

## Britain's Financial Revolution and Class Exploitation, 1689 – 1740

In December of 1721, panic racked the financial centers of London. The South Sea company, having previously dominated the nation's stock market, saw its share price plummet to less than a seventh of what it had been as recently as August of the previous year.<sup>1</sup> Many investors, from London's elite to middle-class families swept up by the company's marketing machine, would lose all but the clothes on their backs.<sup>2</sup> This event, the grand finale of what would be known as the South Sea bubble, was Great Britain's first ever financial crisis.

The South Sea bubble was the most consequential event of Britain's financial revolution, described by K.R.P Clark as a period of rapid financial development starting with the Glorious Revolution of 1688 when England's King James II was ousted by King William III.<sup>3</sup> England's financial activity through this period took them from a minor European kingdom to one of the continent's great powers.<sup>4</sup> This period also saw an increase in the creation of joint-stock companies, accelerating the growth of England's emergent middle class.<sup>5</sup> The emergent trends of this time prompt the central question of this analysis: How did developments within England's stock market between 1689 and 1740 impact the dynamics and relationships between the nation's economic classes?

At the time of the financial revolution, England was an incredibly classist country. The divides between wealthy and poor were so great that many urban poor families had to send their

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<sup>1</sup> Rik Frehen and William N. Goetzmann and K. Geert Rouwenhorst, "on the First Financial Bubble", July 27, 2012, *Journal of Financial Economics*, pp. 585-607.

<sup>2</sup> *A Letter to the sub-governor, deputy-governor, & directors of the South-sea company*. N.p., [1721]. *The Making of the Modern World*.

<sup>3</sup> K. R. P. Clark. "Defoe, Dissent, and Early Whig Ideology", *The Historical Journal* 52, no. 3 (2009): pp. 595–614..

<sup>4</sup> Clark, "Defoe, Dissent, and Early Whig Ideology", pp. 595 – 614.

<sup>5</sup> Richard Dale, *The First Crash : Lessons from the South Sea Bubble*. Princeton: Princeton University Press, 2004, pp. 32 - 49

children to work in cotton factories when they were as young as six years old, as described by historian Dr. Hugh Cunningham.<sup>6</sup> This arrangement was to the benefit of business owners, who were met with a steady supply of low-cost child labor. Wages earned by lower-class parents were woefully insufficient, and children were seen as the closest these families could get to owning capital in their capacity as an extra source of income.<sup>7</sup> Historian Lawrence Stone explains how the lower classes were regarded disdainfully and given negligible opportunity for social mobility, with some contemporary nobles claiming it took three generations for a newly ascendant family to purge the taint of its humble origins from its blood.<sup>8</sup> Class attitudes supported an uncaring attitude towards the less fortunate, disregarding their needs and seeing them as merely tools for the enrichment of landed business owners.

Britain's elite financially exploited the middle class between 1789 and 1740, souring the early promise of stock investment by manipulating the middle class into overvaluing South Sea Company stock and refusing to punish those responsible for the subsequent bubble. This analysis outlines opportunities for the middle class from 1689 to 1713, exploitation during the South Sea bubble until 1721, and the failure to prosecute complicit government actors through 1740. The buildup and consequences of the South Sea bubble effectively display how the expansion of finance into the middle class was exploitative.

Analysis of the South Sea bubble relies heavily on two economic concepts: rationality and asset bubbles. Economic historian Richard Dale explains that economic rationality involves exclusively acting in one's best monetary interests, presuming sufficient financial and

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<sup>6</sup> Hugh Cunningham, "The Employment and Unemployment of Children in England c.1680-1851." *Past & Present*, no. 126 (1990): 115–50.

<sup>7</sup> Cunningham. "The Employment and Unemployment of Children in England c.1680-1851", pp. 115-150

<sup>8</sup> Lawrence Stone, "Social Mobility in England, 1500-1700." *Past & Present*, no. 33 (1966): 16–55.

mathematical literacy to interpret available information and derive profit-maximizing decisions.<sup>9</sup> Asset bubbles, described by economists Frehen, Goetzmann, and Rouwenhurst, are the result of a mass departure from rational behavior, as investors drive the price of an asset far higher than its underlying fundamentals justify.<sup>10</sup> These concepts outline a framework for understanding the behavior of both middle and upper class investors during the South Sea bubble.

