

Britain's Debt Restructuring, 1717–22

François R. Velde

October 29, 2025

WP 2025-21

<https://doi.org/10.21033/wp-2025-21>



FEDERAL RESERVE BANK *of* CHICAGO

*Working papers are not edited, and all opinions are the responsibility of the author(s). The views expressed do not necessarily reflect the views of the Federal Reserve Bank of Chicago or the Federal Reserve System.

Britain's Debt Restructuring, 1717–22

François R. Velde*

Federal Reserve Bank of Chicago

October 29, 2025

Abstract

Britain's debt was nil in 1688 and 60% of GDP in 1717. From 1717 to 1722 the debt was restructured, including through the South Sea operation of 1720. I discuss the reasons for the restructuring and the tensions it revealed between taxpayers and creditors. The South Sea bubble turned the operation into an ex-post Ponzi scheme and redistributed among creditors, from late to early entrants, and from creditors to taxpayers. Parliament intervened to redistribute among creditors (but far less than was feasible) and, very reluctantly, from taxpayers to creditors. Commitment to honor the debt was still weak thirty-five years after the Glorious Revolution.

Keywords: South Sea bubble, British public debt, debt restructuring, default (JEL: H63, N13).

*Part of this research was conducted while a Beaufort fellow at St John's College, Cambridge. The views expressed here do not necessarily represent those of the Federal Reserve Bank of Chicago or the Federal Reserve System.

1 Introduction

Keeping promises is harder than making them: so why do sovereign borrowers repay their debts? How can they even make credible promises? Economic historians typically say that borrowing only became easier when sovereigns became constrained from within, Eaton and Gersovitz (1981) having shown that constraints from without were insufficient. The poster child is Great Britain, whose debt went from about nil in 1688 to 250% of GDP by 1815. How did it do it? By replacing Stuart monarchs rampaging over property rights with a constitutional monarchy reined in by parliamentary government (North and Weingast 1989; Pincus and Robinson 2011). This neo-Whig view of the Glorious Revolution has been amply debated, and has been push-back on the timing: but by and large the story is accepted after 1715 at the latest (Quinn 2001; Sussman and Yafeh 2006; Murphy 2009) with Parliament the linchpin of credibility (Cox 2016).

Yet: *quis custodiet custodes?* If Parliament constrains the executive, who or what constrains Parliament? The common opinion is “legislatures and parliaments, in which creditors were represented, [established] to advise and consent to the state’s fiscal policies. With checks and balances in place, interest rates came down, and borrowing came easier” (Eichengreen et al. 2021, 3). But when the interest of taxpayers and creditors were at odds, in whose interest did the Commons act?

The question cannot be answered if one stops in 1715. The wars that followed the Glorious Revolution resulted in massive borrowing at high interest rates (Sussman and Yafeh 2006) but the resolve exactly to repay was not tested until after the wars ended. When the test came, Britain nearly failed it.

The test was the debt restructuring initiated in 1717 and concluded in 1722, including the South Sea operation, which was an integral part thereof. The interests of creditors and taxpayers conflicted over course of the operation, and the Commons (the only component of British Parliament that was answerable to anyone) were sorely tempted to side with the latter. According to Dickson (1967, 186), this episode was “as near as the English government came in the eighteenth century” (or at any time since) “to repudiating its obligations.” How near, and why?

To answer this, it is first necessary to understand why the government started this restructuring at all. That task take up the first part of the paper in which I examines the plan proposed by Robert Walpole to restructure the debt in 1717, and which was only partially implemented. The South Sea operation of 1720 implemented the rest, but the bubble that arose in 1720 created an unintended redistribution among creditors and the government. Parliament intervened and imposed an allocation of gains and losses: I examine who won and who lost, and why, in the second half of the paper.

I skip over the bubble itself without compunction. It has been abundantly studied (Anderson 1787; Scott 1911; Carswell 1960; Dickson 1967; Neal 1990) and most recently with particular emphasis on bubble aspect (Temin and Voth 2004; Dale, Johnson, and Tang

2005; Shea 2007; Kleer 2015; Giusti, Noussair, and Voth 2014). Besides, this paper is too long as it is. How the bubble arose and burst I take as given. For my purposes it matters in two ways: (a) it left the government's creditors (transformed into shareholders of a company) on the hook for a large transfer to the taxpayers, (b) there were great disparities in treatment of creditors.

I follow in the footsteps of Dickson's 1967 fundamental work, but come to different conclusions. The reasons for initiating the restructuring are largely misunderstood, and probably were at the time: the goal was to increase the government's flexibility in shifting the tax burden over time, not to reduce the debt or tax burden (which would have required a default). Indeed, buying that flexibility entailed a cost. The ensuing debates inside and outside of the Commons show that many understood the consequences of the Glorious Revolution to include parliamentary supremacy: no Parliament could bind any future Parliament, including when it came to honoring debt.

Restructuring the debt legally required a lot of cash, and the South Sea operation offered a chance to circumvent this need, but not without risk. In late 1720 the government was looking at receiving a very large transfer from very unhappy creditors. To see that transfer as other than, ex-post, a default requires either a narrow legalistic approach or else a full embrace of parliamentary supremacy's power to side with the taxpayers. Parliament did keep part of that transfer initially, and then gave it up entirely in 1722.

Creditors, in the aggregate, did not suffer (nor did the government gain), but different classes were treated very differently. Those who suffered most were the latest entrants into the bubble, not surprisingly since, from my calculations, cash flows functioned like a Ponzi scheme during the bubble. I show that Parliament could have treated them more fairly, using counterfactual allocations of losses, and examine possible political explanations, but none are obvious. I postpone final thoughts to the conclusion.

2 The Restructuring of 1717

2.1 The Beginnings of British Public Debt, from 1688 to 1716

At the time of the Glorious Revolution in, 1688 the public debt was practically inexistent. The next 25 years were nearly uninterrupted wartime, and from 1688 to 1716 England (Great Britain from 1707) spent around £75m on its military above peacetime levels. This excess spending averaged £2.7m per year, compared to £2.2m in revenues before the Revolution (Hutcheson 1721a, 27).

Britain financed two thirds of this spending with debt, but it was a newcomer to the game. Italian cities and states, Spain, France, and the Netherlands had been issuing sovereign debt for centuries and developed a variety of short-term and long-term instruments. The English only had experience with short-term debt called tallies, backed by a specific tax of specific duration. Out of the tax revenue, principal was repaid "in course" (in order of issue) and interest paid to the remaining creditors for their "forbearance." When the tax revenue ran out, creditors had to wait.

Over the 25 years of warfare Britain learned to issue long-term debt, each issue similarly backed by taxes specifically levied and with a duration matching the term of the debt. Parliament often obligated itself to make up any shortfall in a particular year from the next supply bills. Conversely, surpluses could be used for other purposes as unappropriated monies.

The long-term debt took two main forms, distinguished by its redeemability.

The first form was debt issued directly to the public and called “terminable annuities”: a stream of constant annual payments (or annuities) that ended (terminated) after a number of years.¹ There was no principal or face value, and no possibility of early redemption: rather, they were self-amortizing.² All the loans issued from 1694 to 1709 were very long-term, either life annuities or annuities for 95 to 99 years; loans issued in 1710 were also irredeemable annuities, but somewhat shorter duration at 32 years. After 1710 and until the 1740s, no more irredeemable debt was issued.

The other form of debt was redeemable. Most redeemables were perpetual annuities, for which the stream of annual payments continued unless the face value (the “stock”) was repaid. Typically a date was set at time of issue after which Parliament could give notice, usually one year in advance, of its intention to redeem the debt. This was in effect a call option on the perpetual debt, exercisable after the set date, with the face value being the strike price.

The perpetual annuities issued until 1715 were not owned directly by the public, but by corporations: the Bank of England (BoE, founded in 1694), the East India Company (EIC, founded in 1698), and the South Sea Company (SSC, founded in 1711). The corporations were in turn owned by the public in the form of tradeable shares. In this form of government debt securitization (Quinn 2008) the government sold an annuity to the corporation for cash (in the case of the SSC, to retire unfunded debt), and the corporation raised the cash (retired the unfunded debt) by offering shares. Prospective lenders became shareholders in a corporation that owned two assets: (a) the government annuity (along with some management fees), and (b) some commercial, presumably valuable, privilege. Put another way, the lenders who bought an annuity from the government were incorporated and, as a corporation, received valuable privileges, designed to reduce the required interest rate on the annuity. The annuity, as with other long-term debt, was funded by a specific tax or set of taxes. The advantage for the government was to pay a lower than market-rate on the annuity, the privilege representing an additional, if variable, compensation. On occasion the government borrowed additional amounts from the corporations by allowing them to issue more shares, backed by an increase in the annuity and the assignment of additional tax streams.

There were two minor innovations in the category of redeemable debt between 1711 and 1715. First, a series of “lottery” loans (1711–12) created annuities with a capital or

¹Life annuities were terminable annuities, but the number of years depended on the life of one or more individuals.

²The loans were the “long annuities” (for 99 years) of 1704–08; the “short” annuities, i.e., the lottery loans of 1694 (16 years) and 1710 (32 years) and the “nine percents” of 1710; and the tontine of 1693 and life annuities of 1693 and 1694. Life annuities and tontines were used again from 1745 and short annuities from 1777.

face value: the capital was due to be repaid within 32 years, and interest paid until repayment. Second, redeemable perpetual annuities were issued directly to the public, at 5%, for the first time in 1715. The “Bank annuities” were so called because they were payable at the Bank of England, which received the tax income from the Exchequer and a fee for managing the annuities.³ Ownership of the annuities was recorded at the Bank in double-entry ledgers which made transfers fast, cheap, and allowed fractioning.

2.2 The question of the irredeemables: prolegomena

It is useful to lay out the issues before entering into the history.

The illusion of savings

There was much rhetoric on the burden of the debt, but debt in of itself is not burdensome. A debt with no coupons and no maturity, such as fiduciary money, does not appear in the government’s budget constraint unless its quantity changes (e.g., it is retired). The service of the debt, that is, the flow of payments due over time, constitutes the burden, or equivalently the taxes that must be raised to meet the due payments in each period.

The flow of payments to service the debt results from the terms of the debt contracts. A debt restructuring is a modification of this flow of payments. The terms of the contracts may allow ex-ante for some modifications: for example, the redemption clause of redeemable debt allowed Parliament to change an infinite constant stream $\{1, 1, \dots\}$ into $\{C, 0, \dots\}$ at any time, with C the “face value” of the annuity of £1 specified in the original contract.

Irredeemable annuities created a stream of obligations $\{1, \dots, 1\}_{t=0, \dots, T}$ in exchange for a payment. The rate of return equating the present of value of that stream to the payment received reflected the conditions at the time of issue. Much was made of the fact that this rate at time of issue, say 1694, was much higher than the rate of interest in peacetime. This was undoubtedly true but it did not make that form of debt more or less “expensive” than any other government debt. The size of the payment made in 1694 was absolutely irrelevant in 1717, except under a form of sunk cost fallacy.

Restructuring the irredeemables could be done with or without the consent of the owners. The latter case would be a default. In the former case, the present value of the new flow would have to be no less than that of the old flow, so there could be no “lessening of the burden” or “savings” to be had. The difference between redeemables and irredeemables was the flexibility to alter the profile of the stream, not its total value.

Consider the constant stream of an irredeemable annuity paying 1 for $0 \leq t \leq T$: the perpetual stream with the same present value at a given interest rate r (assumed to prevail for all time) at $t = 0$ is $d = 1 - e^{-rT} < 1$, so the conversion will look like a reduction in debt service until T , but that is an illusion: the burden, measured by the value of the required

³1 Geo I st. 2 c. 19 and c. 21; originally planned at 6%, they were issued at 5%. They are sometimes called by their total amounts, £910,000 and £169,000. Neal (1990, 90, 117) errs when he says that the first redeemable perpetuals were issued after 1720. More annuities were created, at 4%, in exchange for outstanding tallies (3 Geo 1 c. 7).

payments, is unchanged. If a tax stream exists to fund exactly the annuity payments, it could be reduced to d until T , but taxes would have to be raised from T onward. The tax burden is shifted across time, not reduced.

Suppose now that at some time s interest rates fall permanently to r' , and this is known in advance. Let us compare two instruments, a perpetual irredeemable and a perpetual redeemable issued at interest rate r (that is, an annuity of 1 can be redeemed at any time at price $1/r$). Obviously, the option to redeem will be exercised at time s , so the investor will receive 1 until s and $1/r$ at s . The present value of that flow is $(1 - e^{-rs})/r + e^{-rs}/r = 1/r$. The value of the perpetual irredeemable paying 1 forever is $(1 - e^{-rs})/r + e^{-rs}/r'$ and the difference between the two is $(1/r' - 1/r)e^{-rs}$. For $r = 5\%$ and $r' = 4\%$, the premium for a redeemable is 25%, discounted depending on how distant s is: 20% for 5 years, 40% for 10 years, 60% for 10 years. The logic is simple: if it is known that the redeemable will yield a lower flow after s , it has to offer a higher flow before s , compared to the irredeemable.

More generally, the future evolution of interest rates is not known in advance, but the redeemable contains an option for the debtor to lower the flow of payments when rates fall, which caps the value of the asset for the creditor, since he is deprived of the capital appreciation that accrues to an irredeemable when rates fall. This option has value (the premium computed above in the deterministic case) which must be paid by the government.

Walpole and his advisers were perfectly aware of this price. They were familiar with put and call options and Walpole understood that he would have to pay for it.⁴

There may have been excellent reasons to convert the irredeemables into redeemables, but lessening the debt burden is not one of them, unless the market was more pessimistic than the government about future falls in interest rates and willing to sell the redemption option to the government at the wrong price.

Tax policy over the long run

Making all government debt redeemable makes it possible to change the profile of the tax burden, if that was desired, for example by establishing a fund to sink the whole national debt. Debt restructuring then becomes a question of (optimal) tax policy.

An optimal tax plan is the solution to the maximization of an objective subject to the government's intertemporal budget constraint. A classic example is Barro (1979), where government spending is taken as given and the objective is to minimize discounted tax distortions, which leads to a tax-smoothing rule. It seems difficult to back out what the objective really was in 1717, but we can elicit from statements and behavior the extent to which contemporaries were sensible to the properties of the problem.

The first-best, usually ruled out to make the problem realistic and interesting, is to levy a one-time tax on capital to finance all future expenditures. Hutcheson (1721a, 27–

⁴See footnote 12 on put options. Walpole wrote: "It is to be observed that the government sold some of these annuities at 11 years, 11 and ½ and the highest at 15, 15 ½ and 16 years purchase, which 'tis now proposed for the publick to purchase back at 17 or 18 ½ purchase without distinction, which seems to be a valuable consideration for the power of redemption" (CUL Ch(H) 49, 1a/16). Note, however, that the original purchase price was irrelevant. In 1711 Defoe had already stated that redeemables could replace irredeemables in debt issuance but "higher premios and advantages must be offer'd to the lender" (Second 1938, 18:550).

29) actually proposed something similar: he thought that a one-time 10% on all real and personal estate (including government debt) would be sufficient to extinguish the debt completely, although he did not go as far as building up a war-chest for all future contingencies; nor did he discuss the time-inconsistency problem with the policy.

The second-best involves redistributing the debt burden so as to smooth taxes, and the irredeemables place constraints on such redistribution: this founds a case for converting the irredeemables, a subtle but plausible one. In the case of a perfectly anticipated future war, tax smoothing calls for redeeming the debt until the war breaks out, and then let the debt grow again through deficit financing as long as it lasts. The need to prepare for future conflicts was understood. Writing on the 99-year irredeemable annuities, Hutcheson (1718, 23) noted “that from the Conquest to this Day, there have not been any Ninety Nine Years without very great Troubles and Turns in the Kingdom.”⁵

2.3 British politics in 1717

This paper is about fiscal choices made by Great Britain, which raises the question: Who is making choices between what alternatives?

The War of Spanish Succession ended for Britain in 1713, the Protestant House of Hanover succeeded without incidents in 1714, and a belated attempt at a Jacobite uprising was easily defeated in late 1715.

In the fiscal year 1716–17, the situation was as follows: revenues at £6.5m, civil expenditures £1m, military expenditures £1.5m, debt service £3.4m for interest and £0.6m for repayment. The budget was balanced, but the primary surplus required to support the debt was enormous, compared with the level of revenues in 1688 (£2.9m). Moreover, there remained a number of unfunded debts to settle.

