



Richard Cantillon

Kerry Economist and
Entrepreneur



Overview

- The importance of entrepreneurship
- Entrepreneurship in action in financial markets
- Entrepreneurship through a theoretical definition



The Mississippi Company Bubble

- Shares of the Mississippi Company have risen from 170 in 1717 to over 10,000.
- Everyone wants to buy Mississippi, even the newly created options in Mississippi.



The Mississippi Company Bubble (cont)

- Standing impassively in this crowd one observer, who is both a merchant and a banker, is reckoning where he went wrong.
- He had bought Mississippi at 170 but sold out in July 1719 at just over 2,000.
- He believed that Mississippi was a financial bubble and that the market would collapse.
- Instead the market had risen and its creator, John Law, had become the prime minister of France



The Mississippi Company Bubble (cont)

Now he uses his economic theory to make a second fortune. Our observer believed that it was impossible for the French:

- i. To expand the money supply
- ii. To lower the interest rate
- iii. To revalue their paper currency relative to gold and silver



The Mississippi Company Bubble (cont)

- Something had to give. He was more certain than ever that the financial bubble would collapse.
- He therefore took a strong position against the French currency.
- Paralleling these developments in Paris the British were copying the Mississippi System through the restructuring of the South Sea Company.
- Our observer felt there was further money to be made by becoming a bear of the South Sea stock. In May of 1720 he purchased sizeable put options in South Sea shares.



The Mississippi Company Bubble (cont)

By the end of 1720 both the Mississippi System and the South Sea Bubble had collapsed and our observer had made three fortunes:

1. Through his earlier purchase and sale of Mississippi shares
2. By selling the French currency
3. Through his put options in South Sea stock.



The Mississippi Company Bubble (cont)

- A new term, millionaire, had been coined to describe people like him who had made fortunes out of the Mississippi.
- Our observer is the Kerry born entrepreneur and economist, Richard Cantillon, probably the greatest analytical economist of the eighteenth century.

Richard Cantillon: Biography

- Cantillon was born in Ballyheigue, County Kerry, most probably sometime between 1680-1690. His family was Hiberno Norman – the word deriving from *chant de loup* (the cry of the wolf). Forced from his ancestral lands by the Williamite confiscations he became an accountant to James Brydges, later the Duke of Chandos, the Paymaster General to the Forces Abroad during the War of the Spanish Succession. Working in Spain, Cantillon helped Chandos to become the biggest war profiteer of the age – so much so that he was able to employ Handel as his *keppel meister*.



Cantillon and John Law

- Cantillon met John Law and established a company with him to colonise land in French Louisiana under the leadership of Cantillon's brother, Bernard. However, after the initial successes of the Mississippi Company Cantillon took a strong speculative position against the French currency and Law had him thrown out of France. Later when the System was failing Law invited Cantillon back to France to try to shore it up. This would have created the unusual situation of a Scotsman and an Irishman running the French economy.

Richard Cantillon: Biography (cont)



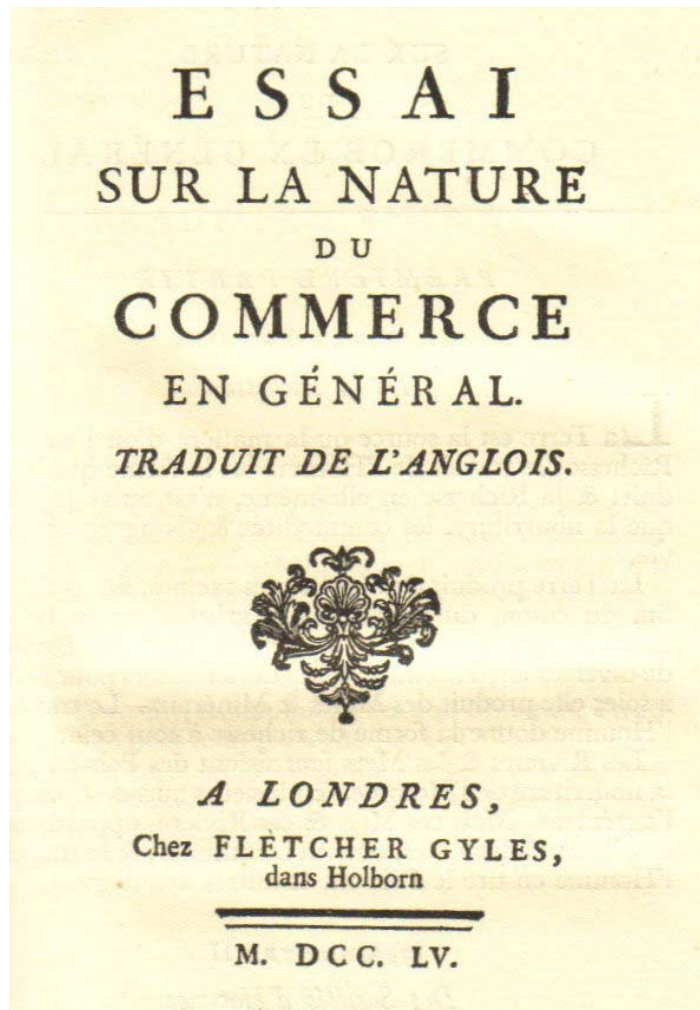
- Having made his millions Cantillon married the daughter of a Kerry officer, Count Daniel O'Mahony.
- He commissioned Largillière to paint his wife Mary Anne.



