



Regulatory Capture: Management and Agency During the South Sea Bubble

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Regulatory Capture: Management and Agency During the South Sea Bubble

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A Thesis in the Field of History
for the Degree of Master of Liberal Arts in Extension Studies

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Abstract

The United Kingdom in the early eighteenth century was an early modern colonial power that experienced a series of political and economic “shocks” that would require it to deeply consider the civil and fiscal policies in which they were governed by. The result of this would be the creation of the quasi-governmental South Sea Company, which would serve not only as one of the major monopolies of the time period, but also as the structural mechanism in which the contemporary United Kingdom government would look to centralize and control the significant levels of outstanding public debt. Ultimately, the Company would see massive speculative forces that would exponentially raise stock prices over the course of several months, until the burst “bubble” would just as quickly drive it to collapse.

This thesis looks to examine the political forces that surround the decision-making process that eventually sees the Company’s demise. This is done by reviewing three separate points during the lifecycle of the Company: the circumstances in which the Company was created, the height of the Company’s reach, and the collapse and investigation of the Company by the contemporary government. Through the use of several primary sources, this research looks to highlight the fact that the decisions that would ultimately lead to the collapse of the Company came through the close relationship that was held between the Company and the political, regulatory, and aristocratic leaders of the period, each of which was using their own clout to maintain the potential for profit.

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Chapter I.

Introduction

Sir Isaac Newton, in describing the amount of wealth that he had personally lost during the collapse of the South Sea Company in 1720 (approximately \$20 million in 2019 dollars), famously said, “I can calculate the motions of the heavenly bodies, but not the madness of people.”¹ Newton’s involvement as an investor in the South Sea Company may exist merely as a footnote regarding his place in history, but his experience during the Crash were emblematic of all British society at the time. The South Sea Bubble of 1720, as the economic historian Emma Rothschild described it, was “a sequence of debt-for-equity swaps, and a refinancing of British government debt on a very large scale.”² This scale would ultimately reach mountainous heights, as nearly 80 percent of all outstanding public debt would be owned by the Company before its untimely demise.³ Before reaching these heights, however, the meager beginnings of the Company were first born from weakness. Beleaguered by two major and costly military conflicts, the Kingdom of England in the early eighteenth century was a country on the verge of financial collapse.⁴ Internal political machinations from a multitude of sources, both

¹ Isaac Newton quoted in Andrew Odlyzko, “Newton’s Financial Misadventures in the South Sea Bubble,” *Notes and Records of the Royal Society of London* 73, no. 1 (2019): 31, <https://doi.org/10.1098/rsnr.2018.0018>.

² Emma Rothschild, “Essay: ‘The South Sea Bubble after 300 Years’ by Emma Rothschild,” *The South Sea Bubble, 1720 - CURIOSity Digital Collections*, October 15, 2020, 1, <https://curiosity.lib.harvard.edu/south-sea-bubble/about/essay-the-south-sea-bubble-after-300-years-by-emma-rothschild>.

³ Rothschild, “Essay: ‘The South Sea Bubble after 300 Years,’” 1.

⁴ “The Founding of the South Sea Company,” *The South Sea Bubble, 1720 - CURIOSity Digital Collections*, September 2, 2020, 1, <https://curiosity.lib.harvard.edu/south-sea-bubble/feature/the-founding-of-the-south-sea-company>.

internally and externally, had left it without an ability to continue to fund the needs of the state, and the Parliament was left with little choice on how to move forward.⁵ Necessity, however, is the mother of invention, and through this force of stagnation an opportunity appeared. Beginning in 1711, Parliament created the South Sea Company, a private corporation that was given monopoly rights to trade in a specific geographic region, similar to many other corporations at the time, but with one separate and important caveat. Parliament, through legislation, required public creditors to relinquish outstanding public debt to the Company in exchange for equity within that Company.⁶ This exchange of debt-for-equity happened in several tranches over the course of the next decade, coinciding with wild speculation on the potential value of the Company itself. The culmination of debt consolidation and Company speculation came to a head in the summer of 1720, where the Company's stock would see exponential growth and trade between investors before the subsequent collapse of the stock's value by September of that year.⁷

Ever since these events occurred over the course of several months in early eighteenth-century England, scholars, historians, political scientists, and economists have looked to better understand the various nuances to the crisis, beginning with the Parliamentary investigation that took place in its immediate aftermath and that had continued to this day through modern scholarship. It is from this position of abundance that I reviewed the quandary of the British financial system at the time. Specifically, my

⁵ "The Founding of the South Sea Company," 1.

⁶ Rothschild, "Essay: 'The South Sea Bubble after 300 Years,'" 1.

⁷ "The South Sea Bubble Timeline," The South Sea Bubble, 1720 (CURIOSity Digital Collections, September 9, 2020), 1, <https://curiosity.lib.harvard.edu/south-sea-bubble/feature/the-south-sea-bubble-timeline>.

research asked the question: “How intertwined was the South Sea Company and its bureaucratic executives and structures with the legislative, executive, and aristocratic apparatuses of the state at the time?” The answer to this question holds a much larger understanding of not only the bubble, but the ability to comparatively evaluate questions of political economy as well as the space in which these systems operate.

The Kingdom of England in the early eighteenth century was a country built upon its traditions and institutions. In hindsight, this period was the birth of the early modern British state. The century before had seen the turmoil of the English Civil War, while the Glorious Revolution of 1688 had brought change to the very top of the British aristocracy⁸. The systems that developed from these changes would then, in turn, be exported from their “Island Kingdom” as part of their “civilizing mission” in the century to follow; as Britain would eventually develop one of the largest Empires in the history of the world. It is then important to understand both the successes and potential pitfalls of these burgeoning, but already complex arrangements that exist between the state, its institutions, and a dizzying array of non-state stakeholders. These connections will form how we evaluate the system within the larger geopolitical scope of the time, and it is from this larger scope that I’ve looked to build upon the scholarly foundations that currently exist of the crisis. Important context that surrounds the Collapse included the Nine Years War⁹ and the War of Spanish Succession¹⁰, the decentralization of British state bodies that created, without oversight, the huge accumulation of debt¹¹, and the

⁸ Richard Dale, *The First Crash: Lessons from the South Sea Bubble*, Core Textbook (Princeton, New Jersey ; Oxfordshire, England: Princeton University Press, 2004), 41.

⁹ Dale, *The First Crash*, 41.

¹⁰ Dale, *The First Crash*, 41.

¹¹ Dale, *The First Crash*, 45.

overall change of European powers towards the development of economic institutions that would create the fiscal and monetary drivers towards overreaching goals. Previous scholarship of these events identified these causes as mere background to the direct events of the collapse itself, whereas I postulate that the complex economic and geopolitical events of the period that surround the Crash should serve as the forefront of historical, political, and economic evaluation of the Bubble, not the events of the collapse itself. The questions of centralization and national power that the British state sees in this early modern landscape provide the essential view towards this crisis, and further research through that the wider scope will better answer the questions asked by scholars in defining the oversights by the Imperial British establishment at the time. In considering this question, then, this paper will highlight that the intimate connection between the private enterprise of the Company and the various vestiges of the state during this period were so entangled that decisions made by both parties were made with that symbiotic relationship in mind.

To test this hypothesis, I have looked to fully utilize the public frenzy that the crisis had caused, in which the expansion of several public sources were developed and are now available that can be used to illustrate this point. A preponderance of these sources will fall into three major categories: Parliamentary records, Company archives, and correspondence. Because the scheme developed would take the form of an early version of political economy, Parliamentary records would be essential in describing the various privileges and impacts that the Company would have on the wider economy. Moreso, the corresponding Parliamentary investigation that would take place after the crash would help highlight these connections to the political stakeholders of the time.

Complementary to these records would be the utilization of the Company's internal archival records as an additional basis for primary support. Like many other corporate entities of the time, the South Sea Company also developed several internal documents that would be used by various stakeholders throughout the crisis, including bylaws, internal reports, and meeting minutes. These documents would be crucial in understanding the extent to which a private enterprise accepted the opportunities it was given by the state and how it looks to effectively manage that relationship in a way that would produce profits for its shareholders. Finally, this paper will also look to use the correspondence of influential stakeholders of the Company. These notes will be invaluable in developing the relationships between the British state and the Company's investors.

Ultimately, my research will show that forces outside of the standard market would lead towards exponential growth and rampant speculation of the Company. Specifically, political, economic, and social elites, which included public officials and the aristocracy, would see the creation of the South Sea Company as not only an innovative attempt to circumvent the financing issues that the British Government had at the time, but also as an opportunity in which to exploit. That exploitation, in turn, would serve as the foundation in which these individuals would look to consolidate economic and financial power.

Because of the public's interest in the South Sea Company and its eventual collapse, there has been much scholarly debate between historians, economists, and academics on the various lessons that can be learned from the events that took place. This paper will look to build upon those foundations, but instead of focusing narrowly on the

direct events that would make up its collapse in 1720, I will instead look to build a cohesive narrative that describes the events that would ultimately lead to the creation of the Company, as well as the damage done in the immediate aftermath of its collapse. I expect to build this wider historical framework of the events in question by synthesizing the larger financial and geopolitical events of the period to create a better understanding of “Why?” the imperial British economic agents of the day made these decisions that led to this financial crisis. This will be done through the use of qualitative historical research through a variety of primary sources of the period in order craft a coherent narrative that identifies the overall environment that led to this incident. This paper will show that by examining closely the stakeholders responsible for the overall incident, researchers will be able to develop much needed context for the decisions of the day and build an understandable grouping of circumstances that can not only help academics better acknowledge the events at hand, but also allow today’s political and economic leaders a better foundation on which to make today’s geopolitical decisions.

Several private and academic collections have developed sizable assemblages of documents that surround the event, including the Kress, Goldsmiths, Seligman, and Bancroft collections.¹² These groupings have been able to pull from a wide variety of primary sources from the period, which have included pamphlets, newspaper articles, analyses, and manifestos that looked to quench the public’s fascination with the affair in its aftermath. With these in mind, however, my research will focus on three major types

¹² The South Sea Bubble, 1720 - CURIOSity Digital Collections, ““The South Sea Company: A Checklist of Material in Baker Library,”” October 29, 2020, <https://curiosity.lib.harvard.edu/south-sea-bubble/about/the-south-sea-company-a-checklist-of-material-in-baker-library>.

of primary source documentation: Parliamentary documents, internal Company archives, and correspondence.

The first major grouping of primary source documents that this paper will use is Parliamentary documents, specifically the various investigative reports developed by the British state during the period, as well as the official Acts that gave the Company the institutional power that it would wield during the incident. One major example of this type of source will be Robert Harley's *A View of the taxes, funds, and publick revenues of England*. Harley, who would become Chancellor of the Exchequer at the time of publishing this report in 1712, would use this report to expose the exceedingly complicated depths of public debt that the British government had sustained in the decade prior.¹³ Harley, who would be the initial proponent of the Company and a champion that would lead him to becoming its first Governor, used the pulpit of this damning report to outline the mistakes made through previous expenditures as well as begin to draft the potential institution that could mitigate these issues.¹⁴ My task while exploring the document would be to identify the risks that Harley had identified during his investigation of the state's finances to better understand the objectives of the Company when it will be eventually formed.¹⁵

Another such document that will need to be examined closely is the Act creating the Company itself, specifically: *An Act for making good deficiencies, and satisfying the publick debts; and for erecting a corporation to carry on a trade to the South-Seas; and for the encouragement of the fishery; and for liberty to trade in unwrought iron with the*

¹³ "The Founding of the South Sea Company," 1.

¹⁴ "The Founding of the South Sea Company," 1.

¹⁵ Robert Harley, *A View of the taxes, funds, and publick revenues of England* (Printed for T. Childe, 1712), 1.

*subjects of Spain; and to repeal the Acts for registering seamen.*¹⁶ I examined this Act, which would be used to create the Company as well as the legal mechanism in which it would exist within current state institutions, as a point of research to understand what the imperial British apparatus looked to obtain out of this newly formed arrangement, as well as what the state identified as potential pitfalls as the scheme moved forward. This research would help build upon what was previously identified in Harley's analysis of the financial state of the country and how Parliament looked to remedy the situation.

