January 1809.

<sup>125</sup> WSC/Mins/ 23, 24 April 1811; WSC/Mins/25, 31 March 1813; WSC/Mins/35, 2 April 1824.

<sup>126</sup> NLI MS 36,524/18.

<sup>127</sup> PRONI D1253/5/4, 26 November 1810.

<sup>128</sup> See the reassuring announcement of new ownership in *Freeman's Journal*, 4 Dec 1810.

<sup>129</sup> Beresford to Foster, PRONI D562/12402, 28 Dec 1808.

And as it turns out, the bankruptcy and the Ottiwell affair were not the only financial scandals in Beresford's long career. In 1795-97, Beresford acted as the financial agent for Lord Annesley, who was then in the midst of a very sensational marriage scandal involving the wife of his brother's gardener, a murder plot, and a fabricated peerage.<sup>130</sup> When the dust settled, the gardener's wife got an annuity and an apartment on the Rue de Rivoli, and Beresford ended up with a portion of Annesley's own inheritance, executor to his will, and guardian to his child.<sup>131</sup>

Further, Beresford's bankruptcy turns out not to have been entirely the fault of the Wide Streets Commission, but rather resulted from a failed attempt to defraud his brother-in-law George Hill out of £32,000 in proceeds from the sale of Hill's estate in County Leitrim.<sup>132</sup> In the litigation which followed, Hill's lawyers discovered that Beresford had been embezzling money that Hill had deposited at Beresford's bank, that Beresford had contracted debts in Hill's name without his knowledge, and that Beresford himself had borrowed £60,000 of his bank's money for his various investments.<sup>133</sup>

The point here is not to cast aspersions on the historical memory of John Claudius Beresford, but rather to make a point about how *ad hoc* financial institutions and asymmetries of personal information could allow for speculation and malfeasance rather than investment and growth. And further, the total absence of any legal redress indicates the political character of prosecutorial discretion in Dublin under the Ascendancy. In other words, Beresford was able to act with impunity because of his position within the political and administrative elite, which was itself constituted on the basis of formal inequality, exclusivity, and complete freedom from responsibility to the city's population. Fittingly, Beresford's personal financial embarrassments mirrored those of the Commission on which he was such a central figure. Both he and the Commission prospered between about 1785 and 1805, thanks to extensive real estate deals and close associations with banks. Both had fiscal crises in 1807-1810, followed by two decades of decline into debt and litigation.

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<sup>130</sup> This is a long story. See PRONI D1503.

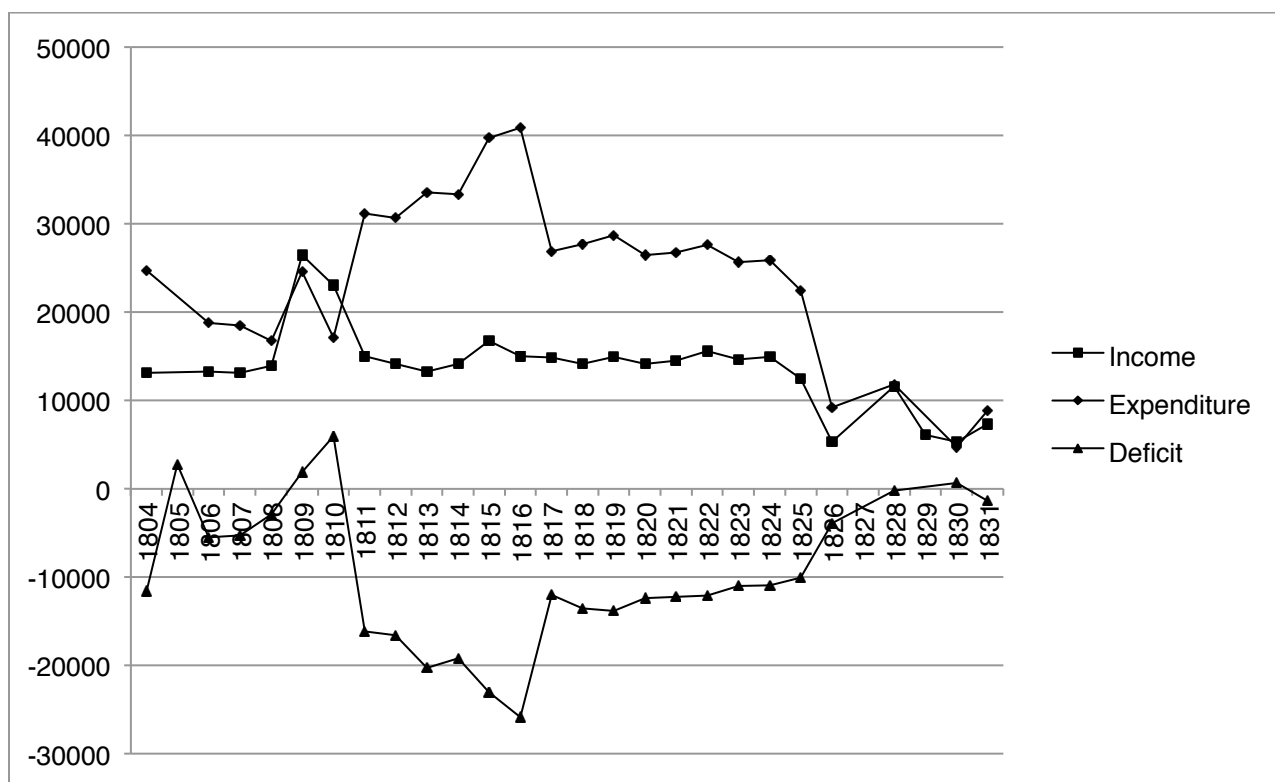
<sup>131</sup> Lord Annesley's will, PRONI D1503/3/5/23.

<sup>132</sup> See PRONI D642/H/10-15 for an overview.

<sup>133</sup> PRONI D642/F/32. Hill still ended up on the hook for the debts Beresford had contracted and had to pay the costs of arbitration: PRONI D642/F/5.

Following the connection with La Touche's Bank in 1782, the Commission issued an enormous amount of debt. It eventually leveled off at £245,662, issued in bonds at 6%.<sup>134</sup> The bulk of these were issued between 1810 and 1828, during which time the Commission's revenue was stagnant at around £15,000 per annum. In this period there seems to have been slack in Dublin property market as a whole, since the Commission repeatedly failed to find buyers for their new buildings or tenants for their old ones. Nor did they receive sufficient revenue from the coal tax, suggesting several hard, cold winters for most Dubliners.<sup>135</sup> In 1812 the Commission wrote to Parliament asking for an emergency loan to avoid default.<sup>136</sup> They got their bailout, but their immediate efforts to re-double the scope of their projects only made the problem worse. Figure 1 below illustrates the Commission's chronic fiscal problems in this period.

**Figure 1. The Wide Streets Commission's Fiscal Balance in Irish Pounds Sterling, 1804-1832.**<sup>137</sup>



<sup>134</sup> To give some perspective, this is about 2.5 times the total cost of the HMS *Victory* in 1800 prices.

<sup>135</sup> See the forensic accounting in WSC/Mins/32, March 1821.

<sup>136</sup> WSC/Mins/25, 2 December 1812.

<sup>137</sup> WSC/Mins/19-41.



They expanded ambitiously in 1815-19 into the old medieval quarter around Winetavern Street, as well as near Christ Church Cathedral, and even into Meath's Liberty, but the consequent ballooning of their expenditure from around £20,000 in 1810 to over £40,000 in 1817 was not offset by any new revenue.<sup>138</sup> Even the aggressive sale of long-held property barely dented the Commission's debt, and in July 1825 the Treasury was obliged to redeem the outstanding bonds and consolidate with a new loan at 3%.<sup>139</sup> Naturally this provoked some scrutiny of the Commission's activities in Parliament, and the resulting discontent appears to have had a popular dimension as well. The Minute Books show increasing complaints of unpaved streets, abandoned building sites, collapsed walls, and ignored petitions throughout the end of the 1820s.<sup>140</sup> In late 1829, an auction of building materials at Park Gate Street was attacked by an angry mob, sending the aged Sherrard running to the local constabulary.<sup>141</sup>

The beginning of the end arrived in May of 1830 when the Act authorizing the Commission came up for renewal. Despite the Commissioners sending letters to every Irish MP urging their support, their political opponents seized on the continual debt problems as justification for stripping the Commission of its autonomy. An unfortunate clerk named Bradley worked around the clock gathering documents to prove that the Commission had managed its finances responsibly before the bill came up for debate on May 5.<sup>142</sup> Although this effort was successful, no further money was forthcoming from Parliament, which halved their revenue, and without which and the Commission entered a terminal decline. They embarked on no new projects, even to the extent of having to explain to the Board of Health that they were unable to drain, widen, and clean Sycamore Alley, which had become the epicenter of a cholera outbreak in 1832.<sup>143</sup> The widening of Dame Street, which had been their nominal purpose since the beginning, was ruled impossible to complete.<sup>144</sup> In early 1833 it was discovered that not only had the

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<sup>138</sup> WSC/Mins/28, 17 January 1816 and WSC/Mins/29, October 1817, *passim*.

<sup>139</sup> WSC/Mins/36, 16 December 1825.

<sup>140</sup> WSC/Mins/32-37, *passim*.

<sup>141</sup> WSC/Mins/39, 1 January 1830.

<sup>142</sup> WSC/Mins/39, 3 May 1830.

<sup>143</sup> WSC/Mins/40, 20 June and 18 July 1832.

<sup>144</sup> WSC/Mins/41, 23 January 1833.

Commission's lawyer, Mark Anthony Lyster, been defrauding them and died "in embarrassed circumstances," but so too had John Hendrick, their principle tax collector, been absconding with their revenue.<sup>145</sup> The coal tax expired in August, and by November the Lord Lieutenant demanded oversight.<sup>146</sup> He appointed five of his own Commissioners on December 18, including the new Chair, and opened 1834 with a wholesale audit of the Commission's accounts.<sup>147</sup> The report of one tax collector, George Frederick Johnson, to the auditors can serve as a useful summary of the Commission's limitations and eventual fate:

"I have also to state that there is an almost universal determination throughout all the Barony of Donore and part of Saint Sepulchre not to pay the Wide Street tax, and several Inhabitants have assured me that they have never paid it though residing there fifteen years.

"I beg also to state that the poverty, misery, and wretchedness of the most of my Walk is so great and the remuneration so small compared with the immensity of labour which would destroy any Man's constitution be he ever so robust, that after this next Term I must resign it from inability to bear the fatigue."<sup>148</sup>

The Wide Streets Commission labored on for nearly two more decades, even through the restructuring of the Municipal Corporations Act and the disaster of the Famine, but it never undertook another major project, nor did it contribute in any meaningful way to changing Dublin's character or economy. The wholesale reconfiguration of Dublin's built environment was finished. Mixed-use neighborhoods had filled in the eastern half of the city, connected to the main north-south commercial artery that crossed Carlisle Bridge. The quays had been widened and organized, the Liberties incorporated into the city's housing stock, and trade had been permanently re-routed from the old medieval quarter to the area around Sackville Street and Custom House. The city could now boast of many wide, straight boulevards, of bridges inspired by French models, and of orderly Georgian architecture. For their part, the citizens of Dublin began to form *ad hoc* neighborhood committees in the early 1830s, which would

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<sup>145</sup> WSC/Mins/41, 16 January 1833.

<sup>146</sup> WSC/Mins/41, 28 August 1833

<sup>147</sup> WSC/Mins/41, 20 November 1833; 18 December 1833; 19 February 1834.

<sup>148</sup> WSC/Mins/41, 16 April 1834.

take subscriptions in order to complete specific small projects.<sup>149</sup> Having begun with a series of projects undertaken by private speculators, the long interregnum of institutionalized urban development ended, and Dublin reverted to a space for purely private changes to the built environment.

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In Strasbourg the effort to control national property and enforce the border went hand-in-hand with the effort to control the monetary situation. When the first *assignats* were issued in April 1790, Strasbourg's merchants (and indeed, municipal government) held contracts denominated in several different currencies. Since the silver value of the *livre* had been stabilized in 1726 it could be freely exchanged for Italian ducats, Dutch florins, German talers, or any of the 75 different Swiss coins, as Strasbourg's Rhine trade required.<sup>150</sup> The *assignats* immediately raised a series of practical questions that were unforeseen by the central government. Most historians have concluded that the original *assignat*-land plan was doomed from the outset because it was fundamentally a political decision taken without sufficient technical capacity or competence.<sup>151</sup> The competence problem notwithstanding, the Old Regime definitely could not claim a credible commitment to the value of its currency, and the protestations of the Revolutionary regime as to the security of the public debt were not especially persuasive to foreigners fearing arbitrary violations of their property rights. As a result, the *assignats* faced a fundamental crisis of confidence stemming from the politics of their creation, as discussed in Chapter 3. Moreover, the commitment problem and the competence problem met over questions of enforcement. Since the *assignats* were a political project and accepting them was a mark of patriotism, a range of questions emerged over how to enforce their usage at France's borders.

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<sup>149</sup> For example, closing up one end of Aungier Street to keep out "Gangs of Prostitutes, Thieves, and Drunkards." See WSC/Mins/40, 4 April 1832 for the initial complaint and WSC/Mins/42, 29 October 1834 for the solution.

<sup>150</sup> One such conversion chart for 37 different currencies can be found in AD BR 1L/1220.

<sup>151</sup> This conclusion is shared by Florin Aftalion, *The French Revolution: An Economic Interpretation* (Cambridge: Cambridge University Press, 1990), 68-86 and François Crouzet, *La grande inflation: la monnaie en France de Louis XIV à Napoleon* (Paris: Fayard, 1993).

One early example will suffice. In August 1791, the Tribunal of Commerce in Strasbourg wrote to the Ministry of Justice, asking whether a Strasbourg merchant was allowed to fulfill a contract with a Frankfurt merchant by paying in specie rather than *assignats*. The Ministry responded carefully, agreeing that there must not be any distinction in France between specie and *assignats*: “The *assignats* are the money for the French, there must not be found any difference between one and the other.”<sup>152</sup> But they concluded that confidence in the *assignats* resulted from the need of all Frenchmen to believe in “la parole nationale,” which could not be expected of foreigners.

But how were Frenchmen to obtain specie when they were legally required to use *assignats* for domestic transactions? The Revolutionary government, though perhaps cognizant of France’s long and gruesome history of monetary manipulation, seemed quite unaware of Gresham’s Law and tried to substitute political exhortation for practical control of the money supply. A *Bureau de Garantie* (that is, an exchange bureau, and a place where the metal content of coins could be verified) was only established in ventôse X (February 1802), and efforts to de-monetize old coins, including those issued after 1726, were only seriously undertaken in the summer of Year XII (June-July 1804).<sup>153</sup> This was part of the new Bank of France’s assertion of its monopoly on note issuance: something the administration of the *assignats* never approached.

Instead of centralizing control of money under the note-issuing monopoly of a central bank, the Revolutionary governments sought to control it through transactions. The first tranche of *assignats* were disbursed in Strasbourg through the payment of city employees. As with the Great Recoinage in Britain in 1695, only *assignats* would be accepted as payment for taxes, briefly producing a situation in which the government used one currency and the commercial population another, despite the patriotic exhortations to “la parole nationale,” as in the case mentioned above. The simultaneous circulation of dual currencies meant that the exchange rate on the ground in Strasbourg differed substantially from what the Ministry of Finance thought it should be, with the

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<sup>152</sup> “Les assignats sont de l’argent pour les français, ils ne doivent pas trouver de différence entre l’un et l’autre.” Dupont to Tribunal, 7 August 1791, AD BR/79J/268.

<sup>153</sup> Arch. Strasb., 283MW67/17.

result that the city's workers continually refused payment in *assignats*.<sup>154</sup> The helpful Johann Hoffmann, secretary-general of Bas-Rhin and longtime member of the Chamber of Commerce, produced a little book entitled “Réflexions sur les Moyens de Favoriser la Circulation des Assignats, et de leur rendre leur valeur réelle,” which was printed by Berger-Levrault in 1792 and duly circulated throughout the city.<sup>155</sup>

Whether or not Hoffmann's careful and intelligent discussion persuaded anyone, the Convention continued to issue new *assignats* in new denominations, retiring old ones, and issuing furious denunciations of counterfeiters and speculators. Without anything like systematic price data it is impossible to assess whether Alsace really experienced a sudden burst of runaway inflation in 1792-93, and it is equally difficult to determine whether there really were counterfeit *assignats* flooding across the border. At that stage, the monthly rate of inflation in France occasionally touched 20%, which probably seemed destabilizing at the time relative to the long stability of the *livre*, but which ultimately paled next to the 120% reached in December 1795-January 1796.<sup>156</sup> What is certain is that many people in Strasbourg certainly thought there were too many *assignats* in circulation, and it was all the fault of the émigrés.<sup>157</sup> On 7 vendémiaire II (28 September 1793), Bochart, the *vérificateur generale des assignats*, issued instructions to his fellow citizens the “fastidious details” of how to recognize counterfeit *assignats* of 250 or 125 *livre* denominations. He stated in no uncertain terms that inflation was the work of the Republic's enemies:

“So long as the enemies of the Republic, being too weak to wage war by force of arms, continue to use the most perfidious means to introduce false money into our territory, which their emissaries are instructed to spread, in order to corrupt or ruin the countryside, to discredit our national money, and to raise our merchandise to excessive prices, it is my duty to reveal all these perfidies to my fellow citizens, to call their

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<sup>154</sup> See, for a relatively late example, Departmental Administration to Ministry of Finance, 12 germinal IV, Arch. Strasb. 283MW44.

<sup>155</sup> See the copy in AD BR 1L/1222.

<sup>156</sup> White, “French Revolution,” 237.

