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Politicians and Public Reaction to the South Sea Bubble: Preaching to the Converted?

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Politicians and public reaction to the South Sea Bubble: Preaching to the converted?

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Abstract

The South Sea Bubble of 1720 has commonly been thought of as a disaster for the stock market and Georgian society. Recent revisionist work has queried whether the economic dislocation was indeed severe. The South Sea Company itself continued to trade in slaves with the Royal Navy's assistance. However, the outcry at the crash led to the trial of the South Sea Company directors for bribery. It also helped to establish Robert Walpole as the pre-eminent statesman of his generation. This paper seeks to show that there was a silent majority who had either gained from financial innovations or were untouched by them. The vocal opponents of the South Sea directors had incentives to overstate their losses. Some were the type of uninformed traders who were likely to lose out in any stock market. Their presence was used as an excuse for a parliamentary enquiry. This paper will follow the rhetoric used to justify the witch-hunt and the means by which politicians sought to raise support for their activities. Evidence from pamphlets and the Commons debates will be used. Politicians benefited from a culture which condemned 'stock-jobbing' and the nouveau riche. However, the only real losers were those who had been involved in Exchange Alley in the first place. The show trials did not lead to the closure of the Alley. Many of the directors were quietly given back some of their confiscated property. The trials were an early example of political spin.

Keywords: South Sea Bubble, financial market crash, government policy, stock market, history of economic thought
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The stock market crash of 1720, known as the South Sea Bubble, has been blamed upon the fraudulent behaviour of the company directors, 'stock-jobbing' or gambling mania.[2] Sir Robert Walpole is often thought of as the man who saved the country from ruin or else as the Skreen-Master General, who spared the fraudsters. In reality, Walpole protected members of the Court interest from being investigated for taking bribes. The company directors were not solely responsible for the high price of shares and were scape-goats. This paper shows that public outrage about the crash had little to do with the actual activities of traders in the stock market. Moreover, the landed elite vented its feelings about its favourite targets of foreigners, non-Anglicans and women. Politicians, who usually came from this elite, condemned the company directors as being complete fraudsters. Although there was evidence to support the charges of bribery, many of the other claims made were not substantiated. Little of the debate had much grounding in finance. Walpole took advantage of the uproar to advance his own interests. He was lenient to the directors and others in order to promote his own popularity with the Court interest. This meant that he was unpopular with the country at large. However, his decision to declare financial contracts valid did reduce uncertainty. The country recovered, as the economic dislocation had not been severe in the first place. The crash has left behind at vast amount of source material created to commemorate the Bubble. The volume of such evidence does not mean that the theories of fraud or gambling mania are correct. This was immaterial to Walpole's success, as his career was advanced by his decision to protect important members of the court. To do this, he did not need to uncover the real nature of the problem and in any case, the relevant financial theories were not developed until centuries later. The South Sea Bubble is so well-known but was so little understood at the time. This should be remembered when using contemporary sources.

I

The South Sea Company was founded in order to help restructure part of the National Debt and to trade to Spanish America. It held the Asiento, a slaving monopoly issued by the Spanish Crown. Its slaving activities were undertaken with the assistance of both the Royal African Company and the Royal Navy.[3] Holders of government annuities were offered the possibility to transfer their claims on the government in exchange for South Sea Company shares. This meant that the debts were consolidated into one lot and attracted a lower rate of interest for the government. The new shareholders were to benefit from the trading profits of the company and from a fee which the government would pay to the company. The share prices on the London stock market rose sharply in 1720, especially in the South Sea Company. The crash of the share price in September of that year brought about accusations of corruption and fraud on the part of the South Sea Company directors. The financial bubble was later named the South Sea Bubble.

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[2] The author would like to thank the British Academy for an Overseas Conference Grant to attend this conference.

[3] Helen Julia Paul, "Joint-stock companies as the Sinews of War: The South Sea and Royal African Companies", in *War, State and Development: Military Fiscal States in the Eighteenth Century*, ed. R. Torres, 2008.

The standard histories of the Bubble rely heavily on the works of Carswell, Dickson and Scott.[4] The familiar story is that the South Sea trade could never have succeeded. This is often assumed to be because the company's directors had no real interest in the trade, or that they were merely incompetent.[5] These claims have been refuted by quantitative analysis of the company's shipping data.[6] The company continued its shipments of slaves even after the Bubble crisis and after a brief period of inactivity due to hostilities between Spain and England. It succeeded in shipping thousands of people across the Atlantic. It may not have been as successful as the East India Company, but it was not uninterested in its trading monopoly or incompetent.

Another common problem in the literature is the confusion regarding the legality of the company directors' conduct and their ability to increase the price of shares. The directors were punished by having their estates confiscated, but that does not mean that they were guilty of all that they were accused of. Shea provided a summary of the issues.[7] Firstly, there has been a debate about whether the first two money subscription issues of shares were legal. Shea referred to the work of Harris on the Bubble Act which argued that contemporaries found these subscriptions to be 'controversial and perhaps of doubtful legality'. However, the Bubble Act clarified the issue, by assuring the legality of the contracts retrospectively.[8] Shea argued that although the company was then allowed to issue some additional stock (6 Geo 1., c.4), 'the *total* amount of additional stock issuable was tied to the amount of government debt that the Company could obtain'. The company was supposed to convince holders of government debt to swap their claims for shares in the company. Therefore, according to Shea, 'it was not clear that issuing additional stock in order to start the Company's programmes for obtaining government debts was legal'. However, neither was it clearly illegal. It would not, of itself, raise the share price to great heights. This is because increasing the supply of shares on to the market usually leads to a drop in the share price. A share is a claim upon part of the value of the company. In effect, issuing more shares allows more claims upon the same underlying asset. It acts like cutting a cake into smaller pieces. Unless something happens to investors' perceptions of the value of the company itself or to their demand for shares, then the price of each share will drop. Therefore, there must have been other factors at work.