Defining political parties at the time is difficult. The traditional distinction between Whigs defending personal liberties and the power of Parliament, and Tories supporting (Anglican) Church and Throne, is far from absolute or helpful, as Whigs were happy to support the throne when it was counseled by Whigs. Moreover, on fiscal policy there was little difference between the two, as the Whig backbencher Hutcheson observed: “how much soever they may have differ’d in other Points of Politicks, they have in this perfectly agreed; they have, Brethren like, walk’d in the same Steps, and in their several Turns have spoken the same Words” (Hutcheson 1721a, 19).

The Tories had briefly returned to power from 1710 to 1714, but the new king George I sided with the Whigs and the 1715 election produced a Parliament with a strong Whig majority that could, under the recent Septennial Act, and did sit until 1722. That majority did not translate into a blank check for the government. The Whig party was also cleft by personal factions and ambitions, as we will see. More importantly, there was no party discipline and, on fiscal matters, the relevant division was between the “landed and trade interests” and the “monied interests,” or more broadly between creditors and taxpayers.

⁵Note, however, that the same Hutcheson (1721a, 29) did not favor tax smoothing, and regretted that Britain had not “defrayed always the expence of the war within the year.”

This division came to the fore in one major question after the end of the war, namely the debt.

The Whig ministry's point-man on finances was Robert Walpole, Chancellor of the Exchequer and First Lord of the Treasury since October 1715. He proposed a solution to the debt problem that was only partly implemented in 1717. The main purpose of the South Sea operation of 1720 was to complete it, and Walpole was the one who dealt with its aftermath. It is hence important to understand his plan.

2.4 Shaping the debate

Walpole put the question of the public debt on the legislative agenda in the King's Speech of 20 February 1717 (HCJ xviii:473).⁶ To the Commons (whose privilege it was to initiate any fiscal legislation) the king said:

you are all sensible of the insupportable weight of the National Debts, which the Publick became engaged for, from the necessity of the times, the pressures of a long and expensive war, and the languishing state of publick credit; but the scene being now so happily changed, if no new disturbances shall plunge us again into streights and difficulties, the general expectation seems to require of you that you should turn your thoughts towards some method of extricating yourselves by reducing, by degrees, the debts of the Nation.

The Commons responded on the next day that they would work on "reducing and lessening, by degrees, this heavy burthen; which may prove the most effectual means of preserving to the publick funds a real and certain security" (HCJ xviii:477). Two years earlier, at the first opening of the Parliament elected in 1715, the King's speech had declared the opinion that "nothing can contribute more to the Support of the Credit of the Nation, than a strict Observance of all Parliamentary Engagements," with which the Commons concurred and declared themselves "firmly resolved, upon all Occasions, inviolably to maintain" that observance (HCJ xviii:18, 22). Such forceful commitment was absent from the policy statement of February 1717, as it placed no restrictions on the "method" that would "reduce" the debt burden.

Walpole had prepared public opinion beforehand with the publication of pamphlets, Paterson (1717) and Defoe (1717a).⁷

Paterson (1717), a 300-page tome, was penned by the Scotsman William Paterson, one of the projectors of the Bank of England.⁸ The literary form of the proceedings of a ficti-

⁶The annual King's Speech, as today, served as a statement of policy by the ministry, and the House's Address of Thanks was a form of vote of confidence (Thomas 1971, 39–44).

⁷Paterson (1717) was advertised for sale in the *Daily Courant* the day after the King's Speech. Both pamphlets "seem[ed] to be written in concert with the Authors" of the debt restructuring plan, i.e., Walpole (Defoe 1717b, 59), who nevertheless denied in the Commons any responsibility, attributing them to "private persons and he durst assure the House without the participation of any of His Majesty's Ministers" (PSGB 13:325).

⁸Bannister (1859, 2:297) proposes that a tract of 1701, "the first ever plan to repay the national debt" may have been written by Paterson, and consisted in reducing the annuities to 5% of the original capital lent. It was argued to be "consistent with the power and privilege of Parliament thus to do" in part because Parliament had already failed to meet its obligations: "Otherwise they would not, in cases of indisputable necessity, have varied the manner of security to the lenders, or, instead of making good the deficiencies of several funds out of the next aides as the Acts promised, let them have continued to this day unprovided for."

tious debating club allowed the author to express a range of opinions and present many of the key arguments. In the end Paterson advocated a redemption or conversion of all debts into 5% redeemables, and proposed to “abate” the irredeemables by forcing the holders to accept the present value of their remaining annuities valued at either 5 or 6% (Bannister 1859, 2:111). Compulsion was justified by the past high returns they had enjoyed. The book was poorly received in Exchange Alley, and a copy was burned in front of the Royal Exchange (PSGB 13:303).

Defoe’s 1717 pamphlet appeared a few weeks later, just before the debate began in the Commons. The main argument, expressed in eloquent and vigorous language, was that (a) Parliament was sovereign, and (b) it had to trade off promises to creditors against the resulting burden of taxation. To the first point: “subsequent Parliaments may undo all that antecedent Parliaments have done, who had no more power than themselves; and therefore, as a late author says, laws in Britain are only precedents recommended to posterity for their government: if they like them they let them stand as they find them; if not, they enact others . . .” (Defoe 1717a, 25). It followed that no debt could be irredeemable because “no parliament can lay an unredeemable fund, any more than they can pass an unrepealable law . . . the distinction we make of redeemable funds and not redeemable, is really unparliamentary, ignorant and indeed in the language of such things nonsensical” (Defoe 1717a, 30).

On the second point, Defoe conceded that defaulting was unjust, but so was an excessive level of debt: “No Act can with Justice dissolve the debt . . . but a subsequent Parliament may judge thus, that obliging the people of England to a bondage for years, for debt and usury is the worst of bondage, is breach of natural liberty, and they may consider of just and equitable ways of delivering them; because preserving the liberty of the subject is part of the natural duty of Parliaments and a branch of Parliamentary Credit” (Defoe 1717a, 25). By equating debt with bondage and obligation with slavery, Defoe seemed to place debt repudiation as a defense of liberty under the aegis of the Glorious Revolution.

In the end Defoe did not advocate an explicit repudiation, nor did he propose to touch the irredeemables—by arguing more than he needed, he presented himself as reasonable, giving “the adversary fair play.” What he advocated was a reduction of the “national” (i.e., legal) rate of interest to 3 or 4% and redemption of all redeemables, allowing debt-holders to consent to an interest rate reduction which they would surely prefer to cash in the absence of any legal alternative investment. As for the resulting savings, to the obvious alternatives (more spending or fewer taxes) Defoe preferred a sinking fund to free the nation from debt in 21 years.

In the ensuing “paper-war” (Hutcheson 1721a, 17) many other schemes raised the same issues repeatedly (PSGB 13:303–20).

One was the inequity of “land taxed and funds exempt”: being both assets and source of income, they should both be taxed for the common good, not one taxed for the other or Peter robbed to pay Paul as Defoe put it. Another argument was that the high rates of return earned by the irredeemables had more than paid off the initial capital. It was also claimed that lowering the general rate of interest (by legislation) would be beneficial for

the economy and boost the value of monied men's other assets. The reputation costs were not considered much by those who advocated compulsory reductions, especially since they often thought of government debt as a bad idea to begin with: "As for the publick Credit, if the above Scheme be follow'd, we shall have no Occasion to make use of it: and Happy it had been for this Nation if we never had, we never then should have labour'd under the Burthen we now feel, and our Taxes had ended with our Wars" (PSGB 13:307).

Finally, the competitors on the international stage (France and the Netherlands) had already reduced their debt burdens, by outright reductions in interest rates (France) or by taxing bonds (the Netherlands), and Britain was now at a disadvantage. Besides, English history offered precedents of default, namely the so-called Bankers Moiety.⁹

Was Walpole's intent in publishing the pamphlets to test the waters for actual compulsion, was he using compulsion as a counterfoil to present his plan as moderate, or perhaps both? If the former, there is no subsequent evidence for such opinions, and the plan he quickly produced included no compulsion for the irredeemables. If the latter, the tactic backfired. The market was spooked: participants feared a "cutting off" or a "modified sponge" (PSGB 13:260); the price of long annuities fell by 5% from 15 Feb to 5 March; South Sea stock lost 5%, Bank of England 4%, and East India Company 3%. To make things worse, during budgetary debates on March 5, Walpole moved that a short-term loan be offered at 4%. This was a surprising move: the most recent such loans (on the land tax in July 1716 and the malt tax in December 1716) had been issued at 6%, and the 5% Bank annuities were at par. Trying to issue at below-market rates was taken as a signal that the government planned to lower the interest rate to that level by statute.

The pamphlets provoked a reaction from Walpole's own party in the Commons.¹⁰

Nicholas Lechmere, a Whig gadfly, cited the market's anxieties and moved to dispel doubts by resolving "effectually to make good all parliamentary engagements." The ministry was caught by surprise but Walpole succeeded in modifying the resolution to promise something altogether different, "to make good the deficiencies of all parliamentary engagements" (PSGB 13:323). A few days later Walpole blamed the failure of the 4% loan on a market conspiracy to block his projects, conveniently posing as a victim of the money interests. Lechmere put the blame where it lay: the market was disquieted by what "certain maxims lately advanced" and the failure of his motion. Lechmere insisted that the irredeemables "could not be meddled with without breaking in upon Parliamentary Engagements, and violating the Publick Faith." Walpole quickly assured that "there never had been a design to use any compulsion with relation to the annuities," and that for the redeemables "nothing should be proposed that should not entirely consist with justice and Publick Faith" (8 March, PSGB 13:332–33); to which principles Walpole's plan

⁹This debt, contracted by Charles II and left unpaid after he suspended payments in 1672, was settled by Parliament in 1705 with a 6% annuity redeemable upon payment of half the principal (2 & 3 Anne c. 9), hence the name. Crookshanks (1718, 10) argued that the debt had been contracted without Parliament's consent and hence was not its responsibility.

¹⁰Until the late 18th century, parliamentary debates were not allowed in principle to be reported in the press. Aside from the *House of Commons Journal* (HCJ), the original source for the parliamentary histories of Cobbett and Chandler is the *Political State of Great Britain* (PSGB). The newsletter in British Library (hereafter BL), Add MS 47,076 contains additional information, as well as the reports by L'Hermitage, the Dutch resident in London (BL, Add MS 17,677, KKK,2–5). See also the excellent account in Realey (1931).

	extinction	rate	annual charge	capital
<i>Monied companies</i>				
East India	> Mar 1736	5%	160,000	3,200,000
South Sea	1 yr notice, whole	6%	608,000	10,000,000
Bank of England				
original annuity	> Aug 1743	6%	100,000	1,600,000
1708 annuity	1 yr notice, whole	6%	106,502	1,775,028
Exchequer bills	not before bills below £1.9m		328,562	4,561,025
total monied companies			1,303,064	21,136,053
<i>publicly held</i>				
irredeemables				
life annuities			27,973	
annuities 1692, 1694	1792–94		140,530	
annuities 1704–08	1803–07		527,176	
annuities 1710	1742		81,000	
lottery 1710	1742		135,000	
total irredeemables			911,679	15,608,801
redeemables				
lotteries 1711–12	≤ 1743 to 1744	6%	657,676	8,762,625
Bankers debt	anytime	6%	39,856	664,263
lottery 1713	≤ 1745	4%	35,000	599,190
lottery 1714 blanks	≤ 1746	5%	71,902	1,117,694
lottery 1714 prizes	≤ 1746	4%	44,672	694,406
bank annuities (1715)	1 yr notice, whole	5%	54,600	1,069,000
total redeemables			903,705	12,907,178
total publicly held			1,815,384	
total			3,118,448	49,652,032

Table 1: National Debt, March 1717. Source: HCJ 18:498-507. The capital of the irredeemables is computed at the market prices of 5 Feb 1717.

indeed abode.

2.5 Walpole's plan

After an official state of the public debt had been laid before the House (Table 1), Walpole unveiled his plans on March 19 and within two days had guided Parliament to accept it in a set of resolutions. Walpole's argumentation Commons drew artfully on the recent polemics.¹¹

First, the "debt so great must be considered, and may be thought insupportable if not reduced." Second, the time was right: the debt had been "increased from necessity and low credit" and had "to be eased in good times and high credit." Third, other nations were doing the same, but "the example is to be followed though not in the manner." Walpole acknowledged the fairness question and admitted that "a vast property depending solely upon the government in no way contributes to its support" and that land earning 4% paid

¹¹PSGB only notes that his speech was "generally approved" with the sole dissent of Richard Steele, whose objections "were not thought much to the purpose" (PSGB 13:340). We can find Walpole's arguments in his papers, which contain two plans. The first (CUL CH(H) Papers 49, 1a/16, a sketch in Walpole's hand) is less detailed but includes a sketch of arguments presumably used in his speech (Papers 64, 10/7 is a partial clean copy). The second plan (Papers 64, 10/8 [= 10/33a]) was presented to the Commons according to a note by John Crookshanks (on a copy in Papers 73, 10a/6–7). They are accompanied by calculations based on the March 14 account of the debt (Papers 64, 10/22 and 23, dated March 18 and 21) and corrections after the Commons' resolutions (Papers 64, 10/24) and additional calculations (Papers 64, 10/25 to 28).

all taxes but funds earning 7 to 9% paid nothing. But taxing debt was not the answer: British debt is “not to be taxed by contract; if taxed the mischief is not cured.” Reducing interest payment on the debt would reduce this imbalance, both mechanically and by crowding-in: “if funds are reduced” (that is, bear a lower return) “the money must go into trade or land.”

The basic idea was to maintain or increase taxes as required, refinance the redeemable debt, offer attractive terms to the holders of irredeemable debt, and use the resulting decrease in debt service (holding taxes and spending constant) to repurchase the debt over time. With the power of compound interest at work, Walpole thought it possible to repay the debt in “less than thirty years.”

Specifically, Walpole proposed to redeem what could be redeemed and bore an interest above 5%: with market rates around 5% (not 4%, as the failure of the loan proved), the option to redeem was in the money for those debts only. Debt-holders would be given a limited opportunity to convert their debt into 5% redeemable annuities of the type issued in 1715 (transferable at the Bank of England, hence more liquid and marketable), or else receive the cash.¹² Holders of irredeemable debt, the long and short annuities, would only be offered an option for a limited time to convert into redeemable debt without compulsion. Walpole’s papers show that he and Lowndes considered making offers to holders of life annuities but they were not included in the plan. The resulting savings would be used to reduce the debt over time through a sinking fund (described below) and push wealth into more productive uses.

What was redeemable

Which parts of the debt could be redeemed? Table 1 distinguishes between the debt held by the “monied companies” (the EIC, the SSC, and the Bank of England) and that held by the public, the latter divided into redeemables (with the face value at which they could be redeemed) and the irredeemables (with their market value as of February 1717).

The redeemable debt held by the public was of recent origin; as described above, the oldest was issued in 1710; the most recent, the Bank annuities, was the kind of annuities that Walpole wanted to replace the existing redeemables, but were already at 5%.

The debt to the EIC was at 5% and could not be touched until 1736. The South Sea Company’s annuity was redeemable on one year’s notice any time after December 1716 and bore 6%. The original fund of the Bank of England was at 6% but protected until 1743. An annuity created in 1708 was redeemable on one year’s notice. Finally, the Bank also received a costly annuity to circulate Exchequer bills, interest-bearing notes issued by the Exchequer in lieu of cash when making payments (Dickson 1967, 372–79). The

¹²A note in Lowndes’s characteristic old-fashioned cursive and spelling (Ch(H) Papers 65/14) comments on the best way to manage the offer so as to economize on cash. He observed that the debtholders would be given a call option (a “refusal” as it was then called) on new 5% annuities which they will only exercise at the last minute, leaving the government at the mercy of some sudden fall in debt prices. The trick was to offer cash repayment on the lotteries one at a time, and simultaneously open a subscription for new annuities in limited amount. Fear of being shut out of the subscription would induce debtholders to go for the annuities; those who receive money would seek to invest them, driving up prices. Repeating the operation would allow the government to use the money not paid out. Eventually the method proved unnecessary.

current system, working since 1707 with modifications, relied on the Bank of England to support the value of these bills. The Bank committed to cash bills on demand with interest accrued ("make them specie"): this was called "circulating" the bills. For this service the government paid 3% of the amount of bills outstanding and a flat £53,000 per year. This cost was in addition to the interest on the bills, reimbursed to the Bank, of 2d per day or 3% per year. The system had been useful to support the value of the bills during the war but was now expensive, especially since the Bank held more than half of the bills outstanding—why was the Exchequer paying the Bank to cash on sight bills that the public didn't hold? Walpole proposed to lower the overall cost of the bills (interest and making them specie) to 4.5%, but this would deprive the Bank of lucrative business. Moreover the £53,000 fee had been granted for as long as the bills outstanding were above £1.9m. The only legal way to end this was to redeem all outstanding bills at once (£4.5m).

