The money pitt: Lord Londonderry and the South Sea bubble; Or, how to manage risk in an emerging market

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Abstract (Summary)

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Full Text (6147 words)

[Headnote]

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I am very grateful to the Business History Conference for the honor they have given me. It recalls for me my first encounter with this group. Many years ago, it had a meeting at the University of Illinois during my first year there. Don Kemmerer arranged for me to be on the dissertation panel, which was not then the prestigious honor that it is now. The discussant was Richard Overton, historian of the Burlington railroad line and a leading figure in the Lexington Group. As my dissertation dealt in some detail with the role of railroad investment in American business cycles before the automobile, I expected friendly treatment, if not outright deference to my brilliant analytical work. Instead, Overton roasted me for being incomprehensible, and probably irrelevant, to proper business history. Jonathan Hughes, straddling the great divide between cliometrics and business history that had emerged then, suggested in the discussion that everything I had done was already better explained in his chapter on E. H. Harriman in The Vital Few. It was pretty clear to me that I was not welcome in this particular niche of the history profession. The only good part ofthat first conference was that the cliometricians from Purdue, who had come over to heckle, took me under their wing.

I recount my baptism by fire into this group partly to encourage the young people here. If any of you are discouraged by the cool reception you think your work has received at these meetings, just think that the more severely you have been criticized, the brighter your future! But mostly, I recall it to confirm to this audience just how far I have come in my own thinking about the peculiar place of business history in the general study of history. Back then, my wounded response to Overton's comments was to dismiss business history as the act of quoting an irrelevant passage from Joseph Schumpeter on the importance of entrepreneurs and then telling a story about some character who had made a financial success. Now, I appreciate it because it has broadened my perspective on the economic process. By exploring the varieties of interactions between diverse individuals and complex institutions that make up our historical experience, business historians make economic activity a lot more interesting and a lot more relevant to current issues.

However, I don't need to persuade this group. So instead, I'll try to persuade you that I have grasped the point myself by telling you about my current research into the multifaceted affairs of an early entrepreneur. My quotation from Schumpeter, when I find it, will deal with the risk-taking propensity of the entrepreneur when others are befuddled by the uncertainty of the times. My story begins with a glittering success.

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 in the coronation crown that Louis XV wore in 1722. 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 the only one of the French crown jewels in the Louvre; the rest were sold at auction in 1887.1

My interest in this historic diamond, however, starts when it first came to France in 1717. In that year, it was sold by its English owner, Thomas Pitt of the English East India Company, to the Duke of Orleans, the Regent overseeing the affairs of the kingdom until the 8-yearold great-grandson of Louis XIV reached his majority at age thirteen. Thomas Pitt, while governor of the Madras station of the East India Company, 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, 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. As a result of Thomas Jr.'s success in arranging the payment schedule for the huge sum received for the diamond, he was entrusted with increased responsibility for managing Governor Pitt's money affairs. If his father was celebrated thereafter as "Diamond" Pitt, Thomas Pitt, Jr., could rightly be called the "Money" Pitt from that time on. Later historians, who have blamed him for the loss of much of the Pitt family fortune in the collapse of the South Sea bubble, might well call him the "money pit" as well.

In the years while the Pitt diamond was being cut, it was kept in the iron chest of a goldsmith banker. Robert Pitt, meanwhile, profiting from the fame of his father's many diamonds, married well and established himself as a moneyed gentleman in London. (A lot of diamonds came out of the goldsmith's safe while the 426 carats were being reduced by the diamond cutter to 140.5 carats.) When a run on the bank was threatened, Robert Pitt extracted the diamond from the banker's safe by signing a note, promising the goldsmith a commission of 5 percent on the sale of the "Great Diamond," whenever that should occur. The run on the banker, in fact, led to his bankruptcy in 1710, when his creditors seized all his assets. While Robert's action saved the diamond for its eventual sale in France seven years later, the bankruptcy commissioners found his note, and in 1718 they filed a lawsuit to claim the commission once the diamond was sold.2

Governor Thomas Pitt had finally returned to England shortly after the bankruptcy. Disgusted at the ostentation of his son, as well as his insouciance with respect to the "Great Diamond," Governor Pitt was further appalled to learn that Robert had failed to take care of his younger siblings as directed. Instead of apprenticing his younger brother, Thomas, to an Amsterdam diamond merchant to learn the secrets ofthat international and profitable trade, Robert had bought him a commission in the army.

