

John Law: The Father of QE

Presentation by Edward Chancellor

Grant's Conference
October 9 2018



John Law of Lauriston (1671-
1729)

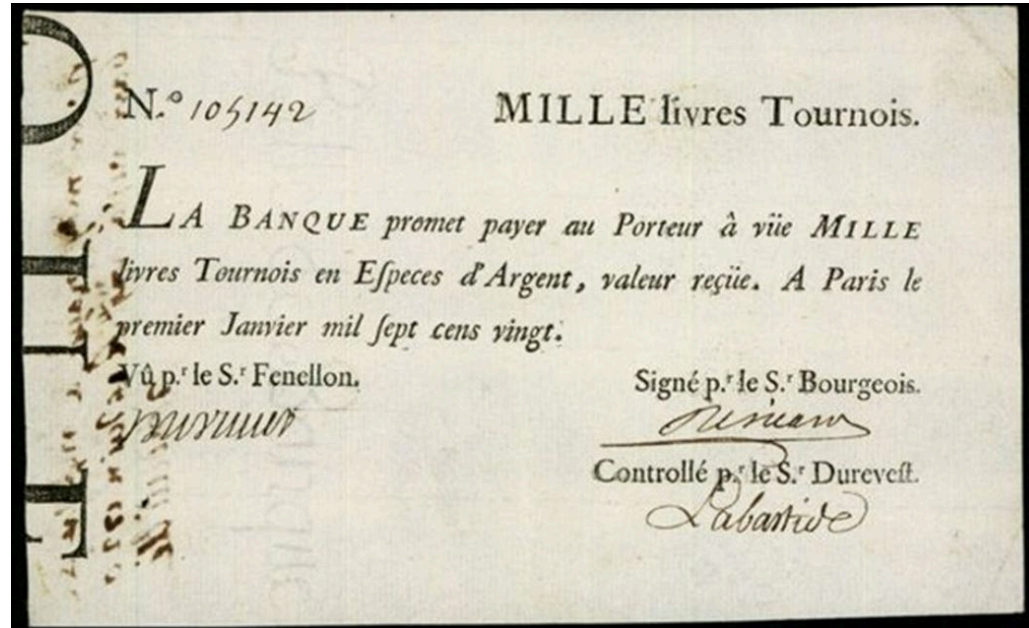
The First Monetarist

"An abundance of money which would lower the interest rate to 2 per cent would, in reducing the financing costs of the debts and public offices, etc., relieve the King. It would lighten the burden of the indebted noble landowners. This latter group would be enriched because agricultural goods would be sold at higher prices. It would enrich traders who would then be able to borrow at a lower interest rate and give employment to the people."

John Law's proposal to Regent, 1715

Date	Promoter	Stock-Jobber	Banker
1716			General bank founded. Interest rates decline
1717	Company of West acquired	Shares issued at 500, Payable in discounted bills	
1718	Multiple takeovers		Bank nationalized in Dec Note issue at 40 million
1719 - July August	Absorbs national debt	Rights issue at 1,000, 5% down payment	Note issue at 500 million Debt at 4.5% replaced with 3% payment
December		Share office opens – shares at 10,000	
1720 - January February	Law appointed finance minister	Share office closes – Shares crash	Note issue at 1 billion Commodity prices soar Annuity rate cut to 2% Note issue > 2 billion
May	Law sacked		

