The South Sea Bubble
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I am delighted to be giving the Gresham lecture on the South Sea Bubble. It is particularly timely because 1720 was the Bubble Year and 2020 the tercentenary of that year. The Bubble itself is one of a pair of financial crises. The other was on the Paris stock exchange, known as the Mississippi Bubble. These events happened when the stock market was relatively new and very few people understood finance. Myths and legends have grown up instead. I hope to explain to you some of the facts behind the Bubble Year and bring more detail to a very well-known story which few people understand in any great depth. Many people have heard of the Bubble. They link it to fraud or to Robert Walpole, Britain's first prime minister. They do not know much about it beyond that.

In 2020, there were various activities planned for a Bubble Year commemoration which were shelved due to Covid. 2020 was a momentous year in other ways. It drew attention to slaving history and to histories which had been overlooked at the national level. Few people outside Bristol had heard of Edward Colston until his statue went into Bristol harbour. Colston had been venerated as a benefactor of the city of Bristol, paying for almhouses and schools. He had been 'unmasked' as a major slave trader because of his connections to the top ranks of the Royal African Company (RAC), Britain's pre-eminent slaving company. Colston's vast wealth was connected to the RAC but also to the sugar trade. Sugar was farmed in the plantation economies of the Caribbean which were a by-word for cruelty. It is interesting to me, having studied the South Sea Company for over twenty years, that for a very long time the South Sea Company's slaving activities have been overlooked.

Some people believed that the South Sea Company was not involved in the slave trade, even though it had been given the right to trade in slaves to Spanish colonies. It had been set up to handle government debt: a complicated issue which I hope to unpick for you. It was working alongside Colston's old company, the RAC. Investment in the South Sea Company is an investment in the slave trade. The reassessment of this history has brought all kinds of things to light, including the investments of Thomas Guy. Guy was better known than Edward Colston. He gave his name to Guy's hospital in London. This is his statue in the grounds. Guy was a bookseller and philanthropist, but he also invested in the South Sea Company and the slave trade. The links between the early economy and the slave trade have reinvigorated an interest in the South Sea Company itself. The usual tale is one where the slave trade is mysteriously absent. It is replaced with stories of gambling mania, and folly and fraud.

There was a huge increase in the share price of the South Sea Company in 1720. This went far above any reasonable assessment of its value. The South Sea share price is shown by the blue line. We can see a sharp fall as people panicked and sold out. Movements in the South Sea share price are partly related to the activities within the company. There must be wider issues which explain why the share price of the Bank of England and the East India Company also experienced a rise and fall. This cannot be explained solely by the activities of the South Sea Company. It is easy to blame the company directors for a mysterious fraud. That 'fraud' was never explained to the contemporary public. There was not much public understanding of finance or education about the stock market. There was no academic insight into how stock markets worked. It was a hands-on business. You may have lived through a series of bubbles, like the Dotcom bubble or housing price bubbles. These cause disquiet but are not particularly devastating. The South Sea Bubble was thought to be devastating by contemporaries, but I am going to show you that it really was not. The share price rise and fall did get a lot of public attention. It was one of the very first bubbles which the public were aware of.

There was a huge market for critiques of the market and the people in it. There are lots of examples like this one: Thomas D'Urfey's *Hubble Bubble* of 1720. It is a song which D'Urfey cobbled together and sold. These types of work were created to allow people like D'Urfey to make money. That must be remembered. Not many of these commentators understood what had happened. There is no real assessment of finance itself. These artworks give a social history instead. *Hubble Bubble* starts with 'Jews, Turks and Christians hear my song'. In D'Urfey's second verse, we have Scotsmen, the Irish, the Dutch, and the Germans. This is a critique of foreigners and those outside the mainstream. The economy centred around land and power came from land ownership. It was a patriarchal system. The Church of England was socially acceptable but not any other Protestant denomination. Jews, Catholics, foreigners, women, and servants were seen as people who should not be allowed to gain wealth in the new stock market.

This image is a very famous one, but also cluttered and complicated. It is William Hogarth's *The South Sea Bubble*. It is the only original English print created about the South Sea Bubble. Hogarth shows us various allegorical figures: the man being broken on the wheel, or the man at the pillory. Fortuna is cut to pieces by a devil. The monument is to the Great Fire of London. It connects the supposed disaster of the South Sea with the real disaster of the Great Fire. There are wolves on top of the monument. In the middle, we can see a sign saying, 'Who'll Ride?". It is attached to some sort of whirligig which is meant to indicate foolishness. There is a woman touching the chin of a clergyman or a lawyer. On the right, is a Scotsman in a Scotch bonnet and kilt. They are stock characters to be laughed at.

