

## John Law's Essay on a Land Bank

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Antoin Murphy (ed.), *John Law's Essay on a Land Bank*, 1994,  
Dublin, Aeon Publishers., Pp. 112, ISBN 0 9509295 5 7

Having given us much that is new on the activities and work of Cantillon in the 1980s (Murphy, 1986), Murphy is now set to do the same with Cantillon's antagonist and contemporary, John Law, whose life and work he has been researching after completing the Cantillon book. The work under review is a major instalment of the fruits of this research project. It reprints a new text attributable to Law, probably preceding his famous 1705 tract, *Money and Trade Considered with a Proposal for Supplying the Nation with Money* and setting out the case for a Land Bank on the basis of a very coherent monetary theory. Apart from reprinting the text of this manuscript (pp. 53-89), it reprints the 1705 *Act for a Land Mint* (pp. 93-98) for which the *Essay* laid the foundations. In addition, the work provides a useful introduction on John Law's chronology and financial career together with a detailed commentary on the text of the manuscript which turns out to be the first known work by John Law on monetary economics. Given the great pioneering status of Law with respect to monetary theory, this is an important discovery indeed.

The discovery of the manuscript is not chronicled in detail. It was rediscovered via the antiquarian book trade, but without clear provenance. The text is incomplete. There are gaps between the sheets (folios) 11 to 15 (left blank in the manuscript) and there are other, much smaller gaps in the handwritten text. This suggests the manuscript was the neat copy of a draft by an amanuensis to be completed and corrected by the author. Style and content of the work make its attribution to John Law virtually certain, according to Murphy, as is the case with the draft *Act for a Land Mint* with which it is associated in this text, as it had been for earlier scholars. Dating from the internal evidence, watermarks in the paper, and the evidence from contemporary commentators all indicate the essay was probably written before 1705 and that therefore, also on this evidence, Law had been thinking about monetary issues well before the publication of his pamphlet, *Money and Trade Considered with a Proposal for Supplying the Nation with Money*, which was first published in 1705 (pp. 18-23).

The contents of the rediscovered essay concentrate on the theory of money, anticipating, and sometimes expanding on much of the material on this subject in Law's *Money and Trade Considered*. However, it does not contain the theory of employment and economic activity the latter presents. The monetary theory of this essay is also more detailed, suggesting to Murphy (not nearly as far-fetched as it originally sounds) an analogy with the development of contents from Keynes's *Treatise of Money* to that of his *General Theory of Employment, Interest and Money* (p. 23).

Some examples of the wealth of that content can be given. The *Essay* presents detailed analysis of the various functions of money, its essential properties and the various categories of money, tabulated by Murphy (p. 27) for easy reference. It contains a statement

of the so-called "paradox of value" in terms of water and diamonds examples, by then already not unusual as a notion. Law clearly expressed this in terms of a theory of demand and quantity (p. 57, and for Murphy's commentary, pp. 30-32). Moreover, the *Essay* contains a supply and demand approach to price theory. This was modern in its early use of demand rather than 'vent' or 'consumption', the terminology generally employed by Locke. It is tellingly used in discussing the stability of value of silver. On the basis of evidence drawn from the influx of silver from the new world, and the widespread royal debasement of silver coinage, Law claimed that silver as money tended to be less stable in its value than land, making the latter a more suitable monetary base. This was a splendid argument to support a Land Bank. It also enabled Law's spurious claim that land based bank notes were less prone to inducing inflationary consequences than a silver-based money, an indication that the *Essay* focused more on the quantity theory issue of price effects relative to the output and employment effects, which Law subsequently stressed in his *Money and Trade Considered*. Last, but not least, the *Essay* presents an interesting perspective on time preference ("Anticipation is always at a discount. £100 to be paid now is of more value than a £1000 to be paid by £10 a year for a hundred years", p. 80) but this statement is never really exploited for interest theory.

Enough has been said to indicate the *Essay* is a particularly interesting early contribution to monetary theory. It makes the case for an appropriate re-evaluation of Law's status in this field, given the fact that his name and reputation were so effectively destroyed by the collapse of his financial system in 1720. Some, but not nearly enough, commentators have appreciated this. The *Essay* provides further grist to the mill of those who want to elevate Law above a simple "neo-mercantilist" or crude inflationist position, by showing the subtlety and strength of his monetary theory. Moreover, this edition does so with an elegance which has to be seen to be believed. Murphy's editorial work is generally worthwhile and forms a marvellous introduction to Law's life and work, particularly suitable for students, but equally instructive for others. It presents what it needed to appreciate the essay, its contents and author. The presentation of the volume is particularly elegant, and makes it a lovely acquisition. No self-respecting library catering for the historian of economics should be without it, while those with a strong interest in the early development of monetary theory would be well advised to buy it. Furthermore, as a partial rehabilitation of Law as a monetary economist, it makes me anxious to see Murphy's detailed study of Law's life and work to which this publication is but an important mile-stone.

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## Reference

- Antoin Murphy (1986), *Richard Cantillon. Economist and Entrepreneur*, Oxford, Clarendon Press.