Research on the South Sea bubble is often both economic and historical in nature, with much of the scholarship published in the *Journal of Economic History*. Since the South Sea Bubble is one of history's first financial crises, researchers extracted both economic and historical insights from historical analysis. Most of the secondary literature on the South Sea bubble comes from the 1990s and the mid-2000s, during the buildups to the dot com bubble and the 2008 financial crisis respectively. Records from the time illustrating events and public sentiment primarily take three forms: government documents, newspaper articles, and published manuscripts of propaganda and correspondence. Government documents prompt the legal and political changes which shaped the events of the South Sea bubble. Newspaper articles and published manuscripts demonstrate what those who could pay to publish writing showed the public as the events of the bubble unfolded. These documents provide the best insight into the perspective of middle-class British citizens by demonstrating the flow of information they experienced.

## **Section 1: Opportunity in the Early Financial Revolution**

The story of the financial revolution begins in 1689 with the passage of England's Bill of Rights. This document gave parliament several powers once held by the king, including the

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<sup>9</sup> Richard S. Dale., Johnnie E. V. Johnson, and Leilei Tang. "Financial Markets Can Go Mad: Evidence of Irrational Behaviour during the South Sea Bubble." *The Economic History Review* 58, no. 2 (2005), pp. 233–71.

<sup>10</sup> Frehen, Goetzmann, and Rouwenhorst, *New Evidence on the First Financial Bubble*, pp. 585-607

ability to control the national budget and take on debt.<sup>11</sup> Frehen, Goetzmann, and Rouwenhurst show that the fact that the government budget was now in the hands of a more democratized body, in combination with the formation of the Bank of England to lend the government money when necessary in 1694, caused a strong increase in the public's trust in government finances.<sup>12</sup> With the Bank of England to keep the government solvent and the public's ability to vote out politicians who fail to repay debt, citizens and financial institutions alike could trust an incentive system that pushed members of parliament to consistently repay debt. Parliament leveraged this trust by issuing army debentures, a precursor to government bonds that anyone could purchase.

The issuance of public government debt fueled a rise in market investment among women and the middle class, as described by Dr. Amy Froide in the book *Silent Partners: Women as Public Investors during Britain's Financial Revolution, 1689-1750*. Froide describes how the introduction of government bonds as a gateway to investment fueled a rise in permanent joint-stock companies which anyone could invest in if they had the money to do so.<sup>13</sup> This offered an opportunity for women and the middle class not before seen in the infrequent, brief, and often extremely nepotistic experiments with joint-stock organization companies underwent throughout the 1600s.<sup>14</sup> Anyone with the money to do so could purchase a money subscription or army debenture, offering consistent returns over years. This was a great option for women, who lacked opportunities for well-paying work but could invest in government debt with as little as £35.<sup>15</sup> Army debentures were particularly seen as low-risk investments due to the public's

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<sup>11</sup> Parliament of the Kingdom of England, *The Bill of Rights 1689: An Act declaring the Rights and Liberties of the Subject, and settling the Succession of the Crown*, December 1689.

<sup>12</sup> Frehen, Goetzmann, and Rouwenhorst, "New Evidence on the First Financial Bubble", pp. 585-607.

<sup>13</sup> Amy Froide. *Silent Partners: Women as Public Investors During Britain's Financial Revolution, 1690-1750*, Oxford: Oxford University Press, 2017, pp. 60-92.

<sup>14</sup> Froide, *Silent Partners: Women as Public Investors During Britain's Financial Revolution, 1690-1750*, pp. 60-92

<sup>15</sup> *Ibid.*

confidence that parliament would repay its debts.<sup>16</sup> The 1690s introduced many people outside the halls of power to investment as a relatively safe way to let their funds grow alongside money they made through employment.

Parliament used the influx of money they gained from issuing debt to fund a political power grab: building themselves the world's largest navy and using it to fight France.<sup>17</sup> At the time of the revolution of 1688, England was a minor European power.<sup>18</sup> Winning a war against France, considered one of Europe's great powers at the time, changed their international perception and increase their influence throughout Europe.<sup>19</sup> First in the War of the Grand Alliance, then in the War of Spanish Succession, England and France faced off against each other as leaders of international alliances.<sup>20</sup> Until 1710, the greatest financial innovation of the financial revolution did little more than enable English elites to grasp more political power. The benefits investors saw from army debentures were largely incidental.