<sup>157</sup> This view has become a commonplace in the historiography. See Seigneuret, *Strasbourg*, 66, for example.

attention to all these maneuvers, and at the same time to multiply the means which can preserve us.”<sup>158</sup>

By 6 pluviôse II (25 January 1794), even the *representats du peuple* Lacoste and Baudot concluded that paper money had produced “un discrédit absolu” in Bas-Rhin, especially in Strasbourg, which was so pronounced as to be working against the true interests of the Republic. They ordered for 10 million nominal *livres* in *assignats* to be taken out of circulation and replaced with an equal amount in specie, with 3 million exchanged in Strasbourg and the rest throughout Bas-Rhin, administered through the army paymaster.<sup>159</sup> This was only one of the wild oscillations in their policies. The first pair of *representats*, Couturier and Dentzel, had purged much of Dietrich’s administration in January and February of 1793; Lacoste and Baudot then conducted their own Hébertiste purge in October 1793, followed by a Jacobin purge by Saint-Just and La Bas in December. Each of these administrative reshufflings corresponded to new relations with the army, new monetary policies, and new compositions of the Jacobin club. The uncertainty and impermanence of the Revolution’s policies undermined their attempts to govern Strasbourg. The only consistency was in the principle of sovereign authority, and the principled rejection of the Revolution’s enemies as rights-bearing political subjects.

Everything accelerated under the Directory. The Law of the Maximum and the leveling rhetoric of the Paris sections have ensured that posterity thinks of the Terror as the pinnacle of the Revolution’s hostility to property, while the Directory is increasingly remembered as the return of bourgeois Enlightenment rationality.<sup>160</sup> But the Jacobins, for all their violence, did not default on the debt, nor did they start the issuance of *assignats*,

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<sup>158</sup> “Mais, lorsque les ennemis de la République, trop faibles pour lui faire la guerre par la force des armes, continuent d’employer les moyens les plus perfides pour introduire sur son territoire une fausse monnaie; que des émissaires chargés de la répandre, s’en servent pour corrompre ou ruiner les habitants de la campagne, pour discréditer le papier national, et porter les marchandises à un prix excessif; il est de mon devoir, en dévoilant toutes ces perfidies à mes Concitoyens, de rappeler leur attention sur ces manœuvres toujours renaissantes, et de multiplier en même-temps les moyens qui peuvent les en préserver.” AD BR 1L/1222.

<sup>159</sup> *Livre bleu*, arrêts et décrets, 48, no. 52.

<sup>160</sup> On the rehabilitation of the Directory as an Enlightened bourgeois project, see Andrew Jainchill, *Reimagining Politics After the Terror: The Republican Origins of French Liberalism* (Ithaca: Cornell University Press, 2008) and James Livesey, *Making Democracy in the French Revolution* (Cambridge, MA: Harvard University Press, 2011).

nor did they preside over the peak of the hyperinflation. They accelerated and radicalized the ongoing process of asserting political control over the private economy, but the Directory, with its restricted franchise and institutional separation from the people, was the first Revolutionary government to truly act with impunity in the economy for purely political reasons. Just as the post-Thermidorian regime attempted to end the Terror by the continued use of many components of Terrorist rule, so too did the Directory attempt to end the monetary and budgetary chaos through even more aggressive control over property.<sup>161</sup> To be sure, many of the economic institutions of the Terror were dismantled in late 1794: forced requisitions ended in September, the death penalty for speculation ended in October, and the Maximum itself was repealed in December. But this did not mark the end of the government's efforts to control property, simply the end of the phase in which the weapons of the state were principally directed at merchants in order to win the political allegiance of the Parisian *sans-culottes*.<sup>162</sup>

Whether due to increased counterfeiting on the borders or increased paranoia in Paris, on 8 germinal III (28 March 1795) Deperey, Bochart's unenviable successor as *vérificateur general des assignats*, sent his own set of instructions on how to recognize false *assignats*, this time of 5 *livre* notes.<sup>163</sup> By this time so many administrators had been purged and the *assignats* had been issued in so many runs of so many different denominations that ascertaining which ones were real had become something of expert technical knowledge. Deperey himself admitted that there was no way of knowing how many false *assignats* were in circulation, let alone what proportion of circulating paper was counterfeit, in part because offices for authenticating them were only established at the borders in March 1794.<sup>164</sup> This authentication problem was specific to paper money.

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<sup>161</sup> On the problems of ending the Terror, see Bronislaw Baczko, *Ending the Terror: the French Revolution After Robespierre* (Cambridge: Cambridge University Press, 1994) and Howard Brown, *Ending the French Revolution: Violence, Justice, and Repression from the Terror to Napoleon* (Charlottesville: University of Virginia Press, 2006).

<sup>162</sup> To sharpen the point, many of the same Terrorist policies were re-introduced in late 1795 as the budgetary crisis continued.

<sup>163</sup> AD BR 1L/1222. A version was printed and distributed from Lyon: G. Deperey, *Instruction pour reconnoiter les assignats faux* (Lyon: Tournachon et Deval, 1795). Deperey continued to send similar instructions through pluviôse IV. I have no explanation for why increasingly small denominations would be subject to counterfeit, when inflation would suggest an incentive to counterfeit larger and larger denominations.

<sup>164</sup> G. Deperey, *Le Vérificateur général des assignats à ses concitoyens* (Paris: Delaguette, 1794), 1.

Everyone could tell a clipped coin, and even counterfeit specie had some content of precious metal: to some extent, the value was independent of the sovereignty of its issuer. Not so with the *assignats*, and since the Terrorist regime took non-acceptance of *assignats* as a sign of counterrevolutionary malfeasance, the stakes of recognizing counterfeits were very high indeed, hence Deperey's scrupulous descriptions. The procedures for recognizing suspicious *assignats* were not far removed from the detailed instructions under the Law of Suspects on how to recognize suspicious persons. As the art historian Richard Taws puts it, "This body of information made it possible to scrutinize counterfeit *assignats* as if they were themselves criminals."<sup>165</sup> Of course in practice the easiest way to recognize suspicious people was by their foreignness, and the easiest way to avoid accepting counterfeit *assignats* was to avoid doing business with foreigners. Thus on 1 nivôse III (21 December 1794), the Administration of the District of Strasbourg relayed complaints from Wissemburg and Hagenau to the Directory of Bas-Rhin that the continued infiltration of foreigners across the border also explained the continued large quantity of worthless *assignats* in circulation.<sup>166</sup>

By nivôse IV (December 1795-January 1796) the *assignats* had depreciated to 0.5% of their face value. This produced an administrative challenge to the Directory's sovereignty like no other they faced. They had issued between 100 and 250 million *assignats* per month through 1795 in order to cover their budget deficits, producing something like 80% monthly inflation.<sup>167</sup> At the same time (December 1795) they decreed the first forced loan of 600 million *livres*, ostensibly to be extracted from the richest 25% of each *département*, and in a spectacular act of fiscal blackmail decreed that they would continue to print *assignats* until either they reached 40 billion in circulation or until two-thirds of the forced loan was paid.<sup>168</sup> The Strasbourg municipal government was inundated with anxious demands from Faipoult, the new Minister of Finances, asking for updates on how quickly the payments could be completed and providing more and

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<sup>165</sup> Richard Taws, *The Politics of the Provisional: Art and Ephemera in Revolutionary France* (University Park, PA: Pennsylvania University Press, 2013), 35.

<sup>166</sup> Administration du district de Strasbourg to Directoire du département de Bas-Rhin, 1 nivôse III, AD BR 1L/1222.

<sup>167</sup> Eugene N. White, "The French Revolution and the Politics of Government Finance, 1770-1815," *The Journal of Economic History*, Vol. 55, No. 2 (June 1995), 246.

<sup>168</sup> White, "French Revolution," 247.



more charts for the conversion of assets into acceptable payment. *Assignats* would be accepted at 1% of their nominal value, but payment should be made in specie or grain whenever possible.<sup>169</sup> Payments were to be assessed regardless of where people lived, with certificates issued to prove payment, and each commune in Bas-Rhin received a flurry of instructions, demands, and pleas.

On 30 pluviôse IV (18 February 1796), the plates for printing the *assignats* were publicly smashed in the Place Vendôme in Paris and a crowd cheered as they and 1.167 billion *assignats* were burned.<sup>170</sup> But since the forced loan still hadn't been paid and the tax structure was still in a shambles, the Directory's fiscal pressures continued to mount, so they issued another form of paper money, the *mandats territoriaux*. These were issued at par with specie in March 1796, and could be exchanged for *assignats* at 30-to-1.<sup>171</sup> Since there were still so many *assignats* in circulation, these rapidly reached their ceiling of issuance at 2.4 billion *mandats* and became part of the problem of the Directory's monetary chaos rather than part of the solution.

The administrators of Bas-Rhin seemed by this point to have had quite enough. The forced loan was never paid, and there is no indication that a single commune produced its required quota. On 17 vendémiaire V (28 October 1796), the Ministry of Finance wrote to complain that they had received virtually zero collected from Bas-Rhin.<sup>172</sup> The commune of Candel wrote that collection was simply impossible; Haguenau that they had received the wrong list of citizens; Billigheim that they hadn't received any certificates to give as proof of payment.<sup>173</sup> The Jacobin press was well aware of this discretionary scope. As Isser Woloch puts it, "Unless they were vigilant, though, the law could have an opposite effect. Great local discretion was possible in the actual assessment process; maliciously motivated, the administrators could 'cause the enormous burden that the rich alone should bear, to fall upon the impoverished family,

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<sup>169</sup> AD BR 1L/1204, 18 nivôse IV.

<sup>170</sup> E. Levassuer, "The Assignats: A Study in the Finances of the French Revolution," *Journal of Political Economy*, Vol. 2, No. 2 (March 1894), 191.

<sup>171</sup> White, "French Revolution," 247.

<sup>172</sup> AD BR 1L/1204.

<sup>173</sup> AD BR 1L/1204.

which has sacrificed everything for the Revolution.”<sup>174</sup> The reality in Alsace was more practical: most administrators used the forced loan as an opportunity to rid themselves of the *assignats*. By late 1796, the Directory’s enforcement mechanisms had become so weak, and the legitimacy of their rule so precarious that local governments could, at their own discretion, use a bad monetary policy as a means of neutralizing another bad fiscal policy.

As discussed in Chapter 3, the Directory’s claims to delivering stability and the protection of property finally arrived in the form of the outright repudiation of property, both through their sovereign default and through Napoleon Bonaparte’s skill with organized violence. The continued budgetary crisis provoked political conflict between the legislature and the executive Directory, culminating in the Directory’s anti-royalist coup of 18 fructidor V.<sup>175</sup> With their leftist opponents purged after the failure of the Babeuvist conspiracy of 1796 and their rightist opponents neutralized after the 18 fructidor coup, the Directory could act without organized opposition, and their action was to declare the “bankruptcy of two-thirds” on 30 September 1797.<sup>176</sup> At the same time, the conquests of the Netherlands and the victories in northern Italy generated huge indemnities paid in specie: the result not of the sanctity of property but rather of its vulnerability to political violence. Even these drastic measures were stopgaps, and the problem of putting France’s fiscal and monetary systems on a credible, functional footing were only solve under Napoleon’s regime.

Thus, the end of the immediate budgetary crisis did not mean the end of the Directory’s struggles with controlling property. As with John Law’s paper money in 1720, the *assignats* scrambled relative prices, wages, and contracts, creating an administrative disaster for French property. Should contracts be recalculated? If so, using which benchmark and which conversion? Should they simply be cancelled? Was

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<sup>174</sup> Isser Woloch, *Jacobin Legacy: The Democratic Movement Under the Directory* (Princeton: Princeton University Press, 1970), 37. He offers similar examples in the *Orateur plébéien*, No. 17, 2 nivôse and No. 74, 10 germinal IV (23 December 1795 and 30 March 1796); *Ami du peuple*, No. 123, 7 pluviôse and No. 127, 19 pluviôse IV (27 January and 8 February 1796); *Journal des hommes libres*, No. 94, 12 pluviôse IV (1 February 1796); *Ami de la patrie*, No. 10, 11 ventôse IV (1 March 1796).

<sup>175</sup> Woloch, *Jacobin Legacy*, 77 and 165-75 agrees with my budgetary interpretation of the 18 fructidor coup, but argues that the specific issue was the veteran’s bonus.

<sup>176</sup> White, “French Revolution,” 248.

there some kind of statute of limitations? All of these questions were made even more complicated by several decrees that postponed payments on contracts made during the height of the inflation, like the one on 25 messidor III (13 July 1795) that suspended payments on all debts incurred before 1 January 1792. On 15 germinal IV (4 April 1796), the Directory had ordered all debts denominated in *assignats* before 1 January 1792 to be repaid in the short-lived *mandats territoriaux*. Should a law requiring the repayment of a debt in one worthless currency with another worthless currency be honored? In many *départements* and in Paris unraveling this confusion led to a proliferation of new litigation which followed an obscure Ancien Régime principle called the “action en rescision pour lésion d’outre-moitié.”<sup>177</sup> This phrase meant literally “damage of more than half,” and was only sparsely applied in the early stages of the Revolution before being banned outright immediately after Thermidor. But it was rehabilitated in the wake of the *assignats* and *mandats* as a way for unpaid loans, broken contracts, lost merchandise, and worthless leases could be litigated through the courts. In general, these cases tended to favor creditors at the expense of debtors, usually requiring payment in full in specie within one year of decision. But after the fructidor coup the Directory’s general penchant for repudiating inconvenient property rights included these cases, and the law of 18 floréal VI (8 May 1798) even went so far as to nullify outstanding lésion suits, regardless of their justification.<sup>178</sup> The post-fructidor laws rejected all comparisons of value with pre-Revolutionary money, essentially making the process of determining the value of contracts a purely political one.

The early phases of the Revolution disrupted trade in Strasbourg to such an extent that by 1796 the city administration was involved in most major contracts in some respect. The most numerous source of this sort of litigation was the city’s debts, to which I will return in a moment. But the debts were obviously not the only subject of commercial litigation. In response to general outcry and confusion, the Conseil de Cinq-Cents and the Conseil des Anciens distributed complicated charts starting on 5 messidor

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<sup>177</sup> A fascinating overview of this litigation can be found in Judith Miller, “The Aftermath of the Assignat: Plaintiffs in the Age of Property,” in Howard Brown and Judith Miller (eds.), *Taking Liberties: Problems of a New Order From the French Revolution to Napoleon* (Manchester: Manchester University Press, 2002): 70-92.

<sup>178</sup> Miller, “Aftermath of the Assignats,” 78.

V (23 June 1797), and instructed the *départements* to draw up their own regional price conversion tables, intending to allow individuals to determine a rate of conversion between the different issues of *assignats*, and thereby arrive at how much their contracts or merchandise should be worth.<sup>179</sup> But, as Eugene White notes, “The law of 5 messidor V did not provide any specific details as to the commodities to be included or the exact weights to be used in calculating the indices. The latitude given to the *départements* should not be surprising, given the absence of any consistent collection of price statistics during the Revolution and the lack of any theory of how to construct a price index.”<sup>180</sup> The result was predictably full of controversy, both because methods of conversion between *départements* were unclear, but also because the *tableaux de dépréciation* had to be accepted by a commercial population with very good reason to doubt the Directory’s competence and good faith.<sup>181</sup> As with the case of double-entry bookkeeping discussed in Chapters 1 and 2, these *tableaux de depreciation* were what Mary Poovey has characterized as performative speech acts: as written documents, they were themselves the things they purported to factually demonstrate about the material world.<sup>182</sup> As a consequence, they did not work as technical managerial tools the way the Directory intended, but rather as starting points for political disputes and the exercise of administrative discretion.

Throughout the years V and VI (late 1796-1797), at least 75 petitioners filled out the newly regularized form letters requesting payment owed to them from old Strasbourg municipal debts, converted to new, consolidated “creances.”<sup>183</sup> These cases continued well into the Napoleonic era, at which point the capacity for discretion at the periphery had conclusively changed. From the total political control over determining value under the late Directory, under the Napoleonic administration, decisions were made by the

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<sup>179</sup> Eugene N. White, “Measuring the French Revolution’s Inflation: The Tableaux de dépréciation,” *Histoire et Mesure*, Vol. 4, No. 3/4, (1991): 245-274.

<sup>180</sup> White, “Measuring,” 251. White goes on to describe the complicated method used in Calvados to arrive at their tableaux.

<sup>181</sup> *Ibid.*, 253. Ramel de Nogaret, the Minister of Finance, received 47 petitions of complaint, gathered in Archives Nationales, AF3/135A and /135B.

<sup>182</sup> Mary Poovey, *Genres of the Credit Economy: Mediating Value in Eighteenth and Nineteenth-Century Britain* (Chicago: University of Chicago Press, 2008), 30-35.

<sup>183</sup> Arch. Strasb. 283MW68/17.

central authority with a much more consistent concern for upholding property rights and contractual obligations. An example will illuminate how this transition worked.

In May 1808 the Municipal Council of Strasbourg heard the case of Frederick Speilmann, who claimed he was owed the outstanding interest on two “capitals”—that is, two debt instruments with a total nominal sum of 3,888 *livres*, 13 sous, 4 deniers, which he had bought on 1 January 1793 from Jean Turckheim, the Protestant patrician and former deputy who also happened to be an in-law of Speilmann.<sup>184</sup> These bonds had matured on 1 November 1794, but he had never been repaid. The city maintained that they should pay according to the value of the paper *livre* of 31 October 1793, while Speilmann maintained that the value of 1 November 1794 was appropriate. Which should be used, and should it be applied both to the interest earned through 1793, or just to the liquidation of the claim? When the city government ruled against Speilmann, he appealed over their heads to the Prefect of Bas-Rhin, who ruled that the law of 24 August 1793 on municipal debts still held, so Speilmann was due payment, and that the value of his claim could only be depreciated for the interest due in the last six months of 1793. Having no one left to appeal to, the city finally paid Speilmann.

Another contrast between the shambolic powers of the Directory and the rigorous impositions of the Napoleonic state was the assessment of the forced loan of 1799. Though decreed six months before Napoleon’s coup on 18 brumaire, its implementation briefly fell to his administration before the foundation of the Bank of France made the policy irrelevant and counter-productive. His Ministry of Finance essentially ordered every commune to complete a census and a cadastral survey, returning alphabetical lists of everyone eligible to pay, and where they owned land.<sup>185</sup> The initial instructions ran to twelve detailed pages. This information was to be made public, and certificates issued to everyone who was required to pay more than 300 *livres*. The next round of instructions contained model forms and instructions on best practices in filling them out. With these strict enforcement mechanisms in place, the *départemental* administration had no choice but to begin registering citizens—it recorded 603 in the first ten days. A jury composed

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<sup>184</sup> The documents relating to this case are in “Liquidation de dettes de la ville,” Arch. Strasb. 283MW70, but are in no clear order.