The second issue mentioned by Shea is the company's behaviour towards its subscribers. Shea described this as 'cavalier' as it applied different standards to different waves of investments. Shea gave the example that the investors in the first subscription could forfeit their deposit if they failed to keep up with payments, but this rule was not applied to the third subscription. In addition, the Acts which allowed new shares to be issued were supposed to specify what the new funds could be used

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[4] John Carswell, *The South Sea Bubble,* (London: Cresset, 1960); P. G. M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit, 1688-1756* (London: Macmillan, 1967) and William Robert Scott, *The Constitution and Finance of English, Scottish and Irish Joint-Stock Companies to 1720*, 3 vols (Cambridge: Cambridge University Press, 1911) III.
[5] John G. Sperling, *The South Sea Company: An Historical Essay and Bibliographical Finding List*, The Kress Library of Business and Economics, 17 (Cambridge, MA: Harvard University Press, 1962).
[6] Helen Julia Paul, "The South Sea Company's Slaving Activities" in *Proceedings of the Economic History Society Annual Conference*, 2004.
[7] Gary Shea, 'Financial market analysis can go mad (in the search for irrational behaviour during the South Sea Bubble', *Economic History Review*, 60, 4 (2007) 742-765.
[8] Shea, *Financial Markets* and Ron Harris, 'The Bubble Act: Its Passage and Its Effects on Business Organization', *Journal of Economic History*, 54, 3 (1994) 610-627.

for. So, the company declared that the 'new financing would be used largely to support the Company's stock by lending the money back to shareholders and subscribers'.[9] If this was to occur, then it would mean that investors would have to use the loan to buy company stock rather than spending the money in any other way. Firstly, there was no obligation for investors to do this. They could have spent the money on anything, including other types of share. Secondly, even if they bought more shares, it does not actually change the value of the company's trade and this should be obvious to informed traders. Companies and other financial agents do try to offer new financial packages but customers must also be willing to buy them. If the share price rose, then the newer shares could be sold to pay off the loans and recoup the other shares. If the loans were not paid back, then the company could retain its own shares. The whole idea seems to have been to make the company shares more attractive initially and to persuade holders of government debt to convert their claims into shares. From this point of view, the operation was a success. However, as a marketing device it would have had limited appeal if not for a willingness to invest upon the part of the public. Their enthusiasm for the stocks and their ability to buy shares implied that there were untapped financial resources. This may be partly due to a lack of alternative investments; a willingness to accept a higher level of risk due to the end of two major wars or financial contagion given that the Amsterdam and Paris markets had also seen financial bubbles.

Although there were other factors which affected the markets, the company directors were the main scapegoats. Upon investigation, many apparent loans and stock transfers were suspicious. The House of Commons had appointed a Committee of Secrecy after the crash. They did not have access to all of the relevant documents and the company's cashier, Robert Knight, had fled. They were able to piece together something of what had happened. A director, Robert Surman, stated that he wondered whether some of the money lent out using South Sea Company stock as security was really a loan.[10] Other directors also felt that some entries were fictitious and stock had never actually changed hands. The committee concluded that these false sales were made to influential people to get favourable legislation passed in Parliament. It saw this as bribery with an inbuilt commitment device. If the bill did not pass and the company's share price fell, then the company would not be out of pocket. Holders of fictitious stock would make money on the difference between the current share price and the price when they had apparently bought the shares. The company would pay them the difference as they pretended to sell these shares back into the company. No records of cash transfers could be found in any of the books retained by the committee. The House of Commons debated the issues of bribery and James Craggs sr. and Stanhope were accused of taking bribes.[11]

Whilst bribery is not laudable, it was commonplace. For example, the Duke of Chandos bribed the King's mistresses.[12] The existence of bribes is no indication of the quality of the underlying scheme. The East India Company had used bribery to maintain its support in the court and Parliament. Sir Josiah Child had set aside 'great

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[9] Shea, *Financial Markets.*
[10] *Report of the Committee of Secrecy*, House of Lords Record Office, Box 157.
[11] Craggs was Joint Postmaster-General and Stanhope as Secretary of State was one of Walpole's rivals. The other main rival was Sunderland, whom Walpole decided to protect due to his popularity with King George. See Plumb, *Walpole*, for a discussion of Walpole's rivalry with Sunderland.
[12] E. P. Thompson, *Whigs and Hunters: The Origin of the Black Act* (London: Penguin, 1975) p. 204.

sums of money to bribe the Court before 1688, and Parliament afterwards'.[13] Bribery would not come to light when schemes were successful, as there would be no public enquiry. If a scheme did encounter problems, then there was a search for scapegoats. Contemporary politicians used the evidence of bribery to assert that the South Sea Company was involved in a wider range of harmful activities.

