“An Inconceivable Species of meer Air and Shadow”

Summer reading: Stephanie Kelton meets John Law; “The Deficit Myth” channels “Money and Trade”

To be sure, Stephanie Kelton never killed a man. Nor is Kelton a historical figure; rather, she is a professor at SUNY. Her book, “The Deficit Myth”, is a NYT bestseller, her book tour is packed, she has the ear of Congress and she has 100k Twitter followers.

By contrast, John Law did kill a man. (They say this happened in a duel, but it sounded more like a bar fight to us.) The Scotsman was born in 1671 and died 58 years later. Like Kelton, the guy was everywhere that mattered in early 18th century Europe, in no small part because he was on the run for having killed a man. And, like Kelton, Law also spent his waking hours spreading the good word of monetary innovation. If Twitter had been around, there is no doubt Law would have had a massive following too.

While it is Kelton’s book that is now making waves, an authoritative biography on Law was published only back in 2018. If you read one, you should read the other. That’s how we passed the summer.

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“John Law – A Scottish Adventurer of the Eighteenth Century” by James Buchan is a collection of archival letters, documented financial transactions and background ambiance, strung together by a terse narrative.

But through this somewhat dry read emerges a most colourful figure. If John Law were here today he’d have his own table at the Cactus, a crowd around him every night, tab always covered. We may remember him as the guy who blew France up, but he was so much more than that.

One example: Sovereigns, tight as they were after years of war, found the markets such that bonds wouldn’t sell unless there was a trinket attached. So they made a lottery out of it. In 1712 the Dutch announced a “Generality lottery loan of 17,500 tickets at 200 guilders each (3.5 million guilders in total) with a prize fund, payable over thirty years,, of 1.46 million guilders and interest on the losing

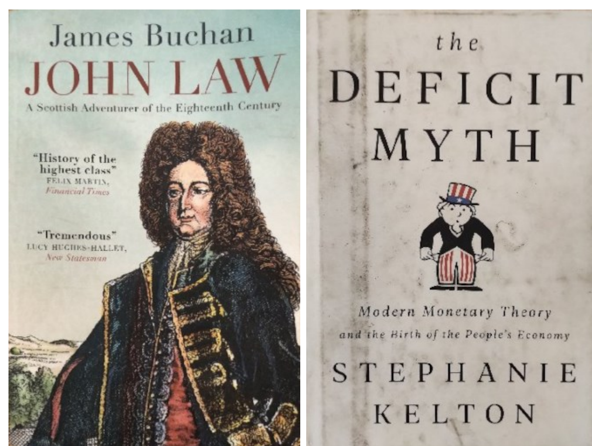


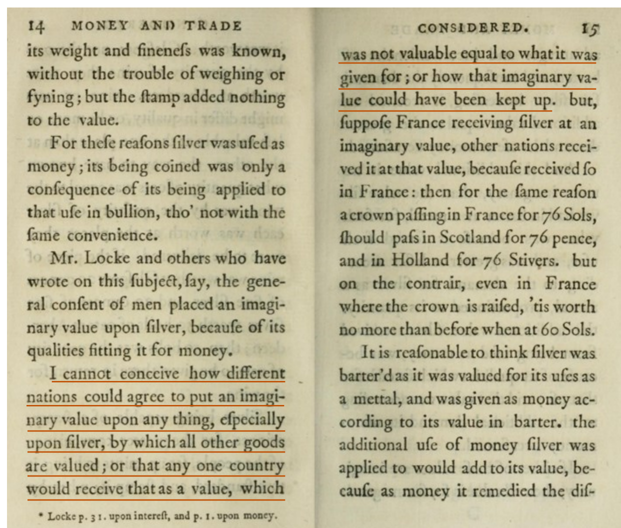
Figure 1: *The two books under review, actual copies, both of which made it down a whitewater river over the summer, relatively unscathed.*

tickets of 4% until redemption.” It didn’t sell. So Law steps in and offers insurance against losing tickets. “For a premium of 100 florins he will pay out 300 if in a batch of 10 tickets there is no prize,” read his advertisement in the Gazette d’Amsterdam. This was financed by various lenders around the country. The numbers were of course very much in Law’s favour and he mopped up.

Were he about today we would do our best to hire him, but no doubt Goldman Sachs or some other money-center, country-bending bank would have got to him first.

Clipping deals may have paid the bills, but Law’s day job was monetary reform. His father was a goldsmith, and goldsmiths were the local bankers of the day. Law thought he could do better.

What we now remember Law for was not a late-career misstep, a flight of newfound fancy. Rather, devising plans to expand the monetary base beyond the constraints of available precious metals was Law’s enduring obsession. In 1705 he assembled his ideas into a book entitled “Money and Trade Considered”, whose theme and purpose bear sharp resemblance to the theme and purpose of Kelton’s book. Law then used the book to petition the Scottish parliament, recommending that forty commissioners be appointed and granted the authority to “coin notes” backed, not by silver or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its weight and finenefs was known, without the trouble of weighing or fyning; but the ftamp added nothing to the value.

For thefe reafons filver was ufed as money; its being coined was only a confequence of its being applied to that ufe in bullion, tho' not with the fame convenience.

Mr. Locke and others who have wrote on this fubject, fay, the general confent of men placed an imaginary value upon filver, becaufe of its qualities fitting it for money.

I cannot conceive how different nations could agree to put an imaginary value upon any thing, efpecially upon filver, by which all other goods are valued; or that any one country would receive that as a value, which

* Locke p. 31. upon intereft, and p. 1. upon money.