<sup>185</sup> AD BR 1L/1211.

of merchants and notaries was set up to hear appeals and determine payments, which theoretically were to be proportional to each person's total wealth. They processed about thirty people per day, every day, eventually demanding payment from 1082 people in Strasbourg alone, with an average per-capita assessment of 675 *livres*.<sup>186</sup> An additional 529 people who were domiciled in Strasbourg but who owned land elsewhere were required to pay a new special tax.<sup>187</sup> In addition to raising money very quickly, this procedure produced a tremendous amount of information, all of which was duly passed along to the central government, and much of which revealed the ramshackle condition of Strasbourg's fiscal administration.

Indeed, shortly after the Brumaire coup, the new Prefect suggested that the city sell the remaining *domains patrimoniaux* to pay off its sizeable debts, which should yield 6,272,000 francs, thereby returning the city to solvency. Mayor Wangen de Geroldseck was furious. The Prefect was utterly misinformed as to the value of the city's lands, he replied. Had he forgotten that the Revolution had ended all seigneurial privileges, vastly reducing the potential income of these properties? Did he understand the magnitude of selling these properties once and for all, especially considering that successive orders from different Directors of Domaines had absolutely contradicted one another?<sup>188</sup> As had become standard practice under the Directory, subsequent demands were met by truly inspired foot-dragging and pleas for more time. This bought some latitude, but by 1805 the Napoleonic administrative apparatus was fully functional and the municipal government's discretion was effectively removed. Finally, during April 1806 Wangen finally took a full accounting of the city's outstanding debts, in as coherent a manner as he could achieve, under very strict instructions from the Prefect to follow the law of 24 August 1793. He found that the city owed 4,564,782 francs—to put this figure in context, the monthly indemnity from the country of Spain after 1805 was 4 million francs.<sup>189</sup> The Prefect demanded to know how the city intended to repay this sum, if not through selling their remaining *domaines patrimoniaux*.

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<sup>186</sup> "Taxes Imposée a L'Emprunt de 100 Millions," AD BR 1L/1211.

<sup>187</sup> AD BR 1L/1212.

<sup>188</sup> Wangen to Thomassin, 26 Thermidor VIII (14 August 1800), Arch. Strasb. 283MW70.

<sup>189</sup> Michael Bordo and Eugene N. White, "A Tale of Two Currencies: British and French Finance During the Napoleonic Wars," *The Journal of Economic History*, Vol. 51, No. 2, (June 1991), 267

He had a point, but Strasbourg's position in the developing Napoleonic System bought the city some time. Strasbourg's fiscal woes stretched back at least to 1789, and the relative decline in taxable commerce meant they had endured a decade of low revenue and extraordinary expenditures.<sup>190</sup> But exactly by 1804-6, the new strictures of the Continental Blockade began to benefit Strasbourg's fiscal situation. Their Rhine commerce was organized, regularized, and subject to a steady, coherent taxation system and recovered strongly once the disruptive incoherence of the Directory's policies was removed.<sup>191</sup> Geoffrey Ellis provides substantial evidence to show that Strasbourg's entrepôt and transit trade benefitted disproportionately from France's loss of Atlantic markets and the re-direction of French commerce inwards.<sup>192</sup> As he writes, "one has ample evidence that Strasbourg grew enormously in commercial importance during the first few years of the Blockade but more especially in 1808 and 1809. It became the leading 'factorerie' between France, Germany, and Switzerland, and generally between northern and southern Europe. Having suffered for so long from the fierce competition of Mainz, it had a 'brilliant revenge' during the Blockade."<sup>193</sup> This commercial recovery, bought at the cost of intense Napoleonic regulation and supervision, generated enough tax revenue to keep the city's finances afloat a few years longer.

Strasbourg's permanent commercial decline came with the general economic crisis of 1810-11. This too was a result of Napoleon's integration of France into a single, interconnected internal market, and will be discussed further in Chapter 5. The crisis was transmitted to Strasbourg as a result of six bankruptcies each in Paris, Basel, and Zurich as well as four more in Lyon, leaving something like 1.5 million francs in contracts unfulfilled.<sup>194</sup> Specie was scarce as additional funds were needed to pay for Napoleon's increasingly ambitious campaigns, and the corollary to the dependence on the internal French market was dependence on a limited pool of demand. The municipal government

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<sup>190</sup> As near as can be ascertained, they ran an annual deficit of about 166,000 *livres* throughout the revolution. See the accounting of 1789, 1791, and 1792 in AD BR 40J/490.

<sup>191</sup> Of course, the distribution of Rhine taxes was immensely political. See Robert Mark Spaulding, "Revolutionary France and the Transformation of the Rhine," *Central European History*, Vol. 44 (2011): 203-226.

<sup>192</sup> Geoffrey Ellis, *Napoleon's Continental Blockade: The Case of Alsace* (Oxford: Clarendon Press, 1981), 153-76.

<sup>193</sup> *Ibid.*, 154.

<sup>194</sup> *Ibid.*, 228.

of Strasbourg had little policy discretion available to respond to the crisis, so it dragged on through 1812 and 1813. While there had been only four bankruptcies in 1807-1810, there were at least 40 between December 1810 and October 1813.<sup>195</sup> In 1811 military defeats led to the loss of Strasbourg's Levantine cotton trade, and the government monopoly on the tobacco trade after 29 December 1810 reduced the amount of rents that could be locally extracted. These were Strasbourg's two principal industries, and the city's economy never quite recovered from their loss.

### II.i. Wider Implications for Sovereignty and Economic Impunity

The story of the Wide Streets Commission after the Act of Union should be set against a broader story of social, institutional, and economic changes in Dublin after 1800. The Act of Union passed unremarked in the Minute Books of the Wide Streets Commission. The Commission was far from united on the subject: four of the five La Touches in Parliament were leaders of the opposition, while Beresford actually introduced Article Six, the economic component, into Parliamentary debate.<sup>196</sup> Obviously the Union excited a great deal of public controversy, but the issues dividing the Commissioners were easier to isolate, and more relevant to this analysis. The central question was whether or not the autonomous Irish Parliament was a better engine for driving economic growth than full incorporation into the enormous British market. Also at issue was an anxiety over the security of social hierarchy, no doubt provoked by the events in France and by the 1798 Rebellion. Both sides were anxious to ensure that there was no expansion of the political nation beyond its propertied Protestant core, and each side was convinced that the other's principles would lead inexorably to either Catholic revolt or emancipation.

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<sup>195</sup> Ellis, *Napoleon's Continental Blockade*, 252-53. His evidence comes from the Minutes of the Strasbourg Chamber of Commerce.

<sup>196</sup> On the La Touches, see David Dickson and Richard English, "The La Touche Dynasty," in Dickson, *The Gorgeous Mask: Dublin 1700-1850*, (Dublin: Trinity History Workshop, 1987), 24 and Anon. *Proceedings at a Meeting of the Bankers and Merchants of Dublin*, (Dublin: V. Dowling, 1798), Bancroft Irish Pamphlets Collection, pDA953 no. 429. For Beresford, see J.C. Beresford, *Speech of the Right Honourable John Beresford on Moving the Sixth Article of Union*, (London: J. Wright, 1800), Bancroft pDA953 no. 930 and the exchange between Beresford and Auckland in Beresford (ed), *Beresford Correspondence*, 201-219 and Beresford-Cooke, *ibid*, 231-239.



Beyond exposing different assumptions about the sources of economic development, the passage of the Union reveals something much more important about the institutional practices of Irish governance. This is the famous dispute over whether its passage constituted corruption. It was no secret at the time that the 84 MPs whose boroughs were disenfranchised were compensated £15,000 for the loss their offices.<sup>197</sup> Allegations of vote-buying were a fixture of nationalist historiography, and were eventually proven by Patrick Geoghegan, who found receipts in Pitt's secret service expenditure for buying Irish MPs.<sup>198</sup> But, Geoghegan argues, this was well within the range of normal political practice, and was not restricted to the pro-Union camp. "The passing of the union," he writes, "was not as corrupt as legend suggests, or as conventional as some historians claim. Success was achieved by three things: the enlistment of the support of the Catholics; the legal, if ethically ambiguous, appeal to private interest through borough compensation and patronage; and finally the extra-legal tactics of the government...All [the opposition] could offer was money; the castle had an extensive range of inducements and the secret service fund was only one part of what was at its disposal."<sup>199</sup>

Given the recurrence in this chapter of scandal, peculation, fraud, and embezzlement, it certainly appears that Irish governance was riddled with corruption.<sup>200</sup> What does this imply for our assessment of the institutions governing Irish power and property?

The corruption of the Irish elite occurred firmly in the context of what William Cobbett famously called "Old Corruption."<sup>201</sup> This set of institutional arrangements and practices was a set of mechanisms channeling the vast growth of public funds instigated by the French wars into private hands. It was predicated on an idea of political office as a

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<sup>197</sup> Quinn, "Dublin Castle," 104; G.C. Bolton, *The Passing of the Irish Act of Union: A Study in Parliamentary Politics*, (Oxford: Oxford University Press, 1966), 162-63.

<sup>198</sup> Patrick Geoghegan, *The Irish Act of Union: A Study in High Politics, 1798-1801*, (New York: St. Martin's Press, 1999), 85-88.

<sup>199</sup> Geoghegan, *Irish Act of Union*, 118.

<sup>200</sup> And there are many more examples. See Thomas Orde's accounting of Parliamentary influence in PRONI MS 15917-15919 and 16370; or the case of John Carleton, the city Treasurer absconding with £40,000 in 1814, Jacqueline Hill, "Dublin After the Union: the Age of the Ultra-Protestants" in Brown, et al., *Irish Act of Union*, 154.

<sup>201</sup> Philip Harling, *The Waning of 'Old Corruption': The Politics of Economical Reform in Britain, 1779-1846*, (Oxford: Clarendon Press, 1996).

form of private property much like alienable capital: it would produce a stream of income indefinitely, and could be given, sold, or bequeathed at the discretion of the owner.<sup>202</sup>

This view of public office was not new, nor limited to Britain: what was new was the degree of public scrutiny, and the volume of money in question. In Ireland, Old Corruption was bound up not with the French conflict, but with the maintenance of the Protestant Ascendancy.<sup>203</sup> The combination of non-economic barriers to entry (both personal and religious) with the tight bonds of elite sociability ensured that the very small Dublin elite maintained their monopoly on property and power, even when they disagreed on matters of principle.

Beresford's continual efforts to use his patronage to secure offices and sinecures for his contacts certainly falls within the rubric of Old Corruption, as does the presence of private developers on the board of the Wide Streets Commission.<sup>204</sup> But even these lax institutional arrangements do not encompass the publicly-derided behavior of individuals like Lyster, Hendrick, and Carleton. Nor do they account for Beresford's fleecing of George Hill. But clearly the practices of Old Corruption allowed a wide latitude for simple criminality. This is why it was necessary to dwell at length on the normal practices of the Wide Streets Commission. The same inefficiency, reliance on a small number of individuals with access to superior information, and stream of unsupervised money which facilitated the enrichment and ambition of the Commission's members in the 1790s also facilitated the scandals and embezzlement which destroyed the Commission in the 1820s. Whether the extent of the Commission's activity was because or in spite of this is a question impossible to assess. What is clear, however, is that the discussions of the contribution of the Dublin elite to the local economy should have taken into account the losses Old Corruption and even older greed inflicted on Dublin's growth.

There is an often-repeated claim to the effect that Dublin property values declined by one-third in the decades following the Act of Union. This claim is something of a smoking gun in the nationalist historiography: proof that the Union was bad for Ireland's

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<sup>202</sup> For a brief description, see Philip Harling, "Rethinking Old Corruption," *Past & Present*, No. 147, (May 1995), 127.

<sup>203</sup> S.J. Connolly, "Union Government, 1812-23" in Vaughn, *New History of Ireland*, 65.

<sup>204</sup> For a typical examples of Beresford's patronage, see Beresford to Wellesley, January 1808, PRONI T2627/3/2/237 and Beresford to Ryder, 21 February 1810, PRONI T3228/6/5.

economy, and proof of the mendacity of the MPs, who were personally compensated for the loss of their boroughs, but then left their bourgeois property-owning Protestant fellows in Dublin to suffer the consequences. Conversely, it is frequently claimed that Dublin during the period of legislative independence witnessed a property boom: taken together, there is a clear morality play of boom and bust, mirroring the supposed trajectory of Ireland's fate writ large. If true, it would be a striking piece of evidence illustrating that the highest echelons of the Protestant Ascendancy, through their exclusive political power, could personally profit at the expense of the general welfare and suffer no meaningful consequences.

The one-third figure first appeared as a *prediction* made by an anonymous correspondent of John Foster, then the Speaker for the Irish House of Commons, in a detailed memorandum written in 1799.<sup>205</sup> The prediction appeared to be borne out by subsequent Parliamentary inquiries, which in 1830 estimated the mean annual value of Dublin's property at £44 13s. 6d., which was indeed one-third lower than the £60 per annum cited in Foster's memorandum.<sup>206</sup> But there is no way of knowing how Foster's correspondent arrived at his initial figure, and the 1830 confirmation of a one-third decline is an artifact of the somewhat arbitrary techniques of Parliamentary valuations. The 1840 revaluation appears to show a decline even worse than the one-third figure, with a mean valuation of only £29 12 s. 6d.<sup>207</sup> But since these are the only two extant attempts at valuing the Dublin property market, they are hardly comprehensive. Moreover, the method of these valuations is unclear: their personnel appear to have counted all 17,324 houses in Dublin and arrived at an annual rent figure for each, but how three men were able to do this defies the imagination.<sup>208</sup> The only point of external corroboration is from two letters, one dated 1835 and the other 1836, from the Irish wool merchant Costello, then resident in Philadelphia, who had lost money on his house in

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<sup>205</sup> Foster-Messereene Papers, PRONI D207/10/30.

<sup>206</sup> Cf. Dickson, "Death of a Capital?," 120.

<sup>207</sup> Dickson, "Death of a Capital?," 121.

<sup>208</sup> House of Commons, *Parliamentary Papers*, 1830-31 (297), "Summary of the Valuation of Dublin, 1830." One of the three men was Thomas Sherrard.

High Street.<sup>209</sup> Regrettable for Costello, but hardly indicative of the entire Dublin property market.

To examine this problem, I have constructed a dataset of some 881 observations of Dublin property values covering the period 1787-1834. The data are drawn from the Minute Books of the Wide Streets Commissioners, the Dublin Corporation Expired Leases series at the Dublin City Archive, the Calendar of Ancient Records of Dublin, and several collections of private estate papers at the National Library of Ireland. This is intended to be a cautious and restrictive dataset. I counted only those entries which were specified as ground rents (as opposed to head rents or crown rents, which captured not the value of land, but other indicators) and which were attached to an identifiable address. I record only the first appearance of a rent agreement: the issuance, re-negotiation, or re-assignment of a lease. For example, a lease for £10 per year issued in 1801 only counts in 1801, even if I can see it continuing to be paid in 1802, 1803, and so on. If it is broken and transferred to someone else who agrees to it in 1804, then it is recorded again. The assumption here is that values are best captured at the moment of agreement, not at the fulfillment of an old contract. Since many of the leases in the Wide Streets Commission documents are the result of public auctions, they should closely represent market prices. Most of the buildings in the Commission's records were of a remarkably uniform type: long, narrow, four-story structures designed for mixed use.<sup>210</sup> These often had shops on the ground floor, and four rooms to a floor above that, which were usually sub-tenanted to multiple occupants. In other words, these were neither strictly commercial nor strictly residential buildings, whereas the townhouses around St. Stephen's Green were purely residential, and single owner-occupier, (along with various live-in servants).<sup>211</sup> I further attempted to exclude properties that seemed to involve substantial productive assets since their rent value would presumably reflect some expected return on the use of their productive capital: purely commercial buildings like glass factories, cargo warehouses, and breweries which tended to cluster along the river. There are a number of properties

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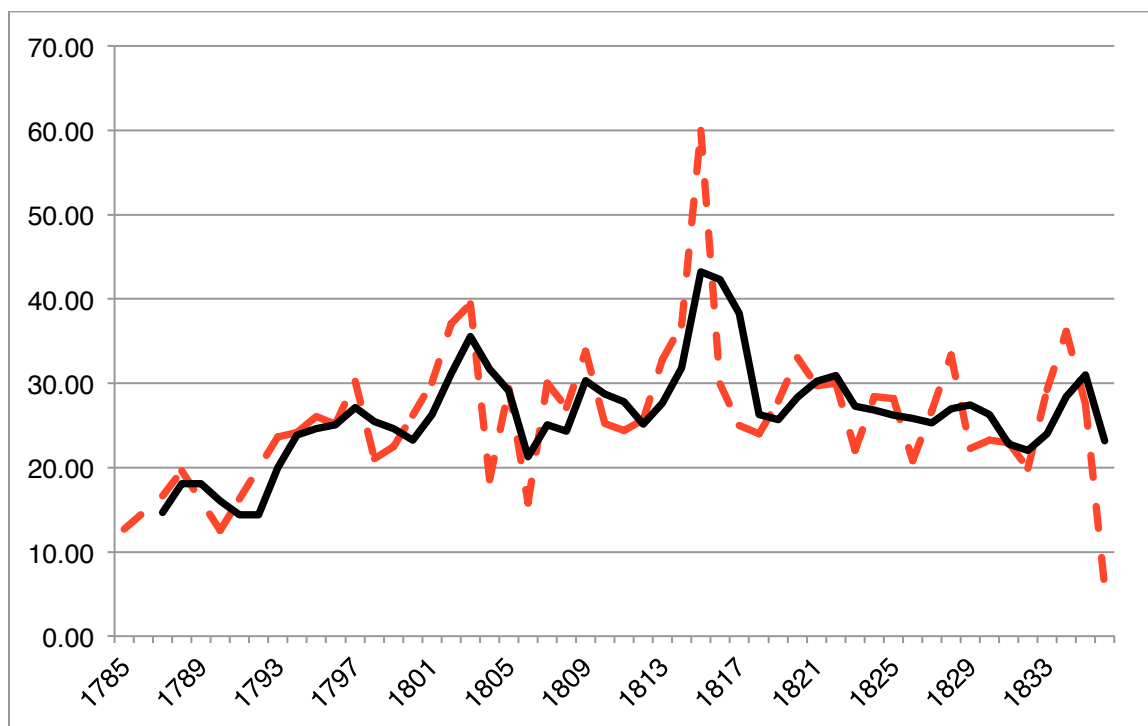
<sup>209</sup> Costello to Woodlock, 23 February 1835; Costello to Woodlock, 23 November 1836, Pennsylvania Historical Society, Balch Institute, Costello Papers, MSS 1/1.