It is a leap of the imagination from bribery to all sorts of other activities. Perhaps this is understandable, when contemporaries had so little knowledge of finance. The rise in the company's shares is linked by Dickson to an idea of fraud propagated by a contemporary politician, Archibald Hutcheson.[14] Dickson's interpretation of Hutcheson's theory has reappeared throughout most of the secondary literature. Hutcheson proposed that the company issued more shares than it was expected to, and held on some of these extra shares. He claimed that these shares were a 'fund of credit' which represented a profit to the company. However, all that would happen is that if the company tried to sell these 'extra' shares, it would act to depress the price. The shares themselves simply were claims upon the company's own assets. They cannot represent any sort of 'profit'.[15] This odd idea has appeared again and again in the secondary literature. Such claims were credible in an era when too little was understood of the working of the financial system.

When the Chancellor of the Exchequer, John Aislabie, was expelled from the House of Commons, it was stated in the records that he:

> *Has encourag'd and promoted the dangerous and destructive Execution of the late South-Sea Scheme, with a View to his own exorbitant Profit; and has combin'd with the late Directors of the South-Sea Company in their pernicious Practices, to the Detriment of great Numbers of his Majesty's Subjects, and the Ruin of publick Credit and Trade of this Kingdom*[16]

Aislabie might have made money on his own account, but he would hardly wish to ruin the economy to do it given his position. The South Sea Company's ability to persuade holders of government debt to relinquish their claims was ultimately beneficial to the economy. It allowed the state to consolidate a large number of debts on various terms into one package. The holders of these debts were the real losers overall.[17] The 'ruin' of the kingdom is an exaggeration. Much of the contemporary evidence is given in black and white terms.

In fact, contemporaries had warned that the South Sea scheme might be too successful. Archibald Hutcheson made this claim both before, and after, the Bubble burst. Before the bill to enable the conversion of more government debt, Hutcheson wrote that the company could:

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[13] G. M. Trevelyan, *English Social History: A Survey of Six Centuries, Chaucer to Victoria* (1973: Book Club Associates, originally published by Longman, 1944) p. 220.
[14] Dickson, *Financial Revolution.*
[15] I am grateful to Gary Shea for first drawing my attention to this point.
[16] *History and Proceedings*, Sixth session of the First Parliament of George I, March 8, 1721/2.
[17] Roseveare, *Financial Revolution,* pp.58-9.

> *Swallow up the Bank [of England], and the East-India Company, and the whole, or as much of the Trade of Great Britain, as they shall think fit: And there is reason to believe that all future Parliaments will be only Grand Committees of that formidable Society[…]*[18]

After the crash, Hutcheson asserted that if the scheme 'had been managed with any tolerable Prudence, and attended with success' it would have ended in 'the sapping of the British constitution'.[19]

II

The early debates in the House of Commons show that no one had a clear idea about what had caused the crash.[20] Indeed, the members argued about whether to discover the cause first and then fix the problem, or *vice versa*. Sir William Wyndham argued that the British Parliament could not be seen to be less vigorous than the Paris authorities in punishing offenders. The Mississippi Bubble (in Paris) which preceded the South Sea Bubble was partially due to the activities of John Law. Law's operations were different to the South Sea directors' activities as Law was able to increase the money supply.[21] Wyndham's argument is not valid as the South Sea Bubble was partly inflated due to money moving from Paris to London. (This contagion argument has been put forward by Neal.[22]) The directors were condemned as fraudsters almost immediately. For example:

> *The Gen. Ross acquainted the House, 'That they had already discover'd a Train of the deepest Villainy and Fraud that Hell ever contriv'd to ruin a Nation, which in due Time they would lay before the House*[23]

The Commons debates also often referred to the evils of 'stock-jobbing'.[24] For example, Mr Sloper argued:

> *the present Calamity was mainly owing to the vile Arts of Stock-Jobbing, whereby the Public Funds were wound far above their real Value.*[25]

It is not clear what stock-jobbing might be in practice. If it means share-trading, then banning the practice would harm the economy.

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[18] Archibald Hutcheson, *A collection of Calculations and remarks relating to the South Sea Scheme and Stock* (London, 1720).
[19] Archibald Hutcheson, *Four treatises relating to the South-Sea scheme and stock. Published since the 30th of November, 1720.* (London, 1721).
[20] *The History and Proceedings of the House of Commons, 1660-1743*, vol. 6. Anno 7, Geo I, 1720.
[21] Henry Roseveare, *The Financial Revolution, 1660-1760* (London: Longman, 1991).
[22] Larry Neal, The Rise of Financial Capitalism: International Capital Markets in the Age of Reason (Cambridge: Cambridge University Press, 1990).
[23] Anno 7, Geo I, 1720.
[24] Anno 7, Geo I, 1720.
[25] Sixth Session of the First Parliament of George I, *The History and Proceedings of the House of Commons, 1660-1743,* vol.6.

Throughout the House of Commons' papers, the marginal note which accompanies petitions or discussions of the crash reads 'South Sea Sufferers'. This implies that the losers in the stock market merited sympathy and that their losses were severe. It is not clear if the claims regarding the severity of the crash are justified. Contemporary historians made a link between the South Sea crash and increased social disorder leading to the Black Act. Thompson mentioned various cases of land sales around this time, but noted that such selective evidence does not prove that there was a wider economic crisis.[26] Hoppit has queried whether the economic dislocation caused by the crash was particularly serious or widespread given available quantitative evidence of prices and traded goods.[27] If there was a redistribution of wealth, then those who gained from their share trading would still be buying goods and services. In addition, if the share-trading was mostly centred around the London area, it is not clear how the crash could have devastated the goods trade at the periphery where much that was traded was smuggled or bartered anyway.