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was not valuable equal to what it was given for; or how that imaginary value could have been kept up. but, fuppofe France receiving filver at an imaginary value, other nations received it at that value, becaufe received fo in France: then for the fame reafon a crown paffing in France for 76 Sols, fhould pafs in Scotland for 76 pence, and in Holland for 76 Stivers. but on the contrair, even in France where the crown is raifed, 'tis worth no more than before when at 60 Sols.

It is reafonable to think filver was barter'd as it was valued for its ufes as a mettal, and was given as money according to its value in barter. the additional ufe of money filver was applied to would add to its value, becaufe as money it remedied the dif-

Figure 2: *Excerpts from John Law's "Money and Trade", an early manifesto on monetary reform, one that preceded Kelton's work by 300 years and was used to petition the Scottish Parliament for Law's "Land Bank."*

First, Law tackles the nature of money which, at the time, was for the most part silver. He references John Locke who says, in Law's words, that an "imaginary value" has been placed on silver because of its qualities "fitting it for money."

Law pushes back: "I cannot conceive how different nations could agree to put an imaginary value upon any thing, especially upon silver, by which all other goods are valued; or that any one country would receive that as value, which was not valuable equal to what it was given for; or how that imaginary value could have been kept up."

In a word — silver is a pet rock.

gold but instead by land. The plan was rebuffed (the Scots were busy with other things at the time, namely, union with England), but Law persisted elsewhere: in Genoa, in the Netherlands, letters to the Duke of Savoy and ultimately, 10 years later, his fateful road into France.

Law's rationale for these ideas would resonate strongly today. A lack of money constrained economic output, he argued. "With its greater natural advantages," paraphrases Buchan, "Scotland could be more prosperous than Holland, but men and women, 'artsmen', land, buildings and vessels lay idle for a want of money." In other words, continues Buchan, "Law says that an increase in money within reason will increase the product and thus not cause price rises or an adverse balance in foreign payments."

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This is Kelton's argument in a nutshell. Indeed, it's her entire book in a nutshell. The subtitle tells as much: "Modern Monetary Theory and the *Birth of the People's Economy*." The book is pretty much 322 pages about how you can have your cake and eat it too.

"The Deficit Myth" is a popularization of what proponents have dubbed "Modern Monetary Theory." The fundamental ideas for this school of thought were developed by Warren Mosler, a former hedge fund manager who now lives tax-lite in the Caribbean. In the late 1990's Kelton, while studying economics at Cambridge, came across Mosler's writings -- "Soft Currency Economics" was the name of his pamphlet. Unable to disprove these theories, Kelton paid Mosler a visit. It was her road to Damascus.

We were taught in high school that economics was the art/science of allocating scarce resources to infinite needs. Kelton solves the first half of this problem in chapter 1. Because the US can borrow in its own currency – and in this way is deemed a "monetary sovereign" – there can *never* be a shortage of Dollars and, by extension, there can never be a shortage of anything at all. Law at least recognized some constraints, namely, the extent of available land; Kelton recognizes no hard limits at all.

This sleight of hand is almost imperceptible. You're asked to accept a spectacular premise and the next thing you know you are floating down a river eating grapes. If you didn't blink, you'd miss this leap of faith altogether: *How do you become a "monetary sovereign"?* And once you do become a monetary sovereign, *do you get to stay a monetary sovereign forever, no matter what you do?* These questions seem fundamental to Kelton's theory yet precisely zero attention is paid to them. The book reads like a tract on evolution where the existence of a divine creator is predicated at the outset.

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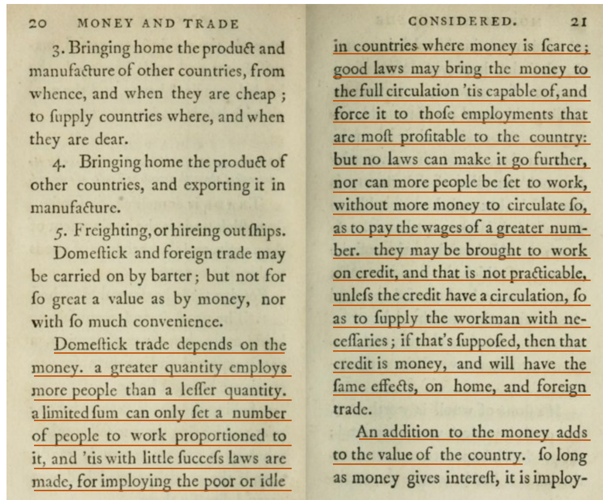
By 1715 the Treaty of Utrecht had been signed and this ended a 15-year dispute amongst Europe-

Figure 3: *Here Law starts to lay out his theory. It is all about getting the economy going and putting people to work, familiar themes today. The key, in Law's estimate, was more money and the key to more money is credit: "Domestic trade depends on the money. A greater quantity employs more people than a lesser quantity. A limited sum can only set a number of people to work proportioned to it and 'tis with little success laws are made for imploying the poor or idle in countries where money is scarce; good laws may bring the money to the full circulation 'tis capable of, and force it to those employments that are most profitable to the country; but no laws can make it go further, nor can more people be set to work without more money to circulate so as to pay the wages of a greater number. They may be brought to work on credit and that is not practical unless the credit have a circulation, so as to supply the workman with necessities; if that is supposed, then that credit is money, and will have same effects on home and foreign trade. An addition to the money adds to the value of the country."*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3. Bringing home the product and manufacture of other countries, from whence, and when they are cheap ; to supply countries where, and when they are dear.

