

“I am not master of events.”

John Law’s Bargains with Lord Londonderry, 1717–1729

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LARRY NEAL

Professor Emeritus of Economics

University of Illinois at Urbana-Champaign

Research Associate, NBER

Visiting Professor, London School of Economics

Visiting Kenneth L. Sokoloff Professor of Economic History, UCLA

ABSTRACT

The risk-managing strategies of Lord Londonderry, second son of Thomas “Diamond” Pitt, during the financial boom and bust of the Mississippi and South Sea Bubbles demonstrate how risk takers can lay off their bets along several dimensions – time (forward markets), space (foreign exchange), and orthogonal (political favors). By contrast, John Law – his mentor, counterparty, and eventual defaulter – managed to fail on each account. Tracing the speculations of each man through a detailed examination of the ultimate contract between them made in August 1719 reveals how each man attempted to lay off the risks he assumed. Ultimately, Law lost over £500,000 by the end of August 1720 while Londonderry gained little. Nevertheless, the work out arranged between them and their respective agents demonstrates the rational calculations of each man in more than financial terms, and possibly restores some of their respective reputations.

“I am sorry you lost money by my advice, but I did the same thing myself and
I am not master of events.”

John Law, letter to M. Hippolyte Mary at Genoa, 24 May 1721.
Bibliothèque Méjanès, Aix-en-Provence, Ms. 355.

Introduction

The connection between the Mississippi and South Sea bubbles during the years 1719 and 1720 may seem obvious. Not only were they close in terms of both time and space, but the speculative fervor they exhibited keeps re-occurring time and again. Attempts by contemporaries, and especially by later analysts to explain the underlying logic of each “episode” (to use the descriptor favored by psychologists for displays of mental disorders) were, and are, met with disbelief or even derision. Overcoming the aversion to rational explanations of each episode, individually and jointly, may be a fool’s errand but my early efforts have elicited supportive work by other scholars in recent years. Closer examination of the quantitative evidence left in the price currents and in occasional business accounts of the times by modern finance analysts lends some credibility to the idea that even these early, informal, unregulated, and ill-organized securities markets performed their job of “price discovery” in a reasonable fashion.¹ In short, my earlier assessment that the entire affair “appears to be a tale less about the perpetual folly of mankind and more about the continual difficulties of the adjustments of financial markets to an array of innovations” (Neal, 1990, p. 90) holds up, despite recent attempts to ridicule it.²

This paper tries to supplement these quantitative exercises with a more qualitative approach by appraising the actions of two of the most discredited speculators of the Mississippi and South bubbles. John Law was the guiding genius of the Mississippi Bubble and its collapse, responsible for making the word “banque” anathema in France for the rest of the eighteenth century. Thomas Pitt, Jr. (Lord Londonderry) was blamed for dissipating the Pitt family fortune

and thus forcing his nephew (William Pitt, the elder) and great-nephew (William Pitt, the younger) to turn their talents to politics. John Law was depicted as a spider weaving his web of deception to entrap innocent workers in 1721³ and most recently as “the financial wizard [who] seduced the Regent with his blueprint for France.”⁴ Lord Camelford, one of Lord Londonderry’s great-nephews, remembered him as ‘a man of no character and of parts that were calculated only for the knavery of business, in which he over-reached others, & at last himself.’⁵

Using archival evidence that for good reason has remained untapped by earlier scholars, I trace the interactions between these two individuals, starting with the end of the War of the Spanish Succession (in which both prospered from their respective calculations of risks), continuing with the eventual sale of the Pitt Diamond (*Diamant du Régence*) by Thomas Pitt, Jr. to John Law in 1717, culminating with the forward contract between the two on English East India Company shares in August 1710, and concluding with the agreements to cover their respective losses worked out over the years 1721-23. As most of the archival evidence used comes from the materials left by Lord Londonderry for the use of his lawyers in dealing with the numerous lawsuits he had to deal with and which continued to arise after his death in 1729 until at least 1752, Londonderry’s reputation emerges most enhanced, but a more nuanced appreciation of John Law’s abilities and character arises as well.

The Dogs of War and War Profiteers

Historians have found it difficult to track John Law’s movements and activity during the War of the Spanish Succession (1702-1713). At the outset, he was likely back in Scotland after having escaped from prison in London in late 1694 and making his way variously to Amsterdam and Paris. His classic work on Money and Trade was published in 1705. The Act of Union with England and Wales in 1707, however, forced him to leave again for the Continent. According to

Earl Hamilton (1668) he likely made a fortune by dealing in foreign exchange and remittances to the British and Austrian forces in Spain at some point, no doubt using the facilities of the Casa di San Giorgio in Genoa. At the conclusion of the War of the Spanish Succession, however, he returned to Amsterdam after a brief visit in Turin, opened a large account in the Wisselbank, and proceeded to make more money on both the Amsterdam exchange and on the London exchange. In Amsterdam he advertised a proposal to insure lottery ticket holders against drawing blanks, and in London he opened a joint account in George Middleton's goldsmith bank with Lord Ilay for the purpose of dealing in English Lottery Tickets and the initial issue of South Sea subscriptions in 1711.⁶ In 1713, the Scottish merchant John Drummond wrote to the Duke of Portland recommending Law highly for service in the British government, if only he could get a pardon for the crime of killing one Edmund "Beau" Wilson in 1694.⁷ Failing to get appreciation for his talents from the British government, Law presented himself to the Duke of Orleans in Paris at the time of Louis XIV's death in the fall of 1715.

Meanwhile, Thomas Pitt, Jr. was serving in the British forces in Spain during the War of the Spanish Succession. He was Captain of dragoons in the regiment commanded by Major-General Thomas Pepper, part of the English army led by Lieutenant-General James Stanhope in the campaign of 1710.⁸ This ended in December 1710 with Stanhope's defeat at Brihuega and the surrender of his army to the Spanish army led by the French General Vendôme. According to the DNB, "[Stanhope] secured capitulation terms as favourable as possible to his men, and for the next eighteen months was kept a prisoner of war in Spain. The humiliation at Brihuega was a huge personal disaster for Stanhope." During that time, Thomas Pitt, Jr. loll'd in Barcelona with the rest of Stanhope's forces who had been released on terms that they not be re-armed while Stanhope served as hostage. From the documents remaining in the National Archives,⁹ it appears that Pitt, Jr. spent his time drinking and playing cards at a local pub. The cash ledger he kept of

his daily ginning and gaming indicates that he became a steady winner after a few weeks of initial small losses. More interesting is the variety of bonds he took from various fellow soldiers, who all pledged various small sums in case of a promotion, wedding, or some other fortunate event to be paid back. These are all designed as gambling chits, however, not as obligation notes, although those may have been written as well.

Later on, after his return to England, Pitt organized the claims of his fellow soldiers for back pay they were owed by their commanding officer, Major-General Thomas Pepper, some of which had been pledged to him.¹⁰ Meanwhile, he sent encouraging notes to General Stanhope, keeping him informed of the negotiations for peace treaty and the possibility of the Stanhope's release. These efforts bore fruit shortly after Stanhope's return to England in August 1712 as he shortly thereafter married Pitt, Jr.'s loveliest sister, Lucy, on February 24, 1713. Part of the marriage contract included an indenture whereby Thomas "Diamond" Pitt, Sr. and Thomas Pitt, Jr. bought and transferred the Chevening estate to James Stanhope.

The same year that Louis XIV died and Law arrived in Paris, 1715, Thomas Pitt, Jr. distinguished himself in the battle of Preston (November 9-14, 1715) against the Jacobite uprising, and was rewarded with officer rank as Colonel. His military exploits, plus his gaming instincts, not to mention his diligence in keeping good accounts, made him easily his father's favorite son. Quickly he showed a talent for making money on his own, especially in the emerging stock market in London, and for handling his father's affairs when Governor Pitt left London to take pleasure in any of his several country estates. When Thomas Pitt, Sr. was appointed to be Governor of Jamaica in 1716, he initiated several trading ventures to the Caribbean and his son, now Colonel Thomas Pitt, Jr., managed some of them on his own, establishing long-term contacts with merchants in the Caribbean. The letter written by "Your Affectionate Father" to Londonderry at the time shows clearly that Thomas Pitt, Jr., not yet Lord

Londonderry, had become the manager of the Pitt family fortune, a role he maintained thereafter.¹¹ In particular, he was given explicit instructions on handling the sale of the great diamond, which included showing a paste replica to potential buyers.

For reasons not clear yet, Governor Pitt delayed departure to Jamaica again and again, each time asking for firmer assurances of military and naval support from the Board of Trade, which took their time in responding. It seems safe to presume that he was anxiously awaiting the outcome of his son's efforts to dispose of the diamond at an appropriate price. When he declined the position definitively at the end of summer 1717, the reason then was clearly the successful sale of his great diamond at last, this time to the Regent of France, the Duke of Orléans. The evidence from the Londonderry papers shows clearly that the payments for the diamond were made by John Law, first from his Banque Générale and then from his Banque Royale over the years 1717 through 1719.