Financing the conversion

The multiple ownership of the debt created problems for Walpole.

Lowering the interest on the redeemables was in principle straightforward: borrow their face value on the market (at a lower rate) and repay the owners. In practice, raising so much cash in a short time was difficult. Perhaps the owners could be convinced to accept a voluntary reduction in the rate to spare everyone the bother: many owners might not want cash at all, and if they received it they would have to invest it again, at market rates, which is what the government would accept to pay them. But of course they were always free to refuse. If, moreover, the government was known to be unable to raise the cash, the owners might all refuse the voluntary reduction and the operation would collapse. (Foreshadowing: the genius of the South Sea operation of 1720 was to circumvent the need for cash.)

The plan therefore required to raise a lot of cash beforehand, or a credible threat to do so quickly. Walpole wanted to convert the lotteries of 1711–12 and 1714, a total of £10.6m, and figured that he needed at least £7m on hand. From whom? The monied interest, of course: either the market, or the monied companies. Raising such sums on the market was dangerous, because of "the caprice, humour or combination of particular persons." The alternative was the monied companies, but part of the redeemables to be reduced were in their hands, and some of the expensive debt that Walpole wished to reduce were the Exchequer bills circulated by the Bank of England, at a nice profit for itself.

The clever solution was to play the companies against each other (highlighting an advantage of having more than one monied company). Two could be bribed easily. To the East India Company "some concessions and privileges may be granted to them in point of trade" would ensure a £2m loan while the South Sea Company would readily increase their capital by £2m "for which a further term may be granted them, confined always to a reasonable number of years": that is, extending the term before which the annuity could not be redeemed, a concession the SSC had unsuccessfully sought in 1715 when the government asked for a loan. The harder nut to crack was the Bank of England, so

Walpole enrolled the South Sea Company.¹³ The key threat was to propose that the SSC circulate the Exchequer bills in the place of the BoE. Walpole's papers include a detailed plan for how it could entirely replace the Bank in managing the Exchequer bills, and what profit it could derive therefrom.¹⁴

2.6 The Sinking Fund

A key element of Walpole's plan was the establishment of a sinking fund.

As described in section 2.1, loans had tax revenues secured for the payment of interest. A sinking fund is a fund to which resources are appropriated and is used to sink or repay a capital. As the capital is paid off, the payment of interest decreases and the freed tax revenues are transferred to the sinking fund. The logic is that of a fixed-rate mortgage with constant payments, and it had been used before as Walpole admitted (Walpole 1735, 10), but he was the first to establish one for the whole debt. Such a general sinking fund requires a particular fiscal policy, whereby primary surpluses are maintained higher than necessary to simply roll over the existing debt, and used to redeem the existing debt over time.

In practice, Walpole's sinking fund consisted in segregating surpluses arising from various funds assigned to the existing debts and dedicating them to redemption of debt issued before December 1716.¹⁵ Walpole's plan projected that the debt, under a constant 5% interest rate, could be extinguished within 32 years.¹⁶ The plan was seductive but did not prevent the issue of new debt nor could it prevent future Parliaments from diverting the surpluses to other uses, as Hutcheson (1721a, 10) suspected and in fact happened in the 1720s and 1730s under the ministry of Walpole himself. In 1786 William Pitt established a new sinking fund with a legal obligation to transfer a fixed amount every year, but it couldn't prevent the issue of new debt either and proved just as ineffectual.

The case for converting redeemables that bore more than 5% interest was plain. The government held an option, and the option was in the money: it made sense to exercise it and reduce the debt burden legally. The resulting fiscal space could be used two ways: to lower taxes now, equating the primary surplus to the debt burden, or to maintain it higher than necessary in order to shift the burden of debt forward. Given the abundant rhetoric on the "insupportable" burden of taxation, it seems paradoxical that Walpole's answer was to keep the burden at this insupportable level longer than necessary. Hutch-

¹³The East India Company, listed in the original plans, ended up playing no role either in 1717 or in 1720.

¹⁴CUL, Ch(H) Papers 88/11 (possibly in Lowndes's hand), 13, 13a. The beginning of the document provides an interesting assessment of the Company's financial situation: "As the South Sea Company is a Company that depend chiefly if not intirely on their annuity out of the Exchequer and their trade is so small and doubtfull as to the profit, and their capitall is already so large that they cannot expect to make any considerable dividend by their trade it may be rather an advantage than prejudice to them to have their capitall stock enlarged and perhaps the larger it is made the better it is for them."

¹⁵An Act of 1715 had already collected a number of tax revenues into the Aggregate Fund, mostly designed to fund the debt of the Bank of England. The creation of the South Sea Company had established another fund, the South Sea Fund. Walpole also intended to collect the taxes backing the redeemable loans of 1711–12 into a General Fund. The surpluses of the three funds (as well as any surpluses from the Civil List fund) were to be segregated in the Exchequer into a Sinking Fund, dedicated to redeem debt issued before 1716.

¹⁶CUL Ch(H) papers 69, 10/25 computes the years T it takes an annual fund F to redeem a debt D paying an interest rate r (in other words, $T = \log(1 + rD/Fr) / \log(1 + r)$) with $D = £45\text{m}$, $r = 5\%$ and the sinking fund F between $£0.6\text{m}$ and 1m .

eson (1718, 15) understood that but also suggested that it had not yet been made clear to the public: "The Nation, indeed, should have been plainly inform'd (and so they must at last) that they must groan forever under the present heavy Load of Debt, and the Taxes, which are the Consequences thereof, without Submitting, for a Time, to some further Impositions."

It seems likely that the heavy insistence on the "savings" from the operation, which has fooled historians to this day, was probably intentional, and a way for Walpole to guide the Commons towards a costly restructuring without opening Pandora's box.

Negotiations and debates

Walpole's plans were formally embodied in a set of resolutions adopted by the Commons on March 23. The only differences with his original proposals were that only the lotteries of 1711–12 would be redeemed (excluding the 1714 lottery), and the terms offered to the owners of irredeemables were changed. Walpole had proposed to offer seventeen years' purchase in 5% annuities or eighteen and a half in 4% annuities for the long-term annuities, and "in proportion" for the short-term (32 years) annuities. The Commons decided to increase the offer price to 17.5 at 5% or 19 at 4% for the long annuities, and 13.5 at 5% or 14.5 at 4% for the short annuities. A committee was appointed to draft the appropriate legislation.

The first bill to come from this work was introduced by Walpole on April 10. It dealt only with the Bank of England and made explicit provision for possibly turning over the Exchequer bills business to someone else.¹⁷ Under this threat the Bank would concede, and the savings on the cost of the bills would fund either more bills or a loan from the Bank.

The Bank complained that it was treated poorly after providing help "in times of great difficulty"; the violation of existing law was insisted upon. Doubts were expressed that bills could be circulated at 4.5% by them or any other undertaker. Pointing out that the Bank held many bills, veiled threats were made to place "very great demands on the undertakers such that they may not be well able to stand." The Bank was also displeased by Walpole's plans to issue more bills because "the more exchequer bills are current carrying interest the fewer cash notes of the Bank will be current without interest."

At this point political events interrupted the proceedings. A split within the Whig ministry, mostly about foreign policy, broke out into the open and Walpole's brother-in-law was dismissed—Walpole resigned immediately, on April 9, and when he introduced his bill on the Bank of England he did so as a "country gentleman," that is, a back-bencher. Lord Stanhope succeeded him as First Lord of the Treasury, and Parliament adjourned a few days later for the Easter recess. When Parliament reconvened the King's speech urged the Commons "to take all proper methods for reducing the publick debts, with a just regard to Parliamentary credit," confirming the government's intent to avoid default.

¹⁷Walpole's bill: Ch(H) 64, 10/1; also the National Archives (hereafter TNA), T48/4; the Bank's written objections: *ibid.*, 10/3, "Observations on the behalf of the bank upon the bill for the redemption of their annuity of 6%"; the Bank's proposal to the Commons, annotated by Walpole, is in 88/76.

But when Walpole moved a second reading of his bill Stanhope interjected that it needed “to be amended and rectified.” Now official negotiations began with the Bank and the South Sea Company.

It is useful to view the negotiations as taking place between three parties, the companies and the government. But directors of both companies sat in Parliament (the law explicitly stated that there was no incompatibility), which meant that the two companies were well informed of the debates and could intervene.

On May 7, 1717 the Treasury approached the South Sea Company with the draft of a bill to lower the Company’s annuity from 6% to 5% “and other purposes.” The government wanted to lower the rate, but also needed funds for to pay off dissentients in its other redemption operations. After some negotiation Stanhope amended the draft, taking up the Company’s offer of a £2m loan and providing a modest additional security for their annuity (the tax funds made available by the reduction on redeemable debts would be assigned to the Company’s annuity). The sticking point was the Company’s demand for an extended protection against redemption, whose duration was left blank in Stanhope’s draft. The directors first decided to ask for eleven years, then ten years, and finally settled for eight years. A general court on May 16 approved the proposal which was sent to the House of Commons on May 20, at the same time as the Bank of England’s proposal.¹⁸

There ensued in the Commons a lively debate between the “monied interest” and the “landed interest” (debtors or taxpayers), the desire to reduce the public debts against the need to preserve “parliamentary faith.” The member and merchant John Hopkins darkly noted “what had been suggested by some People without, that the interest of the public funds might be reduced at once by an Act of Parliament ; but that he hoped, no such thing was ever intended by any that sat in that House; for, in his opinion, it could not be done without violating the Parliamentary Faith, and giving a dangerous wound to public credit.” Yet a number of members found that the monied companies, which “to make themselves popular, boasted of their zeal for the present government, should on this occasion have given more convincing proofs of it by contributing more than they offered to do, towards reducing the public debts and easing the landed men who for so many years have born the greatest part of the national burdens.” They found the proposals unsatisfactory and wanted to wait for better ones; others argued that the gain was worth taking (Lowndes) and that the affair should not be delayed (Bladen). Some wanted no term on redemption, others accepted one year (Hungerford) or three (Pulteney); Aislalie, the new Chancellor of the Exchequer, proposed six years (June 1723) and a year’s notice for the South Sea, which was carried without dividing (i.e., with a clear enough majority for a voice vote).¹⁹ When the bill was drafted on June 6, however, the Commons added a clause to allow partial repayments in sums of £1m or more, and the Company’s general court acquiesced on the advice of their directors. The Company also consented to provide a loan of £2m at 5%, if required, for the purposes of debt redemption. Of note was also a clause that protected the Company stock from any increase in transfer taxes, but also

¹⁸BL add ms 25,497, 29r-32v, 34v, 41v.

¹⁹PSGB 13:574–88. The new term for redemption was one year’s notice after 24 Jun 1723.

protected the annuity from any form of taxation.

The Bank of England's proposals were also debated. The Bank mostly acceded to the demands that had been made by Walpole, but tried to save as much as it could. They were willing to lower the 1708 annuity to 5% from March 1718 but asked that it be irredeemable until 1723: they were allowed to continue at 6% until June 1718 but only got a year's notice after that date. On the Exchequer bills they accepted to deliver £2m in their hands for a 5% annuity but irredeemable until 1720: they only obtained a year's notice after December 1717. On the remaining bills they obtained to continue the 3% payment to make them specie, but the Commons made explicit that this annuity was redeemable on a year's notice after September 1717. The interest on the bills was lowered to 1d per day (1.5% per annum), and the Bank obtained that the quantity could not be increased without their consent. They also offered to lend £2.5m if required at 5% for the purposes of debt redemption. Finally, they gained the same exemption from higher transfer taxes for stock as the SSC, but not the exemption of the stock itself from future taxation, which the SSC had gained.

The implementation

The two Acts dealing with the monied companies were completed by a third dealing with debt redemption.²⁰

Here was the most substantial departure from Walpole's plan: the irredeemables were left aside, and only the redeemable lotteries of 1711–12 were called in, as well as an old annuity arising from the 1672 Stop of the Exchequer (the "Bankers Moiety"). Holders of tickets (i.e., bonds), which carried 6% interest, were given the choice between receiving their capital in "ready money" at the Exchequer, or to subscribe to new 5% annuities at par, redeemable at any time in increments of £0.5m or more, easily transferable at the Bank of England like the so-called Bank Annuities of 1715.²¹ The other two Acts had secured loans from the Bank and the South Sea Company to pay off those who refused conversion (the "dissentients"), but there were virtually none, and the Company's stock remained at £10m.²²

It's not clear why the 1714 lottery and the irredeemables were dropped from the plan. Pulteney (1735, 18–21) later claimed that it was due to the market scare, but that doesn't seem right—the market was indeed spooked in late February, but recovered once it became clear that default was off the table. Indeed, the long annuities's market price had risen from 17 $\frac{1}{2}$ on March 23 to 20 on June 28 when Lowndes introduced the bill. The most likely explanation is that the resources gathered (£4.5m in potential loans from the

²⁰The Acts (3 Geo I c. 7 for the debt, 3 Geo I c. 8 for the Bank of England, and 3 Geo c. 9 for the South Sea Company) received royal assent on July 15, 1717.

²¹Additional annuities were issued to pay off tallies issued in 1705 and 1710 and still unpaid. The Act also authorized the issue of 4% annuities to pay off floating debt. The new annuities came to be known collectively as the Lottery Annuities. Further issues of redeemable annuities took place in 1718 at 4% ((4 Geo I c. 10), and in 1719 at 5% (5 Geo I c. 1), to pay off army debentures and the Navy treasurer's deficit for 1718, caused by his payment of the South Sea Company's annuity.

²²The subscription books in which holders of lottery orders could indicate their choice of money or annuities were open from 24 July to 28 Sep 1717; only five persons asked for their money, for a total of £471 (Gazette 5557, 20 July 1717; Gazette 5577, 28 Sep 1717). This is not surprising given that the very similar Bank annuities traded several percents above par throughout that time.

monied companies to pay off dissentients) must have seemed insufficient. Walpole had thought it possible to borrow money on the market on the security of the tax revenues that would be freed up by the conversion, but this required some legal acrobatics. A contemporary pamphlet also alludes to misgivings about giving the government too much discretion in negotiating with the monied interest and raising large funds outside of Parliament (Tindal 1718, 43).

That piece of unfinished business was taken up again in 1719 and 1720.

3 The 1720 debt conversion

3.1 The situation in late 1719

Table 2 presents the state of the public debt at the end of the fiscal year 1719, as it was presented to Parliament on Jan 21, 1720.²³

3.2 The origins of the proposal

The best source for the origins of the scheme is Blunt (1732), with the obvious caveat that it is a *pro domo* plea written by one of the directors.

In mid-November 1719 Blunt showed a scheme to the earl Stanhope (who was effective head of the government). The idea was to repeat the 1719 conversion but on a much grander scale, converting all debt, redeemable and irredeemable, into an annuity at 5% protected from redemption for a number of years, then reduced to 4% on a set date and redeemable at any time thereafter. The government would gain the assurance of reducing all debts to 4% at a certain date (whether or not rates fell), accepting in exchange to let the debt enjoy a possibly above-market return for a few years, and to let the South Sea Company act as the government's banker in the meantime.