4. Bringing home the product of other countries, and exporting it in manufacture.

5. Freighting, or hireing out ships.

Domestick and foreign trade may be carried on by barter ; but not for so great a value as by money, nor with so much convenience.

Domestick trade depends on the money. a greater quantity employs more people than a lesser quantity. a limited sum can only set a number of people to work proportioned to it, and 'tis with little success laws are made, for imploying the poor or idle

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in countries where money is scarce ; good laws may bring the money to the full circulation 'tis capable of, and force it to those employments that are most profitable to the country: but no laws can make it go further, nor can more people be set to work, without more money to circulate so, as to pay the wages of a greater number. they may be brought to work on credit, and that is not practicable, unless the credit have a circulation, so as to supply the workman with necessaries ; if that's supposed, then that credit is money, and will have the same effects, on home, and foreign trade.

An addition to the money adds to the value of the country. so long as money gives interest, it is imploy-

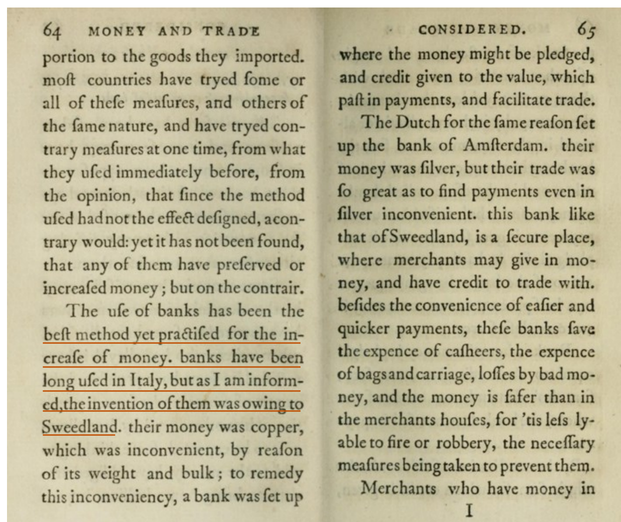
an parties as to who would take the Spanish throne. For France, the Treaty was the high water mark of their European dominance. These were the autumn years of Louis XIV, aka the Sun King, who had, amongst his possessions, France, parts of Italy, parts of Spain, parts of Belgium and Holland, parts of Germany and most of North America. Along the way, the Sun King also built the Palace of Versailles.

All this cost money. In Law's day, things had to be paid for, especially wars and palaces. "Bills of credit" were employed amongst merchants to settle accounts but, writes Buchan "[these] was a sort of merry go-round which worked" until it didn't, at which point trust was lost and merchants "[demanded] 'ringing coin', of which there was not remotely enough." Soldiers, "not knowing whether they'd be alive the next day, would only accept coin or they would not fight."

Kelton takes pains to emphasize that the economics of "monetary sovereigns" are different *in kind* than the economics of households (or businesses or monetary non-sovereigns, like the Greeks and other EU nations who surrendered their capacity to issue their own currency.) She writes: "We know people can go broke and we've seen iconic companies like RadioShack and Toys R Us get driven into bankruptcy when they could no longer afford to pay the bills. Even cities (Detroit) and states (Kansas) can run into big trouble when they're not bringing in enough money to cover their expenses. Every family sitting around the kitchen table understands these realities. What they don't understand is why the Federal Government (Uncle Sam) is different."

This would have been news to the Sun King. By the end of the war, France was flat broke. Noailles, the newly appointed Comptroller of Finance, informed the Council on Finances that "The Treasury is absolutely empty." The Regent (Louis XIV had died months earlier) wrote to an ambassador whinging for lack of funds: "You cannot be unaware of … the difficulty I have in meeting the most urgent needs." Like all states since the dawn of time, money to fund expenditures could be raised in one of two ways: taxation (income) or borrowings. The tax base was stretched (the nobility in particular were stubborn) while ready lenders were tapped out. The crown at this point was even into suppliers. As Buchan writes: "By the time of the death of the great King there were believed to be more than 900 million livres in promissory notes issued to private financiers and munitioners that had kept France intact. […] To raise any more money, the King would have had to pay interest on those which, at 5 per cent, would add another 50 million livres in annual charges. Worse, the King's unpaid bills infected the entire merchant class and paralysed trade, for if the King were bankrupt, so were his creditors." When one measure after another failed to resolve the predicament, "Noailles had no choice but to open up the armoury of French royal finance and wheel out its artillery of default, devaluation and coercion."

Into this mess walked John Law.



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portion to the goods they imported. moſt countries have tryed ſome or all of theſe meaſures, and others of the ſame nature, and have tryed contrary meaſures at one time, from what they uſed immediately before, from the opinion, that ſince the method uſed had not the effect deſigned, a contrary would: yet it has not been found, that any of them have preſerved or increaſed money; but on the contrair.

The uſe of banks has been the beſt method yet practiſed for the increaſe of money. banks have been long uſed in Italy, but as I am informed, the invention of them was owing to Sweedland. their money was copper, which was inconvenient, by reaſon of its weight and bulk; to remedy this inconveniency, a bank was ſet up

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where the money might be pledged, and credit given to the value, which paſt in payments, and facilitate trade.

The Dutch for the ſame reaſon ſet up the bank of Amſterdam. their money was ſilver, but their trade was ſo great as to find payments even in ſilver inconvenient. this bank like that of Sweedland, is a ſecure place, where merchants may give in money, and have credit to trade with. beſides the convenience of eaſier and quicker payments, theſe banks ſave the expence of caſheers, the expence of bags and carriage, loſſes by bad money, and the money is ſafer than in the merchants houſes, for 'tis leſs lyable to fire or robbery, the neceſſary meaſures being taken to prevent them.