All That Glitters

The Regent Diamond is one of the storied diamonds of the world, 140.5 carats of flawless white, cushion-cut diamond on display at the Louvre Museum in Paris. There, it sparkles beside the coronation crown that Louis XV wore in 1722. (The paste sample is displayed in the crown to show its original location.) Later, Napoleon Bonaparte had the diamond set in the hilt of the sword he carried when he crowned himself emperor of France in 1804. It is one of only three of the French crown jewels displayed in the Louvre today; the rest were sold at auction in 1887.¹² While governor of the Madras station of the East India Company, Thomas Pitt had bought the raw diamond from an Indian diamond dealer, who had acquired it from the Golconda mining district. In the rough, it weighed 426 carats, and Governor Pitt sent it back to London with his

older son, Robert Pitt, in 1702 to be cut into as large and flawless a diamond as possible from the huge stone.

It was his younger son, Thomas Pitt, Jr., however, who carried out the actual sale of the diamond to the Regent of France for Governor Pitt. According to the deposition made by Governor Pitt in his defense against a lawsuit entered against him by the executors of the bankrupt and deceased goldsmith banker, Stephen Evance, in 1718,

“ [Pitt] Says that great Diamond was not sold in this Kingdom but several years after Sr. Stephen’s Death was sold at Paris for French money payable at 5 payments and believes the same was worth the money it was sold for and that it was sold by Defendants’s son the Lord Londonderry to the Crown of France for 2 million of livres French money¹³ and no more, payable as follows (vizt.) 720,000 livres part thereof upon the 1 June 1717 N. S., 320,000 livres on the 1 December N. S. then next 320,000 livres on the 1 June following 320,000 livres upon the 1st December and 320,000 livres residue on the 1 June 1719.”

Source: National Archives C110/28, p. 4, answer of 13 June 1723.

As a reward for his success in arranging the payment of the huge sum paid for the diamond, Thomas junior took a 10 percent commission for his service in arranging the sale, amounting to £10,000. (Governor Pitt believed in treating his businessman son with strict fairness, but with precise instructions capable of legal enforcement—not the gentlest father, but an effective instructor making up for the lost apprenticeship in Amsterdam he had recommended for his second son while still in India.)¹⁴

Colonel Thomas Pitt, Jr. now found more profitable ways to invest his new-found wealth than had occurred to his older brother, Robert Pitt, who had brought the great diamond back to London originally and disposed freely of the many smaller diamonds that resulted from the tedious and lengthy cutting of the stone. Already accustomed to dealing in options on South Sea stock with stockbrokers in Exchange Alley in London, Pitt, Jr. was quickly drawn into the emerging investment opportunities then being created by John Law in Paris. With each

installment of the payments on the diamond made by Law, Thomas Jr. was able to catch the rising values in the joint stocks being offered by Law, first in his Banque Générale, then in his Compagnie de l'Ouest, and finally in his greatest creation, the Compagnie des Indes, better known at the Mississippi Company. Shortly after, he became one of the first “millionaires” in England, a term coined to describe the new-found wealth of the inside investors in the financial schemes of John Law.

Flush then with more wealth than his older brother Robert, Thomas Pitt, Jr. returned to England, married well to the daughter of a deceased Irish earl, bought her father's Irish title along with his Irish estates and became the first (English) Earl of Londonderry. The Chevening estate was purchased for the benefit of James and Lucy (née Pitt) Stanhope, and the Boconnoc estate in Cornwall was purchased for the pleasure of Thomas Pitt, Sr. Trouble came, however, when one of the final payments for the diamond in the form of a bill of exchange drawn on merchants in Hamburg was returned protested in July 1719. Governor Pitt had sent it directly to his favorite wine merchant in Bordeaux, Robert de Kater, to cover his expansive order of fine French wines to equip his various cellars in his Pall Mall mansion in London, and his country estates of Vale Royal, Swallowfield, and Boconnoc. Outraged, the governor sent his favorite son, now Lord Londonderry, to Paris to confront John Law and demand payment in full.¹⁵

Londonderry arrived in Paris this time as a person of great distinction, son of the greatest diamond merchant in Europe, brother-in-law of James Stanhope, the leading minister of Great Britain, and a titled peer as well. It was only fitting that the British ambassador, the Scottish Earl of Stair, along with the Scottish Lord Ilay, as well as the Scottish financier and French banker John Law, should invite him to dinner. At this dinner in late August 1719, as reported in the state correspondence of the ambassador, Lord Stair, John Law reportedly went berserk at the impudence of Lord Londonderry, who may have just repeated verbatim the harsh language his

father had instructed him to use in demanding full payment for the diamond. The protested bill of exchange was for less than £10,000 of the £135,000 price of the diamond, after all, and it was just part of the final installment. Moreover, Law at this point in his career was just beginning to enlarge his Mississippi Company to take over the royal taxes, the mint, and the tobacco monopoly of France, to complete his total control of the financial system of the wealthiest kingdom in Europe. According to Stair's account,

Mr. Law . . . in all his discourse, pretends that he will set France higher than ever she was before, and put her in a condition to give the law to all Europe; that he can ruin the trade and credit of England and Holland, whenever he pleases; that he can break, whenever he has a mind our East India Company. He said publicly, the other day at this own table, when Lord Londonderry was present, that there was but one great kingdom in Europe and one great town, and that was France and Paris. He told Pitt that he would bring down our East India stock, and entered into articles with him to sell him at twelve months hence hundred thousand pounds of stock, at 11 percent under the present current price. You may imagine what we have to apprehend from a man of this temper, who makes no scruple such views, and who will have all the power and all the credit at this court.¹⁶

The Bet of the Bubbles

The ultimate outcome of this “bet of the bubbles” was disastrous for Law—the closing price for £100 of East India Company stock on August 25, 1720, was £340, almost double the £180 at which he had agreed to sell. This implied a loss of £160,000 if the bargain had been settled with cash. Instead, the wager was settled by actual transfers of stock, most of which had been purchased earlier at even higher prices, a total of £372,762 and 10 shillings by his agent's account.¹⁷ In fact, two other wagers made at the same time for an additional £75,000 of East India stock meant that Law was personally responsible for paying out £541,043 and 6 shillings to Londonderry by the end of 1720.¹⁸

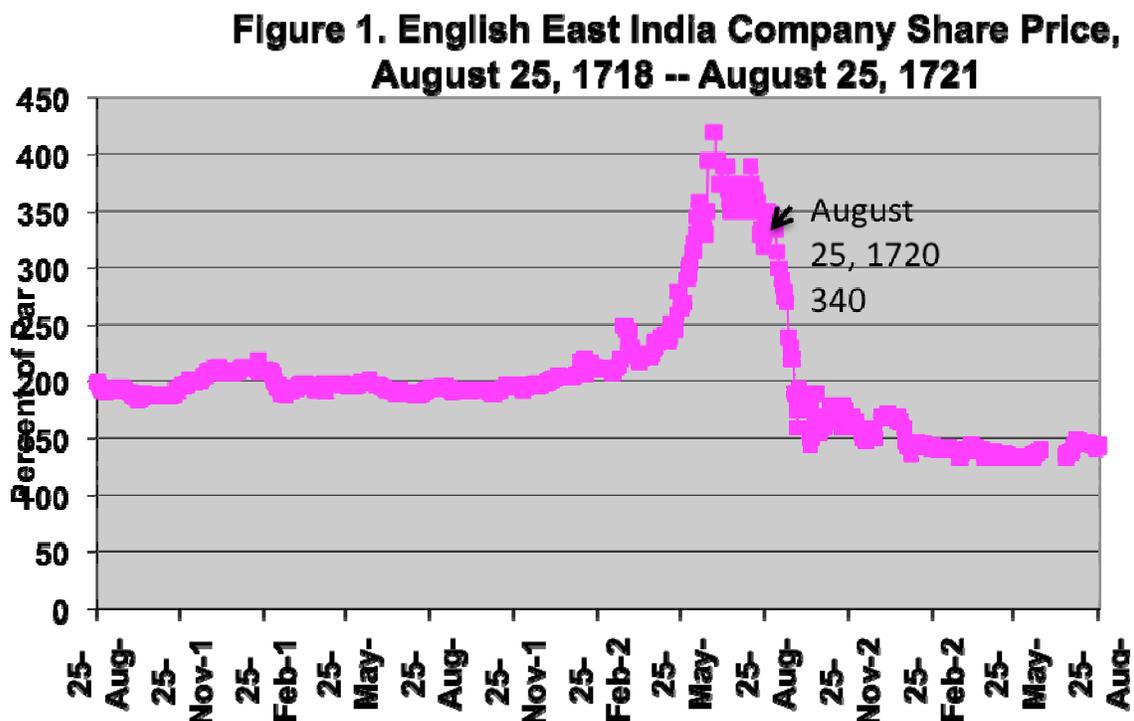
Was the Law-Londonderry Contract Rational?