One final legislative piece that I looked to inspect closely would be the subsequent investigations that were held by Parliament in the aftermath of the Company's collapse, and which would lead to the partial remediation of the Company's creditors.

One such report, titled *Proceedings of the House of Lords in Relation to the Late Directors of the South-Sea Company, : And Others: With The Report of Their Lordships on the Said Proceedings: To Which Is Added, the Conference with the Commons, Relating to Mr. Aislabie and Mr. Craggs, With Their Lordship's Proceedings Thereupon*, will be a major focus of my research, as this report outlined the transgressions done by Mr. John Aislabie, who was the Chancellor of the Exchequer at the time of the collapse and would ultimately be stripped of all wealth.¹⁷ Using investigations such as this, I will look to build upon the identifying features found in the earlier reports and documents to

¹⁶ Great Britain, *An Act for Making Good Deficiencies, and Satisfying the Publick Debts: And for Erecting a Corporation to Carry on a Trade to the South-Seas; and for the Encouragement of the Fishery; and for Liberty to Trade in Unwrought Iron with the Subjects of Spain; and to Repeal the Acts for Registering Seamen* (London: printed by the assigns of Thomas Newcomb, and Henry Hills, deceas'd; printers to the Queens most excellent Majesty, 1711), 1. Eighteenth Century Collections Online.

¹⁷ Great Britain Parliament House of Lords, *Proceedings of the House of Lords in Relation to the Late Directors of the South-Sea Company,: And Others: With The Report of Their Lordships on the Said Proceedings: To Which Is Added, the Conference with the Commons, Relating to Mr. Aislabie and Mr. Craggs, With Their Lordship's Proceedings Thereupon* (London: printed for Zachariah Stokey, near St. Pauls, 1721), 26, Eighteenth Century Collections Online.

emphasize how these economic agents were able to successfully control and profit from the institutional design of the Company.

In addition to the legislative sources that I have outlined, I will also look toward the use of the South Sea Company's internal company archives to supplement these findings. One major source that will be examined closely is the South Sea Company's internal report titled: *Abstract of the Charter of the Governour and Company of Merchants of Great Britain, Trading to the South-Seas, and Other Parts of America, and for Encouraging the Fishery*. This document, which was developed by the Company's original Board of Directors, looked to explain in an understandable way the rights and liabilities that were given to investors of the Company through the legislative Act.¹⁸ My research into documents such as these reinforced what was the expected outcome of the legislation surrounding the Company by the agents and stakeholders at the time, especially with consideration that many of the Board members themselves were also government officials, such as Robert Harley and John Aislabie.¹⁹

Finally, I will look to tie in these various threads through the use of available pamphlets and correspondences of important stakeholders during this period. Chief to these will be Sir John Blunt's *A true state of the South-Sea-Scheme, as it was first form'd, &c. With the several alterations made in it before the Act of Parliament pass'd. And an examination of the conduct of the directors in the execution of that act*. Blunt, a London businessman and a close confidant to Harley during the initial implementation of

¹⁸ South Sea Company, *Abstract of the Charter of the Governour and Company of Merchants of Great Britain, Trading to the South-Seas, and Other Parts of America, and for Encouraging the Fishery*, Printed by John Barber, printer to the honourable the South-Seas Company, 1711), 2, Eighteenth Century Collections Online.

¹⁹ "The Founding of the South Sea Company," 1.

the South Sea Company, served as an administrator for the first attempts at a lottery to raise the needed funds before the Company and who's Sword Blade Company would serve as a basis, along with the Mississippi Company, to how the Company would eventually be structured.²⁰ Blunt's testimony, in which he laid out in this document, will serve as important evidence in describing the goals of the stakeholders throughout the creation and administration of the Company, while also building context on the decisions made by these stakeholders as they continued down this path to crisis.

When the South Sea Company's stock price collapsed over the course of several months in late 1720, the fortunes and livelihoods of many private and public stakeholders were put in jeopardy. Because of its wide-ranging effects, an abundance of amateur, professional, and state-sanctioned investigations and evaluations of the crisis, its causes, and any possible remediation attempts would begin to be conducted almost immediately after the initial collapse. From the Imperial British state itself, A Committee of Secrecy would be convened by the Parliament in the early months of 1721.²¹ Led by Robert Walpole, then the Leader of the House of Commons, this seven-month investigation would ultimately lead to the conviction of several high-profile members of Parliament, which included the then Chancellor of the Exchequer, John Aislabie.²² This closed door investigation would culminate in the passing of the *Act for Making Several Provisions to Restore the Publick Credit Which Suffers by the Frauds and Mismanagements of the Late*

²⁰ "The Founding of The South Sea Company," 1.

²¹ "The South Sea Bubble Timeline," 1.

²² The South Sea Bubble, 1720 - CURIOSity Digital Collections, "The Crash," October 16, 2020, <https://curiosity.lib.harvard.edu/south-sea-bubble/feature/the-crash>.

Directors of the South-Sea Company and Others, which would be Parliament's attempt to remediate some of the damages lost to private investors due to the crash.²³

Separate from this, and being drawn from both the public's fascination of the crisis as well as the anger from the destruction of so many investor's fortunes, an organic growth of newspaper articles, pamphlets, and analyses from a number of researchers, journalists, and economists would look to best explain the events to an eager public. It is from these numerous accounts that appeared over the course of the next several decades that formed the basis of the robust historical analysis that would take place regarding the Crash in the centuries following.

From these collaborative efforts by the amateur and academic communities to better understand the Crash, a recommencing of contemporary scholarly work on the time period has taken root across academic circles. Dr. Richard Dale of the University of Reading had written the seminal work of this period: *The First Crash: Lessons from the South Sea Bubble*, which looked to best integrate the many primary sources into a coherent narrative that helped describe the events within the scope of financial history. Another major researcher of the period has included Dr. Richard Kleer of the University of Regina who had authored numerous papers on the South Sea Bubble, including *Riding a wave: the Company's role in the South Sea Bubble*, and *'The folly of particulars': the political economy of the South Sea Bubble*. Using these two major scholars, as well as other contemporary academics such as Carlos (2005)²⁴, Hoppit (2002)²⁵, Odlyzko

²³ "The Crash," 1.

²⁴ Ann M. Carlos and Larry Neal, "The Micro-foundations of the Early London Capital Market: Bank of England Shareholders during and after the South Sea Bubble, 1720–251," *The Economic History Review* 59, no. 3 (2005): 498–499, <https://doi.org/10.1111/j.1468-0289.2005.00332.x>, 1.

²⁵ Julian Hoppit, "The Myths of the South Sea Bubble," *Transactions of the Royal Historical Society* 12 (December 2002): 141–65, <https://doi.org/10.1017/S0080440102000051>, 141–65.

(2019)²⁶, Price & Whatley (2021)²⁷, and Temin & Voth (2004)²⁸, I looked towards building a complementary, but separate viewpoint on the South Sea Company, its collapse, and its economic agency throughout the time period. Specifically, this paper will look the use of qualitative primary sources to highlight the crises that the Imperial British state was attempting to navigate during the period through the creation of the Company, and how the resulting decisions were not made based on economic dogma, but rather the personal and geopolitical whims of an economic elite.

The first major theme that appears apparent across several scholar's arguments when considering the events of the Company and the Bubble is the question of "rationality." Dale, in describing this question in relation to the Crash, wrote, "it has become the trigger for an intense debate about the rationality of investors and the very nature of financial markets. Are such markets inherently unstable? Are investors subject to periodic bouts of euphoria and despair—a kind of collective manic depression—that cannot be explained by underlying economic fundamentals?"²⁹ In *The First Crash*, Dale ultimately concluded that at the Company's height, private investors would become irrational, by which he wrote, "investors appear to have lost their ability to price South Sea shares and subscription receipts either in relative or absolute terms. South Sea stock was absurdly overvalued...receipts were trading at prices that were absurdly out of alignment with each other. If all this does not provide overwhelming evidence of

²⁶ Odlyzko, "The Misadventures," 1.

²⁷ Gregory Price and Warren Whatley, "Did Profitable Slave Trading Enable the Expansion of Empire?: The Asiento de Negros, the South Sea Company and the Financial Revolution in Great Britain," *Cliometrica* 15, no. 3 (2020): 675–718.

²⁸ Peter Temin and Hans-Joachim Voth, "Riding the South Sea Bubble," *American Economic Review* 94, no. 5 (December 1, 2004): <https://doi.org/10.1257/0002828043052268>, 1654–68.

²⁹ Dale, *The First Crash*, 1.

irrationality on the part of investors, it is difficult to know what would.”³⁰ Kleer would make a contradictory conclusion, who instead argued “[i]t is widely believed that officials of the South Sea Company deliberately engineered London’s stock market bubble of 1720, hoping in the process to line their own pockets... [and evidence] finds there is little support for the standard view.”³¹ The economists Ann Carlos and Larry Neal took a more nuanced approach to the question of rationality, writing, “Discussions of the development of English capital markets generate an interesting and unresolved tension between the disruptive and possibly irrational South Sea bubble in 1720 on the one hand, and the strength, durability, and sheer vitality of eighteenth-century English public finance on the other. Indeed, the role of the South Sea bubble in the long-run development of modern financial markets...remains an open issue.”³²

Temlin and Voth continued to make a similar argument of selective and competitive private investors seeing success in their article titled “Riding the South Sea Bubble,” by using the unique case study of Hoare’s Bank, one of the oldest active banks in the world. By evaluating primary source data from the Bank’s executives at the time, both authors described a profitable venture for the Bank, noting:

On November 27, 1721, it was time for the partners at Hoare’s bank to collect their profits. Henry Hoare, the senior partner, had £21,000 transferred to his private account; Benjamin Hoare, the junior partner, transferred £7,000. These were not the normal distributions to bank partners at the end of an annual accounting period; the partners were reducing their involvement in trading stock and distributing profits. Proprietary trading during the South Sea bubble had been phenomenally

³⁰ Dale, *The First Crash*, 181.

³¹ Richard Kleer, “Riding a Wave: The Company’s Role in the South Sea Bubble,” *The Economic History Review* 68, no. 1 (2015): 264, 268, <https://doi.org/10.1111/1468-0289.12056>.

³² Carlos and Neal, “The Microtransactions,” 1.

successful—the partners probably earned as much in 1720 –1721 by buying and selling stock as they had over the 20 previous years.³³

Using this case study as an example, Temlin and Voth argued that a rational and impassioned private investor had the available knowledge and ability to make the profitable investment.

In all arguments, the scholars looked to find evidence that showed that the investors or the Executive Board were acting economically rational or irrational in an attempt to better understand how the events of the crash came to be. In my opinion, however, they are asking the wrong question. The question that needs to be answered about the Crash is not whether or not the various public and private stakeholders within the institutional apparatuses of the investing class or the Company were acting rationally or irrationally towards the economic indicators of day, but rather ask whether or not the economic actors of the events that eventually unfold had the agency in which to affect the outcome. Independent of whether the stakeholders were acting rationally, the argument must instead turn towards the agents that created these circumstances to begin with, and then ask if they were acting rationally.

Within this context, it is important to remember that the South Sea Company was not a traditional private enterprise, but instead a quasi-governmental Company that was developed by the institutional and economic elite of the day with the sole purpose of creating an apparatus to complete large tranches of debt-for-equity swaps. To this point, Emma Rothschild noted, “The company was itself a public-private partnership of an unusually complicated variety. It was a private (commercial) company engaged in risky long-distance exchanges, under a monopoly granted by the government, which was also a

³³ Temin and Voth, “Riding the South Sea Bubble,” 1666.

private (financial) company, engaged in transactions in public (government) debt.”³⁴

With the carrot of a monopoly on trade with South America and the stick of legal requirements for public debt holders to accept shares in the Company as payment, the Company would become a powerful economic cudgel through which agents were able to consolidate control over the institutions of the day. Privileges to the Executive and the Aristocracy were built into the foundations of the Company, and its importance was so pronounced that its governorship would eventually be given to the British Sovereign in 1715.³⁵ When final remediations were eventually made in 1721, the indicted group included several members at the highest levels of the State, including the Chancellor of the Exchequer.³⁶

With these points in mind, then, the question regarding the “rationality” of decisions made by the investor class or the Company executives of the period are focused on a small piece of the larger picture. If we are to accept the premise that historical actors are ones who can be identified as “rational,” then we must look at a separate group of important economic agents of the crisis, which included State officials, the executive, and the aristocracy. It is from these groups that the Company was designed, implemented, and administered, and from these groups we would be able to determine that “rationality”.