Merchants who have money in

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Figure 4: *Here we get on to some implementation details, namely,* how *to go about increasing the money supply and creating all those jobs. To wit: "The use of banks is the best method yet for the increase of money. Banks have been long used in Italy, but as I am informed, the invention of them was owing to Sweedland."*

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Kelton is not wholly unmindful of inflation. The Deficit Myth includes a chapter on the topic, the first part of which is taken up by a discourse on how poorly the Fed understands the phenomenon:

"[I]t is indisputable that the Fed's recent estimates of NAIRU – the level of unemployment that can be achieved without causing inflation to accelerate – have been consistently wrong. This failure was put on full display in another exchange from the same July 2019 committee hearing when newly elected Congresswoman Alexandria Ocasio-Cortez posed the following question to Chairman Powell:

> AOC*: The unemployment rates has fallen three full points since 2014, but inflation is no higher today than it was five years ago. Given these facts, do you agree that the Fed's estimate of the lowest sustainable unemployment rate has been too high?*
>
> Powell*: Absolutely.*

In other words, monetary policy has been too tight and, consequently, the full potential of our economy, especially the "human component", has not been realized. Echoing Law's views to the Scottish parliament she writes: "Even as scientists and engineers constantly innovate, creating new medicines, technologies and techniques to eradicate diseases and solve human problems, the majority of economists remain wedded to a fifty-year-old doctrine that relies on human suffering to fight inflation."

Kelton's solution is to place monetary policy into the hands of the Executive & Congress. Instead of dialing interest rates up or down, liquidity would be added or withdrawn by varying fiscal policy. The objective would be full employment and a chicken in every pot. By right of monetary sovereignty, debt and deficits are not seen as limitations. Kelton writes: "MMT shows that that we don't need to fix the debt. We need to fix our thinking."

There is no discussion as to what-to-do should inflation run too hot; it's as though the topic hadn't crossed the author's mind. The rest of the chapter is devoted to the benefits of a universal income scheme.

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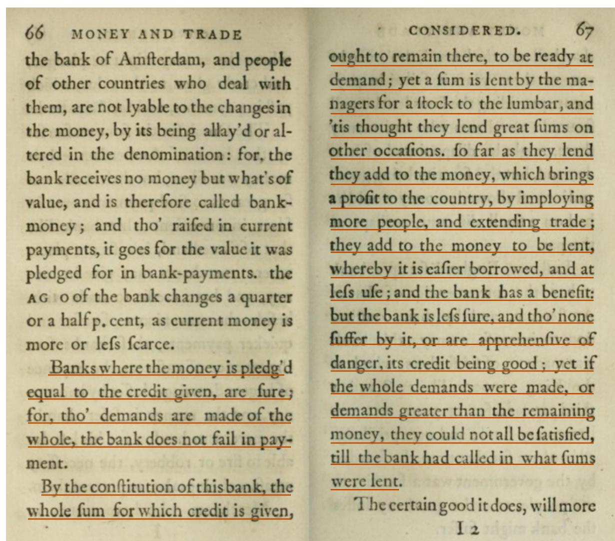
If it wasn't for the Regent, Law may not have gotten anywhere. The war was over, everyone was broke and the King was a boy, subject to challenge. The Duc d'Orleans was in the mood to make friends. Law saw his chance.

It started with what we would now see as a commercial bank – a place where you could borrow, deposit and transfer money – but with the added capability of being able to print currency. The idea came from northern Italy where Law had spent time while on the run. Law pitched the Re-



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the bank of Amſterdam, and people of other countries who deal with them, are not lyable to the changes in the money, by its being allay'd or altered in the denomination: for, the bank receives no money but what's of value, and is therefore called bank-money; and tho' raiſed in current payments, it goes for the value it was pledged for in bank-payments. the AG o of the bank changes a quarter or a half p. cent, as current money is more or leſs ſcarce.

Banks where the money is pledg'd equal to the credit given, are ſure; for, tho' demands are made of the whole, the bank does not fail in payment.

By the conſtitution of this bank, the whole ſum for which credit is given,

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ought to remain there, to be ready at demand; yet a ſum is lent by the managers for a ſtock to the lumbar, and 'tis thought they lend great ſums on other occaſions. ſo far as they lend they add to the money, which brings a profit to the country, by imploying more people, and extending trade; they add to the money to be lent, whereby it is eaſier borrowed, and at leſs uſe; and the bank has a benefit: but the bank is leſs ſure, and tho' none ſuffer by it, or are apprehenſive of danger, its credit being good; yet if the whole demands were made, or demands greater than the remaining money, they could not all be ſatisfied, till the bank had called in what ſums were lent.

The certain good it does, will more

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Figure 5: *And lastly, something of a premonition: “Banks where money is pledg’d equal to the credit given are sure, for, tho demands are made of the whole, the bank does not fail in payment. By the constitution of this bank [i.e. Law’s proposed “Land Bank”], the whole sum for which credit is given ought to remain there, to be ready as demand; yet a sum is lent by the managers for a stock to the lumbar, and ‘tis thought they lend great sums on other occasions, so far as they lend they add to the money, which brings profit to the country, by imploying more people, and extending trade; they add to the money to be lent, whereby it is easier borrowed, and at less use [cost]; and the bank has a benefit but the bank is less sure, and tho’ none suffer by it or are apprehensive of danger, its credit being good, yet if the whole demands were made, or demands greater than the remaining money, they could not all be satisfied, till the bank had called in what sums were lent.”*

Left uncontemplated are those banks that lend out more than they have brought in. This was for a time later….

gent and the Regent bit. “Letters patent were issued in the King’s name giving ‘Mr. Law and his Company’ a licence for twenty years for a ‘general bank’ with a right to issue banknotes under the name “bank crowns” (écus de banque).”