Yet, petitions were made to the House of Commons and the House of Lords. Some came from entire communities, including Lancaster, York, Oakhampton in Devon and Appleby in Westmoreland.[28] The format of these petitions is that the entire economy has collapsed due to the activities of the South Sea Company directors. The petitions ask for relief and for the punishment of those responsible. The Lancaster petition mentions a 'general Deadness in all Sorts of Business' and blames the 'villainous' South Sea scheme. It is possible that, for the small effort in writing a petition, a community might gain some sort of 'relief', i.e. cash. This was based upon the assumption that someone had made a large fortune out of the stock-market which could then be confiscated and redistributed. There was a financial incentive to aim for a conviction of the directors and the confiscation of their estates.

There were disturbances around the time of the Bubble. For example, a mob entered the lobby of the House of Commons and the Riot Act had to be read twice before they dispersed.[29] Care has to be taken when considering mob activity. Stevenson argued that 'riot and disorder form part of the stock image of the eighteenth century' but that this is misleading. Individuals in a crowd may have different motives and be performing different actions.[30] Taking Stevenson's warning into account, it is not clear whether the most noticeable elements of a mob were genuine stock-traders or simply people who enjoyed public disturbances. Public outcry about the crash does not necessarily imply that the public had a great deal of understanding of the issue. In any case, Walpole was shrewd enough to realise that he needed the support of the court rather than public popularity.

Coxe linked Walpole's rise to power to his handling of the South Sea Bubble. Coxe's early biography set the pattern for other historians.[31] Coxe believed that Walpole had

[26] Thompson, *Whigs,* p. 114.
[27] Julian Hoppit, 'The Myths of the South Sea Bubble', *Transactions of the Royal Historical Society*, 12 (2002) 141-165.
[28] The History and Proceedings of the House of Commons, 1660-1743, vol. 19.
[29] Realey, *Early Opposition,* p. 70.
[30] John Stevenson, *Popular Disturbances in England, 1700-1832* (London: Longman, 1992) 2nd edn, p. 22.
[31] William Coxe, *Life and Administration of Sir Robert Walpole* (Oxford, 1798)

seen the South Sea scheme as a fraud and a chimera and had shrewdly spoken out against it. Walpole had then been able to rescue the country from financial chaos by astute management of the situation. Coxe's assessment was repeated by many other historians but has been refuted by Plumb and Realey.[32] Both insisted that Walpole was not possessed of special foresight about the crash and had invested heavily in the company himself. Plumb cast doubt on Walpole's supposed financial acumen. He showed that Walpole bought land when it was highly priced; was saved from higher losses by his assistant, Jacombe; and that the remedy to the crash was proposed by Jacombe even though it was called Walpole's scheme. In the event, the proposal was not even used. Plumb argued that "time was the healer, not Walpole".[33] However, Walpole did insist that contracts for stock were legal and would have to be honoured.[34] This removed some of the uncertainty from the market. The stock market started to recover. However, there is usually a small upturn in prices after a crash. Naïve traders sell out at any price, and more experienced traders can pick up stock at bargain prices. This automatic correction may have nothing to do with anything happening on the political scene.

Walpole not popular, partly because many ordinary people thought he was engaged in a cover-up. He was satirised as the Skreen-Master General. He had shielded various members of the Court from being investigated for bribe-taking. He had also managed to protect much of the directors' estates from being permanently removed from them. Both Realey and Plumb concluded that this policy of moderation was for Walpole's personal gain. He wished to retain the King's favour and that of the court interest. Therefore, he restrained himself from punishing his rivals. His unpopularity with those who could not vote or with insignificant politicians was not important. However, his handling of the crisis was not sufficient to bring him to power. Plumb wrote that it was the death in 1722 of his main rival, Sunderland, which did that.[35] Public interest in the South Sea affair turned 'readily' away towards the usual issues of religion and concerns about dissenters, Catholics and atheists.[36]

After the directors had been publicly tried and the furore had started to die down, it was time to make a proper ending. The King's speech ended the session of Parliament in August 1721.[37] He first praised the House:

> *The Common Calamity, occasion'd by the wicked Execution of the South-Sea Scheme, was become so very great before your Meeting, that the providing proper Remedies for it was very difficult: But it is a great Comfort to me, to observe, that Publick Credit now begins to recover; which gives me the greatest Hopes that it will be entirely restor'd, when all the Provisions you have made for that End, shall be duly put in Execution.*

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[32] J. H. Plumb, *Sir Robert Walpole: The Making of a Statesman* (London: Cresset, 1956) and Charles Bechdolt Realey, *The Early Opposition to Sir Robert Walpole, 1720-1727* (Lawrence: University of Kansas, 1931)
[33] Plumb, *Walpole,* p. 339.
[34] Plumb, *Walpole,* p. 336.
[35] Plumb, *Walpole*, p. 378.
[36] Realey, *Early Opposition*, p. 93.
[37] Sixth Session of the First Parliament of George I, *History and Proceedings.*

Then, he warned them of the dangers of continuing to make a fuss about the Bubble, instead of attending to other matters.