By 1710, two decades of near-constant war had stretched the government's funding and public goodwill thin. Parliament had racked up an astonishing £9,000,000 debt from their wars and was struggling to keep up with interest payments.<sup>21</sup> Historian Julian Hoppit demonstrates how extreme partisanship meant raising taxes was impossible, and the Bank of England, controlled by liberal Whigs, was unwilling to lend to the Tori-controlled government.<sup>22</sup> This dire situation prompted Robert Harley, Britain's Chancellor of the Exchequer, to enlist the help of businessman John Blunt. Blunt organized a series of lotteries in 1710 to keep the government

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<sup>16</sup> Ibid.

<sup>17</sup> Julian Hoppit, "The Myths of the South Sea Bubble." *Transactions of the Royal Historical Society* 12 (2002): 141–165..

<sup>18</sup> Clark, "Defoe, Dissent, and Early Whig Ideology", pp. 595 – 614.

<sup>19</sup> Clark, "Defoe, Dissent, and Early Whig Ideology", pp. 595 – 614.

<sup>20</sup> Dale, *the First Crash: Lessons from the South Sea Bubble*, pp. 49-65.

<sup>21</sup> Hoppit, "The Myths of the South Sea Bubble", 141-165

<sup>22</sup> Ibid.

solvent in the short-term, before posing his grand idea to Harley: The South Sea company.<sup>23</sup> The South Sea company would operate as a joint-stock company with a trade fleet in the south Atlantic, driving stock investment. The company would accept army debentures as payment for stock, then allow Parliament to pay the company reduced interest rates on the debt it held. The scheme had one problem: Spain and its allies controlled all of South America's colonial ports. If Blunt's scheme were to work, the War of Spanish succession would need to end. Blunt founded the South Sea Company in January of 1711 and spurred on the public fervor to end the war.<sup>24</sup>

Robert Harley hired Daniel Defoe, famed author and long-time propagandist for the government, to write a series of pamphlets promoting an end to the war.<sup>25</sup> One such essay, titled *An Essay at a Plain Exposition of that Difficult Phrase a Good Peace*, framed peace as a moral necessity while blaming France for starting the war in the first place. Defoe insisted England's entry into the war was a response to the indignity of its people after France supported a successor to the Spanish throne unsuitable to English interests.<sup>26</sup> Defoe's propaganda had the desired effect, as people politically mobilized to end the war.<sup>27</sup> The public's opinion was shifted not for their own good, but for the good of wealthy actors setting up a scheme.

The ongoing theme between 1689 and 1710 is how the desires of the wealthy defined the opportunities of the middle class. Army debentures were issued to raise funds for an international power grab, and joint-stock companies sold stock to raise funds for business operations. Access to financial markets expanded beyond the confines of England's elite, but the

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<sup>23</sup> Richard Kleer. "Riding a Wave: The Company's Role in the South Sea Bubble." *The Economic History Review* 68, no. 1 (2015): 264–85.

<sup>24</sup> Dale, *the First Crash: Lessons from the South Sea Bubble*, pp. 49-65.

<sup>25</sup> Clark, "Defoe, Dissent, and Early Whig Ideology", pp. 595 – 614.

<sup>26</sup> Daniel Defoe, *An Essay at a Plain Exposition of that Difficult Phrase a Good Peace*, London: F. Baker, 1711.

<sup>27</sup> Hoppit, "The Myths of the South Sea Bubble", 141-165

expansion was still entirely on their terms, setting the middle class up for failure in the coming years.

## **Section 2: Class Exploitation in the rising South Sea Bubble**

The war of Spanish Succession ended in 1713 with the Treaty of Utrecht. The treaty, among other concessions, granted Britain the limited right to trade slaves at Spain's ports in South America.<sup>28</sup> The South Sea company was only allowed to send one ship per year to each of Spain's ports, a pittance relative to the activity other trading companies enjoyed.<sup>29</sup> This situation made it clear to Blunt and Harley that the South Sea company was a purely financial institution, without the ability to profit and grow off the merits of its trading.<sup>30</sup> Growth in South Sea's stock was driven solely by public confidence rather than the fundamentals of the business.