Why did Law initiate this wager in the first place? From the Londonderry papers, it now appears to have been an easy way to satisfy Londonderry's claim for final payment on the diamond. Characteristic of Law's private betting stratagems was to wager large sums on outcomes that he knew had low probability of occurring, and this may have been another example.¹⁹ On Law's motive in this particular case, we have as hard evidence only the official dispatch of the British ambassador to France. At the time of the bet, which was formalized in September 1719,²⁰ Law was in the midst of his major funding operations on the Paris Bourse. At the time of the bet, in short, Law was creating the Mississippi Bubble. So perhaps it was mere hubris, as expressed in Lord Stair's report to London. Supporting this hypothesis is that Joseph Gage, not mentioned in Stair's dispatch, was also at the dinner. Gage's entry in the Dictionary of National Biography describes him as one of the most flamboyant of the English speculators who descended on Paris to ride the bubble being created by John Law's increasing control over French finances. Perhaps to curry more favor with John Law and get more insider information on the master financier's next ploy, Gage bet another £50,000 with Londonderry on the same terms, selling East India stock at 180 percent of par on August 25, 1720, and then he added another bet of £25,000 East India stock at 173 percent of par for delivery in November 1720.

Undercutting that interpretation, perhaps, is the fact never reported officially or in the press of the day, but clearly documented in the Londonderry papers, that Lord Stair took a share of the additional contracts made between Londonderry and Joseph Gage. Gage, no doubt, was showing his confidence in John Law, and probably just adding more pressure on the presumption of the young upstart, Londonderry, who was 33 years old at the time. Stair intervened at this stage to take up one-third of the two bets by Gage that £50,000 East India stock would fall over 10% by August 25, 1720 and even further below 180 in November 1720. These bets went

beyond simply settling an overdue payment on the diamond, and may have been no more than drunken bravado by all four men. The extensive documentation in Londonderry's papers following up the resolution of each bargain, however, is compelling evidence that there was serious substance to each contract.

The motives of Law, Londonderry, Gage and Stair for such contracts at this critical stage in the construction of Law's system are still impenetrable at this lapse of time, but it is clear that all four had profited considerably already by the rise in share values in Paris, the ongoing result of Law's success in reforming French state finances. It also seems clear that none of the four anticipated anything similar occurring in London, so the expectation was that East India stock would remain within 10% of its market price over the following year, just as it had over the preceding year. On that basis, all four could, and did profit from the ensuing rise in value of Law's *Compagnie des Indes*, the Mississippi bubble that began immediately in Paris.



To see the situation with respect to the English East India Company at that time, Figure 1 plots the close of day spot price for EIC stock on the London exchange daily from August 26, 1718 (a year before the date of the contract) to August 25, 1721 (a year after the strike date of the contract). It is evident that little change had occurred in the price of EIC stock over the past year, even while Law was constructing the various parts of his financial system. On this basis, a call option on the Law-Londonderry contract could have been priced rationally by today's financial engineers using the Black-Scholes model at £23 per share, or £23,000 in total.²¹ This easily satisfied Londonderry's claim of £10,000 with 5% interest. Note that this is merely illustrative of the value of the contract to Londonderry, as he did not have a call option on Law, and never sold a call option on himself for the contract. Instead, he was committed to pay £180 per share to Law for all 1000 shares at August 25, 1720. Note also that when the share price of EIC stock became more volatile in 1720, the value of a call option rose sharply, due to the increased price volatility of the underlying stock. Even without the Black-Scholes model at hand, however, Londonderry had no hesitation in accepting the offer. Most likely, Londonderry saw this as a way to satisfy his irritable father, while cementing an ongoing close relationship with the most accomplished financier of the time, and making a lot of money for himself as well.

In the event, Londonderry immediately began to lay off shares in his part of the wager with Law, just as Stair had helped him counter the follow up wager by Joseph Gage. While still in Paris, he sold £10,000 to William Lock, an active stockjobber in Exchange Alley and one of the speculators drawn to Paris by Law's manipulations of French finances at the same price of 180 percent of par, receiving £600 from Lock who was eager to get part of the action. Upon his return to London, Londonderry agreed with another stockjobber in Exchange Alley, John Herring, to sell him another £10,000 of East India stock, but this time at a higher price than would be paid to John Law – 13 percent more, for £19,389:10.²² In quick order, he put his father

in for another £10,000, then his father's friend and a Director of the East India Company, Edward Harrison, for an additional £20,000, and a cousin, George M. Pitt, for a final £10,000. In this way, Londonderry was taking premia from a wide range of partners who would commit as well to buy part of the 1000 shares of EIC stock at the end of August 1720. The only risk he was taking for himself, and on behalf of his partners, was that Law would not be able to deliver the shares in question when the contract fell due. This was counterparty risk, but on a counterparty who was increasingly the richest man in Europe, as well as the most powerful political figure in the largest kingdom of Europe.

By March 1720, when prices in London were starting to rise and the South Sea bubble was beginning to expand, Londonderry felt compelled to ask Law for another £10,000 deposit, as the terms of the contract in September had specified (Law to put in £10,000 additional deposit each time the price of EIC stock rose 10% above the strike price of 180 and Londonderry to put in another £10,000 each time it fell 10% below 180). Moreover, Law's system in Paris was beginning to unravel, and the first sign of exchange controls were appearing, so the £40,000 Law had put in deposit in the Banque Royale to Londonderry's credit was in jeopardy. Further, Londonderry contacted his father's diamond merchant correspondent in Amsterdam, Bernard vander Grift, to see if he could sell another £10,000 of the contract to investors in Amsterdam. In the end, vanderGrift did sell the £10,000 for delivery at end of August for a 30% markup over the 180 contract price. By this time, the tremors of the South Sea bubble and the pressures on Law's system in Paris were beginning to show up in the volatility of the share prices of London companies, including the EIC. If today's finance wizards were to re-calculate the call option on the Law-Londonderry contract on March 25, with only six months to the strike date, they would price the call option at £74 a share, or £74,000 in all. Londonderry had no difficulty in selling off parts of his contract at ever increasing prices over the strike price of 180. All in all, £95,000 of

the £175,000 East India contracts that Londonderry had signed up for in Paris at the end of August 1719 had been contracted out by the end of March. The other participants did not fare nearly as well, not taking the sensible precautions that Londonderry had.

Lord Stair, on the verge of being recalled as ambassador due to his increased hostility toward Law in February, 1720, asked Londonderry if he could be released from the contract by remitting the value of his part of the bargains to Londonderry. Londonderry agreed, and Lord Stair attempted to remit by bills of change drawn in Paris on Andries Pels and Sons, the leading merchant banker in Amsterdam at the time. Unfortunately, he chose to do this just as Law's May decrees took effect, first reducing the nominal value of both *Banque Royale* bank notes and shares in the *Compagnie des Indes*, to restore their real value, and then reversing the decree shortly afterwards. Whatever was the intended effect, the actual effect was to disrupt entirely the payments system between France and the rest of Europe. Consequently, Pels refused to accept the notes, and Londonderry was left with responsibility for the £25,000 originally taken by Stair.²³

Joseph Gage, one of the most profligate English speculators heavily engaged in the Mississippi bubble along with Lady Mary Herbert, daughter of the Duke of Powis, was able to convince John Law to take over his bargains with Londonderry. That meant that Law was committed to deliver £150,000, rather than £100,000, of East India stock on August 25, 1720, and another £25,000 on November 25, 1720. Londonderry countered this maneuver by Gage with a series of negotiations, culminating with a commitment by Lady Mary Herbert to purchase shares Londonderry held in the *Compagnie des Indes* for delivery in mid-1720. The contract, of course, was never fulfilled and Londonderry was left with substantial holdings blocked by dint of the exchange controls imposed by John Law and his successors. To get more guarantees from Gage that he would fulfill his side of the contract, Londonderry even had a bond from Lady Mary

Herbert that promised to pay him in pound sterling a substantial sum upon her marriage, presumably to Joseph Gage, her constant consort. This, among other similar contracts, may be why the two never married!²⁴

Law's motives in making the contract in the first place remain a mystery. The initial payments for the diamond had been made in notes of the Banque Générale. In December 1718, however, the affairs of that initial bank were wound up and it was rechartered as the Banque Royale. The notes of the new bank were fixed in terms of the legal unit of account, the *livre tournois*, instead of the specie value of the French circulating coins as had been the case with the Banque Générale. This change allowed Law to issue many more notes in support of his successive takeovers of the existing French monopolies by his Compagnie des Indes in May 1719.²⁵ The use of credits standing to the account of various merchants in Europe who had received the old notes in payment may be why Law resorted to foreign bills of exchange to make the final payments on the Pitt diamond in the summer of 1719. Faced with a protested bill of exchange returned ultimately from Hamburg, he needed to turn to another form of payment and Londonderry was under instructions from his father to get payment in specie. This may be why Law turned to an attractive speculative expedient to offer to Londonderry. As events unfolded, however, Law apparently resorted to more desperate measures to bring down the East India Company and salvage his tottering system in Paris. Taking up the £75,000 contract from Gage was the exact opposite of Londonderry's strategy of laying off as much of the contract as he could do prudently. At the same time Law took up Gage's contract upon his name, his system in France was collapsing around him and the prices of all stocks in London were running at historically unprecedented levels. It may well be that many of the increasingly erratic maneuvers he made up to July 1720, when the *Compagnie des Indes* was declared bankrupt, were attempts to salvage something from the financial commitments he had made with such powerful political

figures in Britain. Clearly, he did not want Londonderry, well-known among English investors then in France, to withdraw his funds from Paris, which might have been sufficient reason on grounds of public policy for Law to make the bargain.