> *You are all sensible, that the Discontents occasion'd by the great Losses that many of my Subjects have sustain'd, have been industriously rais'd and inflam'd by malicious and seditious Libels; […] all the Enemies of my Government, who flatter'd themselves they should be able to take Advantage from our Misfortunes, and blow up the Sufferings of my people into Popular Discontent and Disaffection will be disappointed in their wicked Designs and Expectations.*

There was a great deal of confusion as to the differences between moral conduct and legal responsibility. Gambling was legal, but might be considered to be immoral. The issues about whether trading activities in the markets counted as part of the category of 'jobbing' was also unclear. These difficulties are part of the teething problems of financial innovation and development. The legal system might not have kept abreast of developments. Hutcheson wrote that he did not know what the Courts of Law would make of cases 'so very New and Extraordinary'.[38] This ambiguity was the reason why Walpole was forced to state that all contracts made should stand. Indeed, there was a suspicion that there might still be something wrong with these trades, either legally or morally. George I offered a 'Free and General Pardon' to give Ease and Quiet to the rest of my Subjects 'many of whom may, in such a general Infatuation, have been unwarily drawn in to transgress the Laws'.[39] This was part of the establishment's attempt to finish the debate. However, it is not clear which laws, if any, were broken. The whole discussion seems to be about the ignorance of all concerned and the society's struggles to cope with the unfamiliar.

III

Many primary sources have survived regarding the South Sea affair. There are plenty of examples of correspondence regarding investments. For example, the Lords Justices wrote to the King (then in Hanover): "Very many persons who had made bargains at high prices have been forced to sell at any rate and must still contrive in order to comply with them".[40] There is a problem of selection bias with this type of evidence. It was the losers, rather than the gainers, who had need of assistance and had to write urgent letters. Analysis of other types of evidence has shown the other side of the coin. Thomas Guy's gains are well known and went to pay for his famous hospital. Account books have shown that the clients of Hoare's bank were given good advice and managed to fare well in the stock market.[41] However, it is the evidence from popular culture which is more widely known. Although entertaining, such works are a product of their time and reflect popular prejudices about the stock markets.

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[38] Hutcheson, *Four Treastises.*

[39] Sixth Session of the First Parliament of George I, *History and Proceedings.*

[40] *State Papers Domestic George I, 1719-1722* (List and Index Society, vol. 144, 1978) Sept 21, 1720, pp. 96-7.

[41] Peter Temin and Hans-Joachim Voth, 'Riding the South Sea Bubble', *American Economic Review*, 94, 5 (2004) 1654-1668.

There are a large number of pamphlets and ballads which mock the folly of investors. D'Urfey's *Hubble bubble* covers many of the main features.[42] He starts with the line, "Jews, Turks, and Christians, hear my Song" and also mentions the Scots, the Irish and the Dutch. This is a standard attack upon the denizens of Exchange Alley where there were many traders from minority groups. The Jews, Catholics, Dissenters and foreigners were the 'Other' to be contrasted with the Anglican Englishmen. Another issue was the presence of women in the market.[43] D'Urfey mentions them too. The presence of such individuals in Exchange Alley was an indication of the unsavoury nature of the stock market and also *vice versa*. Such prejudices were commonplace for the time, but have no place in modern financial thinking. It should be remembered that prejudice and ignorance underpin many of such writings. D'Urfey also attacks the insurance industry and especially marine and fire insurance. However, the insurance market is a standard feature of all modern economies.

There is always a market for pandering to the public's taste. Therefore, many sources attack financiers, as they were unpopular with the public anyway. Many people who were not involved in stock-trading directly could only look on as other people made money. It is reasonable that Georgians would feel that they were losing out on an opportunity when the stock market was at its height. Some would have entered the markets. Some would have been unable to or else afraid to. This latter group would be able to congratulate themselves after the crash, even if they were only saved by being financially constrained or tardy. Such is the benefit of hindsight. Financial developments were not widely understood and were often tainted by old prejudices against usury. Fears about the rise of a class of the *nouveau riche* (which might include Jews and dissenters) lay behind many of the attacks upon stock-jobbing.

There were also straightforward political rivalries played out in the pamphlet literature. Daniel Defoe is well-known as a hired author who wrote whatever his patron demanded.[44] Amongst his works is a pamphlet which claims to prove that stock-jobbing is treason and attacking the late Sir Josiah Child in particular.[45] Child had been a successful businessman and governor of the East India Company. It cost nothing to attack him, as Defoe not only published the work under the pseudonym of 'a jobber', but it is also impossible to libel the dead. This type of work existed alongside the more pertinent comments which Defoe could make.

The entire set of contemporary pamphlets which must once existed would have many such attacks. There are two types of selection bias at work: firstly, regarding which documents are preserved and which are destroyed; secondly, which documents historians choose to refer to. The ones which condemn folly and fraud and which highlight economic distress after the Bubble appear most often. However, this does not prove that the writers were correct in their claims. It should be remembered that

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[42] Thomas D'Urfey, *The Hubble bubble. To the tune of O'er the hills and far away* (Edinburgh?, 1720) held in the British Library.

[43] Anne Laurence, 'Women Investors, "That Nasty South Sea Affair" and the Rage to Speculate in Early Eighteenth-Century England', *Accounting, Business and Financial History*, 16, 2 (2006) 245-264.

[44] Daniel Defoe, *The Political and Economic Writings of Daniel Defoe*, ed. by W. R. Owens and P. N. Furbank, 8 vols (London: Pickering and Chatto, 2000) VI

[45] Daniel Defoe, *The anatomy of Exchange-Alley: or, a system of stock-jobbing. Proving that scandalous trade, as it is now carry'd on, to be knavish in its private practice, and treason in its publick:…By a jobber* (London, 1719).

many of them had little understanding of the financial system. If it is considered that pamphleteering reflects the popular mood and reinforces it, then there is a market for telling people what they want to hear. Then, printed comments and public opinion reinforce each other. Pamphlets and other items were produced in order to bring attention to their creators and also to bring them money. Accusations of self-interest can be levelled at pamphleteers as well as at jobbers.