It appears that Thomas Jr. joined a regiment of dragoons who fought in Spain as part of the British forces commanded by General James Stanhope du ring the final phases of the War of the Spanish Succession. Stanhope, to his great credit, surrendered himself to the enemy in his last battle there on condition that his troops be freed and returned to England. Later, Thomas Jr. returned to Barcelona with authority to aid in the ransoming of Stanhope after the end of the war in 1712. He also played a major role in facilitating the marriage of his lovely younger sister, Lucy Pitt, to the general less than six months after Stanhope's return to England. Now, in addition to his pecuniary connections with the world of diamonds and long-distance trade through the activities of his older brother and his father, Thomas Jr. on his own merits was a military veteran of some distinction and the valued brother-in-law of a man destined to become one of the most powerful political figures in Europe. He could pursue his career either as part of the British social elite, as a military commander, as a political figure, or as a diamond merchant.3

He became a military hero in the repulsion of the Jacobite uprising of 1715. This delighted his father, who reported that his now-favorite son had captured the enemy's colors on the field of battle, and it satisfied his new brother-in-law, now the second most powerful minister in the cabinet formed by George I. Later, Thomas Pitt, Jr., and his father together underwrote the purchase of the magnificent estate of Chevening by Lord and Lady Stanhope, shortly after the sale of the diamond in 1717.

All this and more came directly from the sale of the sundry diamonds, culminating with the sale of the "Great Diamond" to the Regent of France.4 Thomas Pitt, Jr., took a 10 percent commission for his service in arranging the sale. (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.) Thomas Jr. invested his new-found wealth in the emerging in vestment opportunities then being created by John Law. With each installment of the payments on the diamond, Thomas Jr. was able to catch the rising values in the joint stocks being offered by Law -first in his Banque Generale; then in his Compagnie de l'Ouest; and finally in his greatest creation, the Compagnie des Indes, better known as the Mississippi Company.

Flush now with more wealth than his older brother, Thomas Jr. returned to England, married well to the daughter of a deceased Irish earl, bought her father's title, and became the first (English) Earl of Londonderry. Meanwhile, the lawsuit brought by the executors of the failed banker was dragging on and becoming increasingly annoying to Governor Pitt. Worse, the final payments on the diamond, to be made by John Law as head of the Banque Generale, ended with a protested bill of exchange returned to the governor in July 1719. Outraged, the governor sent his favorite son, now the Lord Londonderry, to Paris to confront John Law and demand payment in full. 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 Hay, 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, John Law went berserk at the impudence of Lord Londonderry, who was probably just repeating 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.5

The ultimate outcome of this "bet of the century" 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. 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 1720.6

Why did Law initiate this wager in the first place? Why did Londonderry take him up on it? Why did it turn out to be a disaster for both men? Finally, what were the consequences for the future of financial innovations in both France and Britain? On Law's motive, 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, Law was in the midst of major funding operations on the Paris Bourse. At the time of the bet, in short, Law was creating the Mississippi Bubble (see Figure 1).

At this critical stage in the construction of his system, he did not want Londonderry, well-known among English investors then in France, to withdraw his funds from Paris. That would be 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 financial 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 Comptrolleur General of royal finances, and so were the responsibility of the king of France.

On the other side of the bargain, why did Londonderry take the bet? The main reason, I suspect, is that the British ambassador took half of it immediately, a fact never mentioned in his official dispatches, but confirmed in Londonderry's papers. The ambassador was quite possibly, and plausibly, the actual instigator of this extravagant bet, just to see how far Law would go in his pride. It is clear that Londonderry was not motivated by British pride in the East India Company or inside information on the affairs of the East India Company at that time, for he immediately began to lay off his side of the bargain by selling large shares in it. First, he laid off £10,000 to a fellow Englishman in Paris. Upon his return to London, he continued to lay off shares in the bet - £10,000 to his father, £10,000 to his stockbroker, £10,000 to a cousin, and then £20,000 to a friend of his father who was a director of the East India Company. These people all had inside information that the East India Company ships had already picked up their necessary silver in Amsterdam for making a profitable voyage to the East Indies. They knew that Law could do nothing to disturb the fundamentals for determining the profits of the East India Company over the next year. All of these shares in the bet, £60,000 in all, were taken off Londonderry on the same terms he had struck with Law, namely, to pay £180 for every £100 of East India Company stock.