<sup>210</sup> Cf. Burke, "Dublin," 320.

<sup>211</sup> *Ibid.*, 313. This is further borne out by the measurements on the invoices of the builder and surveyor Bryan Bolger. See NLI MS 10,711, fo. 1.

along what today are major commercial streets and which have very high rents; lacking any clear justification to exclude them, they remain in the dataset. Figure 2 below shows the median annual rent of a Dublin townhouse in nominal Irish pounds sterling. The dashed red line is the nominal value; the solid black line shows 3-year moving averages to reduce the noise in the dataset.

**Figure 2. Median Rent in Irish Pounds, Dublin, 1785-1835.**<sup>212</sup>



There is no clear trend on either side of 1800: neither boom nor bust is readily apparent. There certainly is nothing like a secular decline of 30%. To be sure, these are nominal values: as discussed in Chapter 3, the Bank of Ireland suspended convertibility in 1797 just as the Bank of England did, and allowed private banks to issue notes,

<sup>212</sup> Until the currencies were unified in 1826, 12 Irish pounds equaled 13 British pounds. The changeover was clearly noted in the 1826 and 1827 Minute Books, (WSC/Mins/36) with "British currency" specified separately alongside "late currency." I have converted the entire dataset into Irish currency, since it involved fewer changes and would also integrate with other prices from other sources, so unless specified otherwise, all values in this chapter are Irish pounds.

resulting in substantial inflation until 1804.<sup>213</sup> Consequently, the direction of change is more reliable than the level. Unfortunately, no reliable price indices survive, so there is no way to adjust Figure 2 for inflation, but it is clear that there is no upward trend in nominal prices, even against the background of wartime inflation. In real terms, the 1803-06 decline was probably more pronounced than it appears, and these data provide some evidence for a long, slow decline of about 10% between 1815 and 1835, but the overall picture casts some doubt on the simple story of a corrupt Irish Parliament assenting to a Union that immiserated their countrymen. Instead, these data suggest a need for a wider interpretation.

The population of Dublin stagnated in the early decades of the nineteenth century. It comprised less than 3% of the total Irish population in 1801, and the same proportion in 1841, against a background of national population growth.<sup>214</sup> For overall population growth *not* to be accompanied by increasing urbanization in Ireland's only city with more than 100,000 people, especially in those early 19th-century decades when the Industrial Revolution was in full swing 194 miles away in Manchester, suggests a serious obstruction to Dublin's development.<sup>215</sup> An audit made by the Paving Commission in 1822-23 found that the number of insolvent properties in Dublin had increased from 880 in 1815 to 4,719 in 1821, possibly indicating that many householders were underwater.<sup>216</sup> Moreover, there is some evidence that Dublin saw a sort of "white flight," as well-off Protestants fled the poor amenities, high taxes, and increasingly populist Catholic politics of the city center.<sup>217</sup>

Changes in the property market reflected changes in Dublin's class structure after the Act of Union. The exodus of peers and the loss of their luxury expenditure was a prominent reason cited for the decline of Dublin's prestige and prosperity.<sup>218</sup> Before the Union, there had been 249 peers living in Dublin, and 300 MPs keeping townhouses; by

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<sup>213</sup> Howard Bodenhorn, "Free Banking in Ireland," in Kevin Dowd (ed), *The Experience of Free Banking*, (New York: Routledge, 1992), 139-40. See also Ó Gráda, "Industry and Communications," 151.

<sup>214</sup> Ó Gráda, "Poverty, Population, and Agriculture," 119.

<sup>215</sup> For a discussion of the social effects of intensive urbanization, see James Vernon, *Distant Strangers: How Britain Became Modern*, (Berkeley: University of California Press, 2014).

<sup>216</sup> Quoted in Hill, *From Patriots to Unionists*, 358.

<sup>217</sup> Dickson, "Death of a Capital?," 120.

<sup>218</sup> See Dickson, "Death of a Capital?," 114 for a summary.

1821 only 34 peers and 5 MPs remained.<sup>219</sup> Aristocratic expenditure was a fixture of late-19th century accounts of Dublin's decline. The 82 peers with accounts at La Touche's bank were reputed to have spent £624,000 per annum before the Union, and Members of the House of Commons between £2,000 and £3,000 each.<sup>220</sup> Despite having consulted the La Touche's Firm Book, I have neither been able to verify the figure of £624,000, nor to discern how it was derived.<sup>221</sup> However, several household account books survive, illustrating the expenditure of wealthy Dubliners both before and after the Union. They certainly spent a lot of money, although nothing like the £7,600 each implied by Maxwell's figures.<sup>222</sup> David Digges La Touche, surely one of the richest men in Dublin, never spent more than £6,114 15s. 9d. in a single year, and that only because of the expensive furnishing of a new house that was completed in 1793.<sup>223</sup> His usual rate of expenditure throughout the 1780s and 1790s was around £2,000 per annum. Similarly, Henry Beresford lived on about £2,400 in the years immediately after the Act of Union.<sup>224</sup> Moving forward in time, the Baronet of Castlegar got by on an average of £2,014 per year in 1832-35.<sup>225</sup> And these men certainly spent a lot of their money on luxuries: Beresford bought lobster 11 times in May 1802, and Richard Jackson, the MP for Coleraine, appears to have had a great fondness for Persian textiles and pleasant scents.<sup>226</sup> In every account book, the amount of money spent on alcohol was far greater than the amount spent on charities, which in turn was greater than the amount paid in taxes. To offer one characteristic example, from July 1791 to June 1792, David Digges La Touche spent £276 on alcohol, £234 17s. 1d. on presents, £135 on charity, and just over £44 in taxes.<sup>227</sup> Almost certainly he was not consuming all of those casks of brandy himself: rather, this pattern of expenditure reflects the culture of entertaining which

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<sup>219</sup> Hill, *From Patriots to Unionists*, 292. See also Craig, *Dublin*, 274 and Maxwell, *Dublin Under the Georges*, 113.

<sup>220</sup> Maxwell, *Dublin Under the Georges*, 245, repeated in J.J. Webb, *Industrial Dublin Since 1698 and The Silk Industry in Dublin: Two Essays*, (Dublin and London: Maunsel and Company, Ltd, 1913), 26-27.

<sup>221</sup> La Touche's Firm Book, Royal Irish Academy, MS 12 K. 36-37.

<sup>222</sup> More plausible is a similar enumeration in a 1799 memorandum in Foster's papers: PRONI D207/10/9.

<sup>223</sup> NLI MS 19,898.

<sup>224</sup> PRONI D 512/1.

<sup>225</sup> Ross Mahon bank book, Mahon Papers, NLI MS 23,020.

<sup>226</sup> See PRONI D 512/1 and TCD 9218, respectively.

<sup>227</sup> NLI MS 19,898.

characterized the Dublin elite.<sup>228</sup> The Jacksons, for instance, entertained 127 houseguests in 1778 in their apartment at Dublin Castle.<sup>229</sup> Even charitable giving had a clear element of reinforcing elite cohesion, given how much time the members of upper-class Dublin spent serving on the boards of various charities. In addition to their frequent (or permanent) appearance in both the Irish and the united Parliament, Beresfords, La Touches, Fosters, and Mountjoys appear on the Boards of the following: the Committee of the Mendicity Association, the Cork Street Fever Hospital, the Society for Promoting Education of the Poor, the Rotunda Hospital, the Annual Charity Sermon, the Grand Canal Company, the Dublin Insurance Company Against Fire, the Dublin Society, and the Dublin Chamber of Commerce.<sup>230</sup> The Wide Streets Commission was only one of several bodies these men used to order and govern Dublin.

How did all this change after the Act of Union? Jacqueline Hill writes: “As the aristocracy departed, their place at Castle balls and levees was taken by merchants and the professional classes, who now emerged as the tone-setters for Dublin society. (At first, this meant Protestants: Catholics were rarely invited to Castle functions before the 1820s.) The number of merchants recorded in Dublin *Directories* increased from 840 in 1752 to nearly 5,000 in 1815; and by 1841 there were some 700 medical practitioners and almost 2,000 lawyers in the city.”<sup>231</sup> Of course, it is difficult to assess how much of that increase was due to the Act of Union, and how much to the passage of 63 years. But Dublin did remain the seat of Ireland’s executive bureaucracy and legal practice, providing ample employment for a large and growing population of lawyers.<sup>232</sup> According to Maurice Craig, “The lawyers had always been prominent in Dublin, and they now became, together with the established clergy, the doctors and a few of the grander figures in industry, trade and banking, the cream of the capital’s society. In the years following the Union there were resident in the town more than 650 barristers and

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<sup>228</sup> For more on entertaining, see Tighearnan Mooney and Fiona White, “The Gentry’s Winter Season,” in Dickson (ed), *The Gorgeous Mask*, 1-16.

<sup>229</sup> Jackson Account Book, Visiting List, TCD 9218. These guests included two Beresfords and two La Touches.

<sup>230</sup> *Freemen’s Journal*, 2 December 1810, 26 December 1811, 5 April 1822, and 24 January 1823; Royal College of Irish Physicians, Cork Street Fever Hospital Committee Proceedings, 23 October 1801; *Dublin Triple Almanack*, various years.

<sup>231</sup> Hill, *From Patriots to Unionists*, 292.

<sup>232</sup> Dickson, “Death of a Capital?,” 114-15.



nearly 1,500 attorneys, so that more than one per cent of the *total* population of Dublin was a lawyer: an extraordinary state of affairs.”<sup>233</sup> Whether these thousands of doctors and lawyers matched the expenditure of the few hundred peers is impossible to assess; what is clear is that they spent far less on what I have called “elite sociability,” opting instead for professional organizations and party politics.

The story, then, is of a kind of upward mobility of the professions, which took over the governing role formerly played by the aristocracy: a local instantiation of the famously “open” British elite.<sup>234</sup> This appears to have been driven in part by the ways the Union forced an alliance of the Protestant professional classes of Dublin with the Catholic working class in a sort of amalgamated Irish nationalism.<sup>235</sup> Dublin politics after the Union were centered around extensions of formal legal rights and broader democratization, almost as though the Union was an accidental “bourgeois revolution.”

#### Conclusion: What the Nationalization of Impunity Meant

In 1785, Strasbourg was a prosperous and autonomous border city with its own privileged tariff zone, governed by a hereditary Protestant patriciate whose wealth was based in church offices, extensive cross-border landholdings, and links to the international cotton and tobacco trades. It was one of several dozen localities that extracted tolls on the Rhine, and it claimed a unique and distinctive local culture. Under the spire of its cathedral, people speaking both French and German conducted business using dozens of different coins, and payments remitted through a network of private bankers. By 1815, all that had changed. The city was an integral part of France, subject to regulation, administration, and supervision from Paris. Bankruptcies were adjudicated under the Code of Commerce of 1808, and transactions were conducted in the stable franc issued through the monopoly of the Bank of France. The city’s commerce was vastly reduced, especially in the cotton and tobacco trades, and although it now collected

<sup>233</sup> Maurice Craig, *Dublin, 1660-1860*, (New York: Coward-McCann, 1952), 273-74.

<sup>234</sup> The literature is enormous. See Harold Perkin, *The Origins of Modern English Society, 1780-1880*, (London: Routledge, 1969) and Lawrence Stone and Jeanne C. Fawtier Stone, *An Open Elite?: England, 1540-1880*, (Oxford: Clarendon Press, 1984).

<sup>235</sup> Hill, *From Patriots to Unionists*, 259.

one of only twelve Rhenish tolls, little of that revenue remained in Strasbourg. The church lands had been nationalized, the foreigners expropriated, and the remains of the old patriciate survived by entering state service. The city was governed by professional administrators and bureaucrats, who enforced a project of making orderly Frenchmen and enforcing the formalized border with Germany. Many of these changes were found all over France; indeed, in many ways the term “the French Revolution” is a metonym for this bundle of permanent administrative centralization.<sup>236</sup>

Dublin in 1780 could claim status as a special place in the British polity. It had its own legislature, made its own laws, and governed its own territory, albeit under the supervision of the Lord Lieutenant. But within his benignly neglectful patronage, the city was governed by an unsupervised and unaccountable Protestant elite who were protected by a limited franchise and the formal exclusion of Catholics from most avenues of politics and commerce. By 1820, Dublin was much like any other subject city in the British Empire. It had little to no formal autonomy or discretion, no control over monetary or fiscal policy, and was subject to the laws and regulations made in London. Its population and commerce had stagnated, and its landed Protestant gentry had departed, either back to their estates or to London. In their place was a new, more middling urban professional elite with no formal privileges or protections and much more direct contact with and responsibility to the increasingly Catholic population of the city. Only some of these changes can be attributed to the Act of Union, and even fewer of them appear to have been intended.

It is intuitively logical that administrative centralization would reduce the capacity for impunity at the periphery. The literature on corruption predicts that malfeasance thrives where the principal-agent problem is especially severe due to difficulties with monitoring practices, enforcement mechanisms, and institutional commitment. But the transformations in Strasbourg and Dublin—and indeed, in France and Britain as a whole, were more significant than merely a shift in the capacity for corruption among public servants. Very long-standing and entrenched local ruling classes were displaced and their

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<sup>236</sup> This idea, of course, goes back to Tocqueville, *Old Regime and the French Revolution*, Part II, Ch. 1, although I have condensed his periodization.

capacity for impunity removed, and not through subaltern agitation, but through administrative responses to their own actions.

In this process, ambitious reforms in governing practices, like quantification and regularization in Dublin's built environment, or the control of property in Strasbourg, tended to precede the elimination of exceptions, asymmetries of access and information, and all manner of private malfeasance that characterized the actual workings of urban government. In that sense, the Act of Union appears to have had less of an impact on the value of Dublin property or the course of Irish commerce than in it did on shifting in location of sovereignty. The Union marked the end of the sovereignty of the traditional Dublin elite, and the closure of the exceptions that went with it.<sup>237</sup> No institutional exceptions existed for the doctors and lawyers who took their places; rather, they inhabited a Dublin of formal citizenship and professional bureaucracy which set the stage for a political conflict over the sectarian, non-economic barriers to entry into the worlds of property and power.

Likewise, the outbreak of the Revolution allowed for all manner of exceptions, so long as they could be justified with a claim to political legitimacy. Thus, patriots were exempt from contributions or forced loans, and in the early stages of the Revolution, powerful merchants were able to continue their cross-border commerce. Local discretion continued under the Directory, even as the demands from Paris increased and the range of economic dislocations—fiscal, monetary, and commercial—accelerated. But under the Napoleonic police state, little scope remained for local exceptions, and the best way for the formerly exempt patriciate to retain their position was to join the new administrative hierarchy.<sup>238</sup> Impunity after 1815 would increasingly be the result of systemic importance to the international financial architecture, not local dominance.

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<sup>237</sup> Here again I am invoking the idea of sovereignty in Carl Schmitt, *Political Theology: Four Chapters on the Concept of Sovereignty*, (Cambridge, MA: MIT University Press, 1985), 1.

<sup>238</sup> One good example of this is Francois-Laurent-Xavier Levraut, heir to the publishing house of Berger-Levrault, who fled Strasbourg to Basle on 1 December 1793, then returned in 1795 and became Conseil General of Bas-Rhin under Napoleon. See Frédéric Barbier, *Trois cents ans de librairie et d'imprimerie: Berger-Levrault, 1676-1830* (Geneva: Librairie Droz, 1979), 186-90.

## Chapter Five: The Reconstruction of International Finance, 1800-1830

### Introduction

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 market share 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, producing the world's first sovereign debt crisis. Now known as the Crisis or the Panic of 1825, the combined stock market, banking, and sovereign debt crisis that reached its trough in December 1825 was neither the worst nor the last economic crisis of the nineteenth century. But it was the first crisis of the financial system that had been reconstructed after the long rupture of the Revolutionary and Napoleonic Wars, and as such it was particularly destabilizing to businesses and policymakers. 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, and with a thicker network of banks to regulate the circulation of currency, was thought to be impervious to these types of crises. The contrary proved to be the case: there was a major European financial crisis about once per decade until the system was destroyed overwhelmed by the demands of the First World War.

This chapter will begin by discussing how the new players emerged during the Napoleonic Wars: the Bank of France, as well as Rothschilds and Barings. It draws upon utterly unexploited archival material from the Bank of France itself, as well as the Archives nationales in Paris. The chapter then shows how the work of reconstructing the postwar system of international finance fell to the private banking houses, before turning to the crisis of 1825. A full picture of the crisis requires use of material from the National Archive in London, the London Metropolitan Archive, and especially the private archives of Barings and Rothschilds. Even when these sources have been explored before, they have never been put into conversation with one another, such that

our understanding of the crisis of 1825, and thus of the nineteenth century financial system, has remained incomplete.

The preceding two chapters have argued that after 1790 the pressures of war and revolutionary nationalism consolidated economic exceptions within the remit of high politics. 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. Moreover, the years 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—between 1871 and 1949.

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; 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.

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 very different. By far the most significant feature of the new financial

system was the central role of international private financial houses. 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 Company; and Brown, Shipley, and Company. Most of these were not technically 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. 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. Before the repeal of the Bubble Act in 1825, 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.<sup>1</sup> In England, this structure of international finance stood atop a ramshackle scrum 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.<sup>2</sup>

The corollary to the salience of private banking houses was the limited development of central banking. Put simply, even as late as 1825 neither the Bank of England nor the Bank of France were behaving like modern central banks, and were under no pressure to do so. The Bank of England especially was more of a public bank than a central bank: although it filled key public functions with its control of the money supply and managing the government's debt, it still was primarily focused on earning a profit for its shareholders, and it lacked the political independence a central bank usually

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<sup>1</sup> Ron Harris, "Political Economy, Interest Groups, Legal Institutions, and the Repeal of the Bubble Act in 1825," *Economic History Review*, New Series, Vol. 50, No. 4 (Nov., 1997): 675-96.