Seen in this light, the creation of various types of memorabilia depended upon pleasing the public rather than upon uncovering economic truths. The South Sea Bubble became a popular motif for artists as it combined drama with a morality fable. It pandered to the public's desire to gloat over scandal. It was the subject of a number of ballads, such as D'Urfey's *Hubble bubble* or Ward's *South Sea Ballad*.[46] It was also used as the subject of farce. An example is Bickerstaff's *The modern poetasters: or, directors no conjurers.*[47] The list of 'persons' who took part in the drama were mostly stock comic caricatures. One was 'Sauney, a Scotch Poet come to London' and another was 'Scentwell, a Woman of the Town'. The only characters who were connected to the South Sea Scheme are 'Wealthy, a late Director of the South Sea' and 'Upstart, his clerk'. The first scene took place in Covent Garden and the second in a brothel. Only by the third scene do we reach Wealthy's house. Most of the farce has little to do with share trading or the South Sea. It appears to be a standard bawdy romp which has been adapted to the current issues of the day. The tale of the South Sea became fitted to the stories which have a proven popularity with the public. Therefore, the real events were reordered or edited so as to make them fit an existing theme.

The main themes which appear in connection with the Bubble are vanity, folly and fraud. There is a long tradition of proving one's moral superiority by the ownership of artworks which reflect upon the issue of vanity. Works on *Vanitas* and *Momento Mori* implied that the owner was wise and able to rise above worldiness. Examples include the *transi* tombs and depictions of King Death which were popular in the Middle Ages.[48] Northern Europe produced the *vanitas* genre of the sixteenth and seventeenth centuries. A still life would show items which symbolised the emptiness of worldly success and the inevitability of death. For instance, skulls and hourglasses were common features. However, these works were also beautiful and decorative. They implied that their owners possessed good taste and were also wealthy enough to afford them.

Interestingly, bubbles appear in *vanitas* pictures to symbolise the fragility of life and to mock superficiality.[49] Hoppit discussed the evolution of a bubble as a symbol for the 1720 crash. He noted that contemporaries never called it a bubble and that the

[46] D'Urfey, Hubble bubble and Edward Ward, A South-Sea ballad: or, Merry remarks upon Exchange-Alley bubbles: to a new tune, call'd The grand elixir, or The philosopher's stone discover'd (Edinburgh, 1720).

[47] Isaac Bickerstaff, *The modern poetasters: or, directors no conjurers. A farce. On the famous ode writers, satyrists, panegyrists, &c. of the present times* (London, 1721).

[48] A *transi* tomb includes a sculpture of the deceased's cadaver as it really appears after death. This is sometimes juxtaposed with a more traditional sculpture of the individual in all his or her finery. See Kathleen Cohen, *Metamorphosis of a Death Symbol: The Transi Tomb in the Late Middle Ages and the Renaissance* (Berkeley: University of California, 1974).

[49] Michele Emmer, "Soap Bubbles in Art and Science: from the Past to the Future of Math Art", *Leonardo* (1987) 20, 4, 327-334.

term 'South Sea Bubble' first appeared in print in 1771.[50] The famous name has implications of the *vanitas* bubbles. However, it was chosen at a time when the morality story of the crash had already been decided upon. Contemporary opinions sometimes centred on a belief in fraud rather than in folly. Contemporaries were still trying to decide whether traders were foolish, deceitful or victims. The Commons debates have already been discussed. Hutcheson's work also makes reference to the 'unhappy Sufferers' but then claims that the whole affair rests on an 'Extraordinary and Epidemical Frenzy'.[51] He also wrote that those people who bought shares at a high price should be compensated by those who profited. He termed such winners as 'gamesters'.[52] His views on women are also a product of their time:

> *Female sufferers deserve the greatest compassion; for they cannot be suspected of acting with vile Views of deceiving others; but have been led by fateful Examples.*[53]

Hutcheson does not state whether this is because they are somehow morally purer than men, or less intelligent or both. The implication is that it is not their place to be in the market. Hutcheson is reiterating the view that participation in the stock market implies a willingness to deceive. This assumes that there is a winner and a loser in every transaction. This is not necessarily the case if one wants an investment and the other wants ready cash. However, if both parties are only interested in short-term gains, then this win-lose situation is the case. It can simply mean that each party has a different view of the way in which the market will move. This is analogous to two people have differing views about which horse will win a race, and betting accordingly.

