The Bank of England, 1694-present

“Old Lady of Threadneedle Street”

second oldest central bank in world

often said to be “model” for other central banks
The South Sea Bubble, 1720

central to Investopedia’s “Market Crashes” series

regularly mentioned today by commentators discussing value of Bitcoin

“The town [London] is quite mad about the South Sea… the madness [and wildness] of stockjobbing is inconceivable. It fills all hearts, tongues, and thoughts and nothing is so like Bedlam as the present humor which has seized all… Whigs, Tories, Jacobites, Papists, and all [dissenting] sects.”*

“the world’s first great financial fraud”

“massive amounts of money were lost”


“The Wholesale Wind Fair in 1720”

The wind is my treasure, the wind is my end
If I can master the wind, all life I can bend.
A monopoly on winds is becoming the thing,
An adorable subject about which I sing.

The blades of the windmill I wear on my head,
Turn only as quickly as prices foolishly fed. …
The toad tries to blow up as big as a cow
But he dies inflating, the fable tells how...

And the monkey imitates man…
What is the risk of dying to one who knows
he can win?

Bubbles, Banks, and Schemes: The Financial Revolution, 1690s-1720s

Introduction

international context: silver, slavery, and wars

how to pay for the war

British political context: aftermath of Civil War and Glorious Revolution

The Bank of England and the South Sea Company

certificate for £200 South Seas Company stock; list price in 2001 auction catalog, 8500 DM (>3500 US$)
source: http://www.tschoepe.de/auktion47/auktion47_england.htm
Bubbles and banks, the international context: early globalization

Spanish “pieces of eight” minted in Mexico

cowry
\((Cypraea moneta)\)

Maldive Islands
1715-1815: The Second Hundred Years’ War?

<table>
<thead>
<tr>
<th>War</th>
<th>Date</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>War of Spanish Succession</td>
<td>1701-1714</td>
<td>(funded 30% by borrowing)</td>
</tr>
<tr>
<td>War of Austrian Succession</td>
<td>1740-1748</td>
<td></td>
</tr>
<tr>
<td>Seven Years’ War</td>
<td>1756-1763</td>
<td></td>
</tr>
<tr>
<td>American Revolution</td>
<td>1776-1783</td>
<td>(cost &gt; 2x War of Spanish Succession; funded 40% by borrowing)</td>
</tr>
<tr>
<td>Revolutionary and Napoleonic Wars</td>
<td>1793-1815</td>
<td></td>
</tr>
</tbody>
</table>

William Wollett, engraver, *The Death of General Wolfe in 1759* based on the painting by Benjamin West (1770); Prints and Photographs, Library of Congress.

Bubbles and Banks, the international context: wars and how to pay for them
Rising Taxes and More Bureaucracy

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Annual Tax Revenue (Great Britain)</th>
<th>Tax Revenues/Head (in French livres)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1700</td>
<td>£3.64 million</td>
<td></td>
</tr>
<tr>
<td>1740</td>
<td>£6.4 million</td>
<td></td>
</tr>
<tr>
<td>1775</td>
<td>£12 million</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>Great Britain</th>
<th>France</th>
</tr>
</thead>
<tbody>
<tr>
<td>1725</td>
<td>17.6</td>
<td>8.1</td>
</tr>
<tr>
<td>1780</td>
<td>46</td>
<td>17</td>
</tr>
</tbody>
</table>

Employees of the British Excise Office (sales tax collection)

<table>
<thead>
<tr>
<th>Year</th>
<th>Employees outside London</th>
<th>Employees in London</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1690</td>
<td>1149</td>
<td>164</td>
<td>1313</td>
</tr>
<tr>
<td>1715</td>
<td>1559</td>
<td>233</td>
<td>1792</td>
</tr>
<tr>
<td>1726</td>
<td>2965</td>
<td>599</td>
<td>3564</td>
</tr>
<tr>
<td>1770</td>
<td>3115</td>
<td>951</td>
<td>4066</td>
</tr>
<tr>
<td>1783</td>
<td>3711</td>
<td>1192</td>
<td>4910</td>
</tr>
</tbody>
</table>