The plan allowed for any of the monied companies to participate in the debt conversion, but was clearly designed with the South Sea Company in mind. All redeemable debts except Exchequer bills, but including the original annuities of the Bank of England and East India Company, would be taken in, as well as the irredeemables on a voluntary basis. The Company would receive the same interest on the debts taken in until midsummer 1727, payable weekly out of the taxes assigned to those debts. After 1727 the annuity to the Company would be reduced to 4% (a £0.5m reduction) and thereafter redeemable in amounts of £1m or more upon one year's notice. The irredeemables would be exchanged with the government on the basis of 20 years purchase and 11 years purchase for the long and short annuities. The costs of servicing the debts exchanged would become management fees paid to the Company. The Company also proposed to contribute £1.5m to the ongoing war with Spain, with the explicit goal of financing an expedition to acquire settlements in Spanish America for future trade. Should the war end before such an expedition, the Company was willing to give the £1.5m between 1725 and 1727, in effect giving up the

²³JHC 19:232, but the report is not printed. I use the copy in the Walpole papers which is not exempt of mistakes.

	extinction	rate	annual charge	capital
<i>Monied companies</i>				
East India	> Mar 1736	5%	160,000	3,200,000
South Sea	> Jun 1724, $\geq$ £1m	5%	596,740	11,746,844
Bank of England				
original annuity	> Aug 1743	6%	100,000	1,600,000
1708 annuity	1 yr notice, whole	5%	88,751	1,775,028
1717 annuity	1 yr notice, whole	5%	100,000	2,000,000
Exchequer bills	1 yr notice, whole		24,000	1,279,738
<i>total monied companies</i>			1,069,491	21,601,610
<i>publicly held</i>				
<i>irredeemables</i>				
life annuities			27,774	
annuities 1692, 1694	1792–94		140,530	
annuities 1704–05	1803–04		150,746	
annuities 1706–08	1805–07		376,430	
annuities 1710	1742		81,000	
lottery 1710	1742		46,260	
<i>total irredeemables</i>			822,740	15,669,889
<i>redeemables</i>				
lottery 1713	$\leq$ 1745	4%	35,000	563,300
lottery 1714 blanks	$\leq$ 1746	5%	76,104	1,055,990
lottery 1714 prizes	$\leq$ 1746	4%	40,470	652,020
bank annuities (1715)*	1 yr notice, whole	5%	54,600	1,079,000
lottery annuities (1717)*	$\geq$ 0.5m	5%	477,508	9,550,163
tallies 1717 (4%)*	$\geq$ 0.5m	4%	76,537	1,913,432
lottery 1719 (1)*	6 mo notice	4%	20,000	500,000
lottery 1719 (2)	6 mo notice	4%	30,560	500,000
tallies 1719 (5%)*	$\geq$ 0.5m	5%	5,516	110,313
<i>total redeemables</i>			816,294	15,924,219
<i>total publicly held</i>			1,639,035	31,594,107
<i>total</i>			2,708,526	53,195,717

Table 2: National Debt, 29 Sep 1719. Source: CUL Ch(H) Papers 49,6. The capital of the irredeemables is computed at the market prices on that day. In the extinction column, $> t$ means not before t , $\leq t$ means no later than t . The * symbol indicates that the debt was payable at the Bank of England; otherwise debts were payable at the Exchequer.

value of the protection against redemption. The Company also asked for the monopoly on trade with Africa previously held by the Royal African Company.

Stanhope did not want to involve the Bank of England, nor did he approve of the military expedition, but the rest of the plan satisfied him, particularly the cash payment from the Company, and he asked Blunt to work with Aislabie, Chancellor of the Exchequer, on a revision of the scheme, which left out the Bank of England's original fund and the East India Company's fund. The Bank of England's two annuities of 1708 and 1717 were to be redeemed with a cash payment from the Company of £3.5m (reducible in proportion if not all debts were subscribed).

A bidding war with the Bank of England led the South Sea Company to offer particularly generous terms that were accepted by Parliament.

The Act (6 Geo I c. 4) specified the price at which the government sold new debt for old debt to the Company: the latter was to receive a 5% annuity of 20 (resp. 14) years'

	Nov 1719	Jan 21 1720	Jan 27 1720	Feb 1 1720	Apr 7 1720	Apr 28 1720	May 19 1720
	<i>terms</i>						
new term (midsummer)	1727	1727	1727	1724	1727		
irredeemables (in years purchase):							
long	20	20	20	20	20		
short	11	14	14	14	14		
payments from SSC:							
certain payment (£)	1m	1.5m	3.5m	4m	4.156m		
contingent (in years purchase):							
irredeemables taken in		2		4.5	4.5		
irredeemables not taken in				1	1		
<i>market prices</i>							
irredeemables (in years purchase):							
long	19.93	22.42	22.42	22.79	26.29	27.79	29.00
short	14.59	15.43	15.46	15.55	15.44	15.41	15.69
redeemables (in % of face value):							
5% redeemable annuity	101	102.5	102.25		n.a.	n.a.	98.25
4% redeemable annuity	94.25	98	98		96	96	98
South Sea stock	120	135.5	135.75	128.75	342	342	352

Table 3: Terms offered by the South Sea Company to take in existing debts

purchase for all long (resp. short) annuities converted, which were approximately market values. At the same time the Company was authorized to issue new stock in proportion to the debt redeemed: if y long annuities were redeemed, the Company could issue $20y$ in stock and the capital of its 5% annuity increased by $20y$. If annuitants accepted less than $20y$ in stock for their y annuity, the Company could sell the remaining stock on the market for cash. Thus, the payment to the government was a way to share the premium on stock.²⁴ The terms offered to the annuitants were up to the Company.

The bidding was over the sum that the Company would pay the government for the privilege of performing the conversion, and whether that sum was feasible depended on the premium on the Company's stock. Its initial offer on January 21 was £1.5m and two years' purchase, which worked out to a premium of 20%; on that day the South Sea stock, which averaged 117 in October 1719, had risen to 135. The final terms, offered on February 2 and accepted by the Commons, were $4\frac{1}{2}$ years' purchase on all redeemables,, one year's purchase for all long annuities not subscribed, and a £4.156m lump-sum payment. This meant that the actual payment was a lump-sum of £4.156m and one year's purchase of all existing long annuities, and a variable payment of $4\frac{1}{2}$ years' purchase on short annuities subscribed plus $3\frac{1}{2}$ years' purchase on long annuities subscribed.

Since 20 and 14 were market rates, the Company was already losing $3.5/14 = 25\%$ and $4.5/20 = 22.5\%$ on the short and long annuities respectively; the lump-sum payment, if all eligible annuities were converted, represented another 27% loss.²⁵ The market price

²⁴The dress rehearsal for the operation took place in January 1719, when the Company was authorized by Parliament to issue stock for cash in order to repurchase the 1710 lottery at market price. The operation was partially successful (70% of the lottery was purchased), but the gains accrued to the annuitants (with a slightly above-market offer) and to the government (through a cash payment).

²⁵Seen another way: there were £666,566 long annuities and £121,669 short annuities eligible for conversion (Dickson 1967, 104, 132). If all were converted the Company would receive a 5% annuity on £15,034,686 but pay to the government £7,581,389 or 50.4%. The lump-sum payment would be due over the course of 1721 and the variable payments over the course of 1722.

had to be above 150 (50% premium) for things to work out for the Company: it had just reached 157 on February 2, and reached 310 when the Act received the royal assent on April 7.

3.3 The events of 1720, in brief

Subscriptions	Opened	Terms announced	modified	Books closed	Instrument ratified	Stock issued
<i>debt</i>						
1 irredeemables	28 Apr	19 May		23 Jun	28 Sep	5 Oct
2 redeemables	14 Jul	12 Aug	30 Sep	15 Oct	9 Dec	12 Dec
3 both	4 Aug	12 Aug	30 Sep	17 Oct	21, 23 Jan	1 May 1721
	Opened	Additional payments	Terms modified			Stock issued
<i>money</i>						
1 at 300%	14 Apr	14 Jun 14 Aug* 14 Nov	18 Mar 1721			1 May 1721
2 at 400%	29 Apr	14 Sep*	18 Mar 1721			29 Sep 1721
3 at 400%	17 Jun		18 Mar 1721			29 Sep 1721
4 at 1000%	24 Aug		18 Mar 1721			29 Sep 1721

Table 4: The various subscriptions in South Sea stock in exchange for debt or money. The * indicates payments for which the Company was willing to lend for six months at 4%.

Simply put, the rest of the story is as follows. Between April and September 1720 stock was offered in seven different subscriptions, both to convert debt and to raise cash (Table 4). The terms differed as the market value of stock rose, later issues receiving less stock for a given amount of debt or money tendered (Table 6).

Money subscribers knew the terms in advance: in Table 4, “at $X\%$ ” means that £100 stock was sold for £ X cash. Only a deposit was required at subscription (20% in the first and fourth, 10% in the others) and the remainder due at various future dates (only those actually made are shown in the table).²⁶ A holder of a subscription receipt at $X\%$ who had made a deposit d and payments p held in effect an option on stock: if he paid x he was entitled to $100(x + p)/X$ plus an additional $100d/X$ if $x = 100 - d - p$. Stock was issued only once all payments had been made, but subscription receipts were assignable by endorsement.

For debt, the terms meant how much stock and cash was offered for a given type of debt. It is well known but still amazing that debt-holders agreed to the conversion of their debt into SSC stock without knowing the terms, effectively signing blank checks to the Company. In Table 4, the date at which subscriptions were taken refers to the moment when debtholders came to South-Sea House, deposited their securities, and signed powers of attorney naming clerks of the South Sea Company to subscribe in their name into the capital stock of the Company their annuities “at such times and upon such terms and

²⁶Neal (1990, 100) calls the money subscriptions purchases on margin with margin calls at regular intervals, but subscribers had no obligation to the Company. Anyone missing a payment in part or whole lost the deposit but would be entitled to stock for all other payments made (see the texts of the subscriptions in House of Lords archives, hereafter HL, PO/JO/10/2/157/14).

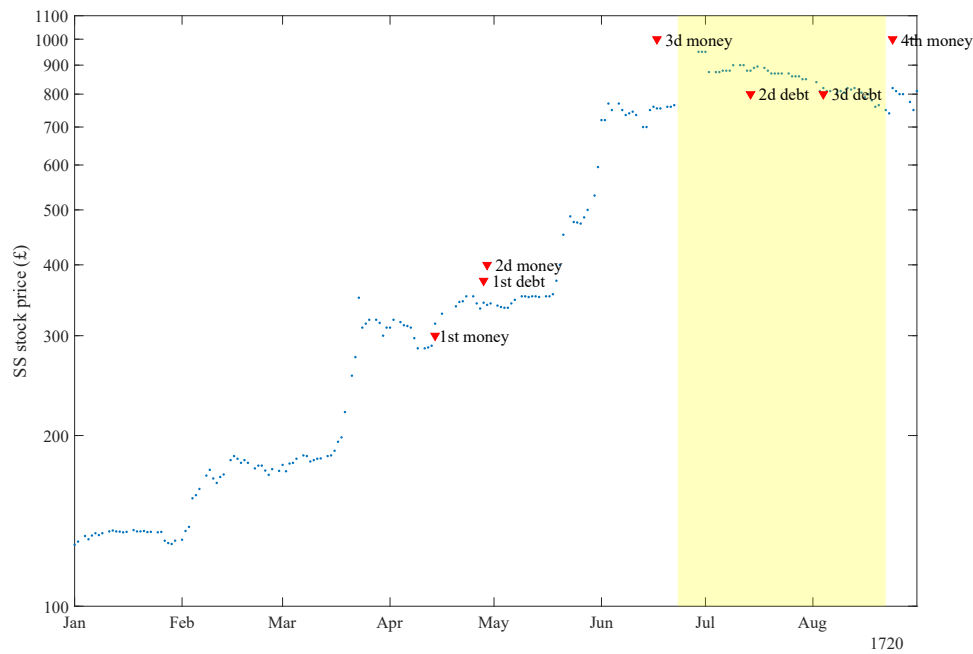


Figure 1: Price of South Sea stock, 1 Jan to 31 Aug 1720. The shaded areas indicate periods when transfer books were closed (hence prices in those periods are “for the opening” of the books rather than spot prices). The times at which subscriptions were taken is shown at the prices at which stock was valued for those subscriptions. Sources: *Course of the Exchange*.

conditions as the Court of Directors . . . shall appoint and agree to take in the same.”²⁷ The terms were announced afterwards, although in the case of the first subscription the annuitants were given a week to change their minds.²⁸ The date at which books closed is when the named attorneys executed their power and took in the annuities: formally, the subscription took place on that date. The instrument signed by the Treasury determined the resulting increase in the Company’s annuity. Only then could the former annuitants be credited with SSC stock.

The last column of Table 4 is important: only the first two debt subscribers had become full-fledged shareholders by the end of 1720. All others were in a limbo, creditors of the Nation no more, but without any voice at the general courts of the Company. Moreover, they were the margin of adjustment: since they had not received their stock, it was easier to modify their terms.

The sequence of debt and subscriptions define the categories of stockholders (three debt subscriptions and four money subscriptions), and the subscription terms (as modified over time by the Company and Parliament) define the gains and losses of the categories.

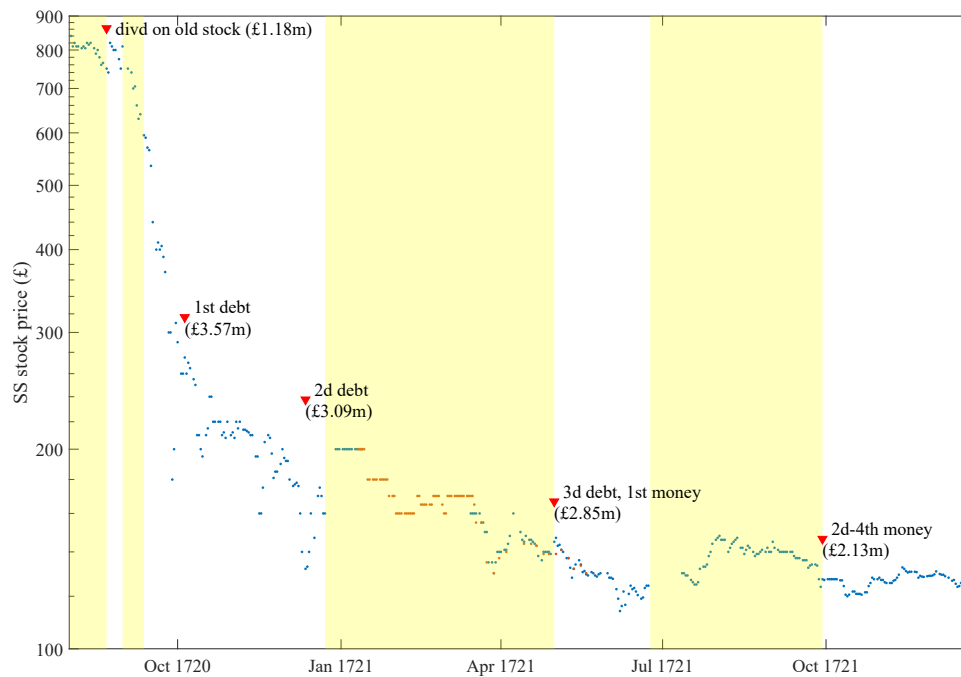


Figure 2: Price of South Sea stock, 1 Aug 1720 to 22 Dec 1721. Yellow shading marks times when the Company's books were closed and during which trades could only be settled at reopening. The times at which new stock was issued and the corresponding amounts are shown. Sources: *Course of the Exchange*, *Daily Post* (for Jan–March 1721).

4 The aftermath of the Bubble

Figure 2 shows the price of South Sea stock from its peak through the various stages of the clean-up. From August to October 1720 the stock price fell by a factor of four, and fell below the level it had reached when the South Sea Act was passed in April.

By September 1720 the debt conversion had ended: all subscribers had turned over their claims on the Exchequer to the Company, and on October 5 the subscribers of the first debt subscription (of April 14) were credited with their stock. The amounts subscribed were known, so that, by the terms of the South Sea Act, the size of the Company's annuity from the Exchequer (its main asset) and the money it starting March 25, 1721 were known quantities. There was uncertainty about other items of its balance sheet, such as its cash balance, its bonded debt, the value of its trade; but it was nowhere near bankruptcy.

The unsettled questions were: (a) how much stock would be issued to the 2nd and 3d debt subscribers, who were locked in on very unfavorable terms? (b) would the money subscribers' options ever be back in the money, or was no more cash to be expected from them, and in either case how much stock should they receive? (c) how would the Company raise the cash promised to the government, its most urgent liability?

The first question was addressed by the Company itself at a general court in September 1720, which improved the terms of the remaining debt subscriptions, but the stock price continued to sink and those subscribers became angrier, while the prospects of money

²⁷See a description of the process in the *Daily Post*, 26 May 1721. The texts of the powers of attorney for the various subscriptions are in HL, PO/JO/10/2/157/6.

²⁸BL, Add MS 25,499, 17r–18r.

subscribers ever making further payments vanished.

The aftermath of the bubble unfolded in three and a half stages, with Robert Walpole as the central figure throughout.

In the first, in September 1720, Walpole and other members of government organized a lifeboat operation by the Bank of England to raise the value of the South Sea stock. That failed as the price of South Sea stock sank further and the Bank backed out.