<sup>2</sup> On integration, see Larry Neal, *The Rise of Financial Capitalism: International Capital Markets in the Age of Reason* (Cambridge: Cambridge University Press, 1990), esp. Chs. 7, 8, and 11. On country banks, see Lawrence White, *Free Banking in Britain: Theory, Experience, and Debate, 1800-1845* (Cambridge: Cambridge University Press, 1984) for an overview, and Liam Brunt, "Rediscovering Risk: Country Banks as Venture Capital Firms in the First Industrial Revolution," *The Journal of Economic History*, Vol. 66, No. 1 (March 2006): 74-102 for a recent discussion of the limited banking characteristics of these institutions.

requires.<sup>3</sup> Likewise, the Bank of France was a private joint-stock company on the one hand, but also under strict government control on the other, leaving it both more and less independent than a modern central bank.

Further, it is not entirely accurate to say that 1825 was the first crisis of the classical gold standard.<sup>4</sup> Many scholars date the emergence of the gold standard to the 1870s or 1880s, when France and Germany joined the gold bloc.<sup>5</sup> 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.<sup>6</sup> France had a unified currency and convertibility after 1803, but it operated on a bimetallic standard, which essentially meant silver was used except for in international payments.<sup>7</sup> 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. Yet for all that, the specie standard of those years did function similarly to the classical gold standard. 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.<sup>8</sup> In many ways the crisis of 1825 is

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<sup>3</sup> Thus, even in age when the public was unusually aware of government accounts, there were no public accounts of the Bank's position. Cf. Jacob Soll, *The Reckoning: Financial Accountability and the Rise and Fall of Nations* (New York: Basic Books, 2014), 128.

<sup>4</sup> The literature on the gold standard is immense. A useful overview of different approaches and key issues can be found in Barry Eichengreen and Marc Flandreau, "Editor's Introduction," in Eichengreen and Flandreau (eds.), *The Gold Standard in Theory and History* (London: Routledge, 1997), 1-31 and another with a formidable literature review in Michael Bordo, "The Gold Standard: The Traditional Approach," in Bordo and Schwartz (eds.), *A Retrospective on the Classical Gold Standard, 1821-1931* (Chicago: University of Chicago Press, 1984), 23-113.

<sup>5</sup> For instance, Alec Ford, *The Gold Standard, 1880-1914: Britain and Argentina* (Oxford: Clarendon Press, 1962); Charles Kindleberger, *A Financial History of Western Europe* (Oxford: Oxford University Press, 1993), 57-75; Barry Eichengreen, *Globalizing Capital: A History of the International Monetary System* (Princeton: Princeton University Press, 2008), 15-24.

<sup>6</sup> Wallace E. Huffman and James R. Lothian, "The Gold Standard and the Transmission of Business Cycles, 1833-1932," in Bordo and Schwartz, *Retrospective*, 455-513; see also Eichengreen and Flandreau, "Editor's Introduction," 5.

<sup>7</sup> For a discussion of how the bimetallic system worked before 1870, see Marc Flandreau, "The French Crime of 1873: An Essay on the Emergence of the International Gold Standard, 1870-1880," *The Journal of Economic History*, Vol. 56, No. 4 (Dec., 1996), esp. 864-70.

<sup>8</sup> P.B. Whale, "The Working of the Prewar Gold Standard," in Eichengreen and Flandreau, *Gold Standard*, 41. This is not a wild assertion: Bordo and Kydland, "The Gold Standard as a Rule," in Eichengreen and Flandreau, *Gold Standard*, 100, call these systems a "variant on the gold-standard rule, since it is convertibility that defines the rule."

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 system. In other words, the ways that 1825 was similar to crises of the 1880-1914 period matter just as much as the ways that 1825 was different.

Today the crisis of 1825 is remembered—if it is remembered at all—as the first Latin American debt crisis, and as the first crisis of the nineteenth century British global economy.<sup>9</sup> Aside from the colorful case of Gregor MacGregor and his £200,000 loan for the fictitious country of Poyias, there has been little to separate 1825 in the literature from the crises of 1836, 1848, 1856, or 1866, and rather less to discuss 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. It certainly was the first in a series of relatively small and relatively managed financial crises that struck the British-dominated financial system roughly once per decade from 1825 till 1913. Instead it will argue that 1825 matters because of what it reveals about how the financial system was reconstituted after the long revolutionary rupture.

### I. New Players: the Bank of France and Private Banks

It is a cliché to say that the French state was the prime mover in the French economy, but in the case of 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 good studies that are illuminating on the new institutions of Empire, like the tax regime, the army, the Senate, and the new civil

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<sup>9</sup> The small literature on the crisis of 1825 is: Frank Dawson, *The First Latin American Debt Crisis: The City of London and the 1822-25 Loan Bubble* (New Haven: Yale University Press, 1990); M.J. Fenn, “British Investment in South America and the Financial Crisis of 1825-1826,” MA Thesis, Durham University (1969); Larry Neal, “The Financial Crisis of 1825 and the Restructuring of the British Financial System,” *Federal Reserve Bank of St. Louis Review*, (May/June 1998): 53-76; Giorgio Fodor, “The Boom That Never Was? Latin American Loans in London, 1822-1825,” unpublished University of Trento Discussion Paper No. 5 (2002). Of these, the first is highly unreliable, the second and fourth are thorough but unpublished, and the third is very brief.



offices.<sup>10</sup> 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 Robert Bigo, now 90 years old.<sup>11</sup>

As detailed at some length in the previous chapter, by the time of the Brumaire coup, the French fiscal and monetary system was both tightly centralized in theory and in utter shambles in practice. The end of 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.<sup>12</sup> 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 and political stability, ensuring that neither was possible without the other.

The first step in re-establishing public credit was Napoleon's creation of a Sinking Fund (*caisse d'amortissement*) on 24 brumaire VIII (that is, 15 November 1799, six days after the coup that brought him to power). Unlike Pitt's Sinking Fund, this pool of capital was not intended to pay down the public debt, but rather to smooth incoming revenue.<sup>13</sup> The Fund was placed under the direction of François Nicolas Mollien, who, as a former director of the Parisian tax farms in the 1780s was the first of many points of continuity between Napoleonic finance and the Old Regime. Each *département's* receivers-general was required to deposit security bonds into the Fund, to the amount of 10% of their *département's* assessed property tax.<sup>14</sup> This pool was then used to cover the shortfall if any individual receiver-general failed to produce his expected revenue—the idea being that this was a temporary expedient until a permanently functioning tax system could be

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<sup>10</sup> Louis Bergeron, *France Under Napoleon* (Princeton: Princeton University Press, 1981); Philip G. Dwyer (ed.), *Napoleon and Europe* (New York: Longman, 2001); Philip G. Dwyer and Alan Forrest (eds.), *Napoleon and His Empire: Europe, 1804-1814* (New York: Palgrave Macmillan, 2007).

<sup>11</sup> Robert Bigo, *La Caisse d'escompte et les origines de la Banque de France* (Paris: Les presses universitaires, 1927).

<sup>12</sup> Bergeron, *France Under Napoleon*, 42-3.

<sup>13</sup> Ibid, 44-5. My characterization of the intent derives from François Nicolas Mollien, *Mémoires d'un ministre du trésor public, 1780-1815* (Paris: Guillaumin et Cie., 1898), Vol. I, 217-19.

<sup>14</sup> See the plan in AN/AF/IV/1070, "Caisse d'amortissement."

constructed. The Fund continued to exist well into the Restoration period, but its remit changed constantly as the needs of successive governments changed. For the purposes of this chapter, its main significance was to immediately provide personnel and some startup capital to the Bank of France.

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 bank notes. These were: the *Caisse des comptes courantes*, the *Caisse d'escompte du commerce*, the *Comptoir commercial*, the *Banque territoriale*, the *Factorerie du commerce*, and the *Caisse d'echange des monnaies*.<sup>15</sup> The first four were banks set up during the Directory for the purposes of providing commercial credit. Of them the *Caisse d'escompte du commerce* was the most significant, so I will save a summary of it for the end of this discussion. First I will give a brief overview of each bank, in order to establish that the Bank did not spring fully-formed from the brow of Napoleon and also did not emerge into an institutional void.

The *Caisse des comptes courantes* (literally “Current Accounts Fund”) was founded in 1796 with 5 million *livres* of capital, provided by 23 shareholders, mostly experienced bankers like Perregaux and Le Couteulx, both of whom will return many times in this chapter.<sup>16</sup> It also shared personnel with the *Caisse d'escompte*—not to be confused with the *Caisse d'escompte du commerce*, this was the prototype royal bank of the 1770s and 1780s that is mentioned in Chapter 3.<sup>17</sup> The *Caisse des comptes courantes* functioned as a very prudent commercial joint-stock bank, discounting bills of exchange, accepting deposits, and circulating 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 reasonable under the circumstances.<sup>18</sup> In effect, it provided commercial credit to Parisian merchants.

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<sup>15</sup> Much of what follows is drawn from the memorandum “Renseignement sur les diverses caisses publiques établies a Paris, autres que celles du gouvernement,” AN AF/IV/1070, doss. 3, which details each of the functions of these six institutions.

<sup>16</sup> And since this study 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. See Louis Bergeron, *Banquiers, négociants et manufacturiers parisiens du Directoire a l'Empire* (Paris: Ed. de l'EHESS, 1999), 91.

<sup>17</sup> Andre Liesse, *Evolution of Credit and Banks in France From the Founding of the Bank of France to the Present Time* (Washington, D.C.: Government Printing Office, 1910), 9-11.

<sup>18</sup> Bergeron, *Banquiers*, 88-97.

The *Banque territoriale*, founded on 19 July 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% 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.<sup>19</sup> The *Banque* tried to make a functioning market out of the decade of upheaval and that accompanied the Revolution's redistribution of land.

The *Comptoir commercial* (literally "Commercial Counter") was in the process of preliminary organization when the Brumaire coup occurred, so it both was the last financial project of the Directory and the first of the Consulate. It was a modest affair, operating on landed collateral very similar to the *Banque territoriale*, but mostly lending to mid-range artisans and manufacturers. It alone of all the financial institutions discussed here 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.<sup>20</sup> Its main significance is as an example of the redundancy of the pre-1800 financial structure in Paris: critics could point to it to show that there were too many small banks providing too little credit and too little coordination.

About the *Factorerie du commerce* very little is known, except that its main business was exchanging different forms of currencies and bullion.<sup>21</sup> 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.

The *Caisse d'escompte du commerce* ("Commercial Discount Bank"), founded on 24 November 1797, was the most significant and recalcitrant of these several institutions.<sup>22</sup> Its initial shares were priced at 10,000 francs apiece, making it very much the vehicle for an association of many of the most powerful surviving bankers in Paris. It

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<sup>19</sup> Bergeron, *Banquiers*, 112-13.

<sup>20</sup> *Ibid*, 108-11.

<sup>21</sup> AN AF/IV/1070, doss. 1, "Rapport aux Consules de la République sur les Banques." fols. 32-35.

<sup>22</sup> Bergeron, *Banquiers*, 101-8.

discounted commercial paper to such an extent that its notes in circulation were double its assets, which seemed wildly foolhardy to onlookers in 1801.<sup>23</sup> It continually increased its capital with new issuances of shares 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.<sup>24</sup>

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, 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'echange des monnaies* between them had 2 million.<sup>25</sup>

This strange world of semi-free banking 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 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 defeating the purpose of having signatures at all.<sup>26</sup>

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.<sup>27</sup> Apparently after ten years of revolutionary upheaval the creation

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<sup>23</sup> AN AF/IV/1070, doss. 3 and Ibid, "Etrait du Registre des deliberations du Conseil de Regence," 19 vendemiare XI (11 October 1802).

<sup>24</sup> Bergeron, *Banquiers*, 102.

<sup>25</sup> AN AF/IV/1070, doss. 1, "Rapport aux Consule de la Republique sur les Banques," fol. 7.

<sup>26</sup> Cf. Marcel Marion, "La fondation de la Banque de France," in J.G. van Dillen, ed., *History of the Principal Public Banks* (The Hague: M. Nijhoff, 1934), 304: "Tous ces établissements pratiquaient l'escompte et émettaient des effets: mais n'ayant en vue que l'intérêt particulier de leurs actionnaires, non l'intérêt général, ils réservaient l'escompte a leurs sels actionnaires et il n'était pas rare que ces actionnaires vendissent leur signature."

<sup>27</sup> For example, three "Notes sur les banques" by Mollien throughout 1802 in AN AF/IV/1070, doss. 5-7.

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 utopian memoranda indicate. The point, though, is that the six banks that preceded the Bank of France left the public with a continued demand for new and better financial institutions. As we shall see, the Bank did not necessarily satisfy this demand, but the desire for a public bank extended beyond the halls of government.

The actual instigator of the Bank's foundation is still difficult to reconstruct. Pelet in his later memoirs claimed it was Napoleon himself, because the aforementioned private banks were unwilling to accept the business of his government.<sup>28</sup> Neither Laffitte nor Mollien give any explanation in their otherwise reliably self-serving memoirs. A few points can be reliably established. Under Mollien's direction, the newly established *Caisse d'amortissement* purchased 5,000 out of the initial 30,000 shares in the bank, at 1000 francs each—it should be remembered that this used revenues that tax officials were required to deposit, now recycled into the startup capital for the Bank of France.<sup>29</sup> Napoleon, Lucien Bonaparte, Sieyès, Barbé-Marbois, and Cambacérès—that is, the main conspirators of the Brumaire coup—were among the first and largest shareholders.<sup>30</sup> 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 18 January 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.<sup>31</sup> Although amiable, this proved to be a long process, as nobody could agree just how much specie

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<sup>28</sup> Joseph Pelet, *Opinions de Napoleon 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 a Napoleon.” 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.

<sup>29</sup> Bergeron, *France Under Napoleon*, 45.

<sup>30</sup> See the list in Banque de France 4/V/117, “Assemblée générale des actionnaires de la Banque de France,” 17 October 1800. On the conspirators see Isser Woloch, *Napoleon and His Collaborators: The Making of a Dictatorship* (New York: W.W. Norton, 2001).

<sup>31</sup> Banque de France, *Procès-verbaux de conseil général*, 18 February 1800, Vol. I, 3.

the *Caisse* possessed, nor how many of their notes were in circulation: the rough figures were something like 6 million francs of specie and 11 million in notes.<sup>32</sup> 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.<sup>33</sup> The rest were finally placed after another state project was completed—the foundation of the Paris bourse.

Chapter 3 showed that the bourse of the eighteenth century was a hectic and carnivalesque place, the impunity 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 (19 April 1801) directed the Ministry of the Interior to begin setting up a bourse in Paris for the first time in a decade, and mandated a series of regional bourses, according to demand.<sup>34</sup> 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.<sup>35</sup> 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.<sup>36</sup> The members of the bourses were then organized into a “syndic”—something like a trust,

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<sup>32</sup> Banque de France, *Procès-verbaux de conseil général*, 21 June 1801, Vol. I, 219-20, and 23 March 1802, Vol. I, 299.

<sup>33</sup> Liesse, *Evolution*, 22. This book is not always reliable.

<sup>34</sup> AN F/12/979/C, Ministry of Finance to Ministry of Interior, 12 floréal IX (2 May 1801).

<sup>35</sup> AN F/12/979/C, Bureau of Commerce to Ministry of Interior, 2 floréal IX (22 April 1801); Prefect of Police to Ministry of Interior, 26 germinal IX (16 April 1801).

<sup>36</sup> AN F/12/979/C, Réponses a circular intitulé “Analyse d’un Projet de Règlement concernant les Bourses.”

which was in charge of enforcing rules on its members, under the direct authority of the Prefect of Police.<sup>37</sup>

A brief example will give some indication of how tightly regulated the new bourse was: in March 1809 two spots became vacant on the Paris bourse. Filling them involved discussions between the *Tribunal de commerce*, the Prefect of the *département* of the Seine, the Prefect of the Paris police, the Ministry of the Interior, the *Jury du commerce*, and eventually Napoleon himself.<sup>38</sup> 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 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.<sup>39</sup> Furthermore, since the Bank evolved out of the *Caisse des comptes courants*, there was clear precedent for this division of labor: if the *Caisse d'escompte du commerce* had coexisted with the Bank’s antecedent, why couldn’t it coexist with the Bank as well?<sup>40</sup>

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<sup>37</sup> AN F/12/972/A, Ministry of Interior to Prefect of Police, 16 floreal X, Syndic des Courtiers de commerce to Prefect of Police, 24 germinal X (14 April 1802).

<sup>38</sup> AN F/12/972/A, Report to Ministry of Interior. Seventeen candidates were put forward, including one by the Ministry of War, and one by the Queen of Holland.

<sup>39</sup> See the letters and observations from the shareholders on 19 germinal XI (9 April 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.”

<sup>40</sup> AN AF/IV/1070, doss. 26, fols. 7-8.

These appeals were apparently unpersuasive, because the Treasury responded with a 13-point plan to unite the two banks.<sup>41</sup> Liesse claims that the *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.<sup>42</sup> Tantalizing though this story is, I can find no evidence for it in the archives. Instead, it is clear that in early 1803 the *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 aforementioned 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%, that one third of the Bank's capital be invested in retiring outstanding 9% bonds, and that he have approval over the General Council named by the stockholders.<sup>43</sup> 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.<sup>44</sup> On 14 April 1803, the Bank was granted sole right of issue in Paris for a period of 15 years, and the right to sell more shares to increase its capital stock by 15 million francs.

On 25 May 1803 (one week after the end of the Peace of Amiens) the *Caisse d'escompte du commerce* made their first proposal to unite with the Bank.<sup>45</sup> 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.<sup>46</sup> At this stage, the *Caisse* seemed like a toxic acquisition. Its notes (which were still in legal circulation outside of Paris) so far

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<sup>41</sup> AN AF/IV/1070, doss. 27.

<sup>42</sup> Liesse, *Evolution*, 25. A story to this effect was published in the *Courrier de Londres*, a newspaper of the French exiles in London, on 9 October 1802, but there are good reasons to be skeptical. For one thing, when the *Conseil de Regence* met on 11 October to discuss the *Caisse d'escompte du commerce*, there is no mention of such a plan. See AN AF/IV/1070, "Etrait du Registre des deliberations du Conseil de Regence," 19 vendemiare XI.

<sup>43</sup> AN AF/IV/1070, Barrillon to Perregaux, 27 ventose XI (19 October 1802).

<sup>44</sup> AN AF/IV/1070, Conseil general to Bonaparte, 8 germinal XI (29 March 1803).

<sup>45</sup> Banque de France, *Procès-verbaux de conseil général*, 25 May 1803, Vol. II, 139.