Nevertheless, Parliament granted the South Sea Company a monopoly over Britain's trade in the south Atlantic shortly after the treaty went into effect.<sup>31</sup>

With the treaty in place, Parliament was set to negotiate the particulars of the debt-swap deal with South Sea, a critical moment in Blunt's scheme to profit off the government's debt. The government would allow South Sea to issue exactly enough stock to fund the value of the government's debt, as calculated using the company's stock price at the time of the agreement. Hoppit argues that Blunt needed South Sea's stock price to vary with the market after the agreement, allowing him to raise the stock's value and cover the totality of the government's debt

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<sup>28</sup> France. *The treaties of peace and commerce between Lewis XIV. the French King, and the States General of the United Provinces; Likewise the treaties of peace between his most Christian Majesty, and the King of Portugal, the King of Prussia, and the Duke of Savoy.* Printed for J. Morphew, 1714. *The Making of the Modern World*

<sup>29</sup> France, *The treaties of peace and commerce between Lewis XIV. the French King, and the States General of the United Provinces; Likewise the treaties of peace between his most Christian Majesty, and the King of Portugal, the King of Prussia, and the Duke of Savoy*

<sup>30</sup> Dale, *the First Crash: Lessons from the South Sea Bubble*, pp. 49-65.

<sup>31</sup> *Ibid.*

without issuing all the company's stock.<sup>32</sup> What shares remained could be sold for profit, with Blunt and other South Sea executives pocketing the extra money. Blunt proceeded to exorbitantly bribe members of Parliament to prevent them from fixing the price of South Sea stock in the debt-swap agreement.<sup>33</sup> By early 1720 Blunt got his way in the agreement, prompting a consistent and aggressive marketing campaign.<sup>34</sup>

Blunt's campaign was supremely effective. Financial newspapers, including the London-based paper *The Flying Post*, made projections about South Sea Company stock value assuming between 300% and 600% growth a year after the debt-swap agreement.<sup>35</sup> Investors bought into the excitement and invested irrationally, as attested by Dr. Richard Dale. Dale's work shows how underinformed and underprepared the middle class were, lacking both an understanding of Blunt's corrupt motives and sufficient financial education to see the rapid growth in South Sea's stock price as an asset bubble.<sup>36</sup> Without the necessary understanding, the middle class went along with the trend of enthusiastic investment through 1720 suspecting little of what was to come.<sup>37</sup> They also lacked the capital to recover from any losses they may sustain in the stock market. By the peak of the South Sea bubble, many among the middle class had severely overinvested and were relying on unceasing growth to keep their finances in order.

Wealthy investors, by contrast, strategically exploited public irrationality to maximize their own gain. Dr. Peter Temin elucidates this pattern using records from Hoare's Bank, a financial institution in London. Hoare's Bank invested in South Sea early and kept their stock as

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<sup>32</sup> Hoppit, "The Myths of the South Sea Bubble", 141-165

<sup>33</sup> Dale, *the First Crash: Lessons from the South Sea Bubble*, pp. 49-65.

<sup>34</sup> Ibid.

<sup>35</sup> The Flying-post, or, Post-master, from Thursday, April 7, to Saturday, April 9, 1720. London : Printed by Robert Tookey and sold by S Popping, April 7, 1720, From [https://iif.harvard.edu/manifests/view/drs:18201080\\$1i](https://iif.harvard.edu/manifests/view/drs:18201080$1i)

<sup>36</sup> Dale, Johnson, Tang, "Financial Markets Can Go Mad: Evidence of Irrational Behaviour during the South Sea Bubble." Pp. 233-271

<sup>37</sup> Ibid.

the bubble grew.<sup>38</sup> The bank relied on continuing excitement to drive prices ever higher, while all the while planning to pull out as stock prices peaked.<sup>39</sup> Records of stock trades indicate the bank knew South Sea's stock was in a bubble, making their decisions to hold South Sea stock a deliberate exploitation of the middle class rather than a matter of luck.<sup>40</sup> It is important to note that Hoare's Bank and other similar parties acted exactly how rationality would dictate. They used the advantages their superior insight and access to information gave them to invest in a way that made them the most money. No malice was necessary in the bank's motivations, a combination of apathy towards the needs of the middle class, falling in line with contemporary attitudes, and a desire to maximize returns is more than sufficient to explain the actions of wealthy investors.