Meanwhile, Londonderry locked in the future price of his shares in the Mississippi Company by selling them for future delivery to two British speculators, both heavily involved in the adventures of the Mississippi Bubble and devotees of John Law. In the pecuniary dimension of his risk-taking, Londonderry had performed brilliantly within a highly volatile and uncertain situation. He had laid off effectively his contingent liability to Law, and he had hedged against a drop in the value of his French financial assets. This encouraged him to focus more on financial dealings in these first emerging markets. His letters show that he was urged on by his growing circle of friends and hangers-on, as well as by his father and sister. The possibilities became very interesting for a man of his talents, as the London stock market began to imitate the Paris market by starting what we now know as the South Sea Bubble.

By April 1720, the Mississippi Bubble was starting to collapse, while the South Sea Bubble was just beginning to take off (see Figure 2). 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 and 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 markup over the price he had agreed to pay Law. 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.

At this point, it is clear that Londonderry's political connections were paying off for him in the pecuniary sphere. Both his father and older brother were members of Parliament, he became a member of the House of Lords, 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.

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 £18 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.

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.

Unfortunately for Londonderry, the personal dimension of risktaking in this emerging financial market was not so easily controlled. 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. It appears that Londonderry's own dealings in South Sea stock had been minor to nonexistent up to this point. This was the final surge of speculative enthusiasm for South Sea Company shares, however, 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.

But what about the East India Company bargain? This 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 here was that Londonderry was in a real fix if John Law could not pay off, because 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."7

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 (see Figure 3). 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. Londonderry could not get Law to transfer resources to him in London, and he could not repatriate his own assets in France and 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 reneged 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 Lord s 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.

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 in childbirth. 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.

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. 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. By the fall of 1723, it appeared that these efforts were finally going to pay off. The Duke of Orleans 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 Orleans had the misfortune to die, collapsingin 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 consul 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.

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

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, 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 had 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 to manage the various slings and arrows of outrageous fortune that confronted him throughout his brief, but eventful, life.

His 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 think I have learned a great deal from following his actions through the rise and fall of the first emerging financial market. Let me share with you now some of the lessons that Londonderry has taught me about the ways people can manage risk and confront uncertainty in financial markets.

Conclusion

I am trying, as are all of you, to understand today's emerging markets, drawing upon my research into the first emerging financial markets back in 1720. The defining characteristic of all emerging markets is that participants have to operate in an environment that is filled not only with risk, but, even more, with uncertainty. If they were merely risky, like more seasoned securities markets, traders would have some sense of the underlying probabilities of how things might turn out for better or for worse. They would be able to take some reasonable and proven measures to offset the risk of downside losses. Any of the various means available to experienced traders in sophisticated markets could be used-diversify one's deals among securities with different characteristics, offset spot transactions with forward transactions on the opposite side, or buy straddle options in more liquid and sophisticated markets, as Londonderry did with his holdings of Mississippi Company shares and his huge bet with John Law on the East India Company share prices. Or consider how George Soros and Warren Buffett operate in today's emerging markets. These strategies are usually also available to participants in emerging markets, but there can be little assurance that a risky bargain has been hedged appropriately. The reason is simple: not enough experience has been accumulated to give anyone an approximation of the underlying probability distribution of possible outcomes. Frank Knight defined this situation many years ago as one of uncertainty, as opposed to one merely of risk.8 John Meriwether's guiding genius at Long Term Capital Management led to its failure in 1998 because his models assumed that investors in the global financial marketplaces were continuing to assess risk when, in fact, they were avoiding the uncertainty of emerging markets.

It is still, today, not clear how one can cope with uncertainty in a rational, calculating way by operating strictly in the emerging market. In fact, sensible people rarely try. Rather, they will typically risk only a small part of their assets in such a market, much as even the most rational of economists might be willing to buy just one lottery ticket. In the rare cases where individuals wager a great deal, however, more interesting strategies have to be pursued. Rather than confine their gambling instincts to the single dimension of the marketplace, they must seek out fallbacks or safety nets in other dimensions than the strictly pecuniary.