An IPO was announced. Subscribers could pay in “billets d’Etat”, discredited state obligations, held by the trades and intermediaries, effectively “paper money” trading at 40% discount to “cash”, which is to say precious metal. “Leading courtiers, and some of the terrorized bankers, bought shares to gain favour with the Palais-Royal.” Law went all-in. The King and the Regent also likely ponied up. Financing what amounted to a rudimentary central bank was a friends and family round.

The bank was an immediate success. A memoirist of the day wrote: “You entered an immense hall divided up into I don’t know how many counters, heaving with gold and silver. If you presented yourself with a banknote in hand there was a choice of gold or silver. If […] you preferred a note, you went to other offices where they gave you notes for your cash.” A broadsheet of the day, the Gazette de la Regence, soon grumbled that the bank was becoming “too successful”” and “monopolizing what little business there was.”

Banknote issuance soon ran four-times ahead of “cash” held in reserve. Money did what money does. Over the next few years the Paris economy boomed. “All the stage coaches and other settled carriages from Lyons, Bordeaux and the several provinces are stock-jobbed and passengers are made to pay treble the fare,” reported the Daily Courant. “Paris is full of an unheard-of mass of people. It is astonishing that the streets don’t run with piss,” an Englishwoman wrote her half-sister in Germany. “Viva Law!”, another observer wrote, “Not without reason for no monarch up to now, however powerful, has brought the public such immense riches and in no short time.” It is here that Buchan makes perhaps the only reference to parallels then and now: “[This issuance of banknotes] gives some idea of Law’s inflation of the money supply in France or, in the phrase of today, “quantitative easing.”

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Law is less-known for his Court-backed “general bank” even as it was this institution that made everything else possible. Rather, Law is known for the Mississippi Company, a venture that, were it not for the royal backing, would feel right at home on the TSX Venture Exchange.

The French had by this time made their way from Quebec down the great river to what is now Louisiana and over this territory, from the Great Lakes to the Gulf of Mexico, the Compagnie d”occidental was granted by the King the right to import “Canadian beaver furs” and “African slaves” and, importantly, would receive “a portion of the King’s excise revenue … to pay its shareholders’ dividends.” Additionally, the “company might raise troops, build warships, dig mines, dis-

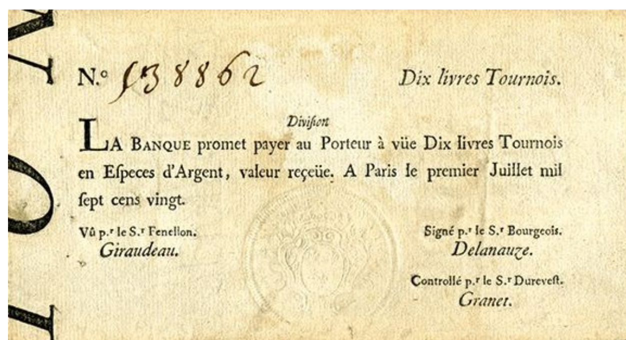

Figure 6: *A banknote for 10 Livres, issued in 1718. By 1720, production values had fallen distinctly.*

pose of land held in freehold, appoint judges and civil officers, enter treaties with American nations, and call on the help of the French Crown in case of interference or insult by other powers." In exchange for all this: not much. "[T]he company was required to transport to the territory 'six thousand whites and at least three thousand blacks' and build churches of the Roman Catholic faith and furnish them with clergy subject to the Bishop of Quebec."

As with the financing of the general bank, both the Regent and Law took down a slug. The Company would take depreciated bills d'etat as payment for shares. In the end, it was tightly-held stock. As Buchan writes: "A subscriber … exchanged a government IOU with an uncertain interest of 4% for the same thing constituted as a share, paying a 4% dividend, plus a claim on the Louisiana fur trade." In addition, the investor got "[T]he central territory of the United States that today produces trillions of dollars of value each year" for nothing. These favourable terms were driven "less to populate a new colony than to discharge the King's war debts and again make France creditworthy." It was all about washing the King's debt.

After a slow start, the shares took flight. And then, driven by an ever expanding money supply, kept going. And going. And going.

The King's purse was also burdened by perpetual annuities. These were obligations to the nobility and sundry well-heeled persons. At the time, the judiciary, the civil service and other elements of the State's apparatus were not vied for; instead, they were bought in exchange for perpetual payments passed down to offspring and so on. This was Social Security, circa 1719. The King wanted to wash these debts too.

Law proposed to lend the King the monies needed to buy these annuities out and in this way become the King's sole creditor. To finance the loan, he first thought to issue annuities himself. But so well were the shares of the Mississippi Company trading – they had a dividend yield of 1% at the time -- he instead opted to sell more shares in same. The King would pay him 3%. As compared to the 1% dividend yield, "[t]hat was an immediate profit," write Buchan. To backstop the proposition, the Regent granted permission to "issue another hundred thousand shares at 5000 livres each to raise a further 500 million livres. For good measure, a decree the next day allowed the bank to print 120 million livres in banknotes of 10,000 livres face value," this presumably to pay for the shares. The issue was 5x oversubscribed on the first day.