<sup>46</sup> Bank of France, 1069201214/1, "Les Crises Economiques et financieres, role de la Banque de France," Vol. I, 139.



exceeded its reserves that the Bank responded bluntly: “The offer is too little.”<sup>47</sup> The Bank set up a committee chaired by Jules Paul Delessert (the son of Étienne Delessert, who will be remembered from Chapter Three) to oversee the liquidation of the *Caisse*. They eventually decided on “an amalgam, pure and simple.”<sup>48</sup> 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 the 23.7 million francs of assets, and assumed the 13.11 million francs of the *Caisse*’s debt.<sup>49</sup> After lengthy discussion on the question, it was decided that stock in the *Caisse* would be exchanged for Bank stock at a ratio of one-to-five.<sup>50</sup> Hundreds of depositors at the *Caisse* had their accounts repaid by the Bank throughout the rest of 1803 and all of 1804.<sup>51</sup> 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 re-written 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% discount.<sup>52</sup> It was an acute shortfall: in late September, the Bank had 92 million francs in circulation and cash reserves of only 1.5 million.<sup>53</sup> This coincided with a bad harvest and

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<sup>47</sup> Bank of France, *Procès-verbaux de conseil général*, 25 May 1803, Vol. II, 139. Le Couteulx agreed that the merger was unnecessary and the *Caisse* a bad acquisition: see Bank of France, 1069200401/283, doss. 1  
<sup>48</sup> “Un amalgam pur et simple.” Bank of France, *Procès-verbaux de conseil général*, 27 May 1803, Vol. II, 140.

<sup>49</sup> Bank of France, *Procès-verbaux de conseil général*, 3 October 1803, Vol. II, 279-80.

<sup>50</sup> Bank of France, *Procès-verbaux de conseil général*, 28 September 1803, Vol. II, 275-8; Bank of France, 1069200401/283, doss. 1, “Projet de Convention pour operer la fusion de la Caisse d’escompte du commerce dans la banque,” 7 fructidor XI (25 August 1803). There were so few stockholders in the *Caisse* that it did not much dilute the Bank’s composition.

<sup>51</sup> Bank of France, 1069200401/283, doss. 1.

<sup>52</sup> Liesse, *Evolution*, 29-30. 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, Barings, and Hope & Company, all of whom will return at length below. See Georges Lefebvre, *Napoleon* (New York: Columbia University Press, 1969), Vol. I, 233-6. He calls it “the most grandiose speculative adventure of the time.”

<sup>53</sup> See the increasing alarm through the summer of 1805 in Bank of France, 1069201214/1, “Les Crises Economiques et financieres, role de la Banque de France,” Vol. I, 43-45, 65-66, 75-77.

a seasonal shortage of liquidity that the Bank seemed utterly unprepared for.<sup>54</sup> 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.<sup>55</sup> The government felt the Bank had been too cautious in handling the crisis, so the law of 22 April 1806 restructured the bank, turning the Governor into an appointed government official rather than the leader of a triumvirate elected by the shareholders.<sup>56</sup>

As discussed in the previous chapter, 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.<sup>57</sup> 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."<sup>58</sup> Following an imperial decree on 8 September, the Bank transferred large quantities of its notes to provincial banks in an effort to relieve the general shortage of liquidity.<sup>59</sup> 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

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<sup>54</sup> Jean Bouvier, "A propos de la crise dite de 1805: les crises économiques sous l'Empire," *Revue d'histoire moderne et contemporaine*, Vol. 17, No. 3, La France à l'époque Napoléonienne, (July-Sept. 1970): 506-513. His conclusion was shared by Barbé-Marbois at the time, who wrote of a centripetal force acting on the circulation of money in the winter: AN AF/IV/1070, doss. 2.

<sup>55</sup> Bank of France, 1069201214/1, "Les Crises Économiques et financières, rôle de la Banque de France," Vol. I, 380 and Bank of France, 1069200401/233, "Secretariat du Conseil général à crise de 1805-1806."

<sup>56</sup> Liesse, *Evolution*, 32 and Bank of France, 1069201214/1, "Les Crises Économiques et financières, rôle de la Banque de France," Vol. I, "1805."

<sup>57</sup> Bank of France, 1069201214/1, "Les Crises Économiques et financières, rôle de la Banque de France," Vol. I, "1810."

<sup>58</sup> Napoleon to Bank, 29 May 1810, Bank of France, 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.

<sup>59</sup> Bank of France, *Assemblée générale des actionnaires de la Banque de France*, 24 January 1811, 8.

Empire.<sup>60</sup> How did the Bank of France understand its role? A modern contrast is illustrative. The Federal Reserve has a dual mandate: to ensure full employment and price stability. In practice, these goals involve moderate long-term interest rates and acting as a lender of last resort during crises. Central banks of the early nineteenth century did very few of these things. The actions of the Bank of England will be discussed in detail at the end of this chapter. For now, let it suffice to mention that 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 *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.<sup>61</sup> 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% through the Crisis of 1825, the Revolution of 1830, and the Panic of 1836-37.<sup>62</sup> In his 1819 testimony on resuming convertibility, Alexander Baring even claimed that when the Bank 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.<sup>63</sup> 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 *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 been created and its policies

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<sup>60</sup> D.C.M. Platt, *Foreign Finance in Continental Europe and the United States, 1815-1870: Quantities, Origins, Functions, and Distribution* (London: G. Allen & Unwin, 1984), 7-8.

<sup>61</sup> See the many complaints about the Bank's favoritism in October 1825-April 1826: Bank of France, *Procès-verbaux de conseil général*, Vol. 15.

<sup>62</sup> Karl R. Bopp, "Bank of France Policy: Brief Survey of Instruments, 1800-1914," *American Journal of Economics and Sociology*, Vol. 11, No. 3 (April 1952), 231-33.

<sup>63</sup> Great Britain, House of Commons, *Reports From the Secret Committee on the Expediency of the Bank Resuming Cash Payments* (1819), 67.

established to solve very different problems. The main needs of finance in the first half of the nineteenth century were loans for sovereign governments to retire their wartime debts, long-term investment for infrastructure (especially railways), and management of financial crises. The Bank of France was not set up to do any of those things.

### I.i. The Rise of Private Banking

While there were several points of continuity with the pre-1789 world of finance to be found in government institutions like the Treasury and the Bank of France, in the world of private finance, all was rupture. This is consistent with the argument of the previous two chapters: one consequence of the wartime centralization of finance was the wreckage of most private banks across the European continent. This process was already well under way before 1789. As Stanley Chapman put it in his history of merchant banking, “The American War drove numerous houses into bankruptcy, especially after the Netherlands entered the war against Britain in 1780. The figures are startling enough—seventeen London merchants bankrupt in 1781, 25 in 1782, and 38 in 1783—but they do not tell the whole story. The bigger houses survived, but some never regained their former prosperity.”<sup>64</sup> Chapter Three has already described the destruction of Paris-centered finance networks like that of Étienne Clavière. 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. The pull factors of increasing economic growth in Britain and the push factors of Continental bankruptcies disconnected Britain from the Amsterdam-centered international financial system.<sup>65</sup>

The destruction of the Dutch capital market should not be understated. According to 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,

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<sup>64</sup> Stanley Chapman, *The Rise of Merchant Banking* (London: Allen & Unwin, 1984), 10. Britain invaded the neutral Netherlands in 1780; hopefully Chapman’s bankruptcy figures are less euphemistic.

<sup>65</sup> James Riley, *International Government Finance and the Amsterdam Capital Market, 1740-1815* (Cambridge: Cambridge University Press, 1980), 195-216.

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.”<sup>66</sup> 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.<sup>67</sup> Hope’s had been by far the largest underwriter of sovereign loans throughout the 1780s and early 1790s, especially to Spain and Russia. On 5 December 1787, Hope’s contracted a loan of 3 million guilders to Russia at 4%, and five days later agreed to provide a second loan on the same terms.<sup>68</sup> 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 4 and 5%.<sup>69</sup> In February 1793, Hope’s contracted for a loan of 6 million guilders to Spain.<sup>70</sup> With successive French victories that spring and summer through Dumouriez’ 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 1793-95, it soon became impossible for Russia and Spain to make their interest payments on the earlier set. These scissors more than anything doomed Hope’s. There were good indications that the firm could have survived and prospered under Napoleonic administration, and the shell of the firm was indeed involved in coalitions that placed loans for Louis Napoleon’s Kingdom of Holland, and in Gabriel-Julien Ouvrard’s colonial escapades.<sup>71</sup> 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

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<sup>66</sup> Jan de Vries and Ad van der Woude, *The First Modern Economy: Success, Failure, and Perseverance of the Dutch Economy, 1500-1815* (Cambridge: Cambridge University Press, 1997), 686.

<sup>67</sup> Philip Ziegler, *The Sixth Great Power: Barings, 1762-1929* (London: Collins, 1988), 32-3; Marten G. Buist, *At Spes Non Fracta: Hope & Co. 1770-1815: Merchant Bankers and Diplomats at Work* (The Hague: Nijhoff, 1974), 33-4. Cochineal is a luxury red dye from Mexico.

<sup>68</sup> Buist, *At Spes Non Fracta*, 91. Hope’s was also lending to Sweden, which was then at war with Russia.

<sup>69</sup> *Ibid.*, 100-109, and see especially Appendix D-1, 497.

<sup>70</sup> *Ibid.*, 47.

<sup>71</sup> *Ibid.*, 62. About Ouvrard, more later.

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.<sup>72</sup>

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 key 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.<sup>73</sup> They were instrumental in the Loyalty Loan of 1795 as well as several Navy loans, and had ties to the Prince of Wales.<sup>74</sup> Few of their records seem to have survived their bankruptcy, but there is evidence to suggest that they had mercantile interests on the Continent, and contracts for Portuguese, Mexican, and Danish loans in addition to their ultimately fatal Colombian loan.<sup>75</sup> Likewise, the firm of Mocatta & Goldsmid were pre-eminent bullion brokers for both the Bank of England and the East India Company until late 1824.<sup>76</sup> The Bank would declare its buying price of gold daily, but Mocatta & Goldsmid were the

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<sup>72</sup> Buist, *At Spes Non Fracta*, 68.

<sup>73</sup> Mark L. Schoenfeld, "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," "Goldsmid," 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.

<sup>74</sup> Schoenfeld, "Abraham Goldsmid," 42-3.

<sup>75</sup> Michael P. Costeloe, *Bonds and Bondholders: British Investors and Mexico's Foreign Debt, 1824-1888* (Westport, Conn.: Praeger, 2003), 11. He cites Edgar Turlington, *Mexico and Her Foreign Creditors* (New York: Columbia University Press, 1930), 35-8. Appendix II helpfully reproduces the B.A. Goldschmidt contract with Mexico.

<sup>76</sup> 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 Dawson, *First Latin American Debt Crisis*, 124). B.A. Goldschmidt was a firm, founded by Benjamin and Abraham Goldschmidt in the late 1780s. By 1825-26 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, 1 January 1814. Benjamin and Abraham's brother Asher joined the longstanding bullion brokerage firm of Abraham Mocatta in 1787, which in 1803 became Mocatta and 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 and Goldsmid still exists. Their historical records can be found in the London Metropolitan Archive, CLC/B/161.

only sellers, and they further estimated that only perhaps 20 houses could afford to be in the bullion export trade, indicating the concentration of international payments in a few private banks.<sup>77</sup>

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. Along with fraudulent colonial real estate deals, war provisioning has been one of the main recurring activities throughout this study. War provisioning, the reader will recall, was the specialty of the Pâris brothers during the War of the Spanish Succession, and possibly the origin of double-entry bookkeeping in French financial practices. 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. Given the difficulties involved, the importance to great power politics, and the vast fortunes to be made, it is a bit astonishing that there is no monograph specifically dedicated to the subject.<sup>78</sup> Just as the war destroyed the old financial world after 1792 by breaking apart the international monetary and payments system, so 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. And 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.

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

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<sup>77</sup> Maria Cristina Marcuzzo and Annalisa Rosselli, “Profitability in the International Gold Market and the Early History of the Gold Standard,” *Economica*, New Series, Vol. 54, No. 215 (August 1987), 369-70. Cf. A Goldsmid’s evidence to the Bullion Committee in *Parliamentary Papers*, 1810, 42.

<sup>78</sup> The only extended treatments I am aware of are: Geoffrey Parker, *The Military Revolution: Military Innovation and the Rise of the West, 1500-1800* (Cambridge: Cambridge University Press, 1996), 45-82; David Parrott, *The Business of War: Military Enterprise and Military Revolution in Early Modern Europe* (Cambridge: Cambridge University Press, 2012), 139-96.

extensive business with Étienne Clavière and Hope's.<sup>79</sup> 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.<sup>80</sup> Boyd and Benfield helped fund Pitt's Imperial Loan to Prussia 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.<sup>81</sup> 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.<sup>82</sup> Pitt refused to let Boyd contract a new loan in 1799, and the Bank stopped discounting to his firm.<sup>83</sup> He went bankrupt, returned to Paris in 1803, and died in poverty.

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.<sup>84</sup> 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.<sup>85</sup> In 1803 they 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.<sup>86</sup> For the first time, Barings' international dimension was the key: the American 6% bonds issued to cover the purchase could be paid in

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<sup>79</sup> He appears 10 times in Clavière's 1786 account book in AN T//\*/646/5, see fol. 137 for an example connecting him to Hope's.

<sup>80</sup> 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.

<sup>81</sup> TNA PRO/30/8/195/1, fols. 43-44, Pitt Memorandum 25 July 1794; PRO/30/8/195/2, fol. 106, Pitt to Boyd, 17 May 1794; Paul H. Emden, "The Brothers Goldsmid and the Financing of the Napoleonic Wars," *Transactions*, Jewish Historical Society of England, (1935-39), 226.

<sup>82</sup> See his pamphlet, *A Letter to the Right Honourable William Pitt: On the Influence fo the Stoppage of Issues in Specie at the Bank of England on the Prices of Provisions, and Other Commodities* (London: James Ridgeway, 1800).

<sup>83</sup> Great Britain, Commission of Naval Enquiry, *Eleventh Report* (1805), Vol. II, 60, cited in Clapham, *Bank of England*, Vol. II, 17.

<sup>84</sup> Zielger, *Sixth Great Power*, 58.

<sup>85</sup> This is a very complicated story. Buist, *At Spes Non Fracta*, 383-427.

<sup>86</sup> *Ibid*, 188;



Amsterdam, London, or Paris, and 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.<sup>87</sup>

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.<sup>88</sup> 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.<sup>89</sup>

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 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.<sup>90</sup> 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.

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<sup>87</sup> Buist, *At Spes Non Fracta*, 188-90. Some remained in the Barings ledger through their redemption in 1818-20: Barings Archive, European Ledger, 1824-25, fol. 446.

<sup>88</sup> Niall Ferguson, *The House of Rothschild* (New York: Viking, 1998), Vol. I, 85.

<sup>89</sup> *Ibid*; See also 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.

<sup>90</sup> S.D. Chapman, "The Establishment of the Rothschilds as Bankers," *Jewish Historical Studies*, Vol. 29 (1982-86), 180.

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, Old Regime crowns, pieces of eight, new francs, and florins.<sup>91</sup> During the same period, they purchased £2,089,232 in bullion on Herries' account. All of this was purchased by numerous correspondents, partners, and counterparties all over Europe for the Army account; these agents 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.<sup>92</sup> For this intermediary work, Rothschilds received a 2% 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. 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.

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 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 default on the royal debt.<sup>93</sup> Needless to

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<sup>91</sup> RA XI/38/61.

<sup>92</sup> Chapman, "Establishment of the Rothschilds," 180-81; Ferguson, *Rothschild*, Vol. I, 85-90; see also the many receipts for these transactions in RA XI/38/61.

<sup>93</sup> 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.

say, the Restoration government did not have a spare billion francs. Even worse, a bad harvest in 1816 and the political fanaticism of the ultra-royalists in the Intransigent Chamber engendered little public confidence in the new regime, making it impossible to market new debt.<sup>94</sup>

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 apiece. These they sold for 57.97 francs apiece, 58% of them in Paris, 29% in London, and 13% in Amsterdam.<sup>95</sup> With the reassurance of a foreign guarantee, these securities sold very quickly. Barings took a 2.5% commission, plus profits on the sales, eventually producing a profit of 12.7 million francs on this first loan.

It is worth pausing to consider exactly what this meant, because it set the pattern for the sovereign debt bubble of 1821-25.<sup>96</sup> The following is 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%) 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—hence my insistence on referring them as underwriters. For the buyers, this was probably a great deal, provided they were correct in trusting the underwriters—100 francs in the future, plus 5% 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. 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

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<sup>94</sup> Ibid, 344. The government was reduced to short-term borrowing at 12%.

<sup>95</sup> White, “Making the French Pay,” 346.

<sup>96</sup> A good theoretical and partly historical discussion can be found in Marc Flandreau and Juan H. Flores, “Bonds and Brands: Foundations of Sovereign Debt Markets, 1820-1830,” *The Journal of Economic History*, Vol. 69, No. 3 (Sept., 2009), 651-4.

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. 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% commission and brokerage fees, and gained the profits of selling the bonds at 84. As 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."<sup>97</sup>

Once the proof of concept existed, Barings immediately contracted for further 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 had ties to the Bank of France.<sup>98</sup> Paris banks placed half of the third loan, now including the houses of Greffulhe, Hottinguer, and minor players like Baguenault.<sup>99</sup> Significantly for the argument of this chapter, Barings conducted these agreements with complete autonomy from the British government. As Alexander Baring wrote to 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."<sup>100</sup>

<sup>97</sup> Leland Hamilton Jenks, *The Migration of British Capital to 1875* (New York: A.A. Knopf, 1927), 49.

<sup>98</sup> Fritz Redlich, "Jacques Laffitte and the Beginnings of Investment Banking in France," *Business History Review*, Vol. 22, No. 4-6, (Dec., 1948), 138. A copy of their agreement on 22 July 1817 is in Barings Archive 204228/1-1.

<sup>99</sup> Platt, *Foreign Finance*, 9-10. Barings Archive 204228/1-1 gives the shares of the new loan as follows: Baguenault 10%, Delessert 10%, Greffulhe 10%, Hottinguer 10%, Laffitte 10%, and Barings and Hope 50%.