A second point that continued to show prominence within scholarly research was the utilization of both technical and descriptive data points in the creation of a coherent argument and understanding of the events at hand. For the scholars discussed above, their use of quantitative data was the overreaching basis for their research, which makes sense

³⁴ Rothschild, “Essay: ‘The South Sea Bubble after 300 Years,’” 1.

³⁵ “The South Sea Bubble Timeline,” 1.

³⁶ “The Crash,” 1.

because of their economics background. Yet while quantitative data is important, it cannot be shown priority over qualitative data, especially in this historical context. Within the argument, then, it is important to understand what the Company's purpose was, in of itself. While existing during the period as a Company within the historical British use of the institution, the Company itself was a technical and economic machination in which a besieged British state consolidated public debt. Rothschild gave an excellent description of this, writing that the Company was "a sequence of debt-for-equity swaps, a refinancing of British government debt on a very large scale."³⁷ The important point of this, while considering the usefulness of different types of primary data, is that the South Sea Company was the institution in which the British state looked to refinance and consolidate public debt across a wide range of private investors in order to efficiently and effectively take control of their finances.

Several contemporary scholars, including both Dale and Kleer (who are both formally trained economists), looked through the use of technical economic indicators to objectively explain the events at hand. Kleer, specifically, argued that the decisions made by the Company's executive body could be accurately determined through the use of said technical benchmarks, such as the analysis of principal securities transactions, net sales, forward contracts and lending volumes of the Company.³⁸ Dale, as well, looked towards empirical proportions in order to best explain the gravity of the situation at hand; writing, "whereas the merchant class would typically earn between £200 and £400 and leave fortunes of £5000–15,000. The great merchant princes like Sir Theodore Janssen, a director of the South Sea Company...would have incomes of over £5000 and leave

³⁷ Rothschild, "Essay: 'The South Sea Bubble after 300 Years'," 1.

³⁸ Kleer, "Riding a Wave: The Company's Role in the South Sea Bubble," 268-274.

estates of £100,000 or more.”³⁹ Contextually, these objective data points created important, foundational statistics in which scholarly research can build from. From the scholars cited, the statistical analysis that they use was narrowly focused on the investor class or the British State, but not on the individuals that created the Company. While profit was one motive for these agents, there were also qualitative reasons, such as consolidating control over an investor class, and building a power base in which to operate their scheme, which were just as important in their reasoning and must be evaluated within that context.

With that said, however, these points must be used with descriptive data to build a coherent analysis of the events at-hand. Rothschild, in describing the sheer size of the Company, noted that at the time of the Crash “that some 80 percent of all outstanding public debt would be owned by the Company.”⁴⁰ This technical detail is important, because it highlighted the monumental importance of the economic success of the Company, as well as the colossal risks of its ultimate failure. Andrew Odlyzko of the University of Minnesota, in describing the £20,000 that Sir Isaac Newton lost in the Crash, noted, “£20 000 in 1720 might be comparable to £20 million, \$20 million, or euro 20 million today.”⁴¹ This detail reiterated, in proportion, the entirety of investor’s wealth and loss that took place over the course of the Crash. But these are contemporary facts, and only one piece to a much larger puzzle. One cannot use only quantitative or qualitative data; both must be used. With this in mind, and especially within the context of both the Company and the Crash, it is then important to effectively merge the

³⁹ Dale, *The First Crash*, 6.

⁴⁰ Rothschild, “Essay: ‘The South Sea Bubble after 300 Years’,” 1.

⁴¹ Odlyzko, “Newton’s financial misadventures in the South Sea Bubble,” 11.

quantitative with the qualitative, using empirical data points to highlight and reinforce the narrative that is shown through descriptive research with primary source analysis. To that end, this paper will attempt to synthesize both qualitative and quantitative data in creating an understandable narrative surrounding the Company

The largest theme, however, and the one in which I hope to expose through my research, is the question of scope. While the Crash itself happened comparatively quickly through the course of several months in 1720, its effects on the political, economic, and social institutions of the period are diverse and wide ranging. As Dale described in *The First Crash*, “it is in that year that stock markets in London, Paris and Amsterdam, as well as in lesser centres such as Hamburg and Lisbon, experienced a contagious collapse which brought ruin to investors and threatened the stability of governments. This was the first international financial crash.”⁴² Dale’s geographical description of the contagion may very well be underselling its geographic importance for the time period. Almost simultaneously to this Crash, France was also reeling from a separate Crash from their own quasi-Governmental Company known as the Mississippi Company. Based around French holdings in North America, this was also a Company on which the South Sea Company’s corporate structure is partially based off of.⁴³ Hoppitt also described it well, writing, “What happened in 1771 was that a concept was invented to make sense of the confused events of 1720, but ever since this single label has suggested a unity to what were three different if interrelated events: the South Sea scheme, the 190 joint-stock bubbles and the crisis in international finance that began in Paris.”⁴⁴

⁴² Dale, *The First Crash*, 1.

⁴³ The South Sea Bubble, 1720 - CURIOSity Digital Collections, “The Bubble,” September 9, 2020, <https://curiosity.lib.harvard.edu/south-sea-bubble/feature/the-bubble>, 1.

⁴⁴ Hoppit, “The Myths of the South Sea Bubble,” 163.

Previous scholarly research, such as Dale, Kleer, Hoppitt, and Temin/Voth look at the South Sea Crash as a narrow event within the Imperial British institutional framework that will ripple out from its London-centric beginnings, and despite its reach. While I believe that this is a mostly correct framework in which to look at the events, the research here fails to account for a more important feature of scope that would help synthesize these data points within the framework, specifically time. Contemporary researchers looked to focus specifically on the events that directly surrounded the event itself in the summer of 1720, with only minimal time spent on the events preceding and following the Crash. Temlin and Voth also highlight this narrow focus, by using a Company case study in Hoare's Bank that may have the necessary scope to understand the underlying economic and political forces that create these circumstances, but focus almost entirely on the 1720 events. With this in mind, it is important to remember that while the Crash did happen in quick succession over the course of a season in 1720, its beginnings stretch back to the British financial crises of the late Seventeenth Century, and its creation as a Company and a monopoly have beginnings nearly a decade before, in 1711.⁴⁵ Furthermore, while the Crash itself ended quite abruptly by the end of that particular year, months of investigations would take place in the following years to appease many masters, particularly the public.⁴⁶ In point of fact, while the Crash happened in 1720, and remediation would be conducted in the years immediately after, the Company itself limped onwards, existing as an entity within the British imperial framework for another century, until 1854.⁴⁷ Some contemporary scholars, such as Gregory Price and Warren

⁴⁵ "The South Sea Bubble Timeline," 1.

⁴⁶ "The South Sea Bubble Timeline," 1.

⁴⁷ "The South Sea Bubble Timeline," 1.

Whatley have begun to investigate this financial crisis with a larger scope in limited ways, by specifically looking at the Company's effect on the slave trade and financing of the British Empire. Ultimately, their research concluded that: "the South Sea Co. deployed slave trading strategically to generate profits and attract investors when needed most—directly before and after the South Sea Bubble of 1720... [profits that] enhanced Great Britain's fiscal capacity, which could be utilized to enhance a military capacity necessary for securing an empire."⁴⁸ The distinctions made here are important first steps in reviewing the events at hand, but a particular scope on a specific industry, such as the Atlantic Slave Trade, is still too narrow. Capturing the economic and geopolitical events of Imperial Britain during the period will further clarify the foundations and failures of the British state as well as underline possible modern comparisons.

With these considerations in mind, then, the importance of accurately evaluating the Company, especially within the context of its wider reach, will need to be done holistically, and specifically through a wider lens that can provide the institutional state-of-affairs that is sorely needed when objective appraisal of the events is required. Previous secondary scholarship is correct in noting that stock prices for the Company itself were steady in the years prior to the Crash and that the aftermath would never see any real changes in annuity that would be significant. Having said that, however, the lack of stock change does not accurately reflect the circumstances in which the Company entered the Crash. Quantitative-heavy studies neglect to address the fact that the Company's stock price showed a steady set point in the years leading up to the Collapse, which would lead to investors believing this is a strong, foundational company. This is

⁴⁸ Price and Whatley, "Did Profitable Slave Trading Enable the Expansion of Empire?," 708.

another reason why quantitative and qualitative data must be used in conjunction to this research. It is those circumstances, accurately portrayed in secondary research and through the use of the primary sources of the period, that will ultimately assay the important lessons that the events can teach, specifically “Why did this happen?”, “How did this happen?”, and “Can we stop this from happening again?”

To tackle these major topics in a comprehensive and coherent way, this paper will look to organize these sources and major topics linearly, and into three major sections: The British economic crisis and the creation of the Company, the years of public debt consolidation following its creation, and the immediate aftermath of the British state after the collapse. By working through these sources linearly, the paper will look to highlight the process in which stakeholders identified the existing system in which the British state was working within, how the Company fit within that system, and how various stakeholders would look to leverage that system towards individual goals.

Chapter II.

Foundations And Beginnings

Any apt description into the full scope of the South Sea Company and the eventual crisis that would follow must start with the financial standing of England the years preceding it. Credit, debts, and financing came to the forefront of the political stage in the early half of the eighteenth century in the Kingdom of Great Britain. Military adventurism to the European Continent through the Nine Years War (1688 - 1697) and the War of the Spanish Succession (1701 - 1714) had brought neither victory nor profitability.⁴⁹ Furthermore, the current hierarchy of His Majesty's government at the time was purposely decentralized, giving various state apparatuses wide ranging powers to incur debts with little approval, oversight, or consolidation.⁵⁰ This financial crisis was deepened further by the growing political divide between the Tory-dominated Parliament and the Whig-controlled Bank of England, which held a monopoly over government lending at the time.⁵¹ Dale, in *The First Crash*, described it well, noting: "In brief, both the overall value and the unstable structure of the government's debt was undermining its credit standing and increasing its cost of borrowing...The proposal for a massive debt conversion scheme centering on the South Sea Company must be seen in the context of the urgent need to stabilize the structure of debt in order to strengthen the government's credit standing or "publick credit."⁵²

⁴⁹ "The Founding of the South Sea Company," 1.

⁵⁰ "The Founding of the South Sea Company," 1.

⁵¹ "The Founding of the South Sea Company," 1.

⁵² Dale, *The First Crash*, 42.

To combat this growing disaster, Parliament formed a committee to fully investigate the full extent of the debts incurred by the government. This committee developed a comprehensive, but sobering view of the problem at hand, but also proposed a solution. The proposal, which the economic historian Emma Rothschild described as a “distinctive interrelationship of the ‘private’ and the ‘national,’” ultimately became a set of credit-for-debt tranches, where private creditors would be required by law to surrender their debts to the newly-formed South Sea Company, in which the creditors would then be given an approximate amount of equity within the Company itself.⁵³ In this piece of early political economy, the Company’s stock exploded in share price from its formation in 1711 until its collapse in the summer of 1720.⁵⁴ This “bubble” became one of the first tests of an early modern economy in Great Britain, and the foundations in which it is built are surrounded by two separate, but equally important pieces of Parliamentary documentation. The first, *A View of the taxes, funds, and publick revenues of England* was a report generated by then Chancellor of the Exchequer, Robert Harley, which delivered an impartial, but blistering review of the significant amount of debt that is owed by the Kingdom of England. The second, *An Act for making good deficiencies, and satisfying the publick debts; and for erecting a corporation to carry on a trade to the South-Seas; and for the encouragement of the fishery; and for liberty to trade in unwrought iron with the subjects of Spain; and to repeal the Acts for registering seamen*, was the official Act passed by Parliament in order to legislate and administer their newly found loophole into the fiscal and monetary regulations of the time period. Through both of these documents, aristocrats, investors, Company executives, and members of the

⁵³ Rothschild, “Essay: ‘The South Sea Bubble after 300 Years,’” 1.