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We agree with Kelton that the Fed is poor at predicting inflation. Most of us are. If standard models overestimated inflation recently, as Kelton and many suggest, the very same models greatly underestimated inflation during the 1970's, when unemployment and inflation both soared, something that was not supposed to happen.

The skeptics, ourselves included, have also been poor at foreseeing monetary developments. The Fed's response to the Lehman crisis in 2008 and the consequent near-asymptotic growth of the Fed's balance sheet, had many of us predicting a pending inflationary apocalypse. That didn't happen. Then there is Japan, a country that has borrowed page after page from Law's monetary handbook for years now and seems no worse for the wear. Kelton is right: the tools for predicting inflation today are no more effective than the tools for predicting the weather in 1719.

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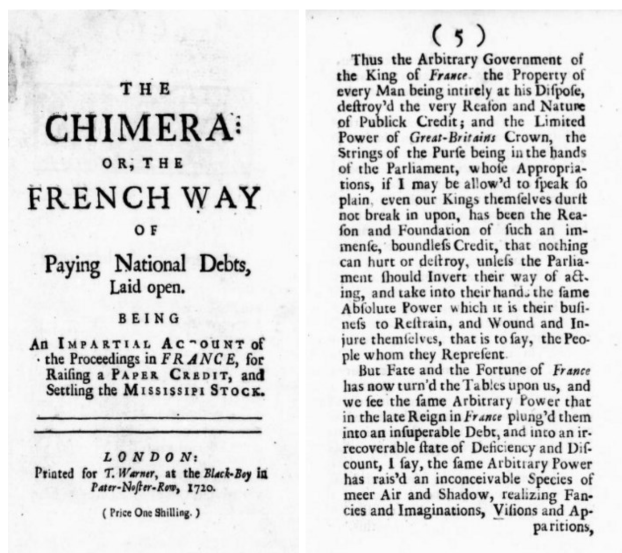
Law's basic business model was to lever the difference between his return on capital and his cost



THE
CHIMERA:
OR, THE
FRENCH WAY
OF
Paying National Debts,
Laid open.
BEING
An IMPARTIAL ACCOUNT of the Proceedings in FRANCE, for Raising a PAPER CREDIT, and Settling the MISSISSIPI STOCK.

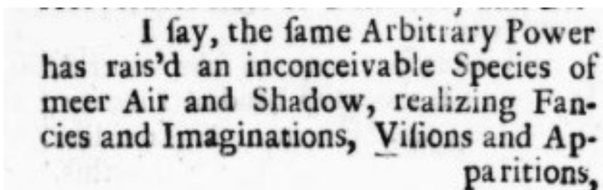
LONDON:
Printed for T. Warner, at the Black-Boy in Pater-Noster-Row, 1720.
(Price One Shilling.)

(5)

Thus the Arbitrary Government of the King of *France*. the Property of every Man being intirely at his Difpofe, deftroy'd the very Reafon and Nature of Publick Credit; and the Limited Power of *Great-Britains* Crown, the Strings of the Purfe being in the hands of the Parliament, whofe Appropriations, if I may be allow'd to fpeak fo plain, even our Kings themfelves durft not break in upon, has been the Reafon and Foundation of fuch an immenfe, boundlefs Credit, that nothing can hurt or deftroy, unlefs the Parliament fhould Invert their way of acting, and take into their hands the fame Abfolute Power which it is their bufinefs to Reftrain, and Wound and Injure themfelves, that is to fay, the People whom they Reprefent.

But Fate and the Fortune of *France* has now turn'd the Tables upon us, and we fee the fame Arbitrary Power that in the late Reign in *France* plung'd them into an infuperable Debt, and into an irrecoverable ftate of Deficiency and Difcount, I fay, the fame Arbitrary Power has rais'd an inconceivable Species of meer Air and Shadow, realizing Fancies and Imaginations, Vifions and Apparitions,

Figure 7: *Amidst the hysteria, there were still those that saw through the madness. Daniel Defoe, the English author, adventurer and pamphleteer who wrote a 70 page tract ripping into Law's scheme. "The Chimera, or, the French Way of Paying National Debts Laid Open — An Impartial Account" was published in 1720. A choice excerpt: "I say, the same Arbitrary Power has rais'd an inconceivable Species of meer Air and Shadow, realizing Fancies and Imaginations, Visions and Apparitions, and making the meer speculations of all Things, ..., and thus in a moment their Debts are all vanished, the Substance is answered by the Shadow; and the people of France are made the Instruments of putting the Cheat upon themselves." Who knew that the author of Robinson Crusoe was also the Hindenburg Research of his day?*



I fay, the fame Arbitrary Power has rais'd an inconceivable Species of meer Air and Shadow, realizing Fancies and Imaginations, Vifions and Apparitions,

of capital, the textbook crux of modern finance. The cost of capital part was doing swimmingly; being granted the King's printing press certainly helped to this end. At their peak, the market cap of the "Compagnie d'Occident" represented twice France's GDP, a feat that puts Apple to shame. Law needed to keep it that way, "so as to convert the King's annuities and sinecures as cheaply as possible."

Tolstoy quipped that all happy families are alike while every unhappy family is unhappy in its own way. The same might be said of credit bubbles.