Cantillon's mysterious murder

- Cantillon was involved in considerable litigation as to the way he had made his fortune. In 1734 he was apparently murdered in his home in Albermarle Street, London, by his French cook. The cook set fire to the house and Cantillon's body was burnt to ashes.
- But was it Cantillon's body that was in the house?
- The appearance of the mysterious Comte de Louvigny in Surinam, South America, six months later. Who was he?

Cantillon's *Essai*



- Twenty one years later a book *ESSAI SUR LA NATURE DU COMMERCE EN GENERAL* was published.

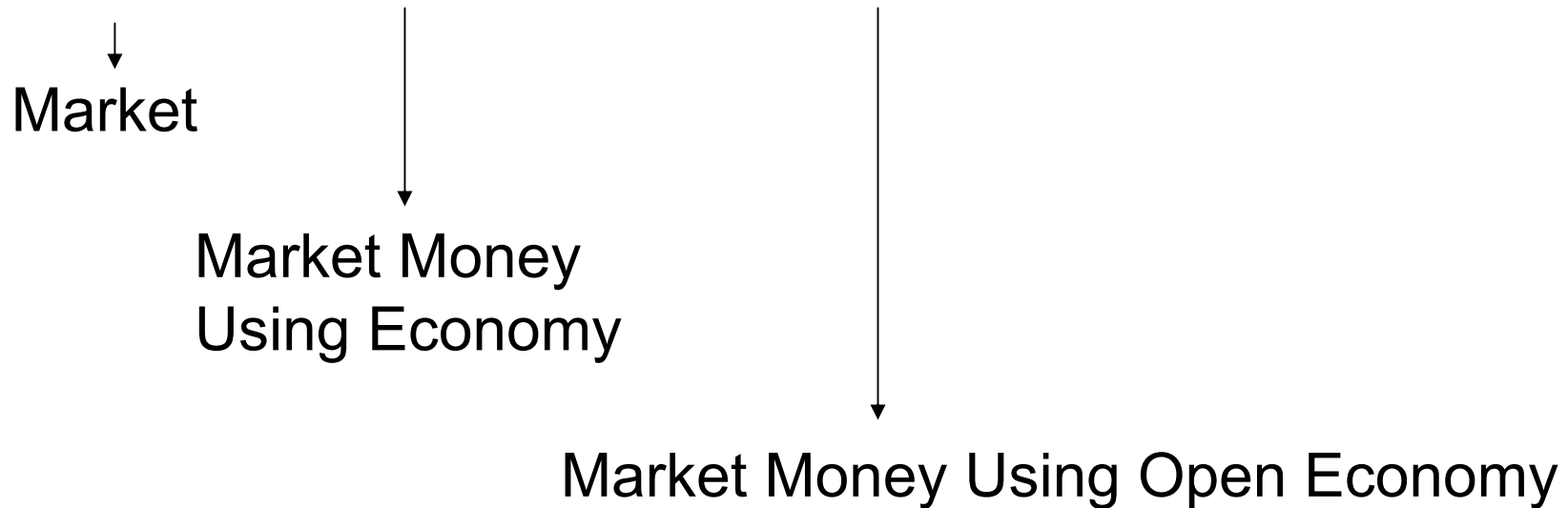


Essai: the greatest analytical book of economics of the 18th century?

- i. Model building approach
- ii. Allocative mechanism of the market – extensively plagiarized by Adam Smith.
- iii. Central role of the entrepreneur
- iv. Circular flow of income
- v. Elaboration of the black box of the monetary transmission mechanism.

The Model Building Approach

Command, Barter and Closed Economy (Single landed estate)



- Emphasis on the allocative role of the price mechanism through his distinction between market prices and intrinsic value and what happens when market prices go out of line with intrinsic value.



The key role of the entrepreneur in markets

- The entrepreneurs ‘pay a certain price...to resell at an uncertain price’ (Essai: 1755, 65)
- ‘Shopkeepers and retailers of every kind are entrepreneurs who buy at a certain price and sell in their shops or the market at an uncertain price.’ (Ibid. 67)
- Uncertainty at the centre of entrepreneurial activity.

MONETARY APPROACH TO THE BALANCE OF PAYMENTS – THE SELF REGULATING PRICE/SPECIE FLOW MECHANISM