⁵⁴ Rothschild, “Essay: ‘The South Sea Bubble after 300 Years,’” 1.

political elite would be able to use an entirely legal framework in which would plague England in the many years to come.

A View of the taxes, funds, and publick revenues of England.⁵⁵

Understanding the potential disaster that would befall the state if its finances were not taken into control, Parliament appointed a special committee in 1711 to investigate and detail the full extent of the Government's debts.⁵⁶ The report, which was authored by the Conservative Member of Parliament Robert Harley and submitted to the Committee in 1712, described an impending economic crisis.⁵⁷ Working methodically, Harley began with a thorough listing of major expenditures by the Government from 1702 to 1712, with Harley's document detailing how the military expeditions of the previous years had continued to drain state resources.⁵⁸ At several points in the document, the emphasis on military expenditures can be seen through the prominent place that Harley gave these expenses within the list itself. Specifically, Harley placed the expense "For 40,000 men for Sea Service" as the first expense within each year, with an annual cost of several million pounds sterling.⁵⁹

Reinforcing the consistent and growing cost of the military, as well as the adventurism that England has been conducting, the document continued outlining total cost of the military expenditures for each year, with the costs rising significantly year-on-year over the course of the previous decade. In 1702, the first year for which Harley

⁵⁵ Harley, *A View of the Taxes, Funds, and Publick Revenues of England*, 1.

⁵⁶ "The Founding of the South Sea Company," 1

⁵⁷ "The Founding of the South Sea Company," 1

⁵⁸ Harley, *A View of the Taxes, Funds, and Publick Revenues of England*, 1.

⁵⁹ Harley, *A View of the Taxes, Funds, and Publick Revenues of England*, 2-3

reported military debts, he noted a total military expenditure of three million pounds.⁶⁰ In 1712, however, it was reported that the Government had spent 6,636,930 pounds in total towards the military, doubling in annual expenditure over the last ten years.⁶¹ Harley, now through prose, began to describe the totality of the Government's economic situation. Here, Harley wrote: "This being an indisputable authority, we may fairly build upon it, and proceed to show, that altho' Six Millions per *Annum* have been Voted, yet by the tenor of those Votes, there are divers articles that must have been provided for... This therefore being taken out, and the debts contracted being added, gives the true sum of the expense of the War, which then appears to be upon average, one Year with another"⁶² In this document, Harley looked to generate an increasing pessimistic view of the current state of the finances with the English Kingdom.

Interestingly, however, Harley ultimately does not take a hawkish view towards the finances at this time, as could be reasonably expected by what he has already outlined. Instead, Harley looked to use this document to make a more patriotic plea towards the support of British troops on the Continent. Harley wrote: "'Tis true, this is a great Sum, and what may be consider'd burdensome upon a Nation, but it ought to be remember'd that the War has always been confess'd to be both Just and Necessary, both Whig and Tory had agreed, that the Nation cannot be fecur'd from Arbitrary Power, nor the Church maintain'd in its true Confitution, but by the Protestant succession of the Crown establish'd by Law...let the charge of it be what it will, it must be born with Patience till that be gain'd"⁶³ Continuing into another section of the document, Harley

⁶⁰ Harley, *A View of the Taxes, Funds, and Publick Revenues of England*, 2.

⁶¹ Harley, *A View of the Taxes, Funds, and Publick Revenues of England*, 3.

⁶² Harley, *A View of the Taxes, Funds, and Publick Revenues of England*, 4.

⁶³ Harley, *A View of the Taxes, Funds, and Publick Revenues of England*, 4.

further argued that despite the dire financial situation that the state in, he believed that Britain is actually winning this economic war. To that point, Harley opined: “But as nothing is either great or small but in comparison with something else, to nothing Five Millions, as big a sum as it is, is but a fourth part of Twenty Millions, which it hath cost our Enemy every year...”⁶⁴ Ultimately, Harley does not produce any evidence for this point, but will continue to bring it forward throughout the entirety of the document.

These seemingly contradictory viewpoints of being both pessimistic towards the state of the Government’s finances, but also being optimistic for the path in which they would ultimately lead the Parliament of the day, Harley would then make a small reference that highlights his thoughts on Britain’s financial future. After describing the state of the Government accounts in the document, Harley then goes on to make a reference for the use of the South Sea Company in taking control of the Government finances, notably saying: “And by paying off the South Sea debt; the annual payments will be diminish’d 682,781 [pounds].”⁶⁵ Finally, we can now see some of Harley’s ultimate goals with the production of this report. Understanding the looming financial crisis for the country, in addition to lack of political allies that are available to the Conservative Party in the Bank of England, Harley recognized the fact that Parliament and the executive state will need to find creative solutions to their fiscal problems.

Harley’s arguments, however, lose some of their potency when understanding the context of the Member in question. At the point of the document’s release, Harley held the position of Chancellor of the Exchequer, the chief minister in charge of the government’s finances, while also being the original founder of the South Sea

⁶⁴ Harley, *A View of the Taxes, Funds, and Publick Revenues of England*, 4.

⁶⁵ Harley, *A View of the Taxes, Funds, and Publick Revenues of England*, 5.

Company.⁶⁶ Using this role, Harley recognized that the English Government would need to take action in order to not fall off a fiscal cliff, but he also recognized that the fiscal institutions that would usually provide an instrument in dealing with situations are controlled by a political opponent that will be unavailable to them. Therein, Harley had identified his opportunity. In a seemingly simple marriage of public statecraft and private equity, Harley argued within this document that government debt should be forced upon a Company that he himself controlled and stood to profit from.

An Act for making good deficiencies, and satisfying the publick debts; and for erecting a corporation to carry on a trade to the South-Seas; and for the encouragement of the fishery; and for liberty to trade in unwrought iron with the subjects of Spain; and to repeal the Acts for registering seamen.⁶⁷

Harley's persuasive governmental report, filled with the facts that seemed to identify that the Kingdom of England was on the fiscal precipice, eventually had the desired effect for his fellow Members of Parliament. The testimony, along with the influence brought to bear by the Committee and their political allies, would sway the House of Commons, and the preceding Act formalized the relationship between Her Majesty's Government and the newly formed South Sea Company.

⁶⁶ "The Founding of the South Sea Company," 1.

⁶⁷ Great Britain, *An Act for making good deficiencies, and satisfying the publick debts; and for erecting a corporation to carry on a trade to the South-Seas; and for the encouragement of the fishery; and for liberty to trade in unwrought iron with the subjects of Spain; and to repeal the Acts for registering seamen*, (London, 1711), 1.

In this context of eighteenth-century Britain, it is important to understand the difference in which the term “Company” was used, within the context of contemporary Britain. At the time, “Companies” existed as both a private, profit-making venture; but also as a political tool utilized the state. In the eighteenth century, quasi-Governmental institutions, such as the British East India Company, were formed by Acts of Parliament, given monopolies to specific geographic or market sectors, and then told to administer those sectors as designed by the Act that created it. The original basis of the South Sea Company, in this context, would be no different. Dale, in describing the Act and this phenomenon at a high level, noted: “The initial assets of the company were twofold. First, it was to have a trading monopoly covering ‘the kingdoms, lands etc. of America, on the east side from the river Aranoca, to the most southern part of the Terra del Fuego, on the west side thereof, from the said most southern part through the South Seas to the most northern part of America, and into unto and from all countries in the same limits reputed to belong to the Crown of Spain, or which shall hereafter be discovered.’”⁶⁸ To begin with, the original Act looked to first recognize the many debts incurred by the Government over the course of the various conflicts, as well as confirm its ability to pay these debts by ensuring that an additional six percent annual annuity would be paid in addition to repayments until the debt obligation has been fulfilled.⁶⁹ The Act stated: “are herein after mentioned, for paying an interest or annuity after the rate of six Pounds per Centum per Annum, for all laid sums of Money, Debts, and Deficiencies, until the principal money shall be paid.”⁷⁰ This is important to note for two major aspects. First,

⁶⁸ Dale, *The First Crash*, 40.

⁶⁹ Great Britain, *An Act for making good deficiencies...*, 1-5.

⁷⁰ Great Britain, *An Act for making good deficiencies...*, 5.

this section in the Act officially, and publicly, accepted responsibility for the debt that has been incurred by the British Government in the years proceeding. With a decentralized national government with devolved powers spread across several political, executive, and regional bodies, this would be an important point in which creditors could use in case of the need of a Chancery Court. Second, this Act further defined, in law, the payment terms that the British Government would look to pay back these loans. Again, this serves as an inducement for the private creditors in which the various Governmental bodies had made terms with. While some of these creditors would have undoubtedly had more favorable rates, the potential fear of a complete loss of both principal and interest can now be appeased by having a more concrete rate in which these funds will eventually be repaid. Furthermore, the Act looked to outline several new levies on a wide range of goods, including salt and tobacco, that would be used to support this standardized interest to its creditors.⁷¹ This continued on the Parliament's trend towards enticing the private creditors to take up the apparatus in which it wants to operate. By further defining and identifying the sources of income that would be used to pay back these loans, the Kingdom of England hoped that these important stakeholders would be better equipped to "buy-in" on the creative institutional apparatus that would be utilized by the state through this legislation.

With the "carrots" for the debtholders now officially codified by law in the first section, the Act then shifts to the logistics in which it would make these guaranteed payments. That is defined, via the Act, through the newly-incorporated South Sea Company.⁷² In the next section, the Act identified that these payments would be made to

⁷¹ Great Britain, *An Act for making good deficiencies...*, 6-8.

⁷² Great Britain, *An Act for making good deficiencies...*, 19.

the South Sea Company, which would distribute these payments as dividends to previous public creditors who are now part of this “joynt-stock” company, as defined by the Act.⁷³ Describing an early attempt at a “debt-for-equity” swap, the Act had now reached the point in which it outlines the bargain that it will be making with its creditors. Officially, the legislation accepted that the money that was owed by the Government is legitimate and would be paid back. That said, however, by requiring that the creditors of these loans initially accept South Sea Company shares in lieu of payment, then further defining the terms of this restitution through the dividends paid by owned Company shares, created an entirely new regulatory framework in which fiscal and monetary policy would be put into use. With hindsight, this section described how the fundamental processes necessary for a functioning regulatory apparatus have then been outfitted to a private enterprise that is not necessarily suited for such a task. Despite the fact that the Act had given the South Sea Company both codified administrative powers and capabilities, it also held regulatory responsibilities that do not include the allocation of resources or even oversight towards those functions.⁷⁴

This lack of oversight becomes even more pronounced as the Act continued in the next section in further defining roles, responsibilities and granting privileges. To begin with, the privileges granted to investors, stakeholders and Company executives became a stark theme in throughout the next section of the Act. First, the Act stipulated: “The Federal annuities or Payments, issuing out...shall be and are hereby exempted from Taxes...whatsoever.”⁷⁵ First, this existed as yet another inducement for its creditors, as

⁷³ Great Britain, *An Act for making good deficiencies...*, 22.

⁷⁴ Great Britain, *An Act for making good deficiencies...*, 22.

⁷⁵ Great Britain, *An Act for making good deficiencies...*, 28-29.

dividends being paid out by the Company to its shareholders, using the money generated through its newly developed arrangement with the state to pay this sole creditor along with its trade monopoly in the South Seas (what is present day South America) as a completely tax free income stream. Secondly, however, it also incentivized the holding of stock for non-creditors. Now existing as a government-backed and tax-free investment vehicle that could be freely traded as any other stock will assuredly garner both interest and speculation. Furthermore, the Act continued to highlight the benefits of working within this new apparatus, by noting: “And Be It Enacted, that no member of the laid intended Company, to be erected in persuance of this Act, shall,... of his or her being a member, Governor, Director, or Manager thereof, or having any stock therein only, or by reason of any other matter...from being or continuing a Member of Parliament, nor shall be judged liable to be a bankruptcy within the intent or meaning.”⁷⁶ As we can see here, the Act continued to build upon an institutional apparatus that can exploited for economic gain. First, this section codified that all Company executives would be legally exempt from any potential and future bankruptcy cases that may be brought against the Company. This potential for gift was expanded upon in the second part of this section, which directly allowed Members of Parliament to hold corporate executive positions within the Company. To highlight how significant these two privileges would become over the first several years of Company, the first Governor of the Company would eventually be the Chancellor of the Exchequer, Robert Harley, for the first three years, until it was then taken over by the George, the Prince of Wales.⁷⁷ These two powerful enticements, which can additionally be seen through the modern lens as the foundations

⁷⁶ Great Britain, *An Act for making good deficiencies...*, 30-31.