Law's Note



Paper Issues

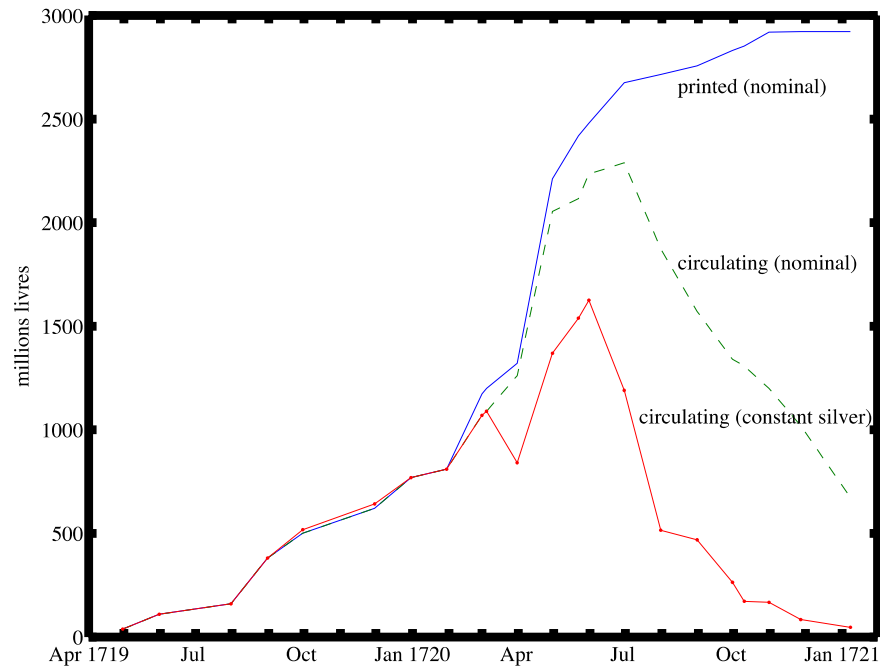
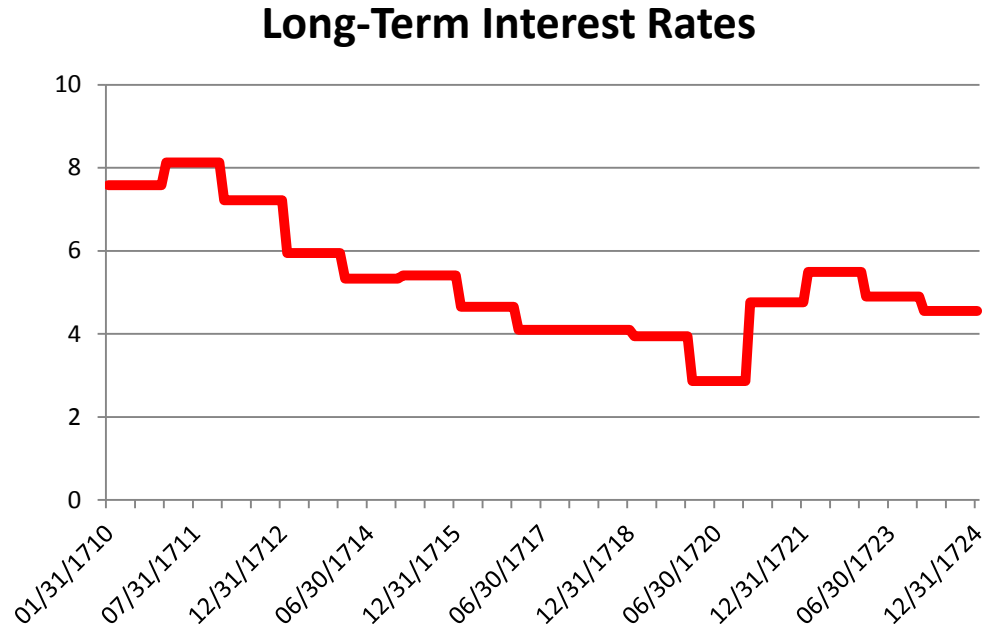
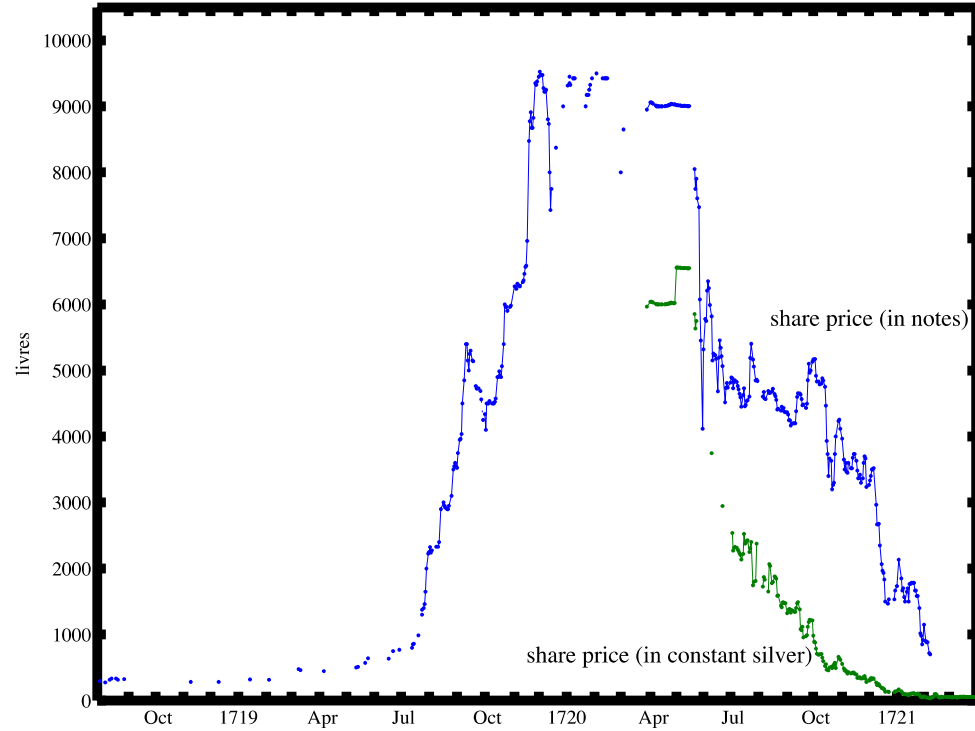