South Sea officials themselves were unhappy with the situation their stock was in, not desiring to make an asset bubble at all. Dr Richard Kleer uses South Sea officials' communications and stock trades to demonstrate their intent through their marketing campaign. The optimal outcome for the company was consistent growth over a long period of time, allowing the company to sell off all its stock without facing any price drops.<sup>41</sup> The formation of the bubble was a result of South Sea's lack of trading prospects. Since South Sea officials couldn't rely on the business's merits to drive stock prices up, public confidence was the core of South Sea's rising value. Because of this, company officials considered any dip in prices unacceptable because of the potential for the public to see such a price drop as a sign the company was failing.<sup>42</sup> Prompted with such a sign, the public would divest themselves of South

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<sup>38</sup> Peter Temin, and Hans-Joachim Voth. "Riding the South Sea Bubble." *The American Economic Review* 94, no. 5 (2004): 1654–1668.

<sup>39</sup> Temin, Voth, "Riding the South Sea Bubble", pp. 1654-1668

<sup>40</sup> Ibid.

<sup>41</sup> Kleer, "Riding a Wave: the Company's role in the South Sea Bubble", pp. 264-285

<sup>42</sup> Ibid.

Sea stock en masse and send its value plummeting. This conundrum locked the company out of tempering expectations, only able to drive excitement further to maintain constant growth.

Incentive systems surrounding the South Sea bubble coalesced around exploitation of the middle class. Incentive systems pushed The South Sea company to manipulate the public into investing irrationally to keep stock prices rising. Those same systems incentivized wealthy investors to capitalize on and feed into the middle class's poor decisions by buying and holding South Sea stock through the bubble. These powerful actors left the middle class, caught in between it all, in a hostile environment without the tools, education, or spare capital to protect their own interests.

### **Section 3: The Burst and Fallout of the South Sea Bubble**

In August of 1720, the South Sea bubble finally burst. Peaking briefly at £1,000 per share, South Sea's share price would plummet to £124 by December.<sup>43</sup> Middle-class investors, many of whom had put their entire savings into South Sea stock and even taken out loans to purchase stock, were left devastated.<sup>44</sup> Most wealth gains, especially among the middle class, were wiped out almost entirely.<sup>45</sup> Even some among the wealthy lost their fortunes, though access to data and financial advice saved many from complete financial devastation.

South Sea's collapse led to widespread public outcry, leading to trials of all South Sea company board members.<sup>46</sup> These trials were widely publicized, appearing in newspapers like Edenborough's *Caledonian Mercury*. The *Mercury* relayed the details of the trial, including how

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<sup>43</sup> Hoppit, "The Myths of the South Sea Bubble", 141-165

<sup>44</sup> Dale, *the First Crash: Lessons from the South Sea Bubble*, pp. 49-65.

<sup>45</sup> Hoppit, "The Myths of the South Sea Bubble", 141-165

<sup>46</sup> Dale, *the First Crash: Lessons from the South Sea Bubble*, pp. 49-65.

members of South Sea's board of directors were stripped of an average of 82% of their assets.<sup>47</sup> Much of the money seized from the trials was used to repay South Sea's creditors, with a small portion distributed to middle class investors as restitution.<sup>48</sup> The fact that the trials were publicized was incredibly important for government officials. Many within the government, from members of Parliament to King George II himself, had engaged in corruption or publicly supported South Sea.<sup>49</sup> Dale argues that the extent of the corruption was so great that full punishment of all involved members of government could have collapsed the country.<sup>50</sup> Keeping the focus of the trial on South Sea officials was a way for the government to avoid the spotlight of public ire, as people still saw a form of punishment given out. Once again, the concerns of the public were handwaved for the sake of preserving the power of the wealthy.

South Sea officials, recognizing the extent of involved government corruption, also worked to protect corrupt politicians. Certain elements of the government performed internal corruption investigations, compiling their results in a report from Parliament's Committee of Secrecy. This report detailed extensive sabotage of South Sea company ledgers, as board members added fake names, removed real names, and swapped details within company records that could indicate who invested in the company and, more importantly, who was bribed by the company.<sup>51</sup> With access to such poor information, Parliament's investigation was incapable of effectively prosecuting corrupt members of government. There was an accurate ledger of bribes, secreted out of the country by a South Sea clerk named Robert Knight before the investigation

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<sup>47</sup> "Against the Question," *Caledonian Mercury*, 21 December 1721, 3.

<sup>48</sup> Dale, *the First Crash: Lessons from the South Sea Bubble*, pp. 49-65.

<sup>49</sup> Hoppit, "The Myths of the South Sea Bubble", 141-165

<sup>50</sup> Dale, *the First Crash: Lessons from the South Sea Bubble*, pp. 49-65.