Although there was some attempt to adapt the South Sea story to existing models, there was also still some ambiguity as to which model to use. Hutcheson's work seems to cover various readings of the activities of investors. Other contemporary works also display a variety of elements rather than one simple theme, unlike a classic *vanitas* picture. The most famous examples of artwork about the crash were Hogarth's prints of Exchange Alley and the Bubble. They are crowded with people and symbolism. Carswell summarised Hogarth's *The South Sea Bubble:*[54]

> *The speculators ride on a roundabout. Honour is broken on a wheel by Self-Interest, and Honesty is flogged by Villainy. The Pope pays pitch-and-toss with two priests, while above them on the balcony the Devil offers slices of Fortune in the shape of human flesh. Women queue on a balcony to take part in a raffle for husbands in a house crowned symbolically with a cuckold's horns.*

Much of this can have nothing to do with stock-trading. If this quotation was missing its first sentence, then it would be difficult to know the subject matter from the description alone. Hogarth was reinforcing many of the prejudices held by his contemporaries in terms of religion and misogyny. Yet, the print is often used to

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50 Hoppit, *Myths.*
51 Hutcheson, *Four Treatises.*
52 Hutcheson, *Four Treatises.*
53 Hutcheson, *Four Treatises.*
54 Carswell, *South Sea Bubble* revised edn. 1993, plate VII.

illustrate works on the Bubble or related topics. For instance, it appears on the front of Roseveare's book.[55] However, it has elements which have nothing to do with the scheme or finance and which seem to be part of a wider social commentary.

Cards are one of the most intriguing types of South Sea Bubble artwork. Some appear to be collectables, rather like cigarette cards. One showed a tree surrounded by South Sea water.[56] Investors climbed the tree and fell into the water. This picture was accompanied by the following rhyme:

The Headlong Fools Plunge in SS Water.
But the Sly Long-Heads Wade with Caution after
The First are Drowning but the Wise Last
Venture no Deeper than the knees or Waist

The rhyme makes it clear that some investors in the company are wise, the 'Long-Heads', in that they have only invested a moderate amount.[57] It is not therefore the case that the wise have avoided the stock market and the South Sea shares completely. The 'Long-Heads' can be seen as arbitrageurs who wade after the people who are willing to pay high prices for the stock, but the 'Long-Heads' make sure that they can sell out if necessary and stay close to shore. This is a more nuanced depiction than other satires. It depicted the gainers from the stock market and praises their abilities. However, it also categorises them as 'sly' which is not particularly flattering. Financial acumen was not worthwhile in and of itself. The attacks on financiers may be partly due to envy. Such attacks should be contrasted with contemporary approval of inherited wealth.

Another type of card is the playing card. A complete set is held at Harvard University Library. It has many of the hallmarks already mentioned. The set shows various national and religious groups being undone in the stock market, including the Welsh, French and the Dutch. It is also highly anti-Semitic. One card shows a Jewish broker standing next to a demon. Another one shows a forced 'baptism' of a Jewish broker in a horsepond. Another traditional element which is present is misogyny. Women feature prominently as traders in stocks, but are criticised for doing so. One card shows women in a china-shop being asked by brokers whether they wish to buy or sell stock. This implies that women's stock-trading was undertaken in the same superficial way as their window-shopping for luxury and household items. Several cards make reference to women's control over their marriage prospects or sexual partners. Money made through stocks allows women to better their prospects, but if they lose the money they risk losing their new and old suitors. This puts them back in their places.

Most of the cards show those who lose by the Bubble: only a few show the gainers. A wide variety of occupations are shown amongst the losers in the market. They include merchants, clergymen, army and naval officers, a farmer and a cobbler. Some of the cards show the situation before the Bubble burst and some afterwards. Many make

[55] Roseveare, *Financial Revolution.*
[56] Reprinted in Charles Mackay, *Extraordinary Popular Delusions and the Madness of Crowds* (London: Richard Bentley, 1841), p. 62a.
[57] 'Sly' is derogatory description however.

reference to pride leading to a fall. They also refer to fraudulent behaviour, although how these alleged frauds are accomplished is never specified. For example:

A Set of Jobbers rather Knaves than Fools,
Meet and contrive to Cheat their Principals,
Says one, in e'ery Trade there's some Deceit,
To Bite the Biter is not Fraud but Wit

The rhyme quoted above shows the usual theme of the shifty stock-jobber, but also lays blame at the feet of the shareholder. Shareholders were usually accused of naivety and avarice, rather than being fraudsters themselves. In this card, the mere act of owning shares is somehow a fraud, as the shareholder is the biter bit. Those who gain on the shares are seldom shown in this set of cards, but those who are usually depicted as making profits out of nothing. Two cards are sufficiently different from the rest, and indeed are unusual amongst the works on the Bubble. Firstly, one card shows a different sort of loser:

A certain L---d, whose fortune twas to loose
Pull'd a --------- Director by the Nose,
Sirrah, quoth Honour, thus I Lug your Snout
Because you made me Buy, when you Sold out

The lord who loses money in the Bubble is not criticised for folly or fraudulent behaviour. He is shown physically attacking a South Sea Company director, as many shareholders would have liked to have done themselves. This heroic stance is underlined by referring to him as 'Honour'. The trickery of an informed investor is clearly pointed out here. Bad advice is deliberately given, so that the director can make money. The lord is a symbol of the landed and titled elite. There are no other references to aristocrats losing in the Bubble amongst the cards.

The second card which does not follow the usual motifs has the message:

A certain Good Old Worthy Rich in lands,
Keeping his Servants Wages in his Hands,
Bought South Sea Stock, when they knew nothing of't
Sold it when High, and gave to them the Profit

This is the only card which shows approval of a gainer's strategy. The man is Good and Worthy and already rich in lands. Like the lord, he is a member of the established elite. He is paternalistic with regard to his servants and speculates on their behalf. It is not clear whether the servants did not know that he was doing this, or whether they simply did not understand the stock market. In any case, his decision to take risks with their money underlines the power structure of the age. This is further reinforced by the example of *noblesse oblige* which prompts him to hand the profits to them. The creator of the card meant to depict the Worthy as being disinterested in finance and benevolent to his servants. The snobbery implied in such a card and the fact that aristocrats were not mocked in the set infers that the set was meant for buyers from a high social background.