Figure 11: Net issue of notes, actual circulation (nominal and constant silver value). Source: Table 4.

Easy Money (1710-1725)



Bubble

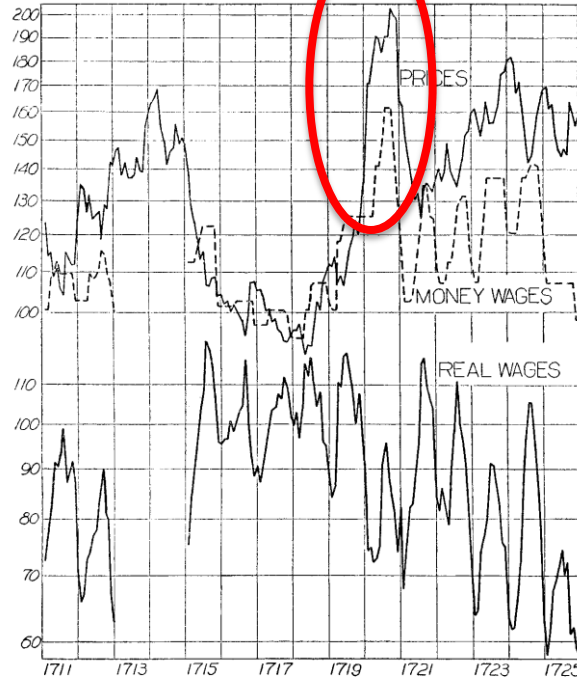


La Rue Quincampoix



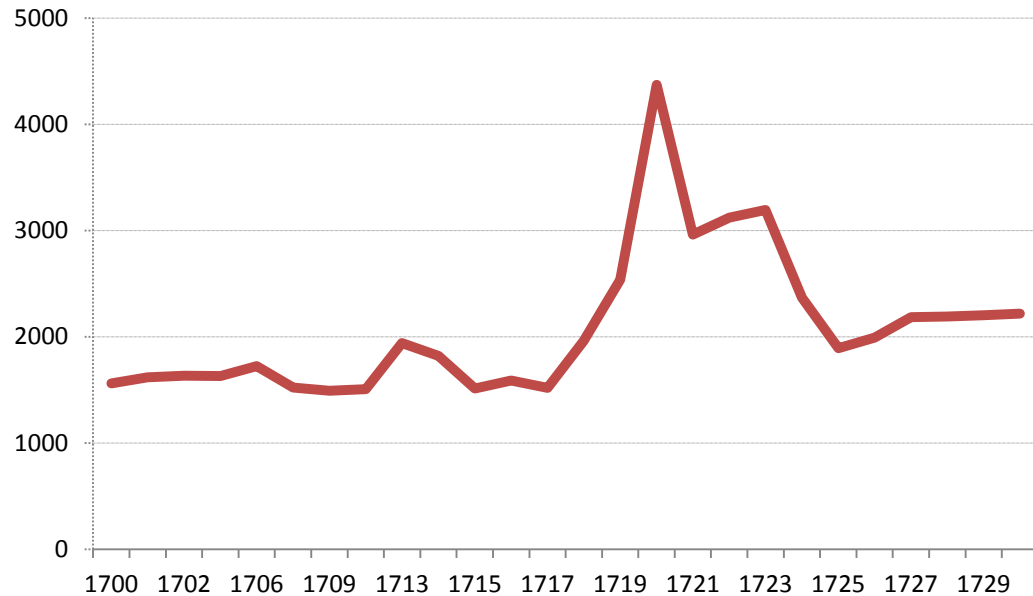
Inflation

CHART 1. INDEX NUMBERS OF COMMODITY PRICES, MONEY WAGES,
AND REAL WAGES
(Base = 1716-17)