But in the context of the disputed payment for the diamond, Law may have had a personal motive as well. If the price of East India Company stock stayed undisturbed by developments in France, as it had for the past year, then Law's side of the contract would simply mean paying off the final £10,000 with a bonus of £1,000. It is interesting that, of all the fantastic devices deployed by Law to sustain his new system of finance in France over the following year, this bet with Londonderry was the only one for which he claimed personal responsibility. All the others, he claimed, were done in his official capacity as Comptroller Général of royal finances, so were the responsibility of the king of France. With this contract, however, some of the most influential political figures in Great Britain now had a serious stake in seeing him continue to do well, both in his reform of French finances and in his personal finances. In a word, Law may have been hedging his own fate against the risk that his gamble with reforming French finances would not succeed. If it did not, as a recently arrived foreigner, his very life would be in danger as he would be the obvious scapegoat if things went wrong.

One clue in support of this admittedly speculative hypothesis is that Lord Islay, also present at the dinner when the contract was agreed upon, apparently took no part in the financial bargains. But his political and personal connection with Law went back to their joint venture in South Sea subscriptions in 1711 and to Law's proposal for a land bank in Scotland before that. Further, through Law's mother, Jean Campbell, Lord Islay (Archibald Campbell) was at least a distant relative. Later, as the third Duke of Argyll, he was essentially the ruler of Scotland and the titular head of the Royal Bank of Scotland when it was founded in 1727. Already confident of the continued political support of Lord Islay, then, Law may have struck on the huge bet with

Lords Stair and Londonderry to enlarge his potential base of political support in Britain if his financial adventure went awry. In short, his daring financial ploy was in fact a political hedge.

By April 1720, the Mississippi Bubble was starting to collapse, while the South Sea Bubble was just beginning to take off. Lord Stair's conflict with John Law had escalated to the point that Londonderry's brother-in-law, Lord Stanhope, had to come to Paris personally to recall the ambassador. Stair, in winding up his affairs in Paris, had to ask Londonderry to take back his share of the bargain with Law. Londonderry did this willingly, as another bubble was occurring in East India Company shares at the time. Immediately, Londonderry laid off this new £50,000 wager to Lord Chandos, but now at a 25 percent mark-up over the price he had agreed to pay Law. (Chandos had been eager to participate in Law's Mississippi Bubble at the outset, but had been rebuffed repeatedly by Law. As both had been engaged in supplying British forces during the War of the Spanish Succession, it is possible that Law was bearing some grudge from that period.)

As the East India Company share prices continued to rise on the London stock exchange, Londonderry sold off other parts of his wager, the main one a forward sale in the Amsterdam stock exchange at a 50 percent mark-up. By June 1720, well before the contract dates of August 25 and November 25, Londonderry informed both Joseph Gage and John Law by letter that he had sold off all of his contracts with them, the entire £150,000. Having done so, however, he was now obliged to deliver stock or difference money to his counterparties, which would be done very profitably, but only if either Gage or Law delivered their stocks or differences in case. By this time, John Law was so heavily embroiled in trying to rescue his System that he had turned over his personal finances to his brother, William Law, who had joined him in Paris in 1719. To both Joseph Gage and to William Law then, Londonderry addressed letters on June 20, 1720. In

each case, he informed them that to settle with his counterparties who had taken part of his side of the bargain, he needed their payments on their side of the bargain, basically by accepting the bills of exchange in Paris that he had drawn on them.²⁶

At this point, it is clear that Londonderry's political connections were paying off for him in the pecuniary sphere. He, as well as both his father and older brother were members of Parliament, and his brother-in-law was effectively the Prime Minister of Great Britain in charge of affairs with northern Europe, especially France. Stanhope's actions in supporting John Law in his attempts to sustain the finances of France were surely helpful to Londonderry as he managed his, and his family's, finances. Consequently, Londonderry was in an excellent position to exercise political influence over the course of events and to be the first to learn of new political developments. In particular, he was able to compare the opportunities for speculative profits that the South Sea Company was now preparing to offer in London, in blatant imitation of the apparent success of Law's Mississippi bubble through January 1720.

And now, the South Sea Bubble

Taking advantage of these political connections, Londonderry was able not only to deal immediately with Lord Chandos on the East India Company bargain with Law, but also to get in on the ground floor of a new stock issue in the Royal African Company that Chandos was organizing. Subscribing for new shares for himself and his nearest family members, Londonderry was able to buy in at £9 a share and to sell almost immediately at £45 a share in the public offering. The Royal African Company expected to profit from the success of the South Sea Company by procuring for it the slaves that the South Sea Company was bound to deliver each year to Spanish America. Ultimately, its share prices collapsed along with those of the South Sea Company, but Londonderry and his family had sold out well in advance.²⁷

At the same time, Londonderry was able to get Chandos and a wide circle of financial investors in both Paris and London to subscribe to shares in yet another “bubble company,” which he formed on his own—the Bahamas Company. Lord Stanhope, in fact, encouraged him to do so as a counterweight to the excessive influence then being exercised in political circles by the directors of the South Sea Company. Presumably, exploitation of the Bahamas islands with slaves provided by the Royal African Company would generate enormous profits for the initial shareholders.²⁸

Unfortunately for Londonderry, the personal dimension of risk-taking in this emerging financial market was not so easily controlled. His experience with the Mississippi Company in Paris had taught him to be cautious about riding the various bubbles. Much of January and early February, 1720 was spent in Paris trying to offload his holdings in various issues of securities by the *Compagnie des Indes* that he had acquired in previous years. That experience, plus his mounting irritation with Joseph Gage and the financial straits of Lord Stair, made him less than enthusiastic about the initial fervor of the South Sea Company. His father, however, saw this as another opportunity to make money and regretted now having let Londonderry invest more for him in Paris. Londonderry only entered the South Sea mania on the Third Subscription, and then only on behalf of various members of his family, including his sister, Lady Stanhope, and his older brother, Robert Pitt, who had declared his allegiance to the Tory party in defiance of his father and two brothers, all firm adherents to the Whig party.

The fourth and final subscription to new shares in the South Sea Company occurred in June 1720, and Londonderry’s circle of family and friends forced him to take up a major bloc of this subscription. Londonderry’s own dealings in South Sea stock had been minor to non-existent up to this point. June, 1720, however, marked the final surge of speculative enthusiasm for South Sea Company shares and demand for a piece of the action was overwhelming.

Londonderry and the entire Pitt family were caught in the final collapse of the bubble, and were left holding shares worth much less than they had paid. Supposedly, this was the cause of the decline of the Pitt diamond fortune. Even here, however, Londonderry had sold the bulk of his family's holdings of South Sea subscriptions in late June, when the transfer books of the South Sea Company were closed to sort out the thousands of subscriptions that had come in within the space of a few weeks, for delivery in October 24, 1720, when the books would be open. The price was 540 percent of par, well below the last spot price quoted before the books closed. The bargain was made with one of the most reputable stockjobber partnerships in Exchange Alley, Mitford and Mertins, so once again Londonderry had hedged his positions in a risky security on behalf of his family who had insisted on getting in on the action now in London, having missed most of it in Paris.²⁹

Alas for all concerned, Mitford and Mertins found that they could not meet their obligations when the transfer books of the South Sea opened and the price immediately began to plummet far below 540. They declared themselves bankrupt. Londonderry was forced to enter Exchange Alley himself, to find in public outcry what price he could get for the shares, given that his counterparty could not appear, being out of business. He sold at the ruling price, around 300, a huge loss that seemed to undo his always irritable and paranoid father. But worse was to come, because it now appeared that George Middleton, Law's goldsmith banker in London who was handling the London side of John Law's stock market manipulations, had not received payment due from Law or from his brother, William Law. Londonderry wrote to his friend in Paris to whom he had given his power of attorney for his French dealings:

Draft of Letter to Crawford, London November 7, 1720

"I received the favor of yours by last mail dated the 24th inst. N.S. but suppose it should have been the 12th, I wish the steps you mention to have been made or making in France may prove well, and for our friends advantage and security. I am sure I have a great deal of reason to wish it, for my Engagements at his desire and on his acct., are very large, as must

be. G. M. who is joined with me, and the last two mails from Amsterdam of the 8th & 12th inst. N. S. brings me an account of Mr. Mouchard's inability to pay all his acceptances drawn on him by G. M., notwithstanding a supply of cash came to him within this fortnight, but complains not so large by a good deal as necessary & expected and not sufficient by a good deal as necessary to answer all his acceptances on acct. of Mr. L., and against the G. M. bills accepted I have drawn bills, so must expect them to be returned protested on us, and the best method that either of us can propose to do in this great misfortune, is to give effects by way of security, for money tis impossible at this time to get, having already drained our credit to pay for the stock delivered, and for payments of others since, to whom G. M. had given his notes payable at a certain time which is past due. Therefore I hope to God Mr. L. will not lose a minute to send a fresh supply, for I shall be on the rack until I hear tis done, and nothing prevents my coming by this packet to France, but the engagements I am under, that people may not say I am disappeared. Pray on sight of this go and represent it in the strongest light you can to the proper person, and beg him to exert himself and consider our cases, for the apprehensions of the bills being returned I own distracts me.