It should be noted that many of the cards make use of sexual innuendo and humour. It is not likely that they were intended to be used by genteel ladies. Rather, the set seems to have been intended for wealthy, upper-class men. Such men had had a shock at seeing the social order threatened by new money and the success of the lower orders, marginalised religious groups, foreigners and women. The card set depicted to them the stability of their social status. The folly referred to is that of someone trying to work against this defined order.

The irony is that playing cards are used for gambling. The production of such cards implies that contemporaries could make a distinction between stock-trading and gambling. Card games would usually take place within a set social milieu. Each person would be gaming with people of his or her own class. Stock-trading overturned this notion. The novelty of this idea is shown by the repeated insistence on the mixing of social groups. Stock-trading has often been associated with gambling in the traditional histories of the Bubble with their reliance upon a ‘gambling mania’. The term ‘gamble’ means different things to economists, historians and presumably also to the Georgians. This excerpt summarises the issue[58]:

> Gambles as stated by economists tend to involve two or more outcomes which occur with a known probability and from which an expected value can be calculated.[59] So for a gamble with two outcomes A and B:
>
> $$EV = p_A V_A + p_B V_B$$
>
> To historians, gambling tends to be linked to entertainment, rather than any set of outcomes. Gambling could be defined as engaging in a game of chance for the purposes of entertainment where there is the possibility of both gains and losses. Throwing dice or playing roulette would be in this category. The definition could be broadened to include games of skill which also were engaged in for entertainment and where players might win or lose. Various card games would be in this category. There is also the third option of betting on events like horse races. Porter’s vivid description of the South Sea episode is as follows: “England was gripped by gambling fever. Men bet on political events, births and deaths – any future happenings. For a few pounds challengers galloped against the clock, gulped down pints of gin or ate live cats”.[60]

The paper quoted from discusses the matter in greater technical detail. However, it is sufficient to mention here that gambling was castigated as being immoral as it could lead to the ruin of a family. Anything which undermined the family’s wealth was abhorrent. However, the social side of gambling was also present. Putting aside Porter’s description, gambling in a social setting was commonplace. Amongst the wealthier classes, card-games went on at balls and after dinners. This was one way of social networking. Social linkages and marriages were highly important in an age of patronage. Anything which facilitated socialising within a group was promoted.

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[58] Helen Julia Paul, ‘Risks and Overseas Trade: The way in which risks were perceived and managed in the Early Modern Period’ presented at the Economic History Society Conference, Exeter, Apr. 2007.
[59] Where EV is expected value, P is the probability of the outcome and V is the value of that outcome in terms of the gain or loss.
[60] Roy Porter, *English Society in the Eighteenth Century* (Middlesex: Penguin, 1984), p. 255.

Anything which threatened to cut across groups was not. This might explain why a set of cards exists to be used by one social group and to warn them against mixing outside of their own milieu.

IV

There must have been a considerable demand for artwork relating to the Bubble. Much of it has been carefully preserved. However, it tends towards cheaper printed ephemera, rather than expensive *vanitas* paintings. This means that it was available to those on a lower income, who could now mock the rich. It was also, due to printing technology, widespread. The commentary of such works is not based on a real understanding of the stock market or the activities of the South Sea Company. It often reinforces popular stereotypes and old-fashioned ideas about the immorality of financial activity. The jaunty or bawdy nature of many contemporary works shows that *schadenfreude* is more important that any serious reflection upon the theme of *vanitas*. The South Sea story was adapted to illuminate existing concerns about the role of women, religious minorities, foreigners and the *nouveau riche*. Therefore, contemporary sources cannot be relied upon for an objective view of the actual workings of the South Sea Company or the stock market.

Similar care must be taken when considering the opinions of politicians. Their debates do not clarify how they thought that the directors could possibly push up share prices across an entire market. This was immaterial in the end, as the stock market recovered. Walpole did well out of the whole farrago, but it is not clear that he had any better grip on finance than anyone else. The whole episode shows how ignorance combined with self-interest has created a mythology of the Bubble. Walpole protected the company and its directors for political reasons, but inadvertently maintained part of the rule of the stock market. By insisting that contracts for stock be honoured, he allowed informed traders to win out over naïve ones. This is beneficial from an economics point of view, even if it frightened the Georgian establishment.

The South Sea Company did bribe various prominent individuals and this was covered up to some extent by Walpole. However, bribery alone does not produce a stock market bubble or damage trade. All the other major companies, and indeed much of society, were engaged in the same practices. The South Sea directors were accused of manipulating the stock price. They did offer incentives to buy shares but again such activities would not have raised share prices across the stock market. The real boost to the market must have come from elsewhere. It is more than likely that after the Amsterdam and Paris markets boomed and crashed, that traders poured money into London. Irrational and naïve traders then moved into the stock market.[61] Their enthusiasm for the stocks would be noticed by others. If a shrewd trader realises that the price of shares is likely to keep climbing (due to a sudden inflow of naïve traders) then it is rational to buy and hold shares. Then, it is important to sell out when the price is high. Such traders are the Sly Long-Heads referred to in the Bubble card quoted above. Amongst their number could be Thomas Guy who made money by correctly anticipating market price movements. His hospital is a reminder that the South Sea Bubble episode is not all about foolishness and deceit.

[61] Such traders are called noise traders in Economics.

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