In November 1720 Walpole devised a more ambitious lifeboat operation that involved all three monied companies, with Parliament authorizing but not compelling the transactions. When Parliament, which had adjourned on June 11, reopened on December 8, Walpole proposed his plan and managed to have it pass, with difficulty. But it failed as well, although the act pushed back the Company's cash payments by one year.

The third and final attempt was based on no plan whatsoever. On March 19, 1721 the Company decided to forgive all future payments due from money subscribers but did not address the great disparities between various classes of subscribers, some of whom decided to sue the Company. The Commons decided to intervene, and Walpole steered the debate as best he could while they grasped for a final restructuring of the South Sea Company and a settlement of its accounts with the government.

4.1 First attempt: The Bank Contract (Sep 1720)

The stock price began sliding in August but plunged in September. Walpole rushed from his estate in Norfolk, where he was spending the summer, and spent ten days in London. During that time, he met with two committees of the Bank and the Company and an agreement was reached—how formal the “Bank contract” really was became a matter of dispute later on.

The plan had two elements. The first was to support a new issue of £2.6m in South Sea bonds to pay off the first debt subscribers. The method was that devised in the 1710s to support the circulation of Exchequer bills. The Bank would open a subscription to raise funds for “circulating” the Company's bonds, that is, standing ready to buy them on demand at face value (discounted as needed for time to maturity) during the coming year. The other element of the plan was for the Bank to cede one of the Exchequer annuities the Bank held for South Sea stock. Neither element seemed designed to influence the stock price directly, but rather to provide short-term funding and evidence support for the Company from the Bank. The subscription, opened in October, failed to raise all the funds expected, and eventually the Bank decided not to go through with the circulation or the acquisition of stock.

4.2 Second attempt: the Ingraftment (Nov 1720 – Mar 1721)

Robert Jacomb, Walpole's banker, was the architect of the plan. Walpole's papers show that it went through various iterations, and Walpole explained the general idea in an un-

dated memorandum to the king.²⁹

The Company's situation as of early November 1720 was roughly as follows. The debt subscriptions, as described above, had been completed or were about to be, so that the amount of debt taken in, and the corresponding increase to the Company's annuity and the premium it owed to government, were set and known, about £38m. Of course, the price of stock had fallen to around 200, so the debt subscribers, who had involuntarily accepted a much equivalent for South Sea stock (375% or 400%), were in for a large loss. The first subscription had received a mixture of stock and bonds, but the second and third had received only stock, now worth half of what they had accepted. Finally, the money subscriptions, which I have described as options, were now out of the money. Only the first (at 300% for stock) had any hope of coming back into the money and induce the subscribers to complete their payments. The second (at 400%) and the last two (at 1000%) were hopeless.

Walpole had no intention of modifying the redistribution between claimants: "I take every thing as I found it and do nothing to alter any man's circumstances but by an accession of profit from the Bank and India company and by an impartial distribution of the whole."

The first step in the plan, the "impartial distribution of the whole," was to distribute unclaimed stock equally. Of the Company's £38m annuity, about £26m was already spoken for, either to the original proprietors, to the subscribers, and in the form of the June 1720 dividend (paid as a 10% increase in stock). Here Walpole assumed that no further payments would be made on the 2nd to 4th money subscriptions, but that the 1st money subscription would be completed, if left enough time. This left about £11.4m unspoken for, which translated roughly into a 45% increase.

The second step, the "accession of profit," was an equity swap. The idea was to rebalance the monied companies: "The bulk of 40 millions in one body [was] impracticable [and] dangerous as hath been found." Of the £38m nominal stock (i.e., the capital of the Exchequer annuity), £9m would be transferred to the Bank in exchange for Bank stock, another £9m to the East India Company for its stock, and the remaining £20m would stay as South Sea stock. The Bank and the EIC would not become shareholders in the SS, but SS stockholders would become shareholders in the Bank and the EIC, to earn those Companies' dividends on their shares, yet remaining sole owners of the SS's profits now claimed by half the stock ("double upon the half" in Walpole's words).

The sticking point was the terms of the equity swap. The Bank of England accepted the general idea on November 28, but demanded at least 120% South Sea stock for each 100% Bank of England stock. This was accepted, so that the South Sea Company would exchange 100% of its stock for 100% Bank stock, and the remaining 20% South Sea stock became property of the Bank as a whole. The same terms were agreed with the East India Company, after a rather stormy general court on December 2.³⁰

²⁹CUL, Ch(H) Papers, 88/80, 125/1, 126; BL, Add MS 74,049B, 46, 48. The document CUL, Ch(H) Papers 68/10 consists of notes, probably for speech in Parliament on December 21; the language reflects the memorandum in Coxe (1798, 2:197–201).

³⁰Bank of England, minutes of the Court of Directors, G4/11, 203; PSGB 20:509–14.

Finally, Walpole counted on the cash account to add value to the South Sea stock: the cash received from the money subscriptions was more than enough to cover the payments due on bonds and to the government, and if the payment to government could be remitted to the Company, the cash account would represent 8.5% per share distributed over ten years.

<i>(1) redistributing the stock (£m)</i>	shares	stock				
original stock	11.75	11.75				
new distribution:						
irredeemables	4.39	12.42				
redeemables	3.60	14.39				
money subscriptions	4.43					
midsummer dividends	2.42					
left to divide	11.97		<i>per share: 46%</i>			
total	38.56	38.56				
<i>(2) equity swap</i>						
for a current share (£)	100					
redistribution (1)	+46					
	146					
exchanged for:			<i>dividend</i>	<i>price</i>		
			(%)	(£)	(%)	(£)
South Sea stock	74	5	3.7	200	148	
Bank stock	30	8	2.4	160	48	
East India stock	30	10	3.0	200	60	
given to Bank	6					
given to East India	6					
total				15.4		256
<i>(3) the cash account (£m)</i>						
received on money subscriptions	12.45					
due on 1st money subscription	3.00					
	15.45					
bonds to 1st debt subscription	– 2.60	– 2.60				
premium due to govt	– 6.34					
remains	6.51	12.85				
over 10 years, % per share p.ann.:	4.3	8.5				

Table 5: Walpole's calculations of his plan's impact on South Sea stock valuation. Source: BL, Add ms 74,049B, 46 (a variant in TNA T1/231, 136–39 has £7m due to government and £3m due on bonds).

Table 5 shows Walpole's calculation of the impact on South Sea stock valuation.³¹ Walpole offered some "ease and relief" to the subscribers, but, having precluded any redistribution, the only way to do so was to raise the stock price, albeit to a level he thought "could be supported." But there were many problems with his calculation. One was to assume that the share prices and dividend rates of the two other companies would be unchanged by the operation. Another was to assume that the SS price would remain at 200%, that is, a premium over 100% over the value of the SS's remaining Exchequer annuity: Jacomb based this on "all the future grants and privileges to be given by the publick to the South Sea Co," the same kind of wishful thinking that had been displayed when the operation was launched eleven months earlier. It is also hard to see how the two companies would

³¹The £255 figure at which this calculation arrives is mentioned by Arthur Onslow in his account of Walpole's proposal (HMC 1913, 297).

consent to the dilution of their equity that was required for Walpole's "accession of profits" (although they did play along for a while). Finally, the value of the cash account, if any, would have already been priced and couldn't represent additional resources to boost the market value of the stock.

Negotiations with the monied companies delayed the opening of Parliament to December 8, by which time Walpole was ready to present his plan. He was not, however, ready for the mood in the Commons. The king's speech had called for "the most effectual and speedy methods to restore the national credit and fix it upon a lasting foundation," appealed to the "prudence, temper, and resolution" of the Commons, and held hope that "you shall be able, notwithstanding these difficulties, to discharge a part of the publick debt."

The very first debate, on an address in response to the king's speech, showed that the Commons were angry and eager to look for culprits: not just within South Sea management but also in government, whose members vainly argued that, during a fire, the urgency was to extinguish it rather than find the incendiaries. Walpole himself could no more than hint at his plan to restore public credit to be presented "in a proper time," because "in the temper they were in it would be impracticable" (HMC 1891, V:608). In the address voted the next day, which was a rebuke to the government's program, the Commons instead set itself the two goals of "redressing our present misfortunes and punishing the authors of them." For the rest of the session these two goals would claim the attention of the Commons and of the government, with the court party searching for remedies and the country party for punishments.

When the proper time came ten days later, Walpole first obtained from the Commons, after hours of heated debate over two days, a resolution that all subscriptions and other contracts with the SSC remain unless altered by the Company itself or by ordinary courts. Walpole argued that the main purpose of the South Sea scheme, to "lessen the nation's incumbrances and public debt and put it in a method of being paid off in a few years," had been achieved "without breach of Parliamentary faith" by the conversion of the irredeemables: this achievement would be unraveled if Parliament got involved in the subscriptions. To the objection that the method of subscriptions had been "surreptitious and therefore not binding," the government's response was that the fine print was there to be read, and subscribers who thought the subscription valid at the time complained now that they were about to lose, an argument that appealed to the country party. Another argument was that the South Sea Company, in carrying out the scheme, was acting as trustee for the Parliament, hence the legislature had a duty to provide relief for the mismanagement. The government's response was to leave it to the common law. The resolution passed 259 against 117 in committee ("most of the Tories voted with the Court," HMC 1891, V:610) and without dividing in the House on December 20.

Having established this policy of non-interference Walpole presented his plan, and no one having a better one, the Commons agreed to receive proposals from the companies, which came on January 3 and 4. A week later, after five hours of debate during which Walpole spoke for two hours, the Commons agreed in principle to the ingraftment and

let the government draft a bill.³²

But Walpole's plan was unraveling even before it was enacted. The cash account was in much worse shape than he imagined. First, South Sea stock continued to sink, and was by mid-February at 165, making future payments by the 1st money subscribers very unlikely. Second, the cash payment due to government was somewhat higher (£7.2m) and the bond debt, at £4.4m, was nearly twice the size Walpole assumed. Finally, Parliament's enquiries into the conduct of the scheme had brought many revelations, including £11.3m in loans made by the Company. The cash on which Walpole counted was gone and the Company, though solvent, couldn't pay the cash payment whose first installment was due on 25 March 1721. Walpole's notes from November show his optimism that the payment could be remitted; or, at any rate, that the Company could pay. Now the Company, after publicly admitting its situation, was petitioning the Commons for relief. The "country party" fought fiercely to reject the petition outright, citing the rule that no petitions on public money be received that was not recommended by the Crown. Walpole duly arranged for the king to receive and refer the petition to the Commons, and probably hoped to obtain full remission of the payment: according to Arthur Onslow, "the court were then for remitting it, but were forced to give in to the violence of the persons, who were for retaining it" (HMC 1913, 308) and only obtained a postponement of all payments by one year (Feb 17). The work on the bill was done, but it took a month for it to receive royal assent, just two days before the first payment on the premium was due (7 Geo I c.5).

The Act did not mandate the ingraftment but made it possible. It also included several provisions to protect the two monied companies from any legal liabilities arising from lawsuits against the SSC, and should they result in changing the distribution of stock among subscribers, the ingraftment would be void. The Act also made no provisions about distribution of stock or what was to be done about the money subscriptions (the first part of Walpole's plan), leaving it to the Company or the courts to resolve.

4.3 The final settlement (May – Aug 1721)

In the event, the ingraftment never took place. Even at 200 as stock stood in January, "the City does not relish the project" (HMC 1897, 27). The further fall in the South Sea stock and the legal uncertainties around the subscriptions made the equity swap unattractive, and the monied companies quietly dropped the matter.

Meanwhile, the situation of the government, which Walpole formally joined by becoming Chancellor of the Exchequer on April 3, was steadily worsening. Walpole was spending a lot of political capital in trying to save his Whig colleagues in government from the fury of the Commons. In the last two weeks of March the SS stock price fell from 170 to 130, after the Company resolved to stop the money subscriptions and allow stock on money already paid in, at 300% for the first and 400% for the others. From late

³²Hutcheson's objections to the plan and Walpole's responses are in CUL, Ch(H) Papers 88/118. Hutcheson noted that the gains to the SS shareholders had to come at the expense of the Bank and EIC shareholders; Walpole wrote that it "may easily be demonstrated not to be true" but didn't do so. Hutcheson advocated an equalizing redistribution, at the expense of the old proprietors if necessary.

March Parliament was inundated with petitions from around the country reporting on difficult economic conditions and asking for “justice for an injured nation.”³³ One of the first, from London, noted that the payment expected from the SSC was now rendered “extremely difficult if not impracticable” as did Southwark and St Albans, but others (Leicester, Newark-upon-Trent) insisted against remission of that payment, and others alluded to the burden of taxes and the expectations that they would be reduced.

To make matters worse, the annuitants (former debtholders, especially of the redeemable debt) had organized themselves and filed a bill in Chancery against the South Sea Company to be released of their subscriptions. In response, the directors of the Company proposed to offer a 33% increase in stock to the redeemables if they would renounce their claims and if the government renounced its premium, a proposal that linked redistribution with remission of the money owed to the government.³⁴

Walpole’s goal of preserving what the scheme had achieved for public finances was now at risk. Political and legal pressure from the annuitants made it necessary for Parliament to impose a settlement, contrary to the resolution of December 1720, and risk the blame for its consequences. But the political cost of inaction was growing.

On April 25, 1721 the staunch Jacobite William Shippen pointed out “that the House had sate a long while, and nothing had yet been done towards the restoring of Publick Credit: That, indeed, a Member of great Parts and Abilities had, at first, proposed a Scheme for that Purpose; but that, instead of proving an effectual Remedy, it appear’d at last to be a mere Palliative, which had rather inflam’d than alleviated the Distemper.” Walpole, the obvious target of the attack, responded “That it could not be deny’d, that while that Scheme was pursu’d, it had done some Good, and kept up the Price of Stocks; and that they fell since it had been laid aside: That, however, he never intended to raise Stocks above the intrinsick Value, for that would bring us again into the same unhappy Circumstances which the raising of them had before occasion’d.” Walpole then moved that the House appoint a day to consider the state of the public credit, which was unanimously agreed to (Cobbett 1806–20, 7:791–92).

The main question was “relief” for the annuitants. Raising the stock price had failed, so only two avenues remained open: redistributing shares and increasing the total resources of the Company. On the second avenue, the uncontroversial confiscation of the directors’ estates would provide some, but not enough: around £2m. There remained the premium due to the government and the loans made by the Company.

The appointed day was May 2 and the House went into a committee of the whole. This time Walpole had no plan to offer; all he could do was to steer the debate of the next few weeks as best he could. The member who opened the debate blamed the directors of the South Sea and argued that the last subscribers deserved “some relief,” which necessitated remitting all the sums owed by the Company. This was strenuously opposed by those who argued that public credit “would not be restored by taking away from the public so great

³³Petitions from eighty towns are mentioned in HCJ (19:493–583) between March 24 and June 8. Although full of rhetoric about impoverishment, they were “less expressions of actual economic experience than exhortations to MPs to keep on the straight and narrow in their work of retribution and repair” Hoppit (2002, 155).

³⁴BL, Add MS 47,076, 56r, 66v; Add MS 25,500 f48r.

a sum to give it to private persons.” The victims of the scheme deserved compassion but should only be compensated from the estates of the directors, not public money. Full remission was defended by many on the government side and the motion to resolve to remit the whole was carried 221 to 194. The very close vote was, reportedly, due to many members who voted against to gain credit with their constituents and ease their reelection in the next Parliament.³⁵

When the resolution was reported to the House the next day, debate lasted four hours and a half and the “Court party” had to cede some ground to the opposition. As amended the final text only said that “relief would be given” to the Company (without specifying how much) and left it to the House to decide further how further relief would be given to the stockholders (HCJ 19:535), although this was interpreted by several observers (HMC 1891, V:621, VII:297)) as full relief.

The House continued to debate the state of public credit, as committee of the whole over the course of six weeks, arriving at a set of six resolutions. Most noteworthy was general Wade’s scheme, proposed on May 5, providing that whatever the Company had collected from subscriptions be divided equally among subscribers; that old proprietors receive nothing nor pay nothing of what was due to government; and that forfeitures all go to pay the Company’s debt. Although it seemed “generally relished” the committee did not act on it and eventually rejected it on May 22 by 185 to 117.³⁶ A proposal to split the £7m equally was also rejected narrowly. The only thing agreed to on that day was to “ascertain and settle” the various interests in the Company (resolution 1). That is, Parliament committed to take the matter out of courts and out an end to all litigation. On May 12 the £7m payment was raised again: some members proposed that £2m be retained and the rest remitted, but Walpole and others “warmly insisted” on remitting the whole payment. Smith again proposed that nothing be remitted, but this went down narrowly 175 to 169, and a remission of only £5m was agreed upon by 209 to 138 (resolution 3).³⁷ On May 9, 17, and 22 the committee decided to give a 33% stock increase to the redeemables and second to fourth money subscriptions, equalize the terms of the irredeemables in the first and third subscriptions, and distribute whatever was left proportionately (resolutions 2, 4, and 5). The motivation for the last resolution was to prevent the directors from engaging in further subscriptions (PSGB 21:100).