**Excise** = sales tax on basic, widely-used goods (e.g., beer, salt, candles, soap).

*Nearly every household used goods on which excise was collected. Was the tax therefore fairly and evenly distributed?*

## English War Expenditure and Public Borrowing, 1688-1783

<table>
<thead>
<tr>
<th>Period</th>
<th>Spending</th>
<th>Amount Raised by Loans</th>
<th>Loans as % of Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>1688-1697 (Nine Years’ War)</td>
<td>£49,320,145</td>
<td>16,555,391</td>
<td>33.6%</td>
</tr>
<tr>
<td>1702-1713 (Spanish Succession)</td>
<td>93,644,560</td>
<td>29,405,083</td>
<td>31.4%</td>
</tr>
<tr>
<td>1739-1748 (Austrian Succession)</td>
<td>95,628,159</td>
<td>29,724,125</td>
<td>31.1%</td>
</tr>
<tr>
<td>1756-1763 (Seven Years’ War)</td>
<td>160,573,366</td>
<td>60,018,243</td>
<td>37.4%</td>
</tr>
<tr>
<td>1776-1783 (American Revolution)</td>
<td>236,462,689</td>
<td>94,560,069</td>
<td>39.9%</td>
</tr>
</tbody>
</table>

In the eighteenth century, Great Britain’s debt grew faster than France’s.

British taxpayers paid approximately 2½ times higher taxes than did French.

*Which country would you expect to have a political/social revolution?*
Glorious Revolution, Financial Revolution, and Social/Political Stability


crowning of William → England entered war against France → trebled public spending

Parliament has to approve all new taxes and all expenditures

rhetoric around Great Re-coinage (1696) insists coins have “intrinsic” metal value (thereby apparently independent of political meddling)

new institutions such as Bank of England facilitate national borrowing

government is increasingly seen as having made a “credible commitment” to preserving property rights

*Was anyone’s property not respected?*

William and Mary two-guinea coin, 1693
April 1694: English state needs to raise £1.2 million

Parliament authorizes borrowing, state to pay 8% interest; if amount raised in time, then subscribers to the loan incorporated as


Parliament guarantees to pay “Bank” 120,000/year on basis of new tax on wine (8% interest for investors, plus handling fee to “the Bank”)

“The Bank” authorized to:
- discount bills of exchange;
- accept deposits;
- issue bills (bank bills) against its capital
  (which has been lent to the government)

Bank’s property exempt from taxation

forgery of Bank’s notes → death penalty

Sir John Houblon, Lord Mayor of London, … one of the Lords of High Court of Admiralty and first Governor of the Bank of England

Bubbles and Banks: the Bank of England
Who was “The Bank of England” in 1694?


1,268 subscribers (stock holders)

majority invested > £1000

John Locke invested £500

King William and Queen Mary each subscribed £10,000 (maximum amount)

89.8% of original subscribers lived in London or the nearby “Home Counties”

11.9% of original subscribers were women

average income at this time was < 20£/year; prosperous clergyman might make 60£/year
Why did individuals subscribe (i.e., invest in) the Bank of England?

What would Aristotle have said?

With the creation of the Bank of England, to whom has the state made a credible commitment?

Could anyone be opposed to that commitment?

“Whoever were lenders to the Government would by the surest Principle be obliged to support it. Besides, the Men of Estates could not be persuaded without Time and Difficulty to have new taxes laid on their Lands… and it was the Business of those then in Power to cultivate a money’d Interest.”