<sup>51</sup> Great Britain. Parliament. House of Commons. Committee of Secrecy. *The reports of the committee of secrecy to the honourable House of Commons, relating to the late South-Sea directors*, London: Printed for Cato, 1721. From [https://iiif.lib.harvard.edu/manifests/view/drs:18252376\\$3i](https://iiif.lib.harvard.edu/manifests/view/drs:18252376$3i).

raided the company's offices.<sup>52</sup> A letter from Robert Knight's creditors to Parliament aligns with the public's opinion of the punishment, expressing anger at Knight's disappearance while simultaneously stating that the King George II and others around him were manipulated and exploited by South Sea in much the same way the public was.<sup>53</sup> The lack of blame directed towards the government indicates corrupt members of government successfully evaded public ire, framing South Sea as the sole corrupt entity responsible for the bubble.

The chaos amid the fallout of the South Sea bubble was a grand opportunity for Robert Walpole, a member of Parliament with great ambition. Walpole was an early opponent of the South Sea Company, ever since he had gotten locked in the Tower of London during the campaign to leave the War of Spanish Succession.<sup>54</sup> Despite his early opposition, Walpole indulged in corruption during the rise of the South Sea bubble and helped many of his political allies avoid punishment for their involvement in the scheme.<sup>55</sup> Walpole publicly framed himself as a constant opponent of the scheme, a defender of the people against the exploitation of markets.<sup>56</sup> Walpole effectively manipulated the public once again, gaining enough political support to become chief minister by 1722 and become what many historians consider Britain's first Prime Minister, holding that position until 1742.<sup>57</sup> The public's lack of information once

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<sup>52</sup> Dale, *the First Crash: Lessons from the South Sea Bubble*, pp. 49-65.

<sup>53</sup> *The Case of the creditors of Robert Knight, Esq.* N.p., [1727]. *The Making of the Modern World.*, Patrick Kelly. "Industry and Virtue versus Luxury and Corruption": Berkeley, Walpole, and the South Sea Bubble Crisis." *Eighteenth-Century Ireland / Iris an Dá Chultúr* 7 (1992): 57-74.

<sup>54</sup> Dale, *the First Crash: Lessons from the South Sea Bubble*, pp. 49-65.

<sup>55</sup> Patrick Kelly. "Industry and Virtue versus Luxury and Corruption": Berkeley, Walpole, and the South Sea Bubble Crisis." *Eighteenth-Century Ireland / Iris an Dá Chultúr* 7 (1992): 57-74.  
<http://www.jstor.org/stable/30070923>.

<sup>56</sup> Kelly, "Industry and Virtue versus Luxury and Corruption": Berkeley, Walpole, and the South Sea Bubble Crisis", pp. 57-74.

<sup>57</sup> *Ibid.*

again proved exploitable, as Walpole manipulated their goodwill to get away with irresponsibly harming them.

Wealthy political elites controlled their own prosecution following the South Sea bubble, and they used this power to bring as few of themselves as possible to justice. The government prosecuted a minority of offenders while making a spectacle of the process to create the image of a proper investigation. All the while, the most powerful offenders went free or made off with minimal punishment. Robert Walpole, using the public's lack of information once again, managed to sell himself as a defender of the people while focusing his efforts on protecting his fellow politicians while giving the middle class a pittance for their hardship. Wealthy political elites were in control and used this control to protect their own. Even without any malice towards the middle class, they were little more than an afterthought and a tool.

The financial revolution was a time of class exploitation, as the wealthy created opportunities for the middle class to benefit themselves then manipulated the uninformed middle class for their benefit during and after the South Sea bubble. It is important to reinforce that at no point during the financial revolution was the behavior of the wealthy primarily driven by malice towards the middle class. It was apathy, by contrast, that allowed the wealthy to prioritize their own benefit over the livelihoods of the middle class. It only took a small handful of ill-intentioned actors, most notably John Blunt with his desire to exploit the government for money, to shift incentive systems in a way destructive to the middle class. Beyond that point, all it took to harm the middle class was for the wealthy to act in their own interests. The exploitative web of incentive systems that permeated the South Sea bubble demonstrates the danger of letting policy makers have stakes in the entities they regulate. When weak institutions allow politicians

to invest and own capital while in office, their incentives align with those of upper-class capital holders and systematized exploitation of less well-off citizens inevitably follows.

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