The second avenue, the loans made by the Company, was discussed next, at length. The Company could claim the collateral (stock and subscriptions) pledged for the loans, but could it claw back more from the borrowers? After the names of the borrowers were read, including upwards of one hundred MPs, a dozen dukes and nearly twice as many other lords, a proposal to forgive the loans in exchange for the collateral was soundly rejected 211 to 46. After days of heated debate a resolution was passed by the committee 122 to 114: it let go those who had pledged collateral above a certain level, and accepted stock as repayment for the others (resolution 6).³⁸

³⁵BL, Add MS 17,677, KKK.4, f237v.

³⁶BL, Add MS 47076, 91r.

³⁷PSGB 21:553–54, BL, Add MS 47,076 f83v.

³⁸PS 21:547–48, 551, 554, 614, 618; BL, Add MS 47,076, 93r, 95r, 105r

When the committee of the whole reported to the House on June 9, the resolutions that had been adopted without division in committee (1, 2, 4, and 5) were passed, but the remaining two proved just as contentious as in committee.

Supporters of the government made a last-minute attempt to obtain remission of the whole £7m, but that backfired. The opposition, and others who wanted to remit nothing, reacted with fury and the original resolution to remit £5m won narrowly, 166 to 155. While the votes were counted there was even an attempt to subtract another £2m which might well have succeeded, but was dropped after the resolution passed (Coxe 1798, 2:218). The proposal to let those who borrowed on stock off the hook excited indignant speeches and was recommitted. The sub-governor of the Company moved to require a payment of 10% of the nominal value of the loan in exchange for full remission, which passed 114 to 111. When this was reported to the House, some argued for 15%, some for 100%, but the resolution passed 150 to 121.³⁹

The House finalized the last piece of business, contracts between private parties, and a set of resolutions was finalized on July 5. At this point it was moved to introduce a bill but Walpole argued that another session of Parliament was needed; instead, the House decided to draft an address to the King presenting and justifying its decisions, and it was presented on July 25 (I will discuss it below). The technicality invoked by Walpole was that two acts contradicting each other could not be passed in the same session, because acts were referred by the year of the session, and the provision to remit the Company's debt contradicted the ingraftment act (7 Geo I c.5, s.34).⁴⁰ Walpole may have thought that this was serious enough to expose the whole settlement to legal risk,⁴¹ but it carried a tactical advantage: many members were eager to return to their estates, especially in the "country" party, and would not stay for the new session, ensuring a more pliant House. As a MP noted, attendance was much reduced "after our having remained assembled 9 months, and our members in the House of Commons (which should be above 550) reduced to about 75 upon great occasions" (HMC 1913, 308).

The annuitants, unsatisfied with the settlement, drafted a petition to the House of Lords and to the king; there were 2,000 signatures and the total number of annuitants was estimated to be 20,000. The king mildly replied that he would comply with whatever the House decided. After the session opened on August 1, a bill was swiftly introduced; the annuitants presented a petition to the House and some members wanted to consider it, but Walpole argued that it was too late, as the members who had left were promised that no changes would be made; the motion to consider the petition was rejected 78 to 29. At the same time the annuitants, men and women, were crowding the corridors surrounding

³⁹HJC 19:585, 589; PS 21:639–41, 644; Coxe (1798, 2:218); BL, Add MS 47,076, 110r. A correspondent of Harley, the former Tory minister, told him: "I am assured there are a hundred and thirty-eight members of the House of Commons who have borrowed money of the South Sea Company. They are preparing a law to exempt themselves from these debts by a composition of ten per cent. What they will do hereafter with the great debt of those they represent, time must show; I cannot however help taking notice that a sponge does not sound so terrible in some corners of the town, as it used to do" (HMC 1891, V:622).

⁴⁰The technical problem, which had been raised as early as May, is explained by Samuel Sandys in his diary (Bodleian Library, D.D. Dashwood (Bucks), D 1/2, f2r).

⁴¹BL, Add MS 47,076, 129v: "From whence tis inferred that the Parliament will in a few weeks be prorogued, the reason assigned for this is the necessity of acting consistent with Parliamentary proceedings in relation to the remission of £5m to the South Sea Company and thereby giving the greater sanction to the said remission."

the House, handing out flyers, demanding justice “in a rude and insolent manner” and even tore the coat of a minister on his way in. The House called the justices of the peace of Westminster who read the riot act twice before the crowd dispersed, one of them firing back: “you pick our pockets and then send us to goal for complaining.”⁴² No further disturbances took place, but the annuitants made a last-ditch attempt and petitioned the House of Lords, where they were supported by too small a minority to make any difference (HMC 1891, V:624). The act (7 Geo I st. 2) received royal assent on August 10, and the session was closed.

4.4 The final remission

The story is not quite over. The Company faced two problems. One was the impending annihilation of the £2m it still owed, due to be taken out of the Company’s annuity in June 1722. The main problem for the Company was a lack of cash. The dividends, paid in bonds or in warrants paying 5% interest, and in cash only for small coupons. The Company needed a way to raise cash, and the most logical way was to sell some its main asset, the Exchequer annuity. As it turned out, the two problems were linked.

Walpole had not given up on his ingraftment plan; he still held to the notion that the South Sea Company was too large and the monied companies needed to be equally sized; or perhaps he favored the Bank, as his enemies claimed, although he emphatically claimed that he had no financial interest in the Bank. Be as it may, in November 1721 rumors started circulating that he intended to push the ingraftment through Parliament (Portland VII:308). Unhappy shareholders called for a general court, which was held on December 7. The directors were pointedly asked if they were engaged in any such negotiations, to which the sub-governor replied evasively that there was nothing of substance to report. The view among many shareholders was that the Exchequer annuity was worth more under the management of a Company, citing the premium on the BOE and the EIC over the value of their annuity. It was also argued that the other companies were not interested, and that the ingraftment was “a marriage going to be forced between three companies who have a mind to live single.” The Bank contract was brought up again, and everyone associated it with Walpole. The court was very agitated, and finally resolved to ask the king for remission of the £2m, and at the same time a motion was put for a ballot to prevent the directors from any negotiation leading to a reduction in the Company’s annuity.

Two days later an article appeared in the *Daily Courant* arguing that the motion could be “interpreted as undutifulness and disrespect to the Legislature” and that “this Company is not in such happy circumstances as not to want farther Favours from the King and Parliament, and ‘tis their interest so to behave themselves as to deserve them.” The same day one of the shareholders brought up the article in the Commons and complained of the patronizing tone and implied threats. Walpole’s defense of the article led Tories to conclude that “it was an easy matter from whence it came and by whom it was drawn

⁴²PSGB 22:149–60.

up.” The threats proved useless, as the ballot carried the motion 1614 to 1441, widely seen as a defeat for the government. Predictably, the king’s answer to the Company’s petition, delivered two days later, was that he “could not think it reasonable, under the present circumstances of affairs, with regard to the publick and to their Company, to recommend the matter of their address to his Parliament.” Given the rule that matters involving public money could only be considered in the House when they came from the government, the avenues to a remission of the £2m were closed.

When the Company’s general court met again in January 1722, the directors explained that there was no way for them to raise cash and pay off the bonds under the constraints of the motion recently passed. Over two days the assembly debated heatedly the matter. Some shareholders thought that the contract of September 1720 with the Bank was valid and should be used as a threat in any negotiation with the Bank: Poulteney, a former friend of Walpole who had become a bitter rival, recognized the handwriting on the contract as Walpole’s, and said that the Company should “treat with their enemies “sword in hand.” In the end, the directors were able to push through a motion empowering them to treat with the Bank and sell as much of their annuity as necessary to meet their obligations. A few weeks later the sub-governor, who was also a MP, moved that such an arrangement be made possible by statute: Walpole acquiesced and proposed that the Company be enabled to sell £200,000 of its annuity to the Bank (by way of lottery, as some shareholders had proposed, or otherwise), arguing that Parliament would soon be dissolved and that the Companies needed authority to proceed. In spite of some opposition, the Act was pushed through swiftly and received royal assent on March 7, three days before Parliament was dissolved and elections called.

The negotiations moved fairly quickly, and the deal was sealed by the summer. The Bank acquired £200,000 of the Company’s annuity in exchange for £4.2m cash, a 5% premium over face value.

Now that the Company had proved more submissive, a full remission was in the cards again. Walpole would achieve his aim of reducing the Company’ size, but in a different manner. The proposal put to the general court of July 29 was that the Company could “show proper condescension” by splitting its stock into two. Half of the stock would become a pure annuity, paid out and transferable at the South Sea House, while the other would retain the other half and all the commercial profits. This amounted to turning half of the Company into normal annuities. This time the shareholders acquiesced readily. Another petition was sent to the king, who responded that “as the great bulk of the capital is found to be a weight upon itself and detrimental to the public, whenever you apply to Parliament for relief in regard to the £2m upon the conditions mentioned in your address, you shall have my recommendation and consent to the Parliament’s taking it into consideration.” The bill was introduced in February 1723 and passed rapidly, receiving royal assent on 22 Mar 1723.

5 Winners and Losers

The Act of August 1721 settled the obligations of the Company to the government by discharging it of the cash it had promised, but reduced its annuity by £2m. With respect to the allocation between shareholders: (a) it equalized the treatment of the 1st debt subscription on one hand, and the 2nd and 3d debt subscription on the other hand, as far as the irredeemables were concerned; (b) it prescribed an addition for the redeemables and the money subscriptions, and (c) it allocated what was left over to all stockholders on the basis of their new holdings. This last allocation actually took place in two stages: at 33% increase was prescribed for all stockholders in September 1721, and the General Court prescribed an additional increase of $\frac{1}{16}$ in September 1723.

The logic behind the Parliamentary additions for holders of irredeemables was as follows. The 1st subscription received stock and bonds. The amount received in bonds was valued at par, the amount received in stock was valued at 150%, and the two were added. The 2d and 3d subscriptions received stock, which was valued also at 150%.⁴³ The difference between the two valuations was calculated, then converted into stock at 150%, and this defined the addition to the second and third subscriptions. Inexplicably, however, everyone was also credited with a $\frac{1}{3}$ increase in stock.⁴⁴

There are a several categories of individuals concerned, depending on whether they held stock before the subscriptions began, or were money or debt subscribers, and in which subscription. There are two ways to consider the end result of the subscriptions and the final settlement. One is to look at an individual in each of the four categories, the other is to look at the aggregates. The first way was followed by Anderson (1787, 3:120), the second way has not been followed until now (note Carswell 1960, 261 however).

5.1 Gains and losses for individual debt subscribers

As I have said above, this section presents relatively little that is new. The only changes relative to Anderson (1787, 3:120) and Dickson (1967, 183–87) is that I use market values and take into account dividend payments.⁴⁵

Table 6 presents the terms for the different debt subscriptions.

Table 7 breaks down the individual gains and losses by types of debt. The calculation is done as of April 1723, when the restructuring was complete (but right before the split between trading stock and annuities). I use the market values of all relevant securities, both South Sea Stock and the redeemables and irredeemables, and compare the portfolio of a debtholder who had not converted to one who had converted. I take into account the dividend payments between 1720 and 1723 and assume that they are invested at 5%. I also distinguish between the 1st and 3d subscriptions for the holders of irredeemables.

⁴³The blanks of the 1710 lottery and the 1710 8% annuities in the 2d and 2d subscriptions were also credited with £1.175 in odd money.

⁴⁴Where this increase in stock came from will become apparent below (Table 9).

⁴⁵Dickson (1967) is reliable inasmuch as he follows Anderson and looks at capital gains and losses. His calculations on future dividend flows, which should yield the same answers, fail to take into account the duration of the annuities.

terms set on: stock valued at:	1st debt subscription						2d and 3d debt subscriptions						adjustment by 7 Geo. 1, st. 2				
	May 19, 1720						Aug 12, 1720						Aug 10, 1721				
	375%						800%						150%				
	bonds			price			bonds			price			value of terms for:		difference		
	per:	stock	bonds	price	yrs	£	stock	bonds	price	yrs	£	stock	price	yrs	£	£ cash	£ stock
long annuities																	
96-year annuities	98	700	511.0	32	32	420	168	36	36	32	784	32	1561	1293 3/5	267 2/5	305	178 4/15
99-year annuities	100	700	575.0	32	32	400	400	36	36	32	800	32	1625	1320			203 1/3
short annuities																	
1710 lottery: blanks	98	350	353.5	17	17	210	35	17 1/2	17 1/2	17	417	17	878 1/2	688 2/5	190 1/10		126 11/15
1710 lottery: benefits	100	400	200.0	17	17	200	150	17 1/2	17 1/2	17	425	17	800	701 1/4	98 3/4		65 5/6
1710 9% annuities	90	350	217.5	17	17	200	0	17 7/9	17 7/9	17	383	17	742 1/2	632 3/10	110 1/5		73 7/15
redeemables	100					12.5	0	25									

Table 6: Terms for various debt subscriptions. For irredeemables the price was expressed as multiple of the annuity (years purchase) and consisted of a portfolio of bonds or cash and stock (valued in £cash per £stock). The adjustments prescribed by 7 Geo. 1, st. 2 represented the difference in value between the two portfolios, but computed with a different value of stock.

The reason is that, although Parliament did its best to equalize their treatments, it did so at the market values of August 1721 (150). By April 1723 South Sea stock had fallen below par. Had it stayed at 150 the long annuitants would have all done about 10% better by converting, and the short annuitants would have only lost 14%.

	not converted		converted				converted	
	£		£				/not converted	
			1st sub		2d-3d sub		1st sub	2d-3d
	stock	div	stock	div	stock	div		sub
<i>irredeemables</i>								
annuities								
long of 1695 (per £98)	1,985	309	1,062	796	1,436	277	0.81	0.75
long of 1704-08 (per £100)	2,025	315	1,062	870	1,494	288	0.83	0.76
short of 1710 (per £90)	1,092	309	531	512	807	155	0.74	0.69
1710 lottery								
blanks (per £98)	1,092	309	531	512	807	155	0.74	0.69
benefits (per £100)	1,175	315	607	348	736	142	0.64	0.59
<i>redeemables</i>								
4% (per £100 face value)	101.25	15.76	-	-	50.58	7	-	0.50
5% (per £100 face value)	95.50	12.61	-	-	50.58	7	-	0.53

Table 7: Gains and losses for individual debt subscribers. The first two columns show the market value (April 1723) of debt that was not converted (“stock”) and the accumulated dividends collected from 1720 to 1723 (“div”). The next four columns show the same for debt that was converted in the 1st subscription or in the 2d and 3d subscription.

The basic conclusions of Anderson (1787) and Dickson (1967) are unchanged, although the losses are somewhat smaller. The long annuitants who converted lost 17–25%, the short annuitants 24–40%, and converting early would have been better than converting late, but only by 5–6%. The holders of redeemables lost much more, with a slight difference: the holders of 4% doing slightly worse than the holders of 5% annuities.

5.2 The government’s position

Dickson (1967, 186) concludes this evaluation by saying that “[t]his was perhaps as near as the English government came in the eighteenth century to repudiating its obligations.” How near did it come, and to what extent was government debt reduced?

Table 8 puts together the British national debt.⁴⁶ I use market values so as to compare not just interest payments but capital across different types of debt. This is straightforward as long as the instruments are quoted. The problem arises for the debts of the monied companies (of course, using the share price would be incorrect, as it would include the value of the privileged trade attached to each company). For the EIC and BOE, I use the market price of long annuities and assume that their protected annuities are converted to 4% as soon as possible (1732 and 1742 respectively). For the portion of the BoE’s annuity that was not protected I use market prices for 5% redeemables. For the South Sea Company, I assume that the protection (until 1723 as of 1719, until 1727 as of 1723) was of negligible value.

⁴⁶This is similar to Table 9 in Dickson (1967, 93) for 1719.