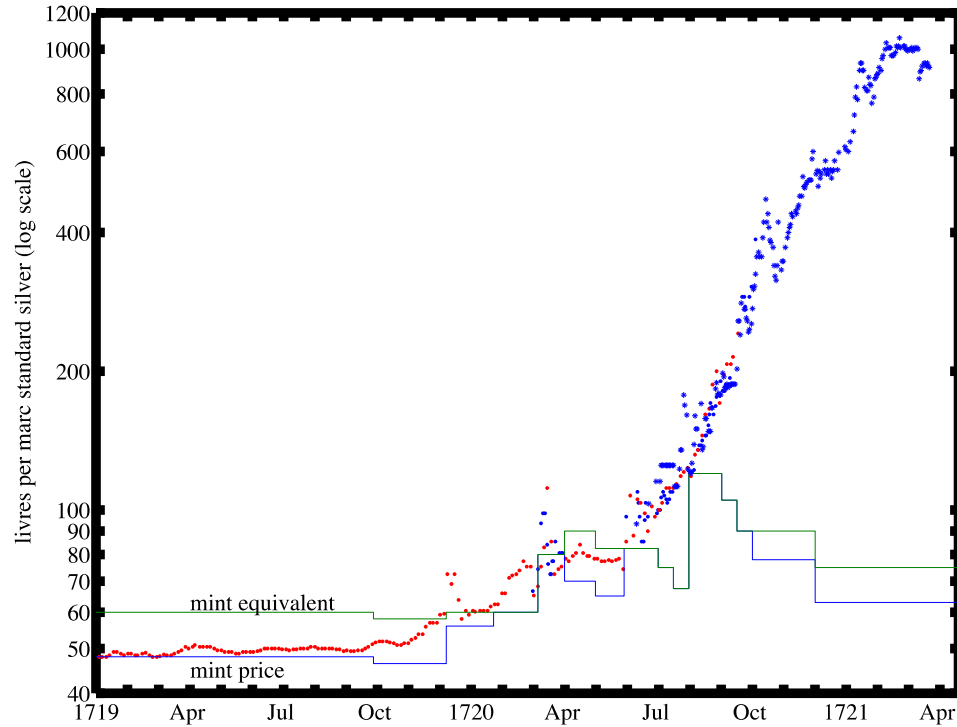


Currency Collapse

Livres tournois to £100 sterling



Silver lining

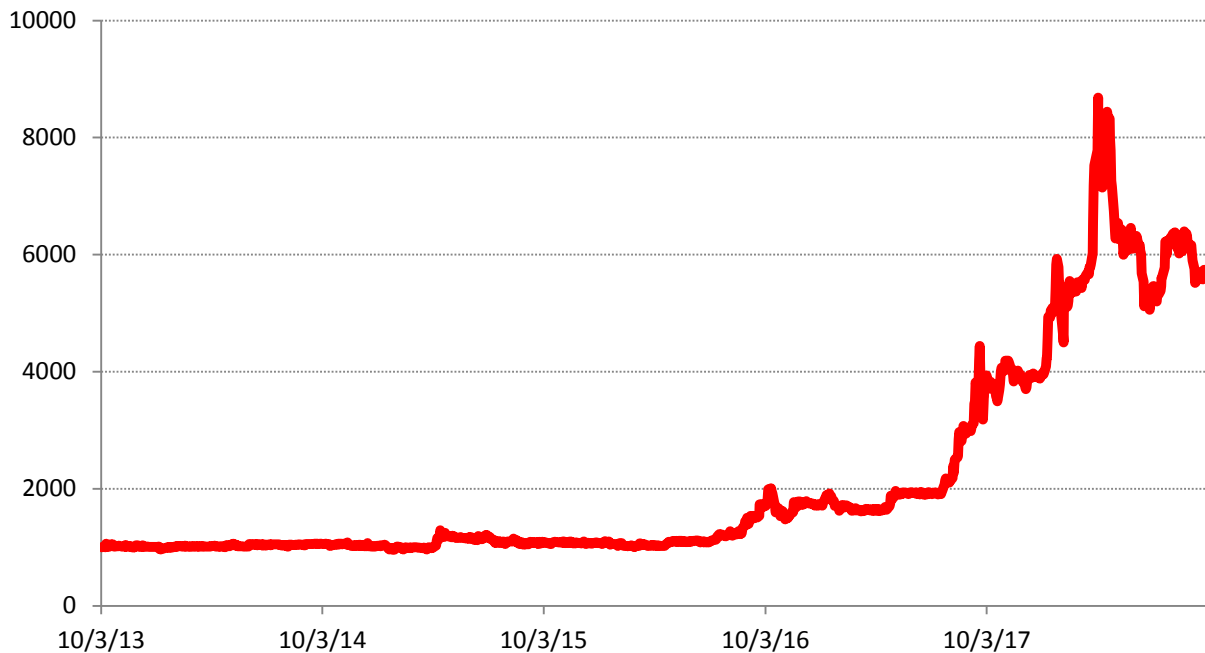


The Second Age of QE

- “Law’s banking successors have been Ben Bernanke, Janet Yellen and Mario Draghi.” Professor Antoin Murphy
- Economic crisis, characterized by deflation, unemployment and massive fiscal deficit
- Monetary cure by means of central bank b/s expansion and downward manipulation of interest rates
- Asset price bubbles, merger mania, debt-fuelled buybacks, and economic recovery
- A new type of “money” appears

Another Central Bank Bubble

Swiss National Bank share price (CHF)



No Escape

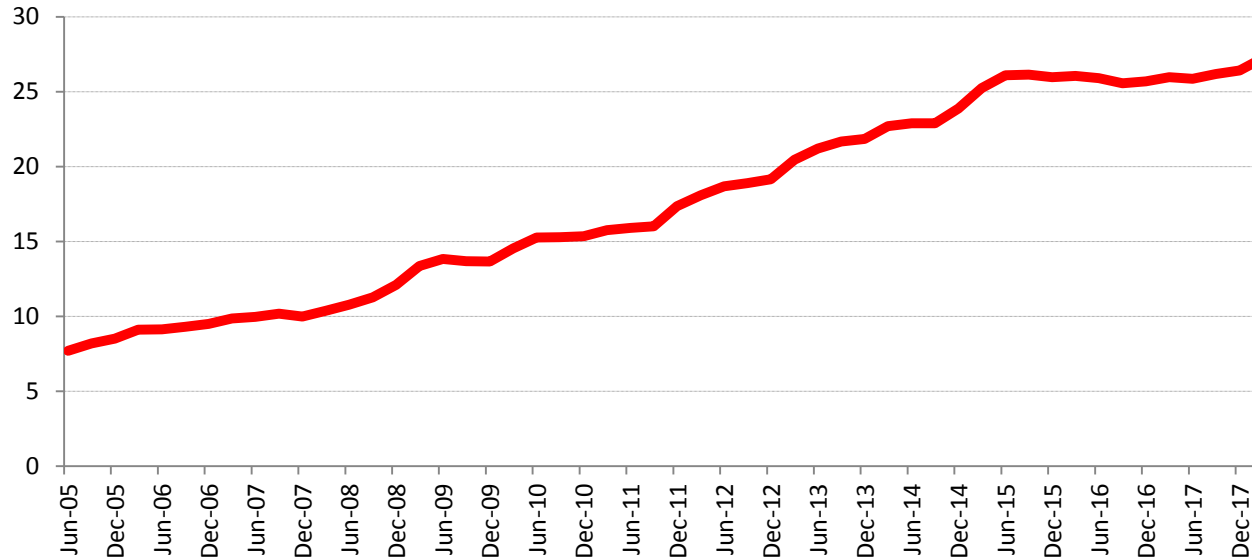
- Cantillon's critique:
“If the Bank alone raises the price of the public stock by buying it, it will be so much depressed when its resells to cancel its excess issue of notes...”
- Law found himself between rock and hard place – chose deflation
- Quantitative tightening – an accident waiting to happen

China Parallels

- Another *ancien regime* – absolutism, absence of rule of law, state monopolies, a privileged ruling class, etc.
- The Mississippi Company resembles Chinese SOEs
- Law showed that modern finance and absolutism don't mix
- Low Chinese rates have inflated another great real estate bubble
- China's money supply has expanded massively relative to global money stock. Yet its currency is fixed

China's Monetary Overhang

Chinese M3 as share of global money supply



Further reading

James Buchan, *John Law: A Scottish Adventurer of the 18th century* (2018)

Francois Velde, “John Law’s System,” *American Economic Review* (2007) and “Government Equity and Money: John Law’s System in 1720 France,” *Chicago Fed* (2004)

Antoin Murphy, *John Law: Economic Theorist and Policy-Maker* (1997)