Your two bills on me in favour of Mr. Salladin dated Nov. 2d. N.S. viz. £300 and £51:11:1 I have accepted and tho my losses here on acct. of South Sea are too great, yet I can bear it very well, provided I meet with no disappointments otherways, for this general calamity don't only affect us in what is actually lost, but in all that remains, unless it be in Land or in an Iron Chest in cash, which I can't say mine is in either.

There certainly must be a great deal of money here belonging to French people (against cash) bills certainly might be procured, if you only appeared in it and pray propose it and let me have your answer by next post without fail with all particulars. I am Dear Crawford, Yours most sincerely, Londonderry.

P. S. If you get bills to send, let them be (if possible) at sight or at as few days as you can. In my last I told you Mr. Gage's actions in your hands must not be returned him, until he has satisfied Mr. Law in all the India bargains, for they must remain, for his security if Gage be in his debt.

I shall not fail in mentioning you in the best manner to Ld. S.

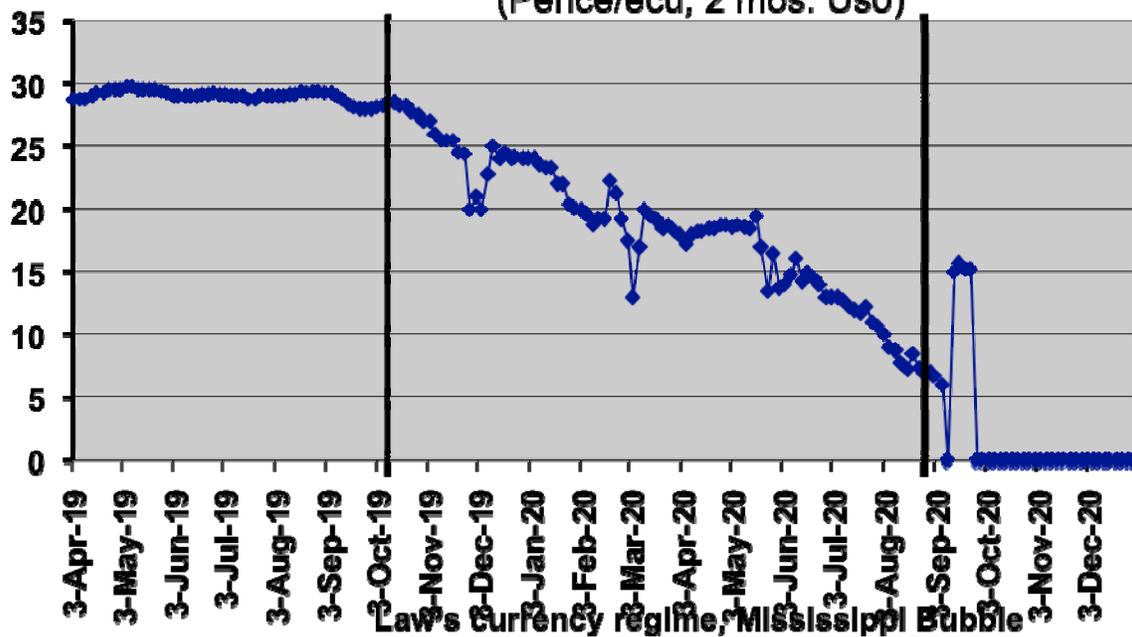
Source: National Archives, C108/417/, uncatalogued.

The East India Contract Workout

In the event, Londonderry did travel to Paris to confront Law, creating precisely the rumors he had feared would arise. Until then, it had appeared that the East India Company bargain was definitely a boon to Londonderry's fortunes, given that the delivery date was August 25, 1720, and prices did not collapse until October. The problem of counterparty risk arose here to an even greater extent than in the South Sea deal with Mitford and Mertins. The amounts involved were much larger, and Londonderry had committed to sell shares of the stock, in turn, to his circle of fellow speculators. The gains of these speculators were so appealing that they

insisted upon receiving their shares or the differences in payment from Londonderry. The differences by August 25 were huge. As Londonderry explained to Law, “you have lost greatly, but I have gained little.”³⁰

Figure 2. London/Paris exchange rate over Law's forward contract with Londonderry (Pence/ecu, 2 mos. Uso)



Law’s attempts to acquire the shares necessary to pay off Londonderry had kept the share prices of East India Company stock up, even relative to the prices of South Sea shares, during July and August 1720. There were many bubbles going on in the stock markets of 1720! Meanwhile, John Law’s attempts to keep his Mississippi Company afloat in France had disrupted the payments system between France and the rest of Europe. (See Figure 2.) Londonderry could not get Law to transfer resources to him in London, and he could not repatriate his own assets from either France or Holland. Ultimately, Londonderry went to Paris himself in late November 1720 to bring his political influence to bear on Law, but, by the time he arrived, Law had already fled the country in political disgrace and in fear of his life. Law could not pay up for the bulk of his contract, and Londonderry was left holding the bag. Moreover, Law’s hangers-on then

renege on their commitment to purchase Londonderry's shares in the Compagnie des Indes. Londonderry returned to London, determined to exercise his political influence, as best he could, to retrieve the situation.

Meanwhile, his father was indulging in one of his typical rages against the incompetence of his son, and his older brother Robert was pleading with him to help cover up Robert's role in the emerging scandal of the collapse of the South Sea share prices. The House of Lords was sitting in judgment of the directors of the South Sea Company and their payoffs to various members of Parliament. Londonderry sent a cousin to Amsterdam to find out what dealings Law had there. Upon learning that Law was making his way overland toward Venice and perhaps Rome, Londonderry dispatched one of his military officers to track down Law in Venice.

Personal Problems Take Precedence

Then a series of personal disasters befell Londonderry and the Pitt family. First, Lord Stanhope died suddenly in February 1721, putting an end to the political influence that Londonderry could exercise both in London and in Paris. Moreover, within the year, his beloved sister Lucy, now the widow of Stanhope, died after giving birth to twins. Shaken by this unending string of family tragedies, the family patriarch, Governor "Diamond" Pitt, died. All this left Londonderry with an overwhelming set of personal responsibilities. He had to manage the affairs of his sister as one of the executors of Stanhope's estate; then he had to care, as trustee, for the many Stanhope children; and then he had to deal with the settlement of his father's several estates after his death. Subject to recriminations on all sides, Londonderry nevertheless remained resolute in pursuing his further fortune and to resolve his commitments as best he could. A draft letter, presumably to his aggrieved father, in 1721 offers his most eloquent defense:

“I was very sorry and surprised to find by the receipt of yours that all your ill luck in the South Sea will be always remembered, and your good luck forgot. You have Sir, so often spoke to me on that subject, and I have so often made the same answers, that tis needless to trouble you with endeavoring to justify myself now. I only take the liberty to mention this, that I don’t remember that I either bought or sold for you in the whole affair, but 15000£ of your money on what now is not worth 5000 (you was always advised when I did anything for you, and what, but remember no objections you made, until the calamity came) and [against?] that on one article, (I mean the 10000£ India I concerned you in) you have got near £15000 without being a farthing out of pocket. I wish I had no more reason to complain. I dare swear Mr. VanderGrift has excused himself out of necessity and not out of jealousy and want of faith. Notwithstanding your manner of speaking sometimes that I had undone you and myself, which had I not had a very good foundation, would have put me out of chance of retrieving in any measure and it has given me that caution not to try my credit to borrow until things are better cleared up.

Source: C108/420/6, letter to “Honourable Sir”, December 30, 1721.

In the midst of this array of family troubles, however, Londonderry persisted in his surveillance of John Law. These efforts finally paid off as he persuaded Law to return to England in the fall of 1721. There, Law and Londonderry attempted to use the influence of the leading Whig politicians in Britain to retrieve Law’s position in France, both his financial and political powers. Law was presented to George I by Lords Islay and Londonderry to receive again a royal pardon for his killing of Edmund “Beau” Wilson in 1694. The ultimate object for Londonderry, of course, was to pay off his creditors, and to protect the fortunes of his family.