<sup>100</sup> Barings Archive 204229/2-1, Baring to Wellington, 1 June 1818.

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.<sup>101</sup> 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.<sup>102</sup> But no 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.<sup>103</sup>

Although many accounts of Barings and Rothschilds are at pains to show that they were rivals and 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' ability to place loans and Rothschild's ability to move specie and remittances.<sup>104</sup> 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.<sup>105</sup> As with Barings' negotiations in Paris in 1818, the Rothschilds conducted their Austrian negotiations without informing the British representatives in Vienna.<sup>106</sup> In 1824 the two firms worked together by sending David Parish to Lisbon to negotiate a loan for Portugal.<sup>107</sup> (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).<sup>108</sup> Throughout 1824 Barings and Rothschilds worked together to outbid Laffitte in converting 140 million *rentes* from 5% (that is, those issued to cover

<sup>101</sup> Redlich, "Jacques Laffitte," 148.

<sup>102</sup> Platt, *Foreign Finance*, 6-7; Ziegler, *Sixth Great Power*, 81.

<sup>103</sup> Chapman, *Rise of Merchant Banking*, 40, Table 3.1.

<sup>104</sup> See their correspondence in Barings Archive, 204229.

<sup>105</sup> RA XI/III/0/1, S.M. Rothschild to Barings, 26 October 1823.

<sup>106</sup> Ibid: "What is however of much importance is that these [Austrian] houses never get a notion of the English government being inclined to discount the whole demand at once at 5 & 6, and I beg you will particularly take care, lest this important advantage gets known to a third person in any way...According to my opinion it is therefore better, if even Mr. Gordon needs not to be informed thereof."

<sup>107</sup> Barings Archive AC/15, Nathan Rothschild to Alexander Barings, 22 December 1824.

<sup>108</sup> Philip G. Walters and Raymond Walters, "The American Career of David Parish," *Journal of Economic History*, Vol. 4, No. 2 (Nov., 1944): 149-66. Their account is based on his letter books, which are now available on microfilm from the New York Historical Society.

the reparations loans) to consolidated 3% bonds, with an additional advance to the French Treasury of 60 million francs to cover necessary reimbursements.<sup>109</sup> This gigantic transaction was never completed, as 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 were the sovereign debt markets of those years.<sup>110</sup>

To be sure, not all of the business of Rothschilds and Barings was collaborative. Both firms emerged from the 1825 crisis in good position, so posterity has assumed they had little to do with the sovereign debt boom of 1822-25. This is not an accurate assumption, and not only because they invented the practices that made the bubble possible. In 1818 Rothschilds made a loan of £5 million to Prussia at 5%, and aggressively marketed a loan on the same terms to the Kingdom of Naples in early 1824.<sup>111</sup> In addition to their aforementioned Austrian loan, Barings made a loan to Russia in 1820.<sup>112</sup> Nor were these houses prudently separate from the bubble in Latin American lending. Barings famously lent to then-state of Buenos Ayres (thereby establishing their long and ultimately disastrous ties to Argentina), but also held substantial Mexican and Colombian bonds.<sup>113</sup> Likewise, Rothschilds placed a £2 million loan for Brazil in 1825, which never went into arrears. “Account A” of the records of the London house even shows numerous dealings in Mexican and Colombian bonds throughout February and March of 1826, as the bubble was collapsing.<sup>114</sup> 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 Flandreau and 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

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<sup>109</sup> RA XI/III/0/4-6. The French Treasury wanted a Paris house involved, so eventually they just allowed Laffitte to join.

<sup>110</sup> Ziegler, *Sixth Great Power*, 94.

<sup>111</sup> 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), Vol. I, 57-77.

<sup>112</sup> Barings Archive, 204230.

<sup>113</sup> See Barings Archive, 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

<sup>114</sup> RA 85/10A, January-June 1826.

information asymmetries. I will return to this point at the end of the chapter; for now, note merely that the evidence is consistent with their position.

Finally, Rothschilds were very active in bullion markets. The precise terms of the £2 million in silver that Rothschilds transferred from Mexico are worth detailing at length for their clear description of how these transactions actually worked. As their agent Thomas Murphy wrote in December 1823, he would accept bills drawn in Mexico against silver to be conveyed to Europe on a French frigate at specified Cadiz/Vera Cruz and Paris/London exchange rates.<sup>115</sup> 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 the 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 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. Although some points, like the specified exchange rates, were within the control of skilled managers, it was still impossible to predict where exactly this ship full of silver would make landfall—that is, as Douglas Allen has argued, there was still scope for natural variability to confound principal-agent structures.<sup>116</sup> Finally, this case shows that the Rothschilds were players in the bullion market of a sufficiently large market power that they had to worry about their actions moving exchange rates in disadvantageous ways. We will return to the ability to affect exchange rates later. For now, let it suffice to note that throughout 1824 and most of 1825, Rothschilds were buying large quantities of silver abroad and delivering it to the

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<sup>115</sup> All of this is from Thomas Murphy to Rothschilds frères, 7 December 1823, Rothschild Archive, XI/III/0/3 and the plan in /4.

<sup>116</sup> Douglas Allen, *The Institutional Revolution: Measurement and the Economic Emergence of the Modern World* (Chicago: University of Chicago Press, 2012).

Royal Mint.<sup>117</sup> Between 7 July and 11 August 1825, they delivered 493 bars of silver, for £94,314.<sup>118</sup> As we shall see below, when it came time to mitigate the crisis in December 1825, these flows reversed, and the Rothschild's deep capabilities in global bullion markets proved to be very important indeed.

## II. The Crisis of 1825

A brief discussion of how and why the crisis of 1825 happened will reaffirm the new centrality of private bankers to nineteenth century finance. London banks played a central role in funneling British savings into sovereign debt and speculative mining stocks that ultimately proved to be foolish or fraudulent, and Rothschilds ultimately proved instrumental in resolving the crisis. It is impossible to imagine that the crisis could have happened, or been so readily solved, without the international scope and market power of these banks. That said, there were two other salient factors in producing the bubble. One was a 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. The second 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 striking and direct impacts on the real economy, and were more widely transmitted than ever before through the rapidly growing network of country banks. Both of these factors deserve attention. For the purposes of the argument of this chapter, though, they will be assigned second place, because the aim is not to explain why the crisis of 1825 happened, but rather to use the crisis to investigate how the post-war financial world produced new patterns of economic impunity. A sovereign default is a form of impunity that is relatively well understood. 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

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<sup>117</sup> TNA T27/86, Treasury Letters, Herries to N.M. Rothschild, 11 October 1825. Rothschilds had beaten B.A. Goldschmidt's to the Treasury silver contract in 1824: see TNA T27/86, Herries to B.A. Goldschmidt, 5 August 1825.

<sup>118</sup> RA VII/5/0, Bullion Ledger, Mint Account, fols. 102-3.



theme, but the evidence presented in this chapter suggests that in 1825 the Bank of England (and, for that matter, the Bank of France) did not yet behave much like central banks, but rather as special publicly-oriented private banks. 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. That said, there are a few broad structural factors that contributed to the bubble which should be addressed first.

One such proximate cause of the 1821-25 loan bubble was the independence of several Latin American countries, won from Spain in 1819 after the long campaigns of Simon Bolivar. Yet again the strange character of colonial sovereignty presented new opportunities and exceptions for the institutional structure of European finance. Just as the riches of the South Sea and the Mississippi Colony promised rewards for investors in 1711-20, or the New East India Company of Calonne claimed to guarantee vast profits in the 1770s, so too did the tantalizing vision of Latin American mines attract European capital in the 1820s. There are a couple ways of thinking about this pattern. One is to argue, as Rosa Luxemburg did, that capitalism—especially finance capitalism—must constantly expand into new territories in order to sustain its profits.<sup>119</sup> Thus, the incorporation of the English countryside through the expansion of country banks, and the formation of companies to trade with and invest in newly-independent Latin American countries (or, for that matter, colonize Louisiana or traffic in slaves) were two sides of the same coin, and both were pressure-valves that released the incipient crisis of over-accumulation in London. Another view would argue that once the proper institutional structures had been created to match savers with borrowers, capital naturally flowed from where it was most abundant to where it was least, and where it would thereby fetch the highest price. Proponents of either story would probably be annoyed that the two arguments are not necessarily mutually exclusive. But neither are they entirely satisfactory. Regardless of the interpretive framework, these rushes of capital into colonial and ex-colonial exploitation tend to involve investment in places where information is most asymmetric, monitoring of principal-agent relations is weakest, and

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<sup>119</sup> Rosa Luxemburg, *The Accumulation of Capital*, trans. Agnes Schwarzschild (New York: Monthly Review Press, 1951), 419-45. Her modern epigone David Harvey would call this phenomenon a “spatio-temporal fix.” See David Harvey, *The New Imperialism* (Oxford: Oxford University Press, 2005), 109-116.

where differences may exist between legal regimes, such that English investors may be ignorant of the laws governing Colombian mining operations. In other words, they are situations that best fit the three central variables of this study because advantages accruing to technical competence and prosecutorial discretion are at their widest, both deriving from the international mobility of capital.

That said, the bubble in Latin American debt was only the worst of a bad lot. With the end of the Restriction in 1821 and the attendant several years of deflation, the Bank 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 65 to 95 days, in an effort to ease commercial credit. In 1823 they began lending against mortgages, starting with £300,000 to Lord Rutland in May.<sup>120</sup> This practice made it possible for very rich people to turn large and illiquid assets into liquid ones very easily, and by July 1825 it had freed up £1.45 million in liquid capital.<sup>121</sup> Further, throughout 1824 the Bank converted outstanding 5% stock into 4%, and then 3.5%, confirming the impression of an era of low interest rates and cheap money.<sup>122</sup> In every way they could think of, the Bank put to work the very large volume of reserves that they had accumulated in 1819-1821 in order to resume convertibility.

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. Lord Liverpool, speaking in Parliament, estimated total country bank issues at £4 million in 1821-22, rising to £8 million by 1825.<sup>123</sup> The return to cash payments had involved a sharp and punishing deflation, after which it was the deliberate policy of the government—apparently working independently of the Bank, and of the country banks—to inflate and stimulate commerce.<sup>124</sup> The effect of all three forces sloshing cheap paper money into the British economy was a private investment boom, and not just in sovereign debt and Latin American mines.

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<sup>120</sup> Fenn, "British Investment," 33-34.

<sup>121</sup> Ibid, 35; Clapham, *Bank of England*, Vol. II, 82-3.

<sup>122</sup> Neal, "Financial Crisis of 1825," 60.

<sup>123</sup> Great Britain, House of Commons, Parliamentary Debates (Hansard, 1826), 2 February 1826, col. 49.

<sup>124</sup> Boyd Hilton, *Corn, Cash, Commerce: The Economic Policies of the Tory Governments, 1815-1830* (Oxford: Oxford University Press, 1977), 202-4.

But, as this chapter has argued, 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%, to be paid semi-annually in London. This initial loan was intended to cover outstanding wartime debentures.<sup>125</sup> 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.) There were no new loans in 1823, followed by £1.2 million to Brazil, £1 million to Buenos Ayres, £4.75 million to Colombia, and £3.2 million to Mexico in 1824.<sup>126</sup> Finally, there were four more loans in 1825: £2 million to Brazil, £3.2 million to Mexico, £616,000 to Peru, and £163,000 to the Central American Confederation, for a total of about £20.5 million.<sup>127</sup>

Sovereign debt was not the only feature of the bubble. There was 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.<sup>128</sup> The Bubble Act, it will be remembered from Chapter 1, limited the size of joint-stock companies in Britain, and made it more difficult to found new ones. The boom in new companies was already well under way when the Act was repealed, but it certainly helped the creation of new

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<sup>125</sup> Dawson, *First Latin American Debt Crisis*, 28. This book is frequently inaccurate, but it can usually be relied upon to report facts from newspapers.

<sup>126</sup> Fodor, "Boom That Never Was?," 8.

<sup>127</sup> *Ibid.*, but cf. Flandreau and Flores, "Bonds and Brands," Table 3, 665-6, which includes loans to European countries.

<sup>128</sup> 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, but Harris, "Political Economy," presents a more nuanced argument in which the repeal was the imperfect outcome of political conflict between rent-seeking interest groups..

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.<sup>129</sup> 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.<sup>130</sup> As Gayer, Rostow, and Schwartz put it, “[t]he 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.”<sup>131</sup> A contemporary list of the new companies is instructive. In contrast to the perpetual-motion machines and Fish Pool Sloops of the 1720 bubble, most of the companies floated in 1824-25 were very reasonable projects: companies set up for things like a canal in Bristol, a brandy distillery, a brickworks, the Hammersmith bridge, and south London docks.<sup>132</sup> However, the fundamental structure of corporate finance in the early nineteenth century ensured that these firms were very fragile, and could rapidly become liabilities to their shareholders.

Thus, it is worth dwelling for a moment on how exactly these companies were established, because it was a process, like the issuing of loans discussed above, which illustrates the division of labor between sovereign governments and international finance.

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<sup>129</sup> Fenn, “British Investment,” 79-80.

<sup>130</sup> Neal, “Financial Crisis of 1825,” 64.

<sup>131</sup> Gayer, Rostow, and Schwartz, *Growth and Fluctuation*, Vol. I, 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.

<sup>132</sup> 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.

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 1. The projector would secure some privilege from a South American government—a mining monopoly, say—and would gather together 12-24 associates to form a Board of Directors. Parliamentarians were preferred for this part of the process: 31 MPs were directors of various South American companies, with the Brazil Company having the highest proportion at eight out of twelve.<sup>133</sup> 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.<sup>134</sup> 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 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.<sup>135</sup> 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

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<sup>133</sup> Fenn, “British Investment,” 86.

<sup>134</sup> 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.”

<sup>135</sup> I am grateful that Glenda Oskar explained this to me. See her dissertation: Glenda Oskar, “Corporate Finance and the San Francisco Mining Share Market, 1860-1877,” PhD Dissertation, UC Berkeley, 2013.

(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.<sup>136</sup> The publicists would be kept busy supporting demand for shares by claiming this would never happen, just as Chapter 3 discussed 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. MacGregor was a Scottish soldier who, after service in Wellington's army, fought very badly 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 MacGregor the Caziq 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 English-speaking adventurers like himself.<sup>137</sup> He seems to have taken this process quite seriously, designing uniforms for the fictitious Poyaisian army, and claiming to have invented a tricameral legislative system.<sup>138</sup> He managed to secure a loan of £200,000 at 6% to finance colonization, and even persuaded 200 colonists to emigrate in January of 1823, including one Mr. Gauger, a banker from the City who was supposed to run the non-

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<sup>136</sup> The figures are from English, *Complete View*, 4.

<sup>137</sup> Dawson, *First Latin American Debt Crisis*, 41.

<sup>138</sup> David Sinclair, *The Land that Never Was: Sir Gregor MacGregor and the Most Audacious Fraud in History* (Cambridge, MA: Da Capo Press, 2003), 319-20. The Bancroft Library at Berkeley possess a copy of the guidebook to Poyais: Thomas Strangeways, *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, 1823). One wonders if "Thomas Strangeways" actually existed, or if he too was an invention of MacGregor's.

existent Bank of Poyais.<sup>139</sup> 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 of colonists were on the way and had to be intercepted by the Royal Navy.<sup>140</sup> MacGregor prudently decamped to France, where he was soon arrested and sentenced to 13 months in prison for fraud. Quite astonishingly, 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 peddling various Poyais schemes for the next decade, until he finally died in Venezuela in 1845 and was buried in the Caracas Cathedral with full military honors and President Carlos Soublette in attendance.

Poyais is illustrative of more than just the limit case of economic impunity in the early nineteenth century. Writing of the loan bubble, Michael Bordo says that “Asymmetric information led to adverse selection, and legitimate firms found it more difficult to obtain finance, except at premium rates.”<sup>141</sup> 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, they were new in human history, so it is easy to imagine that there were few established criteria for distinguishing reliable investments from speculations.

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<sup>139</sup> Dawson, *First Latin American Debt Crisis*, 60.

<sup>140</sup> Sinclair, *Land That Never Was*, 236-40.

<sup>141</sup> Bordo, “Commentary,” 77. He invokes Poyais specifically.

Throughout 1825 various parliamentarians issued ominous warnings about the looming bubble. Thomas Baring told Parliament that “the gambling mania had seized all classes,” and the 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.”<sup>142</sup> William Huskisson, then President of the Board of Trade, 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.”<sup>143</sup> These predictions were not precise, but they also were not wrong. Larry Neal’s value-weighted index of the 50 most important stocks traded in London shows that the peak of the bubble arrived in March 1825.<sup>144</sup> The peak was not followed by immediate collapse, but rather by a period of caution and slow contraction by City and county 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 and Latin American bonds. The last Latin American loan was put out for the United Provinces of Central America by Barclay, Herring, and Richardson on 22 August 1825, and found only one buyer.<sup>145</sup> 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 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

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<sup>142</sup> House of Commons, *Parliamentary Debates* (London: Hansard), Vol. 12, col. 1063, Baring speech, 16 March 1825; House of Lords, *Parliamentary Debates* (London: Hansard), Vol. 12, col. 1194, 25 March 1825.

<sup>143</sup> Huskisson to Canning, 4 September 1825, cited in Hilton, *Corn, Cash, Commerce*, 208.

<sup>144</sup> Neal, “Financial Crisis of 1825,” 64-5.

<sup>145</sup> Dawson *First Latin American Debt Crisis*, 109.



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.”<sup>146</sup>

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.<sup>147</sup> 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.”<sup>148</sup> At the same time country banks came under strain as the annual tax revenues were remitted to London for the December debt payments.<sup>149</sup> Together these two contractions of liquidity started country bank failures in Cornwall and Devon. On 8 December the London bank Wentworth, Chaloner, & Risworth failed, followed by Pole, Thornton & Co. on 13 December. Pole was related to the Director of the Bank of England by marriage, who bailed them out with an emergency loan of £300,000, secured against a mortgage on Pole’s house.<sup>150</sup> But the damage was done: 43 of Pole’s

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<sup>146</sup> Thomas Tooke, *A History of Prices and the State of the Circulation, From 1793 to 1837* (London: Longman, Orme, Brown, and Green, 1838), Vol. II, 159.

<sup>147</sup> Gayer, Rostow, and Schwartz, *Growth and Fluctuation*, Vol. I, 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*, 26 November 1825.