Jonathan Swift, History of the Last Four Years of the Queen (1713; pub. 1758).
### Bank of England, for and against

<table>
<thead>
<tr>
<th>Whigs</th>
<th>Tories</th>
</tr>
</thead>
<tbody>
<tr>
<td>“money’d interests”</td>
<td>landed interests</td>
</tr>
<tr>
<td>“new” wealth</td>
<td>gentry</td>
</tr>
<tr>
<td>London and nearby</td>
<td>rest of the country</td>
</tr>
<tr>
<td>Glorious Revolution</td>
<td>may support Stuarts</td>
</tr>
<tr>
<td>Protestants, including Dissenters (those who dissent from Church of</td>
<td>Catholics, “high” Church of England</td>
</tr>
<tr>
<td>England, including</td>
<td></td>
</tr>
<tr>
<td>Baptists, Quakers, Unitarians)</td>
<td></td>
</tr>
</tbody>
</table>
“I am to speak of what all People are busy about, but not one in Forty understands: Every Man has a Concern in it, few know what it is, nor is it easy to define or describe it. …It is best described by it self; it is like the Wind that blows where it [will], we hear the sound thereof, but hardly know whence it comes, or whither it goes.

Like the Soul in the Body, it [activates] all Substance, yet is itself Immaterial; it gives Motion, yet itself cannot be said to Exist; it creates Forms, yet has itself no Form; it is neither Quantity or Quality; it has no Whereness, or Wheness…."

Daniel Defoe, An Essay Upon Publick Credit (1710).
“The Governor and Company of Merchants of Great Britain Trading to the South Seas and other Parts of America and for Encouraging Fishery”

1711 established by Tory Chancellor of the Exchequer (later, Lord High Treasurer), Robert Harley

monopoly on trade to “South Seas” (i.e., South American slave trade)

raised eight times as much initial capital as the Bank of England (including £500 from Jonathan Swift)

approximately 75% of MPs (Members of Parliament) owned stock
Company trading to the South Seas…what did it trade?

<table>
<thead>
<tr>
<th>Year</th>
<th>Ships</th>
</tr>
</thead>
<tbody>
<tr>
<td>1715</td>
<td>2090 enslaved Africans shipped</td>
</tr>
<tr>
<td>1716</td>
<td>2127</td>
</tr>
<tr>
<td>1717</td>
<td>3953</td>
</tr>
<tr>
<td>1718</td>
<td>3742</td>
</tr>
</tbody>
</table>

“In all probability, if duly executed, [the Company] will be of mighty Advantage to the Kingdom and an everlasting Honour to the present Parliament. … [It] will prove the greatest Restoration and Establishment of the Kingdom’s Credit.”

Politics, Companies, and Schemes

1713  Peace of Utrecht ends War of Spanish Succession
      Parliament: 148 Whigs; 354 Tories

1714  Queen Anne (Mary’s sister) dies childless; succeeded by her second cousin, George I of Hanover

1715  341 Whigs to 217 Tories

1719  South Sea Scheme: proposed that holders of discounted government bonds could exchange them at face value for Company stock (so, might have a bond for £100 that earned 6% interest but could sell for only 55; in exchange for it, could get £100 in South Seas Company stock)

1727  420 Whigs to 128 Tories

Bubbles and Banks: the South Sea Company
William Hogarth, “An Emblematical Print of the South Sea Scheme” (1721)
See here the causes why in London/So many men are made and undone…
[When] Arts and honest trading drop/To swarm around the Devil’s shop…
In these Times/Honor and Honesty are Crimes/That publicly are Punished…
Figure 1. *British Government costs of borrowing, 1694–1759.*

The Bubble Bubble: How History is Made

1771  first use of phrase “South Sea Bubble” (in Encyclopedia Britannica)

1826  (anon.), The South Sea Bubble and Numerous Fraudulent Projects to which it Gave Rise Historically Detailed as a Beacon to the Unwary against Modern Schemes … equally Visionary and Notorious

1841  Charles Mackay, Extraordinary Popular Delusions and the Madness of Crowds

Matthew Ward, The South Sea Bubble… a scene in 1720 (1847)
Source: The Tate Gallery, London.
Bubbles and Banks: Conclusions

Bank of England at its founding was contested and uncertain

South Sea Company at its founding seemed very stable

fate of both has as much to do with history and politics as with any “laws” of economics

only with hindsight can you describe a “bubble”—“bubbles” are inherently historical constructions

Historians do not claim to be able to predict the future on the basis of the past