	Oct 1719			Apr 1723		
	capital	interest	market value	capital	interest	market value
EIC	3,200,000	160,000	2,900,000	3,200,000	160,000	2,960,000
BoE (6%)	1,600,000	96,000	1,524,000	1,600,000	96,000	1,572,000
BoE (5%)	3,775,028	188,751	3,850,528	3,775,028	188,751	3,793,903
id (formerly SSC)				4,000,000	200,000	4,020,000
SSC	11,746,844	596,740	11,981,781	33,802,201	1,661,114	33,971,212
<i>change, monied companies</i>				+26,055,357	+1,264,374	+26,060,806
redeemables 5%	11,149,975	557,499	11,926,463	1,628,714	81,436	1,636,858
redeemables 4%	4,766,822	190,673	4,582,770	932,078	37,329	831,616
irredeemables		788,235	15,009,173		155,537	2,943,955
<i>change, publicly held</i>					-1,262,105	-26,105,976
life annuities		40,802	517,584		32,819	478,156
debt redeemed				-64,805	-2,638	
debt issued				1,501,528	63,650	

Table 8: British government debt in October 1719 and April 1723.

The remainder of the rows comprise debt held outside the monied companies.⁴⁷ The changes in both categories (debt to monied companies and debt to public) are entirely due to the South Sea conversion, as I separate out repayments and new issues of debt in the last two rows.⁴⁸

The striking result is that the reduction in interest was very small: £32,000 out of a total of nearly £1.3m, and the change in capital value was negligible. The government apparently neither gained nor lost from the whole operation.

This is not surprising. What the government gained was the assurance of an interest reduction on that part of the additions to the South Sea annuity bearing 5%, to 4% in 1727. But this was really a gain only on the part of the annuity that corresponded to the converted irredeemables, or £12,069,948: reducing the annual payment on the irredeemables was legally impossible before the South Sea conversion. The redeemables were redeemable, and sooner or later would have been reduced to 4%. Furthermore, all the government succeeded in doing with the irredeemables was to change to profile of payments over the future, not necessarily lower it. It is true that the interest payment was to fall in 1727, but the debt remained perpetual, whereas the annuities were going to “cease and determine” eventually.

The ex-post gain can be computed by taking the net present value of the irredeemables that were converted, at 5% (roughly the market rate for long annuities in 1719) and compare with the net present value of the payments actually made by government on the irredeemables’ share of the South Sea annuity, which were reduced in 1727, 1751 (to 3.5%) and 1758 (to 3%). The difference in net present values is £1.8m. This compares with a

⁴⁷To evaluate the life annuities I use the market rate on long annuities and price the actual flow of payments to the life annuitants (i.e., I assume perfect foresight of mortality rates). Given the small amounts the details don’t matter.

⁴⁸A few repayments were made between 1720 and 1722 on lottery loans of 1713, 1714, and 1719. The new issues are the Army Debentures funded in 4% Annuities, the 4% wrought plate Annuities of 1720, the St Kitts-Nevis debentures funded at 3%, and the 5% annuities of 1721. I neglect the lottery loans of 1721–24 since they were each repaid within a year and functioned more like floating debt.

total debt of £52.4m in 1719: not a trivial difference, but not a sizeable one either.

Why doesn't that difference show up in market values? I suspect that markets underestimated the eventual interest rate reductions. By buying the option to redeem the irredeemables, the government made a bet with the markets that rates would fall, and won the bet.

If the government didn't win much from the South Sea conversion, then the whole operation was mostly a redistribution within the Company, not a transfer to or from government. To find out who won and who lost, we must figure out the exact allocation of stock.

5.3 The allocation of stock

In this section I try to determine the allocation of stock. The surviving documents are limited, so my results are tentative.⁴⁹

The start and end point of the calculation are the statements in 6 Geo. 1, c. 4, s. 30 that, as of "the present capital or joint stock of the said [South-Sea Company] doth amount in the whole to £11,746,844 8s 10d (being their present capital stock)" and in 9 Geo. 1, c. 6, s. 3 that "the whole capital stock of the said South-Sea company doth by computation amount to £33,802,483 14s $\frac{1}{2}$ d." The first Act is the one that set in motion the debt conversion in 1720, the second is the one that concluded it. The difference between the two amounts is the net corporate stock creation. The question in this section is: who received what, and at what price?

It will be convenient to distinguish three classes of owners. The first are the old proprietors, that is, owners of South Sea stock before the general conversion began in 1720. The second general class is that of holders of government debt who exchanged it for stock. We will need to further break down this class by type of debt (redeemable or irredeemable) and date of subscription (first, second, and third) because the terms offered to each differed. The third consists of the money subscribers, further broken down by subscription (the third and fourth were treated identically and will be considered as one class). In addition to these three broad classes, we will need to keep track of stock owned by the corporation itself. Of course, such stock ultimately belonged to the three classes jointly. However for this account we also have a start point (0 in 1720) and an end point (£46,306 on 26 May 1732).⁵⁰ This explains the columns in Table 9. The rows are chronological.

In principle the allocation of stock to the various classes is straightforward. In the course of the conversion stock was offered to debtors in exchange for their debt: knowing the exact terms offered and the quantities tendered, we can compute the resulting allocation. If the conversion had taken place pound for pound we'd be done. But, as the small-scale conversion of 1719 showed, it didn't need to. The total amount of debt taken in corresponds to the new annuities owed by the Exchequer to the Company, and to the total

⁴⁹The documents that would have been particularly useful are a set of accounts that was presented to the General Court on 16 June 1732 and examined by a committee of stockholders. The committee's report HL/PO/JO/10/2/157, No. 25) also printed as *Report of the Committee 1733*, unfortunately does not reproduce the accounts, but summarizes them and provides some figures, which I use here.

⁵⁰HL/PO/JO/10/2/157, No. 25, *Report of the Committee 1733*, account No. 8.

	carried to the credit of:										total stock	
	old proprietors	irredeemables			redeemables			money				Company
		1st subs	3d subs		2d subs	3d subs		1st subs	2d subs	3d & 4th subs		
<i>existing stock (Xmas 1719)</i>	11,746,844	-	-	-	-	-	-	-	-	-	-	11,746,844
stock created by subscriptions	-	-	-	-	-	-	-	-	-	-	-	-
distributions to subscribers	-	3,248,456	1,000,803		2,807,694	684,792		906,140	175,120	1,703,262	-26,055,359	-10,526,266
10% midsummer 1720 dividend	1,174,684	324,846	100,080		280,769	68,479		90,614	17,512	170,326	-2,227,311	-2,227,311
<i>existing stock (Mar 1721)</i>	12,921,529	3,573,301	1,100,883		3,088,463	753,271		996,754	192,632	1,873,588	13,301,781	37,802,203
Parliamentary additions:												
7 Geo. 1, st. 2 (sects 3-4)	-	-	246,791		1,029,488	251,090		-	58,373	567,754	-2,153,497	-2,153,497
Sep 1721 distribution	4,307,176	1,191,100	449,225		1,372,650	334,787		332,251	83,668	813,781	-8,884,640	-8,884,640
Mar 1723 distribution	1,076,794	297,775	112,306		343,163	83,697		83,063	20,917	203,445	-2,221,160	-2,221,160
total distributions	5,383,970	1,488,876	808,322		2,745,301	669,574		415,314	162,959	1,584,980	-13,259,296	-13,259,296
sale to Bank of England (1722)	-	-	-		-	-		-	-	-	-4,000,000	-4,000,000
misc transactions (1721-22)	-	-	-		-	-		-	-	-1,130	1,130	1,130
<i>existing stock (Apr 1723, gross)</i>	18,305,499	5,062,177	1,909,206		5,833,764	1,422,846		1,412,068	355,591	3,457,438	-3,956,385	33,802,203
pledges	-1,889,412	-	-		-	-		-461,643	-89,217	-	2,440,272	2,440,272
additions on pledges	-751,231	-	-		-	-		-183,549	-35,473	-	970,253	970,253
directors estates	-1,221,661	-	-		-	-		-	-	-	1,221,661	1,221,661
<i>existing stock (Apr 1723, net)</i>	14,443,195	5,062,177	1,909,206		5,833,764	1,422,846		766,876	230,902	3,457,438	675,800	33,802,203
misc sales (1723-26)			124,479						-124,479			
annihilation 1728			-						-500,000			
annihilations 1730-31			-994,984						-5,016			
<i>existing stock (May 1732)</i>	14,063,653	4,929,151	1,859,035		5,680,463	1,385,456		746,724	224,834	3,366,582	46,306	32,302,203

Table 9: Account of the distribution of South Sea stock among various categories of stockholders.

corporate stock created, but not all that stock went to the debtholders since they accepted stock at more than par. Part of the remainder was sold for cash to the money subscribers, but not all: what remained was allocated by Acts of Parliament (7 Geo. 1, st. 2, s. 3-4, and 9 Geo. 1, c. 6). The problem is determining how much went to the money subscribers.

We can start from the total paid in by money subscribers given by Hutcheson (1721b) and the terms given them by the General Courts of 20 Sep 1720 and 30 Mar 1721 ($\frac{1}{3}$ of cash paid for the 1st, $\frac{1}{4}$ for the 2d to 4th subscriptions). Using the terms of 30 Sep 1720 for debt subscribers we can verify the total amounts given to debt subscribers.⁵¹ The sum of distributions to money subscribers and debt subscribers is almost identical to the figure “carried to the credit of the to proprietors of old stock, redeemables and unredeemables, and money subscriptions with midsummer dividend of 10%” of £24,500,422.⁵² These distributions, along with the midsummer 1720 dividend paid in stock, give us the situation as of March 1721. Note the large amount of unassigned stock, still owned by the Company. The next step was to allocate this resource, by the so-called Parliamentary additions.

The Act (7 Geo. 1, st. 2) did two things: it equalized the treatment of holders of irredeemables across subscriptions, and distributed whatever was left of the unassigned stock. The first subscription received cash and stock valued at 375, while the others were all-stock with a slightly higher value of stock (400). Using the then-market value of 150 for South Sea stock, Parliament computed the cash value received by each category of subscriber and brought the second and third subscribers to the level of the first subscribers. The remaining unassigned stock was enough for a $33\frac{1}{3}\%$ increase in nominal stock for all stockholders in September 1721 and another 6.25% increase in March 1723. Note that the total of parliamentary additions can be read as the decline in the Company’s holding, namely £13,259,296.⁵³

The next item is simply the sale of £4m of the Exchequer’s annuity to the Bank of England. An equivalent amount of stock was annihilated out of the company’s corporate holding.⁵⁴ This brings us to what I call the “gross” positions as of April 1723. If we use these positions to compute the gains and losses of the various classes of stockholders relative to their positions in 1719, we find figures that are similar to Anderson and Dickson.⁵⁵ (Note that the initial position of money subscribers is the cash payment they made, and the position of debtholders is the market value of their debt holdings.) But the company’s holding is a large negative, which it couldn’t be.

The missing pieces are in the next line, and comprise two sources of stock owned by the Company. The first are “pledges,” namely the stock pledged by those who borrowed on stock and ultimately forfeited. The second is stock from the directors’ estates, which

⁵¹HL/PO/JO/10/5/195/4, p. 157–58 and HL/PO/JO/10/2/157, No 4.

⁵²HL/PO/JO/10/2/157, No. 25, *Report of the Committee 1733*, account No. 4. I assign the slight discrepancy of £3588 to the 3d and 4th money subscribers.

⁵³This number exceeds the figure of “Parliamentary additions to the proprietors” of £12,289,043 given by HL/PO/JO/10/2/157, No. 25, Account No. 4: I will correct for this later.

⁵⁴The proceeds were retained by the corporation (as opposed to redistributed to stockholders, as happened in 1730 and 1731).

⁵⁵Carswell (1960, 261) has estimates of the final positions for the original proprietors, the money subscribers, the annuitants (May), the annuitants (August), and the redeemables. My gross values are within 10% of his estimates.

was partly bought at auction by the Company in 1722–23 because it feared the impact on prices,⁵⁶ partly transferred by the trustees of the estates in 1728. I explain the discrepancy mentioned above by assuming that the pledges did not receive any parliamentary addition, and hence the latter's total is overstated by my calculation.⁵⁷ To assign the pledges and the directors' stock across classes, I assume that the directors were all old proprietors (which they had to be according to the by-laws), and that the pledges were held either by old proprietors or by money subscribers, in proportion to the securities, stock and subscription scrip.⁵⁸ As noted above, the loans were all made between April and August 1720, at which time the only holders of stock were the old proprietors.

Taking into account these categories leads to the "net" positions as of April 1723, and show that the Company still held quite a bit of stock at that point. The next few lines explain its disposal, mostly by an annihilation in 1728.⁵⁹ The annihilations of 1730–31 correspond to a redemption of £1m by Parliament which reduced the annuity paid to the Company and the stock proportionately.

Since I have taken into account the pledges, I have to take into account the loans when calculating gains and losses of the different classes. We know how much was lent out, and we have the final recovery amount. The difference can be assumed to have been kept by the borrowers.⁶⁰

The Company's directors officially authorized three loans: against stock on April 21, against stock on May 20, and on July 27 against stock and subscription receipts.⁶¹ We know from the loan books that loans were not made past September. Since no debt subscriber actually received stock before October 5, only old proprietors could have received those loans. As for the money subscribers, only the first and second ever received receipts which they could use as collateral.⁶² Hence the first and second loan were only made to old proprietors, and the third to old proprietors and to first and second money subscribers, and I allocate the net amount to the relevant classes in proportion to their loan amounts.

Once these cash flows and the pledges and directors' stock are taken into account, the gains and losses are rather different. On net the old proprietors made huge gains and the 1st and 2d money subscribers came out even.

⁵⁶Decision of the General Court, 22 Nov 1722 (BL, Add MS 25,544, f. 32r-v).

⁵⁷The overstatement is £970,253, while the parliamentary additions on the £-2,441,719 (assuming the pledges were all part of old proprietors' stock) would be £1,017,383, which is close.

⁵⁸HL/PO/JO/10/2/157 No. 15 lists £2,663,687 in stock pledged and £776,600 in subscription scrip. Hence I assume that default was at the same rate on both securities.

⁵⁹The government began to exercise its right to redeem its debt to the South Sea Company in £0.5m payments. The first payment in 1728 was not rebated to stockholders but applied to the stock owned by the Company. Additional redemptions of £1m each were made in 1730 and 1732, and rebated to owners.

⁶⁰This could have happened in two ways. Parliament had allowed borrowers to make a payment of 10% of their loan and forfeit their pledged stock or receipts, in order to extinguish all claims against them. Some apparently did, but the Company found itself unable to enforce its claims against those who didn't and in 1732 abandoned all efforts, keeping the pledged stock or receipts.

⁶¹As mentioned above the Company advertised in the *London Gazette* that it was lending the payments due on August 14 and September 14. In addition, on August 19 the Treasury Committee resolved "to lend out on the Company's stock at 400% and on the 1st and 2d subscriptions at 300% to all such persons as shall desire the same" (HL/PO/JO/10/5/64, p. 27).

⁶²The Company's General Court of 23 Dec 1720 had resolved "that no receipts should be issued for the third and fourth subscriptions as being unnecessary" (BL, Add MS 25,500, 22v); cf. 9 Geo. 1, c. 23, s. 5: "And whereas the said South-Sea company did . . . take in two subscriptions for sale . . . which are commonly called their third and fourth subscriptions, but never gave out any receipts for the monies paid in for the same, whereby to evidence the title to the said subscriptions. . ."

	old proprietors	irredeemables			redeemables			money		
		1st subs	3d subs	3d subs	2d subs	3d subs	3d subs	1st subs	2d subs	3d & 4th subs
market value (Jan 1719)	13,949,378	9,860,601	2,729,524	2,700,433	11,488,864	2,700,433		2,718,420	525,360	6,813,047
market value, gross (Apr 1723)	17,824,980	4,929,295	1,859,089	1,385,496	5,680,628	1,385,496		1,375,001	346,257	3,366,680
cash to 1st debt subscription		2,598,049								
net profit/loss (in %)	3,875,602 28	-2,333,258 -24	-870,435 -32	-1,314,937 -49	-5,808,236 -51	-1,314,937 -49		-1,343,419 -49	-179,103 -34	-3,446,367 -51
loans forfeited*	8,751,364							1,751,297	338,454	
cash from directors estates**	-703,556									
market value, net (Apr 1723)	14,064,061	4,929,295	1,859,089	1,385,496	5,680,628	1,385,496		746,746	224,840	3,366,680
net profit/loss (in %)	8,162,492 59	-2,333,258 -24	-870,435 -32	-1,314,937 -49	-5,808,236 -51	-1,314,937 -49		-220,377 -8	37,935 7	-3,446,367 -51

Table 10: Gains and losses among categories of shareholders. *: Net of recovery . **: net of value of stock bought.