In this effort, Londonderry largely succeeded. He did this by getting all his creditors to agree to share in Law’s holdings of Mississippi shares in Paris as their part of the series of bargains he had made with them while laying off his own bet with Law. This indenture, finally signed and sealed in midsummer 1722, was to Law’s advantage as well. It put the political power of Britain behind his own efforts to restore his position in France, and it kept him safe from debtor’s prison in England.³¹

By the fall of 1723, it appeared that these efforts were finally going to pay off. The Duke of Orléans had maintained his influence over the policies of Louis XV even after the coronation, and Law’s chief rival, who had replaced him after his departure, had died. Alas, while Law was

in Antwerp anticipating his recall to the court of France, the Duke of Orléans had the misfortune to die, collapsing in the arms of his 18-year-old mistress. Law did not return to England, but continued his journey on to Venice. There he spent the rest of his days, gambling and writing to his numerous correspondents throughout Europe, all the while under the watchful eyes of both the French and the British consuls. The British Resident, Colonel Elizeus Burgess, reported regularly to Lord Londonderry as well as to his official superiors. The debt of Law to Londonderry, and to Londonderry's partners, was never paid off, as far as we know. Moreover, Londonderry's holdings of Mississippi stock were finally paid off at less than one-tenth their original value, as the French authorities in the Visa of 1723 essentially expropriated all foreigners' holdings.³²

All was not lost for Londonderry, however. With his remaining political connections, he managed to obtain command of a regiment, based in northern Scotland, which was charged with the duty of guarding the Scottish coast against smugglers, mostly the local gentry. His Irish estates began to pay off, and wood cutting from his Wiltshire estate showed a steady, if small, profit. But his older brother Robert, bitter at being forced to share in the losses of the family after the collapse of the South Sea Bubble, sued Londonderry and his other siblings, claiming that as the oldest son he, not Londonderry, should inherit the governor's estates. Knowing that Robert would treat the Stanhope children as badly as he had all his younger siblings throughout his life, Londonderry and the remaining Pitt children all fought back, successfully. So successful were they, in fact, that Robert Pitt died suddenly in 1726, apparently of frustration and chagrin, leaving Londonderry in charge of Robert's minor children, who included the future Prime Minister, William Pitt. Plagued by continuing lawsuits from the other nephew over the family estates and from one of his former partners in the Law bargain, who was certain that Londonderry and Law had settled their affair with an exchange of diamonds, not to mention the mounting expenses of

educating all these children, Londonderry finally got an opportunity to retrieve his fortunes through his continued political influence in the Whig party.³³

Robert Walpole gave him the official position of governor of the Leeward Islands, with the responsibility to make those minor colonies of Britain a paying proposition. This could be interpreted then as either a prize or a banishment to exile, but Londonderry chose to take it as a prize. In 1728 he set off eagerly and with high hopes to take possession of his new domain in the New World. He recovered from the usual bout of tropical diseases that every European visitor to the Caribbean has to endure, what was termed “seasoning” in those days. After a year in Antigua, however, Londonderry caught a second round of illness. He died in September 1729, not yet having learned of the earlier death that year of John Law in Venice. This brings down the final curtain on the efforts of my hero at managing the various slings and arrows of outrageous fortune that confronted him throughout his brief, but eventful, life.

Lessons

Londonderry’s personal legacy seems inconsequential now— both his sons died without children. However, one of his nephews founded a political dynasty, another helped found the British Museum, the magnificent estate of Chevening is still used as the official residence of the British Foreign Minister, and, there is that diamond. And I believe we can learn a great deal from following his actions through the rise and fall of the first emerging financial market. Even then, Londonderry knew the importance of hedging his risky contracts for future performance, and as a veteran soldier he knew well the uncertainties of the world. He was given awesome responsibilities as a young man by his father, one of the most irascible and ill-tempered merchants of the time. From him, however, Londonderry learned the importance of legal contracts, precise accounts, and accurate instructions. He put these to good use in a wide variety of contracts that all, really, stemmed from his father consigning the Great Diamond and its

payment to his care. By selling forward both in the Paris and London markets the securities he had contracted for, and received in payment for diamonds sold or goods traded, he anticipated better than his counterparties the risks they took. When his counterparties failed, he followed the wise advice of his mentor in Amsterdam, the diamond merchant Bernard van der Grint, and tried to keep his debtor solvent, but under his control, in order to reconstitute his lost portfolio.

When that stratagem fell to the vagaries of French politics once again (the recall of John Law to Paris by the Duke of Orléans and then the death of the Duke), Londonderry ensconced himself within the Whig party and the Scottish friends and patrons of Law. These provided him a steady source of funds for the Scottish regiment that the Duke of Argyll's intervention had provided him, funds that were disbursed through the bank of George Middleton. Finally, Robert Walpole, no great friend of Stanhope or his family, relented to provide him the Governorship of the Leeward Islands, an assignment he took up happily. It meant that he could turn to a profit now some of the business dealings he had first contracted when his father had been appointed Governor of Jamaica. Unfortunately for his historical image, he died there with a contested will and an unhappy wife. Fortunately for later historians, his lawyers maintained his accounts, letters, and memorandum in abundance to give us personal insights into the adventures of the Mississippi and South Sea bubbles.

John Law's travails did not end with his departure from Paris in December 1720. Harassed at the border with the Austrian Netherlands at Valenciennes by the French officials despite his passport from the Duc de Bourbon, and then in Brussels by merchants demanding payment for the lace they had sent to France on his promise to pay, he continued on to Augsburg and over the Alps into Venice. Writing to Londonderry in January 1721, he apologized for missing him in Paris, but claimed he was eager to settle his account with both Londonderry and George Middleton, his banker in London. Explaining in detail his financial situation and the

means he could suggest to satisfy the claims of Londonderry on him, he was clearly eager now to take advantage of the friendly terms Londonderry was offering.³⁴ These included not only arranging for a fresh pardon from George I to replace the one Londonderry had obtained for him earlier, but which Law had given to the Regent as proof of his commitment to France when he became Comptroller General, but also housing accommodation in Lady Stanhope's London mansion. Writing to his long-time confidant and protector, Lord Ilay, about the arguments tendered by Londonderry, Law asked for his advice, and then took it to return to England at the end of 1721. While the terms of his arrangement with Londonderry and Londonderry's partners reduced his debt to £90,000, he relied on their influence with the court of France to set aside enough stock in the Compagnie des Indes to cover this debt. On his death bed in Venice, he further drew up a last will to put these French assets into the possession of his common-law wife, Katherine Knollys. While this act was taken as an effort to deny the claims of his creditors, it could also be taken as a last ditch attempt to satisfy his debts to Londonderry and Middleton.³⁵

Reflecting on the fate of the System that he had erected in France, imposing within a space of a very few years the financial innovations that had arisen in England and the Netherlands over the past century, Law wrote to the Marquis de Lassay from Venice that the political weakness of the Regent was responsible for undoing all that he had accomplished. "I begin to fear that the Regent does not realize the benefit of the system and I doubt that he is resolute enough to support it. I say isn't it extraordinary that the Regent has forgotten the level he was reduced to by the financier and what state he would be in now if I had not worked."³⁶ Resisting offers from Russia and Bavaria to come to their aid and restore their respective public finances, Law resolved never to deal in public affairs again, especially as a foreigner under a politically weak ruler. Failing to get the Regent to resume his personal support in France after the summer of 1720, observing the failure of Londonderry and Ilay to obtain satisfaction for their

claims on French securities, and finally failing to get political support from Walpole to resume his role in France, Law retired to Italy, the one place in Europe where he was free from harassment by creditors. There, the representatives of France, Great Britain, and Lord Londonderry kept him company and under close watch until his death in Venice, April 1729. His gravestone, now in the nave of the Church of San Moise in Venice, could simply read, "I am not master of events."

¹ See Gary Shea, “Financial Market Analysis Can Go Mad (in the Search for Irrational Behaviour,” *Economic History Review*, 60:4 (November 2007), pp. 742-65; and “Understanding Financial Derivatives during the South Sea Bubble: The Case of the South Sea Subscription Shares,” *Oxford Economic Papers*, 59:1 (October 2007), pp. i73-104; and Anne S. Murphy, “Trading Options before Black-Scholes: A Study of the Market in Late Seventeenth Century London,” *Economic History Review*, forthcoming.

² See Richard Dale, *The First Crash: Lessons from the South Sea Bubble*. Princeton, NJ: Princeton University Press, 2004.

³ *Het Groote Tafereel der Dwaasheid* (Great Mirror of Follies), Muller 61, “De Opkomst, Midden, en Geen Eynde van den Doortrapte Jan Lauw,” Amsterdam, 1721. <http://ids.lib.harvard.edu/ids/view/1280518?buttons=y&returnurl=http://library.hbs.edu/hc&caption=Historical+Collections,+Baker+Library,+Harvard+Business+School>.

⁴ “How the French invented subprime in 1719,” James Macdonald, in *Financial Times*, March 7, 2007, p. 17.

⁵ Lord Camelford, *Family Characters and Anecdotes*, 1781, cited in *Oxford Dictionary of National Biography* entry for Londonderry.

⁶ Coutts Archives, Ledgers 1712-1714.

⁷ Earl J. Hamilton, “John Law of Lauriston: Banker, Gamester, Merchant, Chief?” *American Economic Review*, 57 (May 1967), pp. 273-82.

⁸ This period of Lord Londonderry’s life is omitted entirely from his entry in the *Oxford Dictionary of National Biography*.

⁹ C108/423/1, Cash Book in Spain, 1709-1712.

¹⁰ C108/423/1, “An Acct. of Debts & Demands due to T Pitt, Junr. London July 22, 1715” summarizing his claims on arrears from Maj.-Gen. Pepper’s Regiment in Spain, totaling £19,600.

¹¹ “Son Thos. Pitt

It being my fate as well as choice to travel in the 64th year of my age from some uneasiness given me by ungrateful (to say no more) people in my family, I do leave the chief management of all my estate to you, tho’ I have in my letter of attorney joined W. Stanhope & Mr. Wm. Chapple with you, Mr. Stanhope & you to have the keeping of the great stone & nothing be done in the disposal of it, but by his advice & to embrace the first fair opportunity for the disposal thereof, & in case you are commanded abroad or mortality (which god forbid) then you are to leave my concerns with Mr. Wm. Chapple till I shall give further orders about them. It is with no small regret that I can’t trust your older brother Robert Pitt to whom I consigned when in India a great estate who spent to a farthing & by his negligence gave opportunities for others to do the same & suffered my accounts to be so embarrassed that I am prejudiced very much by it in my estate. I hope for better from you, & that you’ll keep up my accounts & send them me every six months & look after everything carefully, & not do as your brother who lost me several sums for want of asking for.” [C108/419/13] (Note: William Stanhope was at best a cousin of James Stanhope, an MP, and son-in-law of the Deputy-Governor of the South Sea Company, John Rudge.)