⁷⁷ “The South Sea Bubble Timeline,” 1.

of contemporary corporate liability, also created a powerful climate in which graft and exploitation could potentially thrive.

Through the Act, as constructed, the British Government and its Parliament looked to use both carrot and stick in laying down the foundations of this new financial apparatus. Beginning with the Company itself, this quasi-Governmental institution was given wide-ranging powers, specifically stemming from the monopoly of trade with Spanish and Portuguese colonies in what is now present-day South America. With the end of hostilities between Britain and these countries, many expected this to be financially lucrative, specifically in the slave trade, which was expected to be in the thousands annually.⁷⁸

With additional incentives generated for both its stakeholders and creditors, the Act further looked to entice its intended audience with potential inducements. First, Parliament fully accepted and codified any outstanding public debt owed to its creditors. Through this act of judgement, creditors now have a legal basis in which to point to if a further jurisdictional remedy is needed at some point in the future. Second, the English Government then outlined the terms in which these debts will be paid, guaranteeing that that they would be paid back, principal-plus-annual interest, while additionally securing a base rate of return. With these terms, private creditors can now feel secure that while they may not receive the full initial rate in which these loans were laid out for, they would both be made whole, financially, while also being assured that they would receive base interest compensation for their trouble. Finally, it identified several new sources of

⁷⁸ The South Sea Bubble, 1720 - CURIOSity Digital Collections, "The South Sea Company and the Slave Trade," October 16, 2020, <https://curiosity.lib.harvard.edu/south-sea-bubble/feature/the-south-sea-company-and-the-slave-trade>.

taxation that would be brought to England and its dominions in which to pay for these taxes. As one additional inducement, creditors could now look at specific tariffs to popular products, such as sugar and tobacco, in which tax revenue will be set aside for payments to these outstanding debts and obligations.

With that said, however, the apparatus in which these terms would be paid had changed drastically. Instead of private creditors directly holding these debts individually, the Act required that all creditors swap their debts to the newly formed South Sea Company, and in exchange they would receive an equivalent number of shares to the Company as compensation. Debt and interest payments would be made by the Government to the Company, and that, along with the sweeping trade monopolies given to the Company, would pay back its new shareholders in the form of dividends.

Moreover, with this powerful new fiscal tool, Members of Parliament noticed its potential and built within its regulatory apparatus the basis of which both gift, and exploitation could grow. One of these items included the Act specifying that the dividends paid by the Company to its shareholders would be done completely tax-free. As an obvious inducement to its creditors, it also opened the door for the utilization of this financial apparatus in which to avoid or mitigate a tax burden, while also opening the stock itself to a secondary stock market with a keen interest of potential speculation. Additionally, and as with other Companies at the time, it also granted the Company regulatory authority towards laws created within its domain.⁷⁹ With this regulatory power, the Company would have a nearly unmatched ability to oversee one of the most

⁷⁹ Great Britain, *An Act for making good deficiencies...*, 32-33.

active trading destinations in the New World, and with an impunity that could only be removed by the prerogative of the Crown.⁸⁰

It is with this context in mind that we need to evaluate the events of the 1720 bubble and eventual crash. While originally a creative political decision that was built around the ability for the British Government to be able to continue to perform the economic actions necessary of a state, the position that it was put in also generated the very real potential for a corruption that would eventually manifest itself over the course of the next ten years. To best appraise the decisions made by stakeholders and investors, the rules of engagement that were created for the South Sea Company identify that these financiers cannot be easily removed from the political, economic, and diplomatic elite that defined the terms that the Company needed to exist within.

⁸⁰ Great Britain, *An Act for making good deficiencies...*, 32-33.

Chapter III.

Corporate & Regulatory Alignment

With a regulatory mechanism that was defined specifically by the Parliament, the Crown, and the overall executive body of Britain, the corporate structure that would eventually take over the daily business duties of the South Sea Company would, from the beginning, become intricately linked to both the political elites and the aristocracy for the entirety of its economic existence. This would be seen specifically through the selection of its corporate officers, but also in the overall administration of the Company, and that was highlighted within their historical corporate archives. Because it would be an Act of Parliament that would officially incorporate it, the South Sea Company recognized early the significant regulatory authority that was being bestowed upon it. In order to both maintain and consolidate that privilege; the initial executives would look to further develop the corporate structure and bylaws of which the entity would be governed by. These bylaws would become of particular importance to the events leading up to the collapse, as the British Government would give the Company wide range in which to oversee and administer its own affairs within its domain.⁸¹ To that end, the South Sea Company would disseminate a 1711 abstract to potential investors and stakeholders, titled *Abstract of the Charter of the Governour and Company of Merchants of Great Britain, Trading to the South-Seas, and Other Parts of America, and for Encouraging the Fishery*, that looked to explain how the firm would operate within the rules outlined by

⁸¹ Great Britain, *An Act for making good deficiencies...*, 32-33.

the Act. Within this document, however, we can see the further reinforcement of the public-private partnership that is to develop throughout this period.

To begin with, in designing the hierarchical structure of the Company, the abstract identified thirty three specific executive positions within the Company, outlining that: “And Grants that for the good Government of the Company, there shall be forever a Court of Directors, to consist of one Governour, one sub-Governour, and one Deputy-Governour, and thirty Directors.”⁸² To underpin the position of the Monarchy within this system, the abstract directly outlined that these positions would be originally filled by appointment from the current Monarch, Queen Anne.⁸³ Further entanglements between the Company and the aristocracy are highlighted in the choices initially made. In the first creation of the Court of Directors, the Queen would appoint the Honorable Robert Harley, Earl of Oxford and Chancellor of the Exchequer as the first Governour; Sir James Bateman as the first sub-Governour, and Samuel Ongley as the first Deputy-Governour.⁸⁴ The deference towards a Sovereign within a political system that still nominally held the structures of feudalism is not unsurprising, but these appointments would reiterate the leverage in which the public systems held over a seemingly private apparatus. By appropriately masking the connections in which the South Sea Company operated within a regulatory and corporate framework that was dominated by public and political figures helped to obfuscate a failure of the public-private partnership in which neither one is held truly accountable.

⁸² South Sea Company, *Abstract of the Charter of the Governour and Company of Merchants of Great Britain, Trading to the South-Seas, and Other Parts of America, and for Encouraging the Fishery* (London, 1711), 2.

⁸³ South Sea Company, *Abstract of the Charter*, 2.

⁸⁴ South Sea Company, *Abstract of the Charter*, 2.

All-in-all, of the thirty-three executive positions that would make up the first Court of Directors for the South Sea Company, only four did not hold public office, or were part of the aristocracy, at their time of appointment. In addition to Harley, who was both a Member of Parliament and an Earl, these appointments would include Governmental Secretaries, Landed Gentry, and the Lord Mayor of London.⁸⁵ Despite this only being the initial offering, the aristocracy's leverage over the underpinnings of the Company would become more pronounced and obvious as the years would progress. Ultimately, the Prince of Wales, George I, would be named the Company's Governor beginning in 1715, a position that the residing Monarch would hold until the disestablishment of the Company under Queen Victoria in 1853.⁸⁶ Noticeably, and despite the fact that Charter ultimately outlined an election procedure for its corporate executives, the privilege shown to the aristocracy within this process further defined the lack of separation between these two groups. With this nearly unbroken line of succession of Company Governours being held by the Crown until its disbandment almost one hundred and fifty years later highlights the role in which the political class held control over a fiscal instrument that was well disguised as a private and profit-making enterprise.

The responsibilities of the Court of Directors could be further scrutinized through the examination of their oath, taken upon appointment to their position. For Governours, the oath was as follows: "I, A.B., do Swear, that the sum of 5000 l. of the Capital Stock of the Govenour and Company of Merchants of Great Britain, Trading to the South-Seas

⁸⁵ South Sea Company, *Abstract of the Charter*, 2.

⁸⁶ "The South Sea Bubble Timeline," 1.

and other parts of America, and for encouraging the fishery nhereof [sic] I am appointed or Elected to be Governour, doth at this time belong to me, in my own right and not in Trust for any Person or Persons whatsoever.”⁸⁷ While the oath itself does highlight the responsibility of the Governour to own some capital stock within the Company, the only other pledge included the “encouragement of fishery” within the South Seas region. With a lack of fiduciary duty expected by the executive departments within the Company, it becomes a larger social question in which corporate leadership can maneuver around expected norms to reach an alternative goal that isn’t specific to goals of either the Company or its shareholders.

In direct contrast of the seemingly symbiotic relationship between the Court of Directors and the aristocracy, business and public relationships with other companies and institutions within the country were discouraged and, in some instances, specifically barred. The abstract goes on to explicitly disqualify company directors from being a member of either the Bank of England or the British East India Company.⁸⁸ Specifically, the abstract cited the qualification as: “No Govenour, sub-Govenour, Deputy-Govenour, or Director of this Company, while such, shall be capable of being Govenour, sub-Govenour, or Director either of The Bank of England or East India Company.”⁸⁹ While a modern interpretation of this would deem this to be both a prudent and practical measure, it would be additionally important to highlight its apparent disregard to other measures that have already been instituted by the Parliamentary regulations and the corporate bylaws. Specifically, privileges outlined within the Act of Parliament emphasize the

⁸⁷ South Sea Company, *Abstract of the Charter*, 4.

⁸⁸ South Sea Company, *Abstract of the Charter*, 4.

⁸⁹ South Sea Company, *Abstract of the Charter*, 4.

importance of political machinations taking a part of the Company's structure and hierarchy. In contrast, the bylaws specifically exclude members of The Bank of England, an institution that was being dominated by the opponent of the British Conservative Party, The Whigs, and because of their dominance, had forced Parliament to find creative fiscal solutions, such as the South Sea Company.⁹⁰ Dale also highlighted the political expediency of such a move, noting "Finally, the Act vested the right to appoint the first court of directors in the Queen, and Harley, acting on behalf of the Crown, proceeded to pack the court with Tory appointees. Since the South Sea Company's charter also prohibited directors of the Bank of England and the East India Company from serving as the Company's directors, it was clear that a gauntlet had been thrown down to the Whig financial interest in the City of London."⁹¹ Additionally, executives of the British East India Company were specifically banned from executive positions within the South Sea Company, although no other Company's executives were explicitly disbarred or otherwise removed from consideration.⁹² This may allude to the understanding of how important the British East India's Company administration of Indian subcontinent would be for British Imperial ambitions, as the Monarch would ultimately take direct control of their administration of the course of the next century.

This overall process of empowering certain investors through the functional regulations of both the Parliamentary Act and corporate bylaws, while dissuading others, would continue to be an overall theme within the statutes itself. As a further example, public investors were both accepted and expressly approved within the charter, however,

⁹⁰ The Founding of the South Sea Company," 1.

⁹¹ Dale, *The First Crash*, 47.

⁹² South Sea Company, *Abstract of the Charter*, 4.

the document continued to outright ban others from being appointed to executive positions of power within the corporate hierarchy. These groups included: individual stockholders who held less than 3,000 shares of the Company and individuals who have sold their stake within the Company.⁹³ Through this policy, the Company's executives looked to build upon the initial "buy-in" brought forth through the Parliamentary Act that created the influx of new investors. By requiring executives to own a certain stake within the Company, the Company could then effectively tie together two potentially disparate stakeholders: speculators and financiers who now hold equity within a potentially lucrative financial opportunity, and the various political and executive figures that would continue to hold structural and decision-making powers within the Company. With this extra layer of control, closely aligned stakeholders allowed for a path of least resistance when making decisions that may not necessarily be prudent business decisions but have the overall backing of a merchant class that was represented by the aristocracy.

Outlining the executive power that the Company would be able to wield within its territories, the abstract also takes time to define some of the operative tasks within the Company's geographical domain. This was first shown through the abstract identifying that the Company would have the power to both employ and deploy soldiers to their overseas territories. Within the abstract, it was noted: "The Govenour and Company are Impower'd to choose Inferior Officers, to be employ'd in the Company's Service, as occasion requires and they think fit."⁹⁴ While similar to other arrangements that existed for British Companies during the period, specifically the British East India Company, the powers vested into this regulatory body, granted to it by the executive itself, continue to

⁹³ South Sea Company, *Abstract of the Charter*, 7.