<sup>148</sup> Hilton, *Corn, Cash, Commerce*, 209.

<sup>149</sup> Neal, “Financial Crisis of 1825,” 64.

<sup>150</sup> *Report on the Bank of England Charter*, Q. 5006. This was either a very generous bailout, or a very impressive house.

corresponding country banks failed, precipitating a general run on the country banking system.<sup>151</sup> 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.”<sup>152</sup> The Bank began discounting freely, but its reserves were already low and by 23 December they 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.<sup>153</sup>

For wholly domestic reasons, then, the winter of 1825 saw a flight to liquidity and a collapse of asset prices. This would probably have been sufficient to damage the market for Latin American bonds, but it was compounded by the news of wars and mining failures. On 17 December the *Morning Chronicle* reported that Chilean government had lied about its revenues and misused their loan.<sup>154</sup> 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 share on 6 January 1826, the Famatina Mining Association asked for £25 per share on the 27<sup>th</sup>, and the Colombian Mining Association for another 2.5% of each share’s value in early February.<sup>155</sup> Unable to sell their shares and unwilling to send good money after bad, these requests were ignored and the mining companies began to fold. 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 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.<sup>156</sup> Governments continued to default throughout 1827 and 1828, though by then the banking system had recovered enough to minimize the damage.

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<sup>151</sup> Hilton, *Corn, Cash, Commerce*, 215.

<sup>152</sup> Neal, “Financial Crisis of 1825,” 65.

<sup>153</sup> *Report on the Bank of England Charter*, QQ. 5031-34.

<sup>154</sup> Dawson, *First Latin American Debt Crisis*, 118.

<sup>155</sup> *Ibid*, 119.

<sup>156</sup> See Flandreau and Flores, “Bonds and Brands,” Table 3, 665.

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.<sup>157</sup> By the end of 1826, a total of 104 banks had failed, with liabilities of £19 million.<sup>158</sup> Starting in February 1826 the Bank of England began advancing money to merchants and manufacturers on security of goods, with funds specially earmarked for troubled areas in Glasgow, Dundee, Lancashire, and the West of Scotland.<sup>159</sup> These were not large sums, and the process seemed to have been relatively cumbersome, since merchants all had to apply in writing to the Bank's overworked solicitor Mr. Freshfield, but it was some attempt at direct aid in response to the crisis. There was no Parliamentary inquiry into the causes of the crisis, and there was essentially no institutional reform until the new Bank Charter in 1833, which regulated joint stock banking in London, restricted re-discounting by private banks, and allowed the Bank of England to set up branches.<sup>160</sup> These legal changes increased specialization in the banking sector and gave the Bank of England a clearer responsibility to behave like a central bank, but they did not transform any of the structural problems that produced the crisis.

For many scholars, the significance of 1825 lies in its resolution, 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 claimed to have bailed out the Bank of England. Michael Bordo, for instance, states simply that "Gold from the Banque de France saved the Bank of England."<sup>161</sup> The origin of this idea is relatively easy to trace: in his monumental *Financial History of 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,

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<sup>157</sup> Neal, "Financial Crisis of 1825," Figure 11, from Silberling's calculations from the *London Gazette*.

<sup>158</sup> Fenn "British Investment," 151.

<sup>159</sup> Bank of England, G8/22, fol. 227; Bank of England, Court of Directors, Supporting Court Papers, Freshfield Documents, March 1826.

<sup>160</sup> Fenn "British Investment," 156.

<sup>161</sup> Bordo, "Commentary," 81.

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.”<sup>162</sup> Clapham, in turn, drew 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.”<sup>163</sup>

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 bailout. 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.<sup>164</sup> There is again no evidence to support this in the Bank’s archives or balance sheets. 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.<sup>165</sup>

Likewise, there is no evidence in the *procès-verbaux* of the *Conseil general* 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

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<sup>162</sup> Kindleberger, *Financial History of Western Europe*, 2<sup>nd</sup> ed., 66, and again on 93. He cites Clapham, *Bank of England*, Vol. II, 101.

<sup>163</sup> Clapham, *Bank of England*, Vol. II, 101.

<sup>164</sup> *Report on the Bank of England Charter*, Q. 5003.

<sup>165</sup> 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*, Lytton Strachey and Roger Fulford (eds.), (London: Macmillan, 1938), Vol. I, 154-5.

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.”<sup>166</sup>

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 22 December.<sup>167</sup> 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) but were paid directly to the Bank, not deposited in the Bank's account at Rothschild's. Between 16 and 22 December, 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, secured on their own credit. Joseph's response is worth quoting at length:

“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

<sup>166</sup> *Report on the Bank of England Charter*, QQ. 4838-9. He is referring to Huskisson's tariff reduction.

<sup>167</sup> Roths VII/5/0, p. 84. This would have weighed 19.36 tons.

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% premium, [meaning 0.75%] 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, 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.”<sup>168</sup>

And obtain gold they certainly did. In total, between 16 December 1825 and 15 December 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.<sup>169</sup> 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 20 December 1825 and 22 August 1826 from other sources, mainly in Hamburg, and the famous £400,000 sent straight to the Bank in mid-December.<sup>170</sup> In total, then, over the course of a year, Rothschilds marshaled something like £7.3 million in specie to keep the Bank of England on convertibility, and to support their extended discounting to mitigate

<sup>168</sup> RA XI/109/10, fol. 3, Joseph to Nathan, 27 December 1825.

<sup>169</sup> RA VII/5/0, Bullion Ledger, fols. 114-16.

<sup>170</sup> RA VII/5/0, fols. 140-1

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.<sup>171</sup> 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.

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% premium that Joseph mentioned in his letter, that would come to roughly £54,700, but that is mere speculation. But 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.<sup>172</sup> Even without the Bank of France contract, 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 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.<sup>173</sup> 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,

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<sup>171</sup> RA VII/5/0, fols. 84-92.

<sup>172</sup> Banque de France, *Procès-verbaux de conseil général*, 17 November 1825, 156-8.

<sup>173</sup> Marc Flandreau, "As Good as Gold? Bimetallism in Equilibrium, 1850-70," in Maria Cristina Marcuzzo, Lawrence H. Officer, and Annalisa Rosselli (eds.), *Monetary Standards and Exchange Rates* (London: Routledge, 1997), 168-9.

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.

Thus, the resolution of the crisis 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.

Michael Bordo blames the Bank of England for the crisis: “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.”<sup>174</sup> 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.”<sup>175</sup> Although market interest rates rose from 3.5 to 4% in May 1825, and the Bank rate was increased to 5% 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.”<sup>176</sup> This debate is as old as the crisis itself. Already in February 1826, some Parliamentarians blamed the county banks while others blamed the Bank of England, and yet others blamed the speculators and projectors.<sup>177</sup> 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

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<sup>174</sup> Bordo, “Commentary,” 78.

<sup>175</sup> Gayer, Rostow, and Schwartz, *Growth and Fluctuation*, Vol. I, 203. They repeat the story about finding the box of banknotes and the £400,000 bullion transfer on Ibid, 205.

<sup>176</sup> Gayer, Rostow, and Schwartz, *Growth and Fluctuation*, Vol. I, 207.

<sup>177</sup> See the responses to the King’s Speech in Great Britain, House of Commons, *Parliamentary Debates* (Hansard, 1826) Vol. 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.



monetary policy.<sup>178</sup> 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.”<sup>179</sup> His colleagues agreed: the crisis was temporary and no drastic changes to law or policy were necessary, because these period convulsions were a natural and inevitable feature of the economy, caused only by episodes of public irrationality and private malfeasance.

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 never 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 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.”<sup>180</sup> 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

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<sup>178</sup> On the continued scope for financial innovation after 1825, see Iain Frame, “Between the Public and the Private: Banking Law in 1830s England,” in Haris Psarras, et al., (eds.), *The Public in Law: Representations of the Political in Legal Discourse* (Burlington, VT: Ashgate, 2012): 205-217. I do not agree that the Banking Partnership Act of 1826 was very significant.

<sup>179</sup> *Ibid.*, col. 23.

<sup>180</sup> Bordo and Kydland, “Gold Standard as a Rule,” 100.

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.<sup>181</sup> While I agree that 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 complete 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.

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%, with a big reserve 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 Bordo, 1825 was the first of five crises (1837, 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 over the public interest.<sup>182</sup>

The Bank of England actually was bailed out by the Bank of France and the Bank of Hamburg in the 1836 crisis, but successfully contained the 1847 crisis by ending the

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<sup>181</sup> For arguments that substantial autonomy still existed under the gold standard, see Michael Bordo and Ronald MacDonald, "Violations of the 'Rules of the Game' and the Credibility of the Classical Gold Standard, 1880-1914," NBER Working Paper No. 6115, 1997; Michael Bordo and Marc Flandreau, "Core, Periphery, Exchange Rate Regimes, and Globalization," in Michael Bordo, Alan Taylor, and Jeffrey Williamson (eds.), *Globalization in Historical Perspective* (Chicago: University of Chicago Press, 2003).

<sup>182</sup> Bordo, "Commentary," 80.

limit on fiduciary issue and raising its rate to an unprecedented 8%.<sup>183</sup> Between 1821 and 1847, 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.”<sup>184</sup> Instead, the maintenance of convertibility and the settlement of international payments was consistently within the remit of private business.

The privatization of financial institutions was a significant component in the separation of the economic sphere from the political sphere—what scholars as diverse as Ellen Meiksins Wood, Carl Schmitt, and Karl Polanyi have argued was integral to the development of nineteenth century capitalism. What Meiksins Wood calls “the differentiation of the economic sphere under capitalism,” and Polanyi calls “dis-embedding” were vast and complicated processes that extended far beyond the subject of this study, let alone this chapter. Schmitt’s distinction between “imperium” and “dominium” restricts the point from broad social transformation to the creation of two different spheres of legality and authority.<sup>185</sup> He wanted to draw a distinction between the world of public authority deriving from sovereignty and the world of private authority deriving from private legal ownership, and he placed the origin of this separation in the workings of the absolutist state.<sup>186</sup> Although I share absolutism as a starting point, I hope it is clear that I otherwise differ in periodization and causal mechanisms. But I do contend that my findings show that the nineteenth century economy involved spheres of exception, just as nineteenth century empires did.

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

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<sup>183</sup> Rudiger Dornbusch and Jacob A. Frenkel, “The Gold Standard and the Bank of England in the Crisis of 1847,” in Bordo and Schwartz, *Retrospective*, 233-77.

<sup>184</sup> The classic model of the Bank of England’s discount rate leading discount rates abroad is Barry Eichengreen, “Conducting the International Orchestra: Bank of England Leadership Under the Classical Gold Standard,” *Journal of International Money and Finance*, Vol. 6, No. 1 (March 1987): 5-29. This argument focuses on the period after 1877.

<sup>185</sup> Cf. Martti Koskenniemi, “International Law as Political Theology: How to Read *Nomos der Erde*?” *Constellations*, Vol. 11, No. 4 (Dec., 2004), 498 and Justin Rosenberg, *The Empire of Civil Society* (London: Verso, 1994), 83-90 and 126-9.

<sup>186</sup> Carl Schmitt, *The Nomos of the Earth in the International Law of the Jus Publicum Europaeum* trans. G.L. Ulmen, (New York: Telos Press), 129.

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, they 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 1839 crisis, and as late as 1890, Rothschilds was instrumental in resolving the Barings Crisis itself.<sup>187</sup>

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 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.<sup>188</sup> The financial system after 1815 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.

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<sup>187</sup> Eichengreen, *Golden Fetters*, 50.

<sup>188</sup> See Thomas Haskell, “Capitalism and the Origins of the Humanitarian Sensibility, Part 1” *The American Historical Review*, Vol. 90, No. 2 (April 1985): 339-61 and idem, “Capitalism and the Origins of the Humanitarian Sensibility, Part 2,” *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.

### Conclusion

“The exception thus explains the universal and itself, and when one really wants to study the universal, one need only examine a legitimate exception, because it will present everything much more clearly than the universal would itself... There are exceptions. If one cannot explain them, then neither can one explain the universal. One generally fails to notice this, because one does not normally grasp the universal passionately, but only superficially. The exception, on the other hand, grasps the universal with intense passion.”<sup>1</sup> — Søren Kierkegaard

The aim of this study has been to chart the transformation in the forms and extent of institutional exceptions in European finance across the very long eighteenth century. This has necessarily meant taking aim at two moving targets. The financial system itself is not found in any one place. It is affected by political, social, cultural, and economic changes in its constituent countries—especially in powerful ones like Britain and France—but it cannot be fully grasped by national histories. Second, the concept of institutional exceptions, or what I have called “impunity,” is itself only ever partially realized. In order to leave traces in the archives, any act of impunity must have been detected, and probably contested. Again and again this study has shown people attempting to act with impunity, and failing, whether in the face of structural forces like exchange rates or stock market crashes, or due to their own failures and miscalculations. Thus this study has run the risk of describing the change over time of something that may not have existed at all, and in no place in particular.

Against this possibility I can only offer the observation that the study of malfeasance, failure, and inequality is still new to the field of economic history, despite its salience in the historical record and to our own contemporary world. Historians are

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<sup>1</sup> Søren Kierkegaard, *Repetition and Philosophical Crumbs*, trans. M.G. Piety (Oxford: Oxford University Press, 2009), 78.

better at explaining why something *did* happen than why something else did not, and economists tend to be better at showing why markets equilibrate than why they fail. In trying to think through how to write an economic history that is predicated on power and inequality, I have taken some solace and inspiration from thinking about monopolies. In the basic theory of monopolies, everyone in the market is a price taker, meaning they have to accept the prices of their inputs and outputs as determined by the market, except the monopolist, who gets to set prices because of their market power. To act with impunity is something similar: to assume that you get to set the costs of your actions, rather than accept the socially-determined costs dictated by law or public opinion. Most of the vibrant economic history work on institutions approaches them from the perspective of a price taker in a competitive institutional market, if not from an actual assumption of formal equality before the institution. This study has attempted to show that there is enough historical and contemporary evidence to indicate that we need to approach the questions of the institutionalists again, this time from the perspective of a monopolist. This study has attempted to begin that work, and has focused on a sector where relatively few people controlled a relatively large amount of resources, such that their actions had disproportionately large consequences.

The resolution of the Panic of 1825 did not end the problem of impunity, or even settle the parameters of impunity once and for all. Instead, I must make a more modest claim for 1825, which is that the way it was resolved proved to be integral to the character of the nineteenth century gold standard system. That system lasted for nearly a century, and facilitated the immense expansion in global trade, capital flows, and European empires which many scholars call the first wave of globalization and many others call the New Imperialism. Neither imperialism nor trade would have been possible without a smoothly functioning international monetary system. So, having begun in the stable but low-level equilibrium of seventeenth century finance and proceeded through upheavals in 1720 and 1780-93, the financial order that resolved the 1825 crisis also delivered a kind of stability—or at least, no new disjunctures in the capacity for impunity. Thus, the settlement of 1826 provides my story with a happy ending.

And what about the twentieth century? From the vantage point of 2017, that long stretch of relative stability looks like an anomaly. A history of economic impunity that

extended to our present moment would look very different, and would focus on tax havens, offshore currency markets, flags of convenience, certain forms of financialization, and the political economy of post-2008 bailouts. The introduction of this study referenced the current trends in scholarship on international law. To return to that world, it is striking to find that there is currently a movement *against* the anti-impunity agenda, on the grounds that in practice prosecution for some international crimes actually constitutes a reinforcement of the impunity of more powerful actors, due to structural forms of inequality.<sup>2</sup> So in this view, action against the impunity of Radovan Karadžić or Omar al-Bashir reinforces the impunity of NATO and the ICC, and above all, the United States. Thus, an apparently apolitical legal process turns out in practice to be a highly political mechanism for reproducing forms of inequality and exclusion, by eliding the politics of selecting targets for prosecution, the politics of hierarchy between international and domestic law, and the politics of structural exclusion through which some causes and crimes are recognized and others are not.

I do not completely subscribe to this view, but I do think there are some useful analogies to the contemporary world of the political economy of finance. I began this study 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 study 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 in 2016 I switched first to the Panama Papers, and then to the Wells Fargo phony accounts scandal. And then I stopped rewriting the conclusion, because the contemporary relevance of an economic history of impunity is intuitively obvious. All of these scandals are artifacts of a specific world of globalized capital that has existed since the 1970s, a technical complexity in financial innovation which dates to about the 1990s, and a politics of inequality that has

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<sup>2</sup> Karen Engle, Zinaida Miller, and D.M. Davis, eds., *Anti-Impunity and the Human Rights Agenda* (Cambridge: Cambridge University Press, 2017).

existed since the 1980s. It is a cliché to say that the apparently apolitical world of the modern economy is in fact highly political, but as with international criminal law, the focus on impunity reveals something new about how inequality reproduces itself by obscuring the politics of culpability, precedent, and scale. The first 110 years of modern finance discussed in this book overlapped with the onset of the British Industrial Revolution, but most of the capital marshaled in the financial system went to government debt and monopoly colonial companies, not to industry, manufacturing, and new technology. Finance made large fortunes, but mostly from investing in more finance, not in expanding production or employing people. But the Industrial Revolution also meant a large and relatively unprecedented increase in inequality—similar to the increase seen in the rich world since the 1970s. That increased inequality accentuated the ability for owners of capital to act with impunity, and the new communicative technologies and international financial systems expanded the set of places that could be affected by their actions. The same is true today, but on a totalizing scale. It seems very unlikely that finance will become less technically sophisticated in the foreseeable future, nor that capital will become less internationally mobile. However bellicose and nationalist the current political moment may be, not even the most feverish dreams of Brexiters or the Trump administration involve producing a new international financial architecture to end the post-Bretton Woods system. If there is to be a change in the current very extensive capacity for economic impunity, it will have to be the result of a change in prosecutorial discretion, which is to say, from politics. The plausibility of that is for the reader to judge, but certainly the first step must be recognizing the existence, extent, and determinants of impunity. Obscuring the political character of institutions, and the ways that they produce exceptions has meant that the market itself has increasingly appeared to act with impunity, like the weather or tectonic plates. But financial crises are not natural disasters, nor are they eternal and inevitable features of human nature, and indeed that view itself is a relatively recent invention. If this study has shown anything about financial crises, it is that they have a history, they are made by people, and since they used to be very different, they may yet be very different again in the future.



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