The first hint that all might not be happy with this particular credit bubble came with a "concerted run on the bank" on November 29, 1719. Buchan suggests this may have been the result of Law's friendly dealings with the "Jacobite" crowd, an exile group that continued to challenge Britain's protestant throne. It was whispered that this set might be shorting the scheme. The bank run continued for another day. Measures were taken: On the third day, a Friday, "Law regained his calm, issuing in the King's name a decree stating all public payments must be made in banknotes." And on the following Monday, "Law set about squeezing the bears, devaluing the gold louis and silver crown and upvaluing the banknotes. Those who had cashed banknotes into silver at the bank [the previous week] faced an immediate loss." "Paper is today worth much more than silver", wrote a local diplomat. If this didn't get the message across, Law had an edict issued to ban the use of silver for transactions over 300 livres. Finally, at the annual meeting of the Mississippi Company on December 30, 1719, "to prevent abuses that may occur in the trading of the company shares", the directors proposed opening offices to buy and sell shares at the bank. The opening market in the new year was bid 9650 – 9700 livres offered.

And so it was: you had the *de facto* central bank buying the *de facto* stock market and doing so using banknotes printed out of thin air.

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The best thing about Kelton's book is you only have to read the first few chapters. Once you understand that the entire premise of her theory is backstopped by the fairy dust that is "monetary sovereignty" (chapter 1) and that the risk of inflation is apparently not worth a mention (chapter 2), everything else becomes a little redundant. But we ploughed through rest of it so you don't have to.

Chapters 3 and 4 explicitly make the case that debt doesn't matter and that indeed, debt is a good thing. Objections to the contrary are batted down. Won't foreign creditors such as China leverage their clout as such and impose terms? "China can't avoid holding dollar assets without wiping out its trade surplus with the United States." In other words, creditors *need* to remain creditors. Or: Will government issuance crowd out private

Figure 8: *How it all ended. Buchan's caption for this watercolour depicting people trying to cash in their banknotes at the Mint in Rennes: "Note the musketeers, just a single open cashier's window, and the dying man receiving the sacraments in the centre."*

investment? "MMT rejects the [this] theory, which is rooted in the idea that borrowing is limited by access to scarce financial resources. … This is inconsistent with how the modern financial system actually works."

The logic behind the objections is that we don't need private lenders at all. "Selling bonds to private investors gives the impression – illusion – that the government is dependent on savers for financing and that financial markets can force the government to borrow on terms set by private lenders." According to Kelton: "The US has many options when it comes to borrowing and managing its interest rate. […] It could dispense with Treasuries altogether." In fact, the world would be better off without the bond market: "Deficits push the overnight interest rate *down*. In a world without bonds sales […] deficits will drive the short term rates to zero. That's because deficit spending fills the banking system with excess reserves and a huge increase in the supply of reserves will push the federal funds rate to zero." The stigma remains, alas, and Kelton wants to do something about this as well: "If we're not going to eliminate Treasuries, then we must find a way to make peace with the national debt. Perhaps we should start by giving it another name."

The next chapter deals with trade deficits, which, like their budgetary counterpart, are also not a bad thing. Indeed, again, they are a good thing, for they provide developing countries the dollars they need to buy essential goods. "[W]e must recognize that the US government can supply all the dollars our domestic sector needs to reach full employment *and* it can supply all the dollars the rest of the world needs to build up their reserves and protect trade flows." In other words, Kelton wants to apply her medicine world-wide.

The title of chapter 6 is "You're Entitled!". Chapter 7 deals with the deficits Kelton thinks are important, namely, the climate deficit, the retirement deficit, the employment deficit, etc. The last chapter is called "Building an economy for the people."

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Buchan alludes to the Jacobite fifth column and how that might have sapped Law's mojo. He also details an Italian theater troupe mounted in the winter of 1720 a headline act whose main character is sent to Louisiana. In the prologue to the play, entitled Le diable d'Argent, "the Devil of Money praises his favourite, Folly." You also had Daniel Defoe write a scathing take of Law's scheme from across the channel: "The Chimera" — see figure 7. At the same time, the English were floating, in what amounted to a "closeology play", the other great bubble of the day, the South Sea company, which would have provided competition for the speculative dollar. It's never one thing and by the early months of 1720, tension was rising. Writes Buchan: "Law's liabilities, the shares and the banknotes, were destroying each other and him. The more shares the bank bought to support the price, the more banknotes passed into circulation, amounting to another $800m livres by the third week of February." Main Street began to feel as much. By late January, "the graziers at Poissy, the livestock market on the western outskirts of Paris, were refusing to accept banknotes and would not drive the cattle to market unless the city butchers were paid in coin."

To stem the tide, a further series of decrees were issued. The making of precious metal plate above a certain weight was proscribed on February 18th. Ten days later, all holdings of gold and silver of

Figure 7: *The rationale for the efforts of both Law and Kelton were to bolster the economy and improve the standards of living for the working class. Alas, the only winners in monetary experiments are those rich enough to take advantage of the speculative fervour and nimble enough to get out before it ends. In Law's case, the duc de Bourbon cashed out in timely fashion and used the proceeds to build The Great Stables at Chantily, a facility that could house"two hundred hunters, saddle and carriage horses and twenty-three carriages." Buchan continues: "John Law dreamed of a well-nourished working population and magazines of home and foreign goods. His monument is a cathedral to the horse."*

value greater than 500 livres were banned. More generally, "Law resolved that paper would have to be imposed and that precious metals stripped of their use as money. He needed the French to bring their gold and silver out of hiding and deposit it at the bank where it would provide a measure of backing to the banknotes and buy foreign currencies for trade. To that end he was ready to use every measure of the absolute government established by Louis XIV." Of course, these measures had the opposite of the intended effect. Wrote a sympathetic friend: "Law is just doing what he can to attract precious metal cash, but he has to contend with fear. People sense that he wants cash and for this reason they hoard it."