It is a common theme in contemporary critiques that women should not be involved in finance or given financial independence. That would lead to sexual immorality. On the left-hand side of Hogarth's image, there are women going into a door. They are raffling for husbands. There was social anxiety that women could use finance to interfere in the marriage market. Old women would marry young men. Young women would marry for money. In Hogarth's print, we can see a cuckold's horns on top of the building. In the bottom left of the image, there are three figures gambling: two Catholic clergymen and a Jewish man. Again, this a commentary on 'outsiders' in the stock market.

Hogarth has drawn the lines in the picture so that there is no vanishing point. This has been done deliberately to give a sense of disorder. Hogarth's world of finance is a strange place of mythical figures or wolves on monuments. It shows women raffling for husbands and Catholics and Jews gambling. The stock market was a new way in which people who were excluded could make money. This led to social anxiety and subsequent satirical attacks. Note that Hogarth's image does not refer to the slave trade at all.

The area in the centre of the map is Exchange Alley: a cramped series of alleys. It had coffeehouses where people could read newspapers or meet their brokers. Brokers would also move around. They might also be visited at the Bank of England. It is at the top of the image. The Royal Exchange is also shown at the top. It was a commodity exchange. The story goes that stockbrokers were trading there and were so noisy that they were thrown out. They then crossed Cornhill to go into Exchange Alley. Whether the story is true or not, anyone could go into a coffeehouse. Later versions of the stock exchange were professionalised with regulations. They catered to an elite and had barriers to entry. The Exchange Alley of 1720 allowed anybody in. This equality was troubling to the social system of the time. There was a fear of finance which went beyond criticism of the South Sea Company. It was in Exchange Alley, we are told, that people went gambling mad. Any auction might be loud and confusing to an outsider. Also, just because people played gambling games socially, did not mean they treated investments as gambles. There may have been problem gamblers and people who over-invested. Were they the norm?

Before we look at the South Sea Bubble, we need to look at the company itself. It was founded in 1711 to handle navy debt. The Royal Navy was crucial for defence, warfare and protecting shipping. Naval contractors charged high prices in return for offering generous credit. Payment arrears became serious. The contractors threatened to stop supply. They were issued with shares in the new South Sea Company to solve the issue. The new company would have the British government's monopoly to trade in slaves to the Spanish colonies. Spanish permission, by the Asiento contract, was given as part of the 1713 Treaty of Utrecht. The Spanish Empire had no direct connections to West Africa. They were dependent on others to bring them slaves. Without slaves, the Spanish Empire would have been in difficulties. European workers were reluctant to move to the mines and plantations to work in terrible conditions. The local American populations had been decimated by disease, although some were enslaved. High mortality rates meant that new slaves had to be brought in.

The South Sea Company worked with the RAC and Royal Navy. The company had a royal charter allowing it to issue shares with limited liability. Companies like the RAC and South Sea were not private but were quasi-public entities. They supported the state and were supported in turn. Some have argued that as the South Sea was a new company it could not cope with such a complicated trade. However, it was working with the RAC. Slave traders in West Africa wanted a combination of goods. It was important to have storehouses and connections to the local kings. The slave forts were on land rented from the kings. Diplomacy was important. Independent traders could operate, but it was very risky. The company's links to the RAC and the Navy were crucial.

This coin is made of gold from the African coast. The West African coast was known as Guinea to Europeans. This gives us the name for the guinea coin. This coin is of Charles II. There is an elephant underneath his head. This tells me that the gold has been brought in by the RAC. People knew that the RAC had faced difficulties but was still a force to be reckoned with. It knew the trade inside and out.

It owned forts like Cape Coast Castle. It is one of the most impressive. It protected officials and goods. There were dungeons for enslaved Africans and a protected harbour. The Royal Navy could use it. This was a bit like an embassy. The RAC was similar to the East India Company in its complicated relationship with the state. Royal Navy convoy support was crucial. Pirates swarmed up and down the coast. This man is one of the most famous. Captain Bartholomew Roberts died at the coast after a skirmish with the Royal Navy. He stands in the foreground. Behind him, a slave fort is burning. After his death, Roberts' remaining crew were arrested by the Royal Navy and taken to Cape Coast Castle. They were tried by Royal Navy and RAC officials.

It does not make sense to claim that the South Sea Company could have operated without bothering to ship slaves. Marine insurers would have known which ships were leaving the Thames. Exchange Alley was near to the Thames as well. Here is some data from my book. It shows the number of slaves landed by the South Sea Company. At that time, this data was only available to academics. This may help to explain the persistence of the myth that the company was not slaving and was merely a fraudulent enterprise. It is also important to remember the horrors of the trade. Nowadays, it is easy for the public to look at this data using the *Slave Voyages* database online. I can look at a particular voyage of a South Sea ship. For instance, the *St Mark* sailed from London in 1713, arriving in 1714. It docked at Cape Coast Castle. It took 280 enslaved Africans onboard, but only 261 arrived in Kingston, Jamaica. Ten per cent of the enslaved were children.