¹². George G. Blakey, *The Diamond* (New York, 1977), p. 268.

¹³ At sight exchange rate, June 1, 1717 (47.38 d per French crown of 3 l.t.) 2 million livres Tournois equaled £131,597.22. In turn, this equaled £17,564,396 in retail prices of 2007 in Great Britain. Lawrence H. Officer, "Purchasing Power of British Pounds from 1264 to 2007." MeasuringWorth.com, 2008.

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¹⁴ As shown in his detailed instructions to his son on sending him to Paris to effect the sale of the Great Diamond:

"Pall Mall April 13, 1717

You having lately received a letter that encourages you going to France to negotiate the affair of the selling the great Diamond which weighs 547 carats a complete brilliant in which I desire you to use your utmost endeavours to effect, & doubt not but you'll get as much as you can for it, yet I would not have you accept of less than one hundred thousand guineas clear to me, tho' tis a much less sum than ever I thought to accept of, but having waited many years & finding the disposition of affairs in England not such as I hoped for, has made me take this resolution & whereas formerly you told me they were inclined to pay half ready money upon delivery of the jewel & the other moiety to be secured by depositing diamonds to be delivered as shall be agreed on, with interest, which I shall willingly consent to, but take great care that you make a firm & positive bargain, that so we may have no manner of disputes afterwards & if you cannot bring them to give guineas which I hope you will (the sum formerly was one hundred & ten thousand) I leave to you to accept of one hundred thousand pounds sterling. I desire to hear as often from you as you can: we wish you a good voyage & a safe return to.....Your most affectionate father, Thos. Pitt."

¹⁵ #10 To Mr. Dekater, Aug 13, 1719 (London)

"My Father Governor Pitt have sent me from the country your letters with the bills protested enclosed in them, with his orders to examine into it, and then to write to you accordingly I have spoke to Mr. Law, he excuses himself from the loss, by reason of the Kings Edict on that head, I have considered it myself and have consulted with others, and as yet tis dubious to me whether the loss must be the Drawers Remitters, or on whom the bills are drawn, when that is fixed, you'll have remittances accordingly."

C108/418 pt. 2/24, Letter book of Lord Londonderry, Letter #10.

¹⁶ Great Britain, *Miscellaneous State Papers* (London, 1778), 2: 593, as cited in Claude-Frédéric Lévy, *Capitalistes et pouvoir au siècle des lumières*, t. 3: *La monarchie buissonnière, 1718-1723* (Paris, 1980), 235n161.

¹⁷ Middleton's Account of India Shares Bought on Behalf of John Law in 1720.

<u>Date</u>	<u>Amount</u>	<u>Price</u>	
<u>Price at</u>			<u>Paid close</u>
July			
4	£15,000	395	395
7	3,000	395	375
.....	2,000	390	375
21	10,000	360	365

August	28	.....	5,000	370	370
	2	.....	6,500	362	1/2
365					
	4	.....	9,500	350	350
	9	.....	1,000	390	390
	10	.....	3,000	375	375
	11	.....	5,000	385	370
	12	.....	3,000	375	363
		.....	3,000	370	363
	15	.....	5,000	370	370
	16	.....	29,000	370	360
Total		.....	£100,000	£372,762.5	
£368,305					

Source: Coutts & Co. Archives, Letter Book O14, f. 335.

¹⁸ British Museum, Add. MS 36152. The total loss to Law in prices of 2007 amounted to £71,819,720.75. Lawrence H. Officer, "Purchasing Power of British Pounds from 1264 to 2007." *MeasuringWorth.com*, 2008.

¹⁹ Earl J. Hamilton, "'John Law of Lauriston: Banker, Gamester, Merchant, Chief?'" *American Economic Review*, 57 (May 1967), pp. 273-82.

²⁰ BM, Add. Ms. 36,152, f. 203, gives the terms of the initial bargain between Londonderry and Law:

"By Contract, in Writing, mutually executed at Paris in August 1719, between John Law, Esq.; and Thomas late Earl of Londonderry, the said John Law agreed to sell to the said Earl 100,000 l. English East-India Stock at 180 l. per Cent. to be transferred to him or his Order, on the 25th of August 1720. and it was agreed that each Party should deposit 40,000 l. as a Security for the Performance of the said Contract, and that 10,000 l. more should be deposited by Mr. Law on every rise of the stock 10 l. per Cent. and 10,000 l. by the said Earl on every Fall of the stock 10 l. per Cent."

Related materials by Londonderry are in C108/419/13.

²¹ Calculated on <http://www.blobek.com/black-scholes.html>.

²² BL, Add'l Mss. 36,152, f. 203.

²³ Stair never did pay off his share of the bargains to Londonderry, who put part of it with Law's London banker, George Middleton. After Stair's death in 1747, his son and executor, John Dalrymple discovered the note still owing to Middleton on the Law account. Because the son was then married to Mary, Middleton's daughter, he paid the note to Coutts, which briefly re-opened the long-closed account with Law to accept the payment. Scotland PRO.

²⁴ See entries on both Joseph Gage and Lady Mary Herbert in *Oxford Dictionary of National Biography*, by G. Martin Murphy. Londonderry's extensive dealings with both are not mentioned.

²⁵ See Table 4.1, Issues of Notes by the Banque Royale from December 1718 to April 1720, Neal, *Rise of financial capitalism*, p. 69. The first major increase in note issue by Law occurred in July 1719, which doubled his outstanding notes from 160 to 380 million livres.

²⁶ **Mr. Joseph Gage at Paris, June 20, 1720**

This day 20,000£ India being made up at 332 1/2 or at most 333 Per Cent, the difference you'll find amounts to above 30,000£ sterling. I having sold it as I advised you before at 235 percent, I shall tomorrow be obliged to pay a difference

at least £20,000 sterling without a penny of yours to do it, for your bills being at 2 usance they are of no present use to me, for they can't be well discounted here, Mr. Darcy being no settled banker here and he refused to discount himself. I believe Mr. Darcy will inform you that the difference had been much greater, at least 10 or 15 percent if I had not sold to keep the stock down. by next post we shall send a certificate of this price signed by two sworn brokers and by Mr. Darcy and Mr. Middleton and at my request my Lord Stair has promised them to write to you that he thought it just and reasonable for me to draw on you and that he has determined to accordingly; therefore I make no doubt but you'll honour my bill of this date on you at 3 days date for £10,000 sterling at 14 3/4 per Crown is 488135:12 tournois and by next post you shall have a stated account of the difference of this parcel of Stock and I'll then draw on you for the little that shall remain.

If Mr. Law has taken this India bargain off your hands he'll doubtless indemnify you, but my drawing was absolute necessity to enable me to pay the difference I am tied for. I applied myself to Mr. Darcy to do it for you or at least to take my bills on you because of the lowness of the exchange, but he declining it obliged me to do as I have done, and he was witness at my agreeing for the bills.

To William Law, June 20, 1720

I had done myself the honour to have answered yours of the 12th inst., N. S. sooner had not Mr. Middleton advised me to defer it, by reason he expected a messenger from Paris, which when arrived, he told me that by next post I should receive a letter from Your Brother with his commands, and which I expect by every post. I wonder he won't be persuaded to make up his India affair far before the 25 of August it may come up to 500, Or 600 on account of some new schemes they have, whether they be well-grounded or not, people are become so mad for, and fond of new schemes here, that it will certainly run the stock up high. I do affirm to you I have no interest one way or the other having sold my Interest in all these bargains, and should be glad to be serviceable in this or any other affair to you or Mr. Law here.

There was £20,000 Stock Mr. Gage sold made up this day at 332 1/2 or 3 per cent. I may venture to say I prevented its being at least 350 or 60 by selling a little out knowing money was very scarce and if 10,000£ or 20,000 was ordered to be bought up and sold out just before the difference should be made up, if Mr. Law intends to make it up, I am sure it would save him a great deal of money.

(C108/418/24, Letter book of Lord Londonderry, January 3, 1718/19 to June 23, 1720)

²⁷ See C108/423/10, Notes on stock purchases by Londonderry for various persons.

²⁸ See C108/415/2, Accounts and papers of the Bahamas Company.