⁹⁴ South Sea Company, *Abstract of the Charter*, 7.

emphasize the complex public-private partnership that was required by the overall body of legislation that determines the privileges and obligations of the Company. This is again touched upon in determining the administrative functions available to the Company in administering political as well as economic policy within these territories.

One point to highlight power was the abstract's call for Company officers to be able to seize property, such as ships. The abstract noted: "That all Goods, Ships, Treasure, etc., taken as a prize by the Company's Ships, Factors, Agents, etc., or by Men of War within the Company's Limits, shall belong to the Company."⁹⁵ Contemporary wisdom during the period has shown this to be a necessity when looking to administer a broad empire with the available technological tools at the time, but a secondary look at this process only highlights again the quasi-Governmental role of the Company while administering the various processes required of it to conduct the business that is expected of it.

Because this relationship between the British Government and the South Sea Company continued to be a symbiotic one, however, the consolidation of administrative power for the executive within this space could be ultimately seen within the privilege that it continued to extend to the Monarchy through the utilization of these administrative licenses. This is seen through the Company's administration of the judiciary, noting: "Her Majesty appoints Courts of Judicature in such Forts, Plantations, and Factories, as shall belong to the Corporation: the said Courts to consist of one Person Learned in the Civil Law, and two Merchants, with such other Officers as may be thought fit to be appointed by the Company in General Court."⁹⁶ It is shown within this statute that while the

⁹⁵ South Sea Company, *Abstract of the Charter*, 6.

⁹⁶ South Sea Company, *Abstract of the Charter*, 7-9.

Company will continue to hold regulatory authority within the jurisdiction that was provided to them through legislation, the overall executive control of that jurisdiction would still held under the control of the Monarch. To put a strong point on this, the abstract ends by noting that the position that they have developed with the Monarch is one that can ebb and change as the situation arises. The abstract cited: “Her Majesty for Her self and her successors agrees with the Company and their successors upon their humble suit to grant further Power and Privileges.”⁹⁷ It is from these two clauses within the abstract that show the significance in which the South Sea Company and the Crown need each other. And it is from this complex relationship of business, legal, economic and social contracts that intimately tie the decisions of one with the other, and how one’s actions cannot be entirely conducted without the other.

Like many monopolized corporations of the time period, the expectation of the South Sea Company during the first half of the eighteenth century was to make profit, but specifically to generate profit through a direct and quasi-governmental control of its domain, and with those specific actions being taken by corporate executives who also held societal and political power within the state in which the Company is governed. This charter helped emphasize not only the interconnectedness of the Company and the state, but also demonstrated how these bodies have been molded within their hierarchies to have the same goals, irrespective of their wider duties to either citizens or shareholders.

The power held by the political leaders of the state within the Company began with the direct corporate leadership that were identified through the charter and the abstract. For the entirety of the existence of the Company, political leaders in

⁹⁷ South Sea Company, *Abstract of the Charter*, 9.

Government consisted of the Company's Court of Directors, with the Company's Govenour originally being Robert Harley, the Chancellor of the Exchequer and the Earl of Oxford.⁹⁸ In under three years after its existence, this privilege would be given the current Monarch of Britain; who ultimately held the Govenour title for just under 140 years of the Company's 142 years of existence.⁹⁹ The Court of Directors would continue to reiterate how political administrators would continue to show power and leverage over the Company through its board, with initial executive offerings that would have political leaders taking the lion share of open positions, but, more importantly, eliminating the potential of an alternative power base through structural corporate reforms that effectively disbarred political opponents from building a foundation. "Buy-In" from the merchants and financiers that were part of the corporate base were found through the alignment of goals, specifically through the utilization of stringent stock requirements for executives. Finally, the symbiotic structure between the Company and the Executive was encouraged and maintained through its bylaws. On one hand, the South Sea Company would serve as the executive administrators of an increasingly large Empire. Within their purview, they were given the power to raise armies, pay officers, build fortifications, administer courts, and even seize property and dispense equitable restitution. That power, however, came from an interdependent relationship with the Aristocracy and political apparatus that they would find themselves unable to untie themselves from. This would come initially from corporate bylaws, such as the inability for certain business executives to run for Directorships, but in other ways that could be changed over the course of time. Administration came solely from the purview of the Executive, and as such, the

⁹⁸ South Sea Company, *Abstract of the Charter*, 3.

⁹⁹ "The South Sea Bubble Timeline," 1.

Company needed to maintain that strong relationship in order to be able to enjoy the privileges that were awarded to it. Ultimately, the long-term view of the South Sea Company was one of power and consolidation. By utilizing the various levers of power, whether within legislation or corporate governance, the political representatives of the executive would continue to hold sway over the decisions of the Company.

Chapter IV.

Collapse & Aftermath

Over the course of the next several years, the conditions that were created through the initial use of the South Sea Company and the overall utilization of structural mechanism that allowed for the debt-for-equity swap would become increasingly prevalent. Seeing the success of the original legislation, several members of both the Parliament and the Aristocracy investigated ways to potentially replicate that success through the capture of more and more unconsolidated corporate debt. Additionally, Britain had then entered The War of the Quadruple Alliance in 1718, which further stressed funds for both the Company and for the state.¹⁰⁰ In 1719, Company executives would begin the first of these additional swaps, taking on an additional £1.5 million in unconsolidated government debt,¹⁰¹ but the culmination of this would come to a head in 1720, in which the Parliament would pass *The Act for Making Forth New Exchequer Bills, Not Exceeding One Million at a Certain Interest*. Self-described as: “An Act for making forth New Exchequer Bills, not exceeding one million...and for lending the same to the South-Sea Company at a higher interest, upon security of repaying the same and such high interest into the Exchequer for uses to which the Fund for lessening the Publick Debts.”, the Act would significantly extend the overall size of the pool of public debt that the Company was asked to administer.¹⁰² This Act would, in addition to a £7.5 million loan, would also

¹⁰⁰ “The South Sea Bubble Timeline,” 1.

¹⁰¹ Rothschild, “Essay: ‘The South Sea Bubble after 300 Years’,” 1.

¹⁰² Great Britain, *An Act for Making Forth New Exchequer Bills, Not Exceeding One Million, at a Certain Interest : And for Lending the Same to the South-Sea Company at a Higher Interest, upon Security of Repaying the Same and Such High Interest into the Exchequer for Uses to Which the Fund for Lessening the Publick Debts (Called the Sinking Fund) Is Applicable; and for Circulating and Exchanging upon Demand the Said Bills at or near the Exchequer*, (London, 1720), 1.

look to consolidate an additional £31.5 million in public debt.¹⁰³ 1720 would be the zenith of how much debt the Company would ultimately take on, with Rothchild estimating that this would peak at approximately eighty percent of all existing public debt at the time.¹⁰⁴

Ultimately, these moves would further drive the course of speculation in the markets, as the increased use of the Company for guaranteed interest rate payments, along with the public knowledge of several high-profile investors such as King George I, would assuage any fears of an imminent shock to share prices. Additionally, legal considerations were taken to allay fears, through the use of “The Bubble Act”, which passed in June.¹⁰⁵ Kler, in “Riding a Wave”, would describe this as: “This statute is best known for its attempt to halt the year’s surfeit of new stock issues by a host of dubious companies. But it also specifically authorized large issues for two new insurance companies in exchange for their contributions of £300,000 each to the ‘Civil List’—the annual grant for the expenses of the royal household.”¹⁰⁶ Over the course of approximately seven months, from January 1720 to July, share prices would rise from approximately £125/share to just over £950, an approximately 660 percent rise.¹⁰⁷ The markets, however, would move back almost as quickly, with share prices returning to £185 by December.¹⁰⁸ Shaken by such a precipitous drop, with many individuals losing their wealth, savings, and perhaps their livelihood, both the markets and the country demanded answers and potential restitution.

¹⁰³ “The Bubble,” 1.

¹⁰⁴ Rothschild, “Essay: ‘The South Sea Bubble after 300 Years’,” 1.

¹⁰⁵ Kler, “Riding a Wave...,” 282.

¹⁰⁶ Kler, “Riding a Wave...,” 282.

¹⁰⁷ “The Bubble,” 1.

¹⁰⁸ “The Crash,” 1.

In what would follow would be perhaps the most obvious way to highlight the connection between the South Sea Company and political and aristocratic forces of the period. Through the successive investigations, imprisonments, and restitutions that were taken by the Government, and under the direction of Robert Walpole, a Whig politician who would be named Chancellor of the Exchequer and Leader of the House of Commons in 1721,¹⁰⁹ several Parliamentary Acts were passed in quick succession in order to both prioritize and expedite the upcoming investigation. This legislation included the barring of Company executives from leaving Britain as well as a required inventory of their estates for possible remediation.¹¹⁰

In 1721, the Parliament began major inquiries through both the House of Lords and the House of Commons' Committee of Secrecy to investigate two major points. First, Parliament wanted to be able to fully understand what had happened that had caused such a catastrophic failure within the capital markets. Second, Members of Parliament wanted to be able to thoroughly identify if there were any potential remedies it could provide to the public, by way of the Company's assets, that could potentially offset the damage that was caused.¹¹¹ Ultimately, the Committee would generate seven separate reports over the course of February to June of 1721.¹¹²

While the Parliament would ultimately hear the testimony from dozens of Company executives, financiers, aristocrats, and even Members of Parliament, the main driver of these reports would be the overall testimony of John Blunt. Blunt, a businessman and confidant of Robert Harley, had helped Harley develop the original

¹⁰⁹ "The South Sea Bubble Timeline," 1.

¹¹⁰ "The Crash," 1.

¹¹¹ "The Crash," 1.

¹¹² "The Crash," 1.

debt-for-equity swap scheme that was employed by the Company, and was someone who continued to serve within the Company at some capacity for the next ten years.¹¹³ It is from Blunt's significant testimony, however, that we can begin to see the extent of what had happened to the larger British economy through the South Sea Company, and in particular the public-private partnership that had developed between the Company and public officials.

By highlighting that connection between Harley and himself, Blunt would ultimately testify before the Committee of Secrecy several times to speak about the events that had transpired over the last decade. This would culminate, however, in a book that Blunt would publish, which outlined several of the major political entities that would eventually be ensnared by the Parliament's investigation. Titled *A true state of the South-sea-scheme, as it was first form'd*, Blunt described three major political figures of the period that would be behind the scheme; John Aislabie, who served as Chancellor of the Exchequer from 1718 to 1721, James Craggs the Elder, who served as joint Postmaster-General since 1715, and Earl Stanhope, a military peer who was awarded their title in 1718 and who was a close confidant of King George I.

By first identifying the Honorable John Aislabie, Blunt would describe him as a very willing participant of the scheme who had looked to expand its reach across as many markets as possible. In describing a meeting with the Chancellor, Blunt remarked: "When Mr. Aislabie had persu'd the scheme, he seemed to approve of it in the Main, and said That the Government was possess'd of *Nova Scotia*, and the French part of Saint Christophers...and then brought in no advantage to the Publick, but if cultivated and

¹¹³ "The Founding of the South Sea Company," 1.

improved in such a manner as might be by a Company with so great a Capital; they would not only increase the Publick revenue by the Duties of their Products, but also be made very advantageous to the Company.”¹¹⁴ From Blunt’s interpretation of the his conversations with Aislable, he felt confident that the scheme utilized by the South Sea Company was one of an indeterminate success, and one that should be utilized further by both the private and public partnership to continue to build wealth for Britain. Blunt would further remark that Aislable had spent time with Blunt to convince him to help build a team of Parliament Members and aristocracy to help convince the King to grant the creation of another such Company. Blunt recalled: “And as the Publick were to gain so much by the Scheme, he was of the opinion the King and Parliament might be prevailed upon to make a Grant of them to the said Company; and, they as well as the sole trade to Africa.”¹¹⁵ From Blunt’s description of the Chancellor, he was not one looking to shy away from the scheme itself, but rather to expand upon its presence into several other regions of the World, specifically Africa.