The debt for equity swap is difficult to explain. People often think it is a trick. Holders of government debt were encouraged to exchange it for shares. Early modern government debt was like the gilts of today. The government did not pay its debt payments regularly. Parliament had been unwilling to let the government arrange cheap, perpetual debt. The result was a mess. There were different types of debt issued to different people. Annuities were illiquid and could not be easily sold on. Shares were liquid. A royal charter allowed limited liability for shareholders. This is one reason for accepting a swap. The government had to pay large red tape costs. If one company was used as a middleman, the government would benefit. The company had more bargaining power than individual debt-holders and could hope to push the government to pay up. The government paid a fee to the company (as a holder of its debt). The company passed that fee on in the form of dividends. The company also sold shares directly on the primary market. This is the same set up as the founding of the Bank of England.

Investors like Thomas Guy were not playing the market. He wanted the steady government fee which went to the company and then to the shareholders. When the share price went up to high levels, he realised that he should sell. The debt for equity swap is perhaps dull and other stories are more entertaining. However, people were not idiots. There were sensible reasons for wanting to get rid of government debt and to obtain shares. The debt conversion happened in four tranches. The last tranche was unfavourable to debtholders. They were given a small number of shares when the share price was very high. When the share price crashed, their holdings lost value. The government renegotiated that last round of conversions. The people who were involved in the earlier rounds probably got a good deal out of it.

In France, the economy was under the charge of John Law. Law was a gambler and an economic theorist. He had grand plans, including a paper currency and the creation of a giant trading company called the Mississippi Company. As a result of his reforms share prices rose and crashed in Paris. This was the Mississippi Bubble. Funds from France came to London which helped to increase the share price there. The South Sea Company and Law copied each other. They were engaged in a competition to revitalise their economies. Whichever country won might be able to invade the other.

Law's *System* was visionary but not well implemented. He had to flee when the economy crashed. The System linked the stock exchange, the currency, and the Mississippi Company. In England, the South Sea Company was only one of several companies. The Bank of England was not caught up in the problem. Therefore, the French economy suffered more than the English one.

The publicity given to both the Mississippi and the South Sea Companies had brought new investors into the markets. They may have over-invested. The South Sea directors were issuing bribes to important people, but that was normal at this period. Many people had to take a calm view of the market. They were living far away from the hubbub of the Alley. This power of attorney document is from Eliza Bard. She was living in Bedford. She required someone to act on her behalf in London. This pro-forma has the South Sea Company crest at the top. Eliza Bard asked the curate and two churchwardens to witness this document. This is at odds with the ideas about 'scandal' and gambling mad behaviour.

Stories about people losing vast estates are unlikely to be true. Economic historians can find little evidence that there was prolonged economic distress. This is not like the 1929 crash which was truly devastating. People did not understand why the South Sea crash happened and wanted scapegoats. Meanwhile, the Bank of England took over some of the government debt. The South Sea directors had to give evidence to Parliament. A special committee investigated the bribes. The Chancellor of the Exchequer was put into the Tower of London for taking bribes. Others, like George I's mistress, were not punished. To protect the new Hanoverian regime, it was necessary to limit the enquiry. Otherwise, the Stuart kings might be restored and refuse to recognise government debts from their predecessors. Walpole allowed for a partial enquiry, ensuring that some of the company's books left the country. Robert Knight, the cashier, is depicted on Lucifer's Row-Barge. He is escaping to the continent. Walpole stated that he should be returned to face trial but wanted him to escape. Walpole was called the 'Screenmaster General' for his cover-up.

The South Sea Company continued trading. This coin is minted from silver it brought into the country. The coin dates from 1723 and has the initials SSC on it. This is the Luxborough Galley which went on fire in 1727. It gives an idea of what a South Sea ship looks like. The company also entered the whaling trade. It continued with government debt management.

The story of the Bubble as a folly was very popular. Charles Mackay's *Extraordinary Popular Delusions and the Madness of Crowds* was a big seller in the Victorian era. It was filled with illustrations like this one. The story became simplified, and the slave trade portion was dropped. The company itself handled low risk investments. In the mid nineteenth century, the government took over handling the debt and many company books were destroyed. This has allowed myths to build up. It is a myth that Newton lost a lot of money, according to Newton scholars.

Hopefully, you can see why people wanted to invest in the South Sea Company. The debt for equity swap was used in the founding of the Bank of England. It was not a magic trick. The slaving side of the history was overlooked. Early modern government debt was very different to its modern equivalent. I hope I have explained some of these complexities to you and that you have enjoyed the lecture. I would like to thank Gresham College once again for inviting me.