One obvious dimension is the personal. A person risking large sums in an emerging market will seek out, and perhaps find, emotional and even financial support in the companionship of loved ones, relatives, friends, neighbors, or co-religionists. Of course, there are risks to be confronted in that dimension as well, but that situation may be better described as risky than as uncertain. The probabilities of support, indifference, and betrayal have presumably been tested experimentally in different contexts and are known, or at least felt, with a better degree of confidence than is possible in the strictly pecuniary and impersonal environment of the marketplace. I think of Jim Clark, today's billionaire creator of Silicon Graphics, Netscape, and Healtheon, and the circle of gifted software engineers whom he recruited originally to Silicon Graphics. Londonderry had the support of his father and his circle of accomplished foreign merchants and of his sister and brother-in-law. He knew enough to avoid financial relations with his older brother, at least until the final purchase of South Sea stock at its peak.

A second, perhaps equally obvious, dimension is the political. Friends in high places may well intervene in one's favor in the event of an unfortunate turn of events in the marketplace-after all, it is precisely by dint of doing such favors that they have become so powerful in political terms. Losers in the marketplace competition will surely seek out political remedies for their misfortunes, as John Law continued to do after his fall from grace in France. Their chances of success are constrained, however, by the likelihood that the winners will enjoy superior access to the political powers-that-be. Access to the highest executive officers of the government can be decisive, but difficult to attain; preferred treatment in the judicial arena is riskier but more feasible. Londonderry always preferred to be the defendant in London than the complainant in France. He rarely lost in London, and then only after prolonged litigation; he never won in France. Nevertheless, if the political environment is more seasoned than the financial, the situation there is more likely one of risk than uncertainty. So, it is always worth the while of all participants in an emerging market to check on their prospects for favorable treatment in the political sphere before entering into large financial bargains.

Individuals can confront the uncertainties of an emerging market by imitating the behavior they would prefer in a seasoned market in the pecuniary world of finance. Or, they can develop safety nets for themselves in the personal and political spheres. We do not know the extent to which individuals in today's emerging markets are mixing their strategies along the three dimensions of pecuniary, personal, and political behavior, but we can be pretty sure they are trying all kinds of mixtures. We cannot now know which will be most successful, but we can safely assume, based on historical experience, that there will be both winners and losers. Moreover, it will be one safe bet that business historians in the future will find it most interesting to document the most extreme cases, and to determine how well their heroes, or villains, have calculated the probabilities and played the odds along all three dimensions that confront participants in emerging markets -the pecuniary, the political, and the personal.

[Footnote]
1. George G. Blakey, The Diamond (New York, 1977), 268.

[Footnote]
2. PRO Cl 10/ 28, Materials on suit made by Caesar Child, Gregory Page, Elihu Yale, Rogery Braddylls and Thomas Gibson Esq. surviving assignees under a Commission of Bankrupt awarded against Sr. Stephen Evance and Wm. Hales Goldsmiths and partners against Thomas Pitt (Sr.) and Robert Pitt, in Michaelmas term 1718 and amended 27 April 1719. Thanks to this law suit, many details of the early history of the diamond are given in Gedalia Yogev, Diamonds and Coral: AngloDutch Jews and Eighteenth-Century Trade (New York, 1978), who uncovered this well-organized depository of exhibits for the law suit.

[Footnote]
3. These details on Londonderry's life, as well as those that follow below, have been winnowed from the materials left by his lawyers in Chancery Master's Exhibits, PRO C108/415-23, Pitt v. Cholmondeley.
4. The total payment for the diamond was 2 million livres lournois, equivalent to £135,000 at the exchange rate then ruling. The sum was divided into ". . . three installments, 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." PRO Cl 10/28, p. 4, answer of 13 June 1723.

[Footnote]
5. Great Britain, Miscellaneous State Papers (London, 1778), 2: 593, as cited in Claude-Frederic Levy, Capitalistes et pouvoir au siecle des lumieres, t. 3: La mon archie buissoniere, 1718-1723 (Paris, 1980), 235nl61.

[Footnote]
6. British Museum, Add. MS 36152.

[Footnote]
7. PRO C 108/423, fol. 164, Letter of Londonderry to John Law, 3 Nov. 1720.

[Footnote]
8. Frank Hyneman Knight, Risk, Uncertainly and Profil (Boston, 1921).

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