Blunt would also describe Earl Stanhope as another very willing participant in the South Sea Company and its overall scheme. In recalling the conversation with the Honorable Member, Blunt would recall that the overall goal for Stanhope was to attempt to capture all forms of public unconsolidated debt under the South Sea Company’s scheme. Blunt recalled: “When these papers were shew’d to Earl Stanhope, his Lordship declared his Appreciation of bringing all of the funds into one Corporation; and thought the Scheme was itself to be executed by the South-Sea Company; but judged it not

¹¹⁴ Blunt, Sir John, *A true state of the South-Sea-scheme, as it was first form’d &c. with the several alterations made in it, before the act of Parliament pass’d.* (J. Peele, 1722), <http://hdl.handle.net/11150/4890>. 11.

¹¹⁵ Blunt, *A true state of the South-Sea-scheme...*, 11.

advisable to make the taking in of the Bank [of England] any part of the Proposal.” In this admission, Blunt not only noted that Stanhope was actively searching for additional funds that can be captured by the South Sea Company scheme, but he was also vigilantly aware of the possibility of failure if opponents, such as the Bank of England, become involved with the scheme. Additionally, Blunt remarked that Stanhope also wanted to see Aislabie’s Africa scheme to move forward. On that subject, Blunt remarked that: “His Lordship [Stanhope] did also declare his Opinion in favor of granting the South-Sea Company the sole Trade to Africa, but did not approve of the attempting settlements in the South-Seas. And instead, thereof, desired it might be considered what money the South-Sea Company could advance to the Publick, for this Liberty of enlarging their Capital-Stock.”¹¹⁶ Blunt remarked that both Stanhope and Aislabie would go on to pursue their Africa scheme, though it was deemed too late to undertake before the 1720 crash.¹¹⁷

Finally, Blunt would only mention Craggs briefly, but would ultimately describe him as a willing participant, if simply just a follower. In describing a run of meetings that Blunt had attended with both Craggs and Aislabie, he would remark “In the Evening, the Committee attended the Gentleman of the Bank, in the presence of Lord Townshend, Mr. Secretary Craggs, wherein it was agreed, That the Interest of the Exchequer-Bills should be advanced to 2d. per diem, or 3d. provided the same could be lawfully done.”¹¹⁸ In this conversation, Blunt was participating in discussion regarding *The Act for Making Forth New Exchequer Bills, Not Exceeding One Million at a Certain Interest*, which would ultimately prove to be one of the largest debt-for-equity swaps attempted by the

¹¹⁶ Blunt, *A true state of the South-Sea-scheme...*, 10.

¹¹⁷ Blunt, *A true state of the South-Sea-scheme...*, 11.

¹¹⁸ Blunt, *A true state of the South-Sea-scheme...*, 11.

Parliament and the Company, and would go into effect mere weeks before the Company's stock would collapse.¹¹⁹

After Blunt's testimony to the Committee on Secrecy, along with his own retelling of the events at hand in his self-published manifesto, Parliament felt that they had enough evidence to move forward with both punishment and restitution. In describing potential remediations, the House of Lords ordered: "The House according to Order was put into a Committee on the further consideration of the Bill for raising Money of the Estates of the late Directors...allow'd Mr. Aislable and the administrators of Mr. Craggs to deliver up their Deeds, Evidences, and Accounts."¹²⁰ While several corporate executives were ultimately stripped of their wealth in retaliation, proceedings of particular intent focused on John Aislable, Chancellor of the Exchequer, and James Craggs the Elder, Postmaster-General, as both men were public officers intimately involved with the Company and had actively promoted the investment and utilization of the South Sea Company.

Looking further within the legislation, the document also begins to describe the many charges Parliament looked to bring forth to the Company's directors. Here, the document stated: "Resolv'd. That the directors of South-Sea Company, having order'd great Quantities of stock to be bought for the service of the Company, when Stock was at very high prices, under the pretense of keeping up the price of Stock...such directors were thereby guilty of a notorious fraud and breach of trust."¹²¹ As the investigation into

¹¹⁹ "The Crash," 1.

¹²⁰ Great Britain, *Proceedings of the House of Lords in relation to the late directors of the South-Sea Company and others : with the report of their lordships on the said proceedings : to which is added the conference with Commons relating to Mr. Aislable and Mr. Craggs, with their Lordship's proceedings thereupon* (London, 1721), 26.

¹²¹ Great Britain, *Proceedings of the House*, 8.

the collapse continued, eyewitnesses to the South Sea journal noted that John Aislabie was given 27,278 shares of the company on April 18th, 1720, while James Craggs was given 5,000 shares on June 10th.¹²² With this information, Parliament went forward to question the Company's directors further regarding these two, and it was eventually reported to the Committee that Aislabie continuously bought and was given significant shares in the Company's stock over the course of 1718 - 1719, ultimately owning approximately 27,000 shares of the Company.¹²³ While the Craggs' investigation was eventually stopped due to his untimely death, Aislabie's contribution towards the Company's fraud would lead him to be expelled from the Commons and eventually imprisoned in the Tower of London.¹²⁴

These punitive actions taken by Parliament were not uncommon in the years following the collapse of the Company, and public opinion only grew in anger and anticipation as the investigations mounted. Emma Rothschild, in describing the view, wrote: "It was the political juxtaposition of the 'private' and the 'public,' above all, that dominated the public reception of Cato's Letters across colonial North America, and that has endured for so long. 'Monsters as they are,' the authors of Cato's Letters wrote of the South Sea directors in November 1720, "let them only be hang'd, but hang'd speedily . . . and let the Publick be their Heirs."¹²⁵

The final attempt that would be taken by the Parliament in an attempt to equitably redistribute lost funds from the collapse would come from *The Act for Making Several*

¹²² Great Britain, *Proceedings of the House*, 21.

¹²³ Great Britain, *Proceedings of the House*, 24.

¹²⁴ Cruickshanks, Eveline, Stuart Handley, D. W. Hayton, and Clare Jackson, "The History of Parliament: The House of Commons, 1690-1715." *Historical Journal* 48, no. 2 (2005): 567-87.

¹²⁵ Rothschild, "Essay: 'The South Sea Bubble after 300 Years'," 1.

Provisions to Restore the Publick Credit Which Suffers by the Frauds and Mismanagements of the Late Directors of the South-Sea Company and Others, which was passed in 1721.¹²⁶ It was marketed as “An Act For Making Several Provisions to Restore the Pubick Credit, which suffers by the Frauds and Mismanagements of the late Directors of the South-Sea Company, and others.”¹²⁷ Parliament would attempt to use the Act as a measure of goodwill, and with a particular focus on debt forgiveness for individuals and businesses that had declared bankruptcy after the results of the crisis. In addition to debt forgiveness, the Act would go on to: “Enabling the South-Sea Company to increase their present Captial Stock and Fund by redeeming such Publick Debts and Incumbrancies are therein mentioned; And for raising money to be applied for lessening reversal of the Publick Debts and Incumbrancies.”¹²⁸ Using these two major mechanisms, both Walpole and the Parliament were acknowledged for helping stabilize the country’s economy and capital markets through the aftermath of the collapse.

It is from this investigation, however, that we see the true extent of the cooperation between public and private. After the stock collapse in 1720, Parliament was forced to act in such a way that that would not only punish those responsible, but would ultimately be able to restitute effected parties, such as they were. Through their own investigation, and through the testimony of Company insider John Blunt, Parliament was able to quickly identify several members within their own Government that were at fault, including the Chancellor of the Exchequer, the Postmaster-General, and a close confidant

¹²⁶ “The Crash,” 1.

¹²⁷ Great Britain, *An Act for Making Several Provisions to Restore the Publick Credit, Which Suffers by the Frauds and Mismanagements of the Late Directors of the South-Sea Company, and Others*, (London, 1721), 1.

¹²⁸ Great Britain, *An Act for Making Several Provisions to Restore the Publick Credit, Which Suffers by the Frauds and Mismanagements of the Late Directors of the South-Sea Company, and Others*, 1.

of the King. Parliament would eventually implicate several more Company directors in the scheme and strip their wealth towards the public good, but these charges would never extend to positions held higher than Aislabie, and despite the fact that the Monarchy would continue to hold the title of South Sea Company Govenour for the next one hundred years.

The South Sea Company and its subsequent collapse would create a public panic so large that Parliament would be forced to investigate and incriminate members of its own legislative body, but it would also develop the mechanism that can be used provide restitution towards its victims. Robert Walpole and his Government would ultimately use the success of the investigations and restitution to become the first de-facto Prime Minister of England and save the credibility of the British Government, but these lessons would not be learned for other major Companies with similar financing and monopoly issues. The British East India Company, in particular, would continue to function in many ways similarly to the South Sea Company until the Company's nationalization by the Imperial British Government over one hundred years later.¹²⁹ Finally, the aftermath also highlighted the various ways in which the early modern British economy would be vulnerable in an aggressively changing political and economic dynamic. The aftermath of the Company's collapse, while sufficient to placate the affected parties and continue the established hierarchy of public office and private enterprise, it was not nearly large enough to underline the overall weakness and potential pitfalls of the systems foundations.

¹²⁹ Rothschild, "Essay: 'The South Sea Bubble after 300 Years'," 1.

Chapter V.

Conclusion

When we consider the events that would ultimately take place in eighteenth century Britain through the creation, success, crisis, and collapse of the South Sea Company, the complex interweaving of both private enterprise and the Kingdom of Great Britain is such that the decisions made by the Company could have only been done with the acknowledgement and overall approval of the other.

Beginning before the Company was even yet conceived as a structural entity, the Government of Queen Anne was at the precipice of a fiscal, financial and political collapse of extreme magnitude. Having only finished the Glorious Revolution of 1688 mere decades before, that, along with the Union of the Crown in 1707 had placed both the Crown and Parliament in a delicate political position. These events were exasperated, financially, by the inherently decentralized governmental departments that now made up the executive and regulatory authority within specific areas. Because of this, regionalized authorities with lending powers were able to build up substantial amounts of debts without the potential oversight of a federalized body, such as Parliament.¹³⁰ Two wars, including the Nine Years' War (1688 – 1697) and the War of Spanish Succession (1701 – 1714) had left Britain both militarily weak and financially unstable. Even though Britain had ultimately won these military conflicts, very little was gained by the Kingdom, with many territorial concessions that were made to allies, or, in particular, to the Dutch Republic.¹³¹ Internally, there were continued and constant political infightings between

¹³⁰ “The Founding of the South Sea Company,” 1.

¹³¹ “The Founding of the South Sea Company,” 1.

the two major British political parties of the day, the Conservative Party, and the Whigs. These political squabbles would extend across all of the state's existing administrative divisions, but it would be felt very acutely within the financial realm. The Parliament of the time, dominated by the Conservatives, looked to use the existing financial mechanisms of the period, most notably lending, in order to maintain a financial status quo that would allow the Government to keep functioning. The Bank of England, the financial and governmental institution that was responsible for Government lending and held a monopoly over the lending process, was dominated by the Whigs, and flatly refused to authorize any additional loans to the Government.¹³² Although each of these factors were somewhat independent of each other, each of them contributed to the uneven financial footing that the contemporary Government had found themselves embroiled within.

Robert Harley, the Earl of Oxford and the Conservative Chancellor of the Exchequer, would author a report, titled *A View of the taxes, funds, and publick revenues of England*, that would neatly and succinctly capture the dim financial state of the Kingdom. Highlighting the vast amount of military expenditure, which would grow from three million pounds in 1702 to over six million pounds in 1712, Harley used this report to empirically identify the areas of Government spending that were both significant and unsustainable.¹³³ Additionally, Harley would use this report as the pulpit in which to belay both his findings, but also his views on the potential future of the British financial system. Harley argued that while the various military and governmental expenditures that have taken place over the past decade were excessive and unsustainable, he still believed

¹³² "The Founding of the South Sea Company," 1.

¹³³ Harley, *A View of the Taxes, Funds, and Publick Revenues of England*, 2-3.

that they were necessary, and, as such, the Government needed to find a way in which to continue to make these decisions while being able to any financially solvent.¹³⁴ It is in this document, and the following debate within the chambers of Parliament that we begin to see the idea of a “South Sea Company” scheme. Born from the mind of the Chancellor of the Exchequer as a creative political solution to what was both a political and monetary problem highlights the Company’s foundations in such a way that make for the basis of these decisions in the coming years.