By mid-year there were riots; Law's carriage was destroyed by a mob and he was forced to seek refuge in the Court. Both the shares and the banknotes eventually went no-bid. Law was exiled and died in Italy, penniless, eight years later.

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In the end, people accept money at par because they have confidence they will get par back at some point in the future. That is, money is a confidence game, full-stop. You can't model this with any sort of predictive granularity. We've compared such a task to modelling tailings dams, where failure is caused by the adverse interaction of billions of individual particles all within the context of external influences: saturation, composition and overall design. A geotechnical engineer can spot a bad dam at distance, yet that does not mean he can pick the day it will fail and wipe out the communities downstream.

Needless to say, it only takes a layman to spot the similarities between the late-breath Louis XIV era and Western powers today: years of war, overstretched empires, a train-wreck of a balance sheet, extreme inequality & co-opted leadership – what Western head of government is not a regent in function, if not name, and beholden to interests and insecure in their positions? Following this, a wave of financialization, speculation and debasement.

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Law's contribution, like that of Nixon many years later, was to get rid of money you could bite and replace it with money you couldn't. This is the "ringing coin" that we have now become accustomed to and, indeed, the New Yorker review of Buchan's book is entitled "The Invention of Money." (The reviewer's takeaway is that Law was merely before his time.) But at least Law and Nixon left a market for money; that is, a mechanism to determine the *price* of money – is it cheap or is it dear? This provided some sense of orientation, some gauge that for par you'll get par back.

Kelton one-ups Law's effort by disposing of this pricing mechanism. Her worldview would see the rate-setting sovereign bond markets eliminated. No bid, no ask. Instead, the Treasury would be funded by means of an off-market, book entry transaction amongst friends at no stated rate. Bond vigilantes would have to find another line of work. Stripped of price, what attribute does money have left? If Law "invented money", Kelton now wants to make it disappear altogether.

It is easy to dismiss these views and most of you will. But it is of no small significance that Kelton's ideas are now seeping deeply into the groundwater of public discourse – at Jackson Hole, at the Canadian Ministry of Finance, at right-thinking dinner parties everywhere. That is, the most important thing about Kelton's book is not

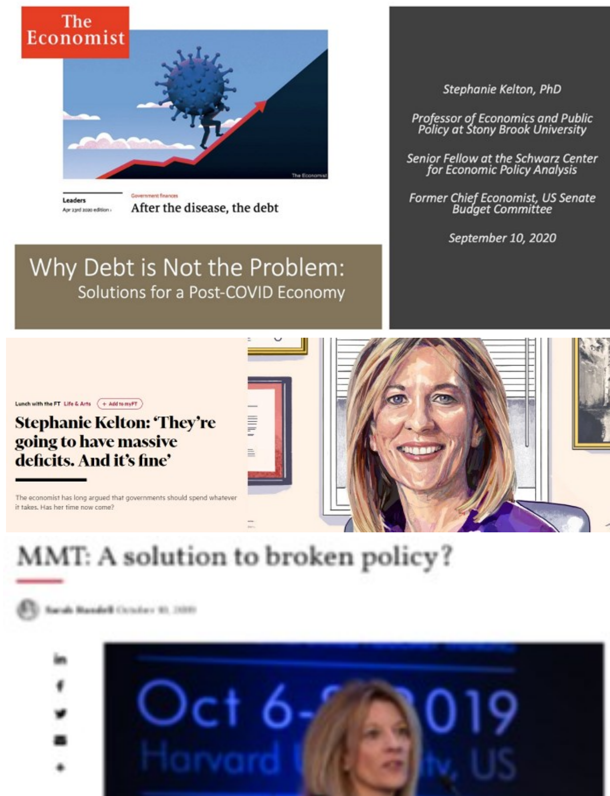

Figure 10: *Kelton is now everywhere. Getting on the NYT bestsellers list is the least of it, even for a book written by an economist (!) The professor is now a hot ticket on the speaker circuit. Who would have thought that the Economist would invite the voice of the left end of the progressive movement to speak on debt and deficits? The FT had Kelton in for a "Lunch With" feature. She's been featured in the New Yorker. And she now speaks at a variety of investment conferences; indeed, she is scheduled to speak at Grant's this coming fall. The ideas are now seeping into the popular consciousness. On the right we see a tweet by Ice Cube, a rapper with 5m Twitter followers carrying Kelton's message to a different set. These ideas are quickly becoming mainstream. Just as with Law, in times of trouble a horseman crests a hill and is welcomed into the village as a saviour.*

what's in it – "Money and Credit", written by the fugitive son of a goldsmith, a rounder, a gambler, a gift-of-gabber, makes a more substantive argument for credit than Kelton ever does – but rather that her book exists at all.

The book's ideas are by now laid out like a speaker's list laid between knife and fork on conference room linen. It's one thing to doubt; it's another to look about the room and see all those around you thinking the very same thing: *Will we* all *get par back for par?*

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Law first pitched his ideas to the Regent in 1716. The experiment ran its course over four short years. The current experiment in Western monetary spheres is by now almost 50 years-old. It's like time has slowed down.

There is but one moment in Kelton's book that betrays some sense of self-awareness. In the chapter on trade, she concedes that the status of US "monetary sovereignty" may one day change. "Nothing last forever," she says, and then goes one to quote fellow MMT economist L. Randell Wray: "[T]he dollar will not always reign supreme, but it has a lot of life remaining as the most desirable asset to hold in portfolios."

Maybe the current scheme lasts another fifty years or maybe it fails suddenly. Or maybe it just continues this same pattern of slo-mo disintegration that we now find ourselves amidst.

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