²⁹ “Memorandum of some S. Sea Stock bought & sold in 1720”

LHS

1720

March 29	To 1000 £ South Sea at 300 pct. bought	£3200
31	To lent on Stock for a month at 6 pct. Capt. Franks	£3000
April 14	To lent Henry Frankland Esq. for 15 days at 5 pct.	3000
	To 2000 £ South Sea bought at 313 pct.	6260
	To 5000 Ram bought for June 5 at 12 1/2 pct.	625
	To 7000 African Subscription subscribed for pd. 9 pct.	630
	To £1000 South Sea at 352 1/2 pct.	3525
	To £2000 Ditto at 375 pct.	7500
21	To 3000£ Ditto at 435 pct.	13050

RHS

April 29	By sold to Mr. Pulteney and transferred to Mr. Gumley £1000 South Sea at 350 £ pct.	3500
	By received £3000 lent on Stock March 31 with the interest	3180
31	By received £3000 lent Mr. Frankland April 14 with interest	3150
	By sold the 2000£ South Sea at 350 pct. to Dr. Portland	7000
	By sold the £5000 Ram at 17 1/2 pct.	875
	By sold the 7000 African Subscription at sundry prices, the whole amounting to	3140
	By sold £1000 South Sea at 370 pct.	3700
21	By 2000 £ South Sea a 450 for the shutting	9000
21	By 3000 Ditto at Ditto for Ditto	13500

Source: C108/419.

³⁰ PRO C 108/423, fo. 164, Letter of Londonderry to John Law, November 3, 1720.³¹ A rough draft of Law’s memorial regarding the indenture and left with Londonderry when he departed London in 1723 reads:

The Several Answer of John Law, Esq. One of the Defendants to the bill of Complaint of William Lock Esq. and John Herring Esq., Complainants.

“This defendant saving and reserving to himself now and at all times hereafter all and all manner of benefit and advantage of exception to the uncertainties and insufficiencies in the Complainants said bill of Complaint contained for answer thereunto or unto so much thereof as this defendant is advised is material or effectual in the Law for him this defendant to make answer unto. He answereth and saith that he this defendant doth not know or believe that he ever pretended he was possessed of a considerable quantity of English East India stock; but this defendant doth believe and admit that sometime in or about the month of August in the year of our Lord 1719 he this defendant was in Company at Paris with the Right Honourable Thomas Lord Londonderry in the said bill of Complaint named for another defendant and in conversation with him this defendant agreed to sell to the said Lord Londonderry 100,000 lib. England East India Stock at the rate or price of 180 per cent to be transferred to the said Lord Londonderry or his order on or before the 25 day of August 1720. And the agreement between this defendant and the said Lord Londonderry for the sale of the said £100,000 English East India Stock to the said Lord Londonderry as aforesaid was reduced into writing, and as this defendant believes was mutually signed between this defendant and the said Lord Londonderry but this defendant hath not such

writing or any part of it, or any such copy of it in his custody and therefore his defendant for his greater certainty craves leave to refer himself to such writing when the same shall be produced, and this defendant saith as to any agreement between the said Lord Londonderry and the Complainant or either of them or any other person or persons for the purchase of all or any part of the said £100,000 East India stock the said defendant was neither directly or indirectly privy to the same, and therefore cannot set forth the same otherwise than the same is recited in an indenture hereafter mentioned. And this defendant doth believe the said Lord Londonderry sometime in the year 1719 at Paris made contract with Mr. Gage in the said bill named for the purchase of 75,000 libras English East India stock viz. 50000 libs. at 180 percent to be delivered on or before the 25 August 1720 & 25,000 libras. to be delivered sometime in November following. And the defendant did after the making such contract by the said Mr. Gage agree to stand in the place of the said Mr. Gage as to the said Contract, and likewise as to some other contract made by said Mr. Gage at or about the said time, for which this Defendant received of the said Mr. Gage a considerable sum of money and in pursuance of said agreement with said Mr. Gage this defendant did advise Mr. George Middleton his agent in London therewith either by himself or by Mr. William Law this defendant's brother on this defendant's behalf and did give the said Middleton orders to buy in stock or to make up the difference of the whole or any part of the said 75,000£ stock as well as the 100,000 £ stock sold by the defendant to the said Lord Londonderry in the manner he the said Middleton should think proper and most for this defendant's benefit at or any time before the day of delivery came, but as this defendant has not the copy of such letters he craves leave to refer to the same. And this defendant saith that he this Defendant engaged as aforesaid for the sale of so large quantities of East India stock as aforesaid. Yet this defendant at the time of making such agreement had none of the said stock and when the said agreement became due (as he this defendant is informed by his Agent Mr. Middleton) this defendant had 50,000 £ of the said stock which had been bought by the said Middleton or by his directions and delivered to the said Lord Londonderry or his order in full performance of the contract with Mr. Gage for 50,000£ stock and the said contract delivered up. And this defendant further saith that he believes that the indenture mentioned in the said bill of Complaint, or a draught of it was read over before the engrossing of it, and some time after when it was Engrossed it was again read over at the time of executing it, and before it was executed. And this defendant must suppose that an account of the difference due to the respective parties concerned were settled between them respectively and the said Lord Londonderry the sums being specified particularly in the Indenture, to which he begs leave to refer, it being left in the hands of Edward Harrison Esq. and this Defendant saith that on account of the aforesaid bargain for English East India Stock over and above what he sold the said stock for, and the 96,000£ for which his bond and judgment is given he had paid 237,000£ or thereabouts but cannot set forth the particular remittances Sum (or receipt if any given) which is required by the Complainant's said bill but craves leave to refer to his agent Mr. Middleton for the same. And this defendant saith that he was so far from making use of any false suggestions or misrepresentations to induce the Complainants or any of the parties to execute the said indenture, that he is ready & willing it should be laid aside, and that he the said defendant be put in the same state and condition as he was before he executed the same."

Source: C108/421/4.

³² C108/420/2. Lord Londonderry's Liquidation Account in Paris, February, 1723.

³³ *Letter to LL from Sir Robert Walpole, London, Aug. 24th 1726*

“Having some business of consequence to discourse with your Lordship about, I should be obliged to you if you would give yourself the trouble to come up to town. I shall be glad to see you tomorrow morning, & your Lordship shall hear at Arlington Street, where I am to be found at any hour. I am with great respect, My Lord, your Lordship’s most faithful Humble Servant. Rwalpole.”

³⁴ Venice, 25 January 1721

My Lord. I have your letter of the 6th, and am concerned for the difficulties your Lordship and M. Middleton have met with on my accompt.

It is well my brother has done what he could to help M. Middleton, I shall see what is reasonable for his satisfaction, you may depend upon it. What I have shall be employed to pay what I own, if I have little, I can live on little; but as I am in great advances for the Kings service abroad, the Regent has promised to lay aside a sum monthly for my payment.

I shall write to M. Croisat, who was named at my desire to examine the accompt, and to Mgr. le Duc, to speak to the Regent for the funds, which will be made in money.

As to selling the actions in M. Crawfords hands, that would not be sufficient, and the loss would be too considerable; however I shall write to him and to my brother to dispose of them, if they should rise to any reasonable value.

As to M. Rolt’s money, I knew his circumstances when I lent it him; the sum at that time was not considerable to me, and though he was a stranger to me, I was willing to do him the favor he desires. But in the situation my affairs are at present, I’ll follow your advice.

I don’t remember to have the note M. Rolt gave Mr. Middleton; but if you send me the power so as it ought to be, I shall sign it, and send it to you.

I am owing a bill of £15,000 to M. Roderigos, which was drawn on M. Middleton; I desire earnestly that sum may be paid at the same time M. Middleton is, and would have you speak to Roderigos anent it. The sum may be stated in M. Middleman’s account tho the money be only paid when he receives it. I am very sincerely etc.”

Source: Letters of John Law, Bibliothèque Méjanes, Aix-en-Provence, Ms. 355.

³⁵ Letter to Londonderry by Col. Burgess in Venice, Oct. 21, 1729, N. S., reports that John Law “had certainly won a good deal of money here: some of which he spent and he laid out a great part of the rest in pictures, some of which he sent to England before he died and the rest are still here. I think it is generally agreed he bought his pictures very ill and was horribly imposed on in every bargain he made. However he thought otherwise himself and relied so much upon his own judgement that he advised with nobody and fared accordingly; for no man alive believes that his Pictures when they come to be sold, will bring half the money they cost him. He had, before he died, recommended his son and his interests to the French ambassador here, and the young man never communicated any of his affairs to me since his Father’s death, but threw himself entirely into the hands of the French consul, in whose house he lived ‘till he went away, which was about two months ago. He rather seemed shy of me, for reasons I fancy, you will easily guess at. His Father often desired me to assist him in every thing I could, which would readily have done, if he had thought fit to apply to me....”

“Mr. Law, two days before he died, made a deed of Gift to Lady Katherine of all he had, or had any right to in any part of the world, but called her Lady Katherine Knowles, sister to the Earl of

Banbury, living in such a house in such a street in Paris, and nowhere mentions her as his wife, or takes any notice of her children. . . . was looked upon as done with a design to defraud his creditors, if they should at any time discover any of his effects..... as soon as Will. Law got notice of it, he commenced a suit with Lady Katherine, as next heir to his brother, declaring she was not his wife, and that her children are bastards.”

C108/415/9

³⁶ Letter to Marquis de Lassay from Venice, n.d., “Je commence meme a craindre que S. A. R. ne sente pas assez la bonte du sisteme, et je doute si Elle est bien resolut de le soutenir. . . . Je dis qu’il n’est pas extraordinaire que Mgr. le Regent ait oublié l’état ou il etoit reduit par les gens d’affaires, et dans quel etat il seroit actuellement, si je n’avois pas travaillé.”

Bibliothèque Méjanes, Aix-en-Provence, Ms. 355.