Harley and the Committee would eventually be able to convince enough of their Parliamentary allies, and, in 1712, Parliament would then go on to pass *An Act for making good deficiencies, and satisfying the publick debts; and for erecting a corporation to carry on a trade to the South-Seas; and for the encouragement of the fishery; and for liberty to trade in unwrought iron with the subjects of Spain; and to repeal the Acts for registering seamen*. This Act would become the political basis for the institutional mechanism that would become the South Sea Company and would fundamentally change how the Kingdom of Great Britain would access and utilize potential lines of credit. At its essential core, the Act would lay out the administrative process in which current and future debts would be managed by the agents. First, Parliament codifies and fully accepts the existing balances of all of the current and outstanding public debt, while further announcing that all of these debts would be paid back, in full, at a specific and standardized annual interest rate that would be common across all accounts. To ensure that these payments are made, Parliament would also be introducing new taxes on popular goods, such as tobacco, whose revenues would be

¹³⁴ Harley, *A View of the Taxes, Funds, and Publick Revenues of England*, 4.

specified for the payback of these debts.¹³⁵ In return however, public debt holders would now be forced to relinquish their debts to the South Sea Company, a newly formed Company in which these public debtholders would now receive an even exchange of equity within the Company.¹³⁶ Finally, the Act would look to further define the Company and the mechanism that it has just created. Specifically, the legislation would go on to define the privileges of the Company and its shareholder, which would include the Company's complete monopoly on all trade conducted in the South Seas, as well as a declaring that revenues and dividends paid by the Company would be tax free.¹³⁷ With the decisions made by the Parliament within this Act, it became clear that the decision made surrounding the creation of the Company were as much political as they were financial. In addition to the regulatory changes, several inducements were included to the country's public debt holders, including the recognition of the debt owed, a potentially risk-free return rate, and an exemption of taxes on their potential payouts. All of this was used by the political system of the Kingdom to receive their "Buy In" to the overall change of the political and financial apparatus. Additionally, the statue was further used by the political and economic elites to further consolidate themselves with the Company, by specifically allowing Members of Parliament the ability to stand for corporate positions, while simultaneously exempting them from liability if the scheme should fail.¹³⁸ Through the decisions made by Parliament in designing this Act, we can identify

¹³⁵ Great Britain, *An Act for Making Good Deficiencies, and Satisfying the Publick Debts: And for Erecting a Corporation to Carry on a Trade to the South-Seas; and for the Encouragement of the Fishery; and for Liberty to Trade in Unwrought Iron with the Subjects of Spain; and to Repeal the Acts for Registering Seamen*, (London, 1711), 4.

¹³⁶ Great Britain, *An Act for Making Good Deficiencies...*, 10.

¹³⁷ Great Britain. *An Act for Making Good Deficiencies...*, 12.

¹³⁸ Great Britain. *An Act for Making Good Deficiencies...*, 14.

the structural and legal foundations that were used to consolidate financial power through this new apparatus.

The identification of the South Sea Company as an inherently political machination can be further gleamed through a close look at their charter and the bylaws that would look to define the roles, responsibilities, and obligations of both the Company and its members. Starting at the highest offices, the Company's charter would define a Court of Directors that would be made up of thirty-three separate members, including a Govenour, sub-Govenour, and Deputy Govenour. These are positions that would be taken up almost immediately by the various political vestiges of the state from its very inception, with Robert Harley being named the Company's first Govenour, and with the King George I being awarded the corporate position only three years later.¹³⁹ Furthermore, the company's bylaws would be proactive in consolidating both political as well as financial power through the governance of its activities. Specifically, their regulations would deny the ability for individuals from designated organizations from joining the decision-making board. This would include both political organizations, such as The Bank of England, but also other business entities, such as the British East India Company.¹⁴⁰ These explicit decisions would help identify the power structure that the Company and its leaders were looking to build, as any potential opponents would find institutional roadblocks from gaining both influence and power under such circumstances. Finally, the bylaws also looked to further entrench the power in which the Monarchy holds over the Company. Specifically, the Abstract looked to define the

¹³⁹ "The Bubble," 1.

¹⁴⁰ South Sea Company, *Abstract of the Charter of the Governour and Company of Merchants of Great Britain, Trading to the South-Seas, and Other Parts of America, and for Encouraging the Fishery*. (London, 1711), 1.

administrative actions that will be expected of it, including the hiring of overseeing British officers for their territories, the building and administering of forts for defense Courts of Justice for legal proceedings, and even outlining the ability for the Company's agents to seize property, such as ships and cargo, to deliver justice to a populace within their domain.¹⁴¹ That said, however, the Abstract was careful to defer to the Monarch, noting that the powers imparted upon in the Abstract are by the Executive's privilege, while additionally acknowledging privileges that still rest with the Sovereign, such as the appointment of court Justices.¹⁴² It is through these considerations that we can see the consolidation of control that the executive will continue to hold over the Company. Through its directors, direct control of the various aspects and functions of the Company would be administered and overseen by the political agents of the time. This is seen through the election of King George I as its Govenour, a position that would be held by the Monarch for just under 140 years of the Company's existence.¹⁴³ Structural hinderances have been built into the fabric of the Company's bylaws that would make it more and more difficult for political opponents to build a base of power within the Company that could potentially challenge it one day. Finally, the bylaws themselves note deference towards the political executive of the time by highlighting the privileges that are held by the Company due to the executive but could just as easily be taken away.

Over the next decade, the Company and its political elite, would routinely exercise power and consolidate control through for the Company through the use of various legislation. Additional tranches would be taken on periodically by the Company,

¹⁴¹ South Sea Company, *Abstract of the Charter...*, 13.

¹⁴² South Sea Company, *Abstract of the Charter...*, 13.

¹⁴³ "The South Sea Bubble Timeline," 1.

through Acts of Parliament that would have the Company take on unconsolidated public debt from stakeholders, issue additional Company shares, and even produce loans for the Government that were backed by the Company.¹⁴⁴ This would come to a head in 1720, in which the Parliament would pass *The Act for Making Forth New Exchequer Bills, Not Exceeding One Million at a Certain Interest*. This Act would require the South Sea Company to take on an additional £31.5 million in unconsolidated public debt, while additionally issuing the Government a loan of £7.5 million.¹⁴⁵ With these new revenues coming in, investors and speculators would fly to the potentially profitable Company's stock, buoyed by the Company's admittance that major political figures, such as the King himself, were investors within the Company.¹⁴⁶

The South Sea Company's stock "bubble" would take place from January to July of 1720, with its highest price reaching just over £925 a share from £125 a share over that seven-month period.¹⁴⁷ The collapse, however, would be just as precipitous, as that price would fall back down to approximately £180 a share by December. With such a huge speculative bounce, along with an equally depressive collapse, led to the fortunes of many financiers, investors, shareholders, and regular individuals to be both bankrupt and destitute, and they demanded answers from Parliament.

Parliament, along with Robert Walpole, the Leader of the House of Commons, would take the public's heed and immediately begin investigations into the South Sea

¹⁴⁴ "The South Sea Bubble Timeline," 1.

¹⁴⁵ Great Britain, *An Act for making forth new Exchequer bills, not exceeding one million, at a certain interest; and for lending the same to the South-Sea Company at a higher interest, upon security of repaying the same and such high interest into the Exchequer for uses to which the fund for lessening the publick debts (called the sinking fund) is applicable; and for circulating and exchanging upon demand the said bills at or near the Exchequer*, (London, 1720), 1.

¹⁴⁶ "The Bubble," 1.

¹⁴⁷ "The Bubble," 1.

Company in 1721, requiring the Company to hand over all of its internal communications while simultaneously barring the Company's Directors from leaving the country until the conclusion of the investigation.¹⁴⁸ This investigation would take several months, but one key witness would appear before the Parliament's Committee of Secrecy, John Blunt. Blunt, a businessman and a Company administrator, was a close confidant to Robert Harley and was one of the original members of the Company since its inception.¹⁴⁹ From his position of prominence and long tenure at the Company, Blunt was well poised to describe to the Committee the scheme that the Company was involved with, Blunt would eventually testify before the Committee in exchange for leniency by the Committee.¹⁵⁰ From his report, along with a manifesto that he would self-publish about his accounting of the Company's deeds, Blunt would ultimately call out three specific Company individuals as ranking members and perpetrators of the scheme that unfolded: John Aislable, James Craggs the Elder, and Lord Stanhope.¹⁵¹

John Aislable, a Member of Parliament and the current Chancellor of the Exchequer, was identified by Blunt as a willing and enthusiastic participant within the South Sea schemes, specifically noting that it was Aislable that was looking to expand the scheme into additional, and potentially more lucrative territories, such as Africa.¹⁵² His views were shared by Lord Stanhope, a recent military peer who happened to be confidant of the King, and the two planned on building a coalition of financiers, corporate executives, and Members of Parliament to design the political scheme that would allow

¹⁴⁸ "The Bubble," 1.

¹⁴⁹ "The Founding of the South Sea Company," 1.

¹⁵⁰ "The Bubble," 1.

¹⁵¹ Blunt, Sir John, *A true state of the South-Sea-scheme, as it was first form'd &c. with the several alterations made in it, before the act of Parliament pass'd*, (J. Peele, 1722), <http://hdl.handle.net/11150/4890>, 1.

¹⁵² Blunt, *A true state of the South-Sea-scheme...*, 11.

the Company to expand into Africa.¹⁵³ James Craggs the Elder, another willing participant and the joint Postmaster-General, became a part of that group, while Blunt additionally identified Craggs as a supporter of the most recent *Exchequer-Bills* Act.¹⁵⁴ Each of these individuals would eventually be brought forth to the Committee and to the House of Commons to testify on their actions. All three would eventually be found guilty and disgraced, along with several of their colleagues who would ultimately be stripped of their wealth, and even imprisoned.¹⁵⁵

With Parliament and a Government called to act by public outcry for restitution and justice, the process reiterates the Government's responsibility for the actions taken by the Company, along with its failure in being able to adequately regulate the Company's actions while being so intimately connected with it. Noticeably, the three major stakeholders that would take prominent positions of infamy during the Parliamentary investigation and trial would each have their own individual and significant claim to the political state at the time, one of which was the Lord Treasurer and Chancellor of the Exchequer. Additionally, we can also loosely underpin the fact that the Parliament was able to deftly sidestep additional political concerns by avoiding the King's Governorship of the Company, a position he and his kin would continue to hold for the rest of the Company's years of solvency.¹⁵⁶

Through these events, and specifically through a wider lens, we can capture a much more complete picture of the South Sea Company, the crisis in 1720, the collapse of its stock, and the complex political, financial, and social constructs that were

¹⁵³ Blunt, *A true state of the South-Sea-scheme...*, 10.

¹⁵⁴ Blunt, *A true state of the South-Sea-scheme...*, 7.

¹⁵⁵ "The Bubble." 1.

¹⁵⁶ "The South Sea Bubble Timeline," 1.

developed to produce such circumstances. Inherently, the creation of the Company itself was a political decision, with the Kingdom of Great Britain on the precipice of a fiscal and monetary collapse, and the Government needed to find creative solutions in which to be able to stabilize these accounts. By developing a radical new financial mechanism in which to better control the debts and obligations for the Kingdom, the Parliament found their solution, but political entities also saw this as the potential for profitability and exploitation. As the years ran on, the Company and the Government would look to further centralize that fiscal mechanism towards a steadily growing pile of public debt, while these same political entities would continue to look towards the Company as a way to further consolidate political control over the various individuals and institutions that would need to do business with it. Finally, the country would be shaken to its core through the overuse of the Company's unique apparatus as a means of maintaining that fiscal control within the country. The markets and the British public would demand that people are held to account, and Parliament would acquiesce, eventually stripping company leaders of their wealth and sending political leaders to prison. By reviewing the complete picture left by the historical record of the period, we can very easily identify that the causes of the South Sea Company's collapse, while financial in nature, are much more closely aligned with the political issues and dogma of period. Ultimately, this highlights the power of politics in economics, while issuing a stern warning toward the potential adverse effects of either one against the other.

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