

**THE INVENTION OF INFLATION  
OR HOW JOHN LAW RUINED FRANCE**

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In Mark Twain's novel "The Yankees at the Court of King Arthur", the main character falls into the dense English Middle Ages. Using his modern school education, he significantly pushes the technological progress of England, and at the same time he easily achieves a privileged position. Unfortunately, we have not yet learned how to transfer from car to car on the time train. But if one-day time travelers did appear, you can be sure that John Law would almost certainly be one of them. That's just unlike the hero Twain, Law did not rely on his knowledge of physics, chemistry or astronomy [1].

Law had a very simple idea – the economy needs money. The content may seem shocking. You have nothing to pay the workers, they have nothing to pay the shopkeepers, the shopkeepers have nothing to pay taxes with... well, you understand. No money – no honey. In Luo's time, money was mostly metallic – good old gold and other, less noble metals. And the number of metal coins is limited. Handsome, gambler and adventurer, he quickly became friends with Duke Philippe of Orleans and shared with him his ideas on how to pull France out of debt. So let's just make banknotes that everyone in the country will accept for money, and then we will print such banknotes just indecently a lot. And we'll cover the debt. Philippe liked this idea and, becoming regent of the king in 1715, he immediately handed over the reins of financial rule to Law. Law did not sit idle and in 1716 founded the first private bank in France, calling it modestly – "Universal Bank". That's how it all started. At first, all Parisians, and then the French in general liked the new bank very much – free and understandable bills,

banknotes with a fixed amount of cashing, anonymity and, finally, the breadth of use – the bank was under the king, they trusted him, so you can use banknotes it was to pay everywhere. The duo of Law and Philippe Orleans seemed to be leading France to a bright future. In 1720, the Royal Bank and the Company of All the Indies officially merged, Law was appointed Comptroller General of Finance, the entire economy of France was in his hands then. And the system began to slowly crumble.

The Pierce brothers were the first to notice that. They saw the main, obvious flaw in the Law plan – the bank issued more banknotes than it could cash out. The Piers began to massively buy banknotes of the Royal Bank and demanded to exchange them for gold. Ordinary people also noticed that something was wrong - the mad printing press of the Royal Bank printed too many banknotes, inflation flooded Paris. Prices rose by almost 90%, people rushed to the bank in an attempt to exchange rapidly depreciating pieces of paper for real gold. But the finances of France were Law at that time, and in February 1720 he forbade keeping more than 500 livres at home.

In March, street stock trading was banned, but the crisis could not be stopped – Law completely lost the trust of the population. The banknotes of the royal bank were rapidly losing their value. Famine began in Paris. France took a long time to recover. It took almost half a century for the French to be ready to found one big bank again, and even then they called it the "Cash Register" - away from sin and bad associations.

## **References**

1. Изобретение инфляции: как Джон Ло разорил Францию [Electronic resource]. – Mode of access: <https://habr.com/ru/company/veeam/blog/554636>.- Date of access: 28.04.2021.