5.4 Where did the cash go?

As a check on my calculations, I examine the cash flows of the South Sea Company from January 1720 on. In the absence of the account books, this is conjectural, again relying on later documents. The known figures are summarized in Table 11.

The main source of cash was the money subscriptions, as well as the Exchequer bills borrowed from government for one year. Under “bond issues to unknown” I have put the amount necessary to match up the known stock of outstanding bonds in early 1721. I assume that the payments to the 1st debt subscribers took the form of bonds.⁶³

Next come the loans to stock holders and the 1st and 2d money subscribers. Simply put, the money raised from the money subscriptions was lent out (instead of being used to pay off the debt subscribers, the ostensible purpose of the money subscriptions) against flimsy collateral. By early 1721, the Company had lent more than it had, leaving it in debt of £3.7m.

	received	spent	balance
cash from money subscribers	10,056,827		10,056,827
Exchequer bills borrowed (Jun 1720)	1,000,000		11,056,827
bonds issued to unknown		688,379	10,368,448
bonds issued to 1st debt subscription		2,598,049	7,770,399
loans to stock		9,330,687	-1,560,288
loans to 1st-2d money subscription		2,228,089	-3,788,377
<i>bonds (1721)</i>			-3,788,377
from Bank of England (1722)	4,200,000		411,623
net recovered on loans	717,660		1,129,283
cash from directors estates (net of stock bought)	703,556		1,832,839
government redemption (1 Geo 2 c. 28)	500,000		2,332,839
misc stock sales	124,479		2,457,318
debt for Exchequer bills		1,117,796	1,339,522
excess of dividend over annuity (1721-32)		1,375,417	-35,895
interest on bonds		1,379,246	-1,415,141
loss on Asiento and Greenland fisheries		363,590	-1,778,731
misc spending		189,119	-1,967,850
<i>bonds (1732)</i>			-1,967,850

Table 11: Cash flows of the South Sea Company, 1720–32. *Explain why value of stock bought must be deducted from directors' cash.*

How this debt was paid off is shown in the subsequent lines of Table 11. Part of the annuity from the government was sold to the Bank of England for £4.2m in cash, some cash was recovered from the directors' estates, the 1728 redemption was also kept in cash. This was not enough to pay off the bonds, for at the same time the Company was losing money on its Asiento trade and on the Greenland fisheries. By 1732, it was still £2m in debt, and it took another ten years (and reduced dividends) to pay off the bond debt.

The South Sea scheme was, ex-post, definitely a Ponzi scheme: the money raised from the early money subscribers was (effectively) spent on old proprietors and the 1st debt

⁶³On May 19 the Committee of Treasury resolved to pay the 1st debt subscribers in bonds dated 26 Mar 1720 (HL 10/5/195/4, May 19). A total of £2.635m of such bonds were sealed (BL, Add MS 25,580) which corresponds approximately to the total cash payment to the 1st debt subscription.

subscribers, while the money raised from the late money subscribers was spent on the early money subscribers, in the form of loans that were never recovered.

5.5 Counterfactuals

“These severe losses, which must have caused great hardship in many families, were the price paid for the relative success of the reconstruction of the National Debt in 1720” (Dickson 1967, 186). Did the price have to be paid?

Parliament chose to spend £2.1m to bring the annuitants of August to par with those of May and the rest (£11.1m) was distributed evenly across all classes. What else could it have done?

One possibility was to dissolve the scheme and return the original bonds to the debt-holders. This was technically feasible: the lists of names were all at hand, and the money subscribers could have been given stock at the expense of the old proprietors. But this was obviously out of the question for Walpole and most of Parliament. Therefore I will take the situation in early 1721 as given, and see if the parameters set by Parliament could have been modified.

Let’s first take as given that the money lent out was irretrievably lost. How could that loss be allocated? There was only one way to make all classes bear the loss proportionately, namely give each class an addition (positive or negative) that equalizes its final share of the total stock to its initial share of the total market values as of 1719.⁶⁴

The results are shown in Table 12. I start from the distribution of stock as of March 1721, before the parliamentary additions. The Company has over £13m of stock that can be allocated among the classes of shareholders. If I allow negative additions I find that equal treatment of all categories would have required negative additions to old proprietors and to the 1st debt subscribers (scenario 1 in Table 12).⁶⁵

If we take as constraint that such negative additions were infeasible, then the worst that could be done to the old proprietors and 1st debt subscribers was to give them nothing. This is scenario 2: the additions are calculated so as to leave all other categories with the same loss. They are slightly worse off under this scenario, but still not badly. If I took into account the cash and stock from the directors’ estates, the losses would be further mitigated.

Of course, the only way to make everyone whole was to claw back the £9m lent out. In this respect, the provisions of the Act to restore Public Credit (7 Geo. 1, st. 2) were lenient. On average, £100 had been lent against £30 stock: as of 1721, a debtor could pay £10, forfeit the stock (worth around £45 in 1721, and even less later), and keep the difference of £45.

⁶⁴Let x_i be the initial shares, y_i the interim shares, and A the amount of company stock left to distribute: then the additions that equalize losses are $x_j / (\sum_i x_i) (A + \sum_i y_i) - y_j$.

⁶⁵Note that the returns to the 1st debt subscribers takes into account the cash payment they received.

	old proprietors	irredeemables			redeemables			money		
		1st subs	3d subs	2d subs	1st subs	3d subs	2d subs	1st subs	2d subs	3d & 4th subs
market value (Jan 1719)	13,949,378	9,860,601	2,729,524	11,488,864	2,700,433	2,700,433	2,700,433	2,718,420	525,360	6,813,047
market value, gross (Apr 1723)	17,824,980	4,929,295	1,859,089	5,680,628	1,385,496	1,385,496	1,385,496	1,375,001	346,257	3,366,680
cash to 1st debt subscription		2,598,049								
net profit/loss	3,875,602	-2,333,258	-870,435	-5,808,236	-1,314,937	-1,314,937	-1,314,937	-1,343,419	-179,103	-3,446,367
(in %)	28	-24	-32	-51	-49	-49	-49	-49	-34	-51
loans forfeited*	8,751,364							1,751,297	338,454	
cash from directors estates**	-703,556									
market value, net (Apr 1723)	14,064,061	4,929,295	1,859,089	5,680,628	1,385,496	1,385,496	1,385,496	746,746	224,840	3,366,680
net profit/loss	8,162,492	-2,333,258	-870,435	-5,808,236	-1,314,937	-1,314,937	-1,314,937	-220,377	37,935	-3,446,367
(in %)	59	-24	-32	-51	-49	-49	-49	-8	7	-51
market value (Jan 1719)	13,949,378	7,262,552	2,729,524	11,488,864	2,700,433	2,700,433	2,700,433	2,718,420	525,360	6,813,047
existing stock (Mar 1721)	12,921,529	3,573,301	1,100,883	3,088,463	753,271	753,271	753,271	996,754	192,632	1,873,588
additions (scenario 1)	-1,226,432	-82,458	1,187,538	6,543,749	1,510,760	1,510,760	1,510,760	1,282,357	247,828	3,838,441
market value, gross (Apr 1723)	11,388,100	3,399,208	2,228,350	9,379,367	2,204,600	2,204,600	2,204,600	2,219,285	428,897	5,562,088
net profit/loss	-2,561,277	-1,265,295	-501,174	-2,109,497	-495,833	-495,833	-495,833	-499,135	-96,463	-1,250,959
(in %)	-18	-17	-18	-18	-18	-18	-18	-18	-18	-18
additions (scenario 2)	0	0	1,055,098	5,986,296	1,379,731	1,379,731	1,379,731	1,150,456	222,336	3,507,864
market value, gross (Apr 1723)	12,582,339	3,479,502	2,099,387	8,836,547	2,077,011	2,077,011	2,077,011	2,090,846	404,075	5,240,188
net profit/loss	-1,367,039	-1,185,001	-630,137	-2,652,317	-623,421	-623,421	-623,421	-627,574	-121,285	-1,572,859
(in %)	-10	-16	-23	-23	-23	-23	-23	-23	-23	-23

Table 12: Effect of alternative distributions of stock (the impact of seized pledges and directors' estates is not taken into account).

6 Was there a default in 1721?

The question of default has two dimensions: one is aggregate and revolves around the issue of the cash payment, which lessened the government's debt burden; the other is distributional, and concerns the unequal treatment of creditors while leaving the aggregate untouched.

6.1 The cash payment

In the aftermath of the Bubble, Parliament did not want to get involved. Walpoles's plan of November 1720 only attempted to boost the SS stock to compensate the subscribers, but at the expense of the other monied companies, and it predictably failed. The final settlement took place in two steps: the payment due to the government was partially remitted in 1721, then fully in 1723. As a result the government gained nothing from the whole operation,

Was the annihilation of £2m in 1721, reversed in 1723, a default? In strict legal terms, the deal passed in April 1720 between the Company and the government obliged the Company to make the payment in exchange for carrying out the debt conversion. The government made good on its obligations, and could expect the Company to make good on its own. The deep flaw, that the terms of conversion were neither set in the legislation nor by the Company at the time of subscription, was a moral one, not a legal one. Walpole could truthfully say on December 20 that "the letters of attorney, by virtue of which the contract of the second subscription was made, having been place at the top of every page of the book, all the subscribers might have read it, as many of them had done; and so might have chosen, whether they set their names to it or not."⁶⁶

Would that argument have flown in court? We will never know, but we know that the subscribers sued in April 1721, and Parliament stepped in immediately to take the dispute out of the courts and legislate a settlement. At that point, it was free to act in any way it pleased, and in fact remitted part of the cash payment. Walpole's intentions and beliefs are hard to discern. He stuck to the letter of the contract in December 1720, but his main concern was to prevent an unraveling of the debt conversion; his personal notes show that he hoped for a remission in due course. During the debates of April and May 1721, he clearly tried to obtain a full remission, but didn't have sufficient control of his majority to carry it through. That Parliament did accept a full remission two years later, for no particular reason, suggests a lingering sense of guilt over the matter.

The questions of identity is here crucial. The government's debt was strictly speaking with the South Sea Company, not the creditors. But the nature of the Company changed considerably over the course of 1720–21. From a few thousand "adventurers" in 1720, shareholding changed to tens of thousands of former annuitants, none of whom bore any responsibility for the Company's actions until October 1720 since they were not yet shareholders (and the worst treated, the redeemables, not until April 1721). There was a clean way to distinguish the two companies of 1720 and 1721, since the old proprietors

⁶⁶PSGB 20:585.

represented the earlier one. Parliament treated them very well as we saw. Parliament had in fact furthered the distinction by going after the directors' personal estates, on grounds of personal responsibility in the mismanagement (which, as Lebovitz 2018 points out, created odd tensions in the Whig discourse of sacred property rights).

6.2 Impari passu: What explains the unequal treatment of subscribers?

The issue of property rights arises naturally under the distributional angle. Even if the government's debt burden was not reduced (as it turned out), can the unequal treatment of creditors be justified or explained?

The unequal treatment was blindingly obvious, and the Commons were regularly reminded of it by outside petitions and publications. It was discussed in the Commons many times, notably on Jan 10, 1721 when strong opposition was voiced against Walpole's engraftment plan because it froze the existing allocation.⁶⁷ The issue came up again in April and May 1721, although by that point it was tied in the debates to the remittance question: it seemed harder to come up with an equalization scheme without the remittance of the £7m.

The Commons publicly justified itself on 25 July 1721, in the form of an address to the King on the adjournment of Parliament (PSGB 21:97–101). Initially, they "thought it most advisable to leave every Man's Property to be determined by due Course of Law" and let the Company provide any relief or abatement. But the "discontents of the people daily increasing" created "such infinite anxieties and dissatisfaction as had a most fatal and general influence upon all publick and private credit, the interposition of Parliament became unavoidable."

There were many difficulties: the different terms for the different subscribers, the cash payment, the legal disputes between the Company and the subscribers, and those between private parties involved in trades of stock and receipts, the inability to extract more from the money subscribers (because of the option nature of their contract), the impossibility of recovering the loans. The problem of the cash payment was highlighted: without further sources of cash, the payment could not be made without "infinite expense and insupportable loss of all their adventurers."

"Competing interests" was the main obstacle, but they had been "equally imposed upon by the artifices of the late Directors, and equally drawn in by their own too great credulity and desire of gain." Dissolving the scheme would have caused utter ruin for all, and it was impossible "to make the conditions of those equal, that and engaged themselves at different rates and upon unequal terms." This last assertion, as I showed, was just plainly false, and the repeated use of the word "equally" served to make the status quo fair, which it wasn't.

Beyond this dissembling justification, what do the events in Parliament tell us?

⁶⁷The opponents argued that the project was based on an injustice and that losses should be borne equally by all shareholders (BL, Add MS 17,677 KKK4, f44).

First, I need to dispose of the Whig/Tory question. This party duality has often been mapped into the monied companies, particularly the Bank of England, a Whig creation, and the South Sea Company created by the Tory government in 1711. While it seems clear that the Tory leader Harley preferred to rely on Tory-inclined financiers for his operations, by 1715 this duality is much less relevant. The Prince of Wales (future George II) agreed to be the governor in 1715, and in 1719 (when king and his son had fallen out) he was replaced by the king himself. From 1717 onward the Whig government readily transacted with the South Sea Company for its operations.

Was it the case that holders of loans issued by the Tory ministry (the lottery loans of 1711–14) were worse treated than those issued by the Whig ministry from 1715 to 1719 because of their political sensibilities? Hardly. Loan registers of the 1712 lotteries show that investors were equally divided between Whigs and Tories. And the worst treated were holders of redeemables, which all loans issued after 1710 were, by both Tory and Whig ministries. As a Tory observer wryly noted, it was “a scurvy way of treating the supporters of revolution principles” (HMC 1891, V:610).

Unfortunately we have no division lists for this period, so we only know the names of a few speakers for and against various motions. Surviving documents do inform us on the involvement of MPs in the four money subscriptions, since we have the names of all subscribers (Table 13). The lists do not record addresses or occupation, but many matches are beyond doubt because of the rarity of the name, honorifics, or other details. The table shows the results for certain matches and all possible matches, and the results are similar.⁶⁸

At least two hundred MPs invested, perhaps as many as half of the Commons. Overall Whigs are slightly over-represented, but not much: investing by MPs was not a partisan affair. Access to the first two (favored) subscriptions was limited to Whigs, but at the height of the frenzy, Whigs and Tories plunged alike.

The reality is that, in 1721, Walpole had a Whig majority and a Tory opposition. The latter was reliable: it could be counted on to make life as difficult as possible for the government at all times. The former was not: had Walpole controlled his party he would have had no difficulties. The swing voters were Whigs, and Walpole’s opposition was, in the words of St John Broderick (an opposition MP, seated on June 6) “a pretty motley Division; The Torys and what they call the old Whigs against the Court. These have generally gone together since I came into the House, and are at present indisputably the Majority” (Coxe 1798, 2:218). On the critical vote of May 12 which defeated Walpole’s attempt at full remission of the Company’s debt, Whigs and Tories were mixed on both sides of the division, and the strength of the opposition to the ministry’s plan was attributed to members’ fear of losing their seats in the coming election.⁶⁹

⁶⁸Identification of party affiliation (291 Whigs and 160 Tories out of 558 members) comes from the “Worsley list”, with additional information from the *History of Parliament* website’s biographies.

⁶⁹BL, Add MS 17,677 KKK.4, f261v (reports of the Dutch resident in London to the States General): “dans la division qu’il y eut de la chambre sur cette question il y eut un mélange pour et contre de whigs et de tories. On est persuadé que la plupart de ceux qui ont donné leur voix pour obtenir ces deux millions l’ont fait dans la vue, comme c’est une chose populaire, de s’en faire un mérite auprès de leurs corporations pour se faciliter leurs élections dans le prochain parlement.”

money subscription	Whigs		Tories		neither		all	
	nbr	£'000	nbr	£'000	nbr	£'000	nbr	£'000
1st	13	7.8	1	0.2	4	1.8	18	9.8
2d	15	4.5	2	0.6	4	1.2	21	6.3
1st and 2d	1	1.2	1	0.6	2	2.0	4	3.8
3d/4th	64	11.8	39	6.9	18	4.4	121	23.0
1st and 3d/4th	22	21.2	7	6.5	2	1.8	31	29.5
2d and 3d/4th	29	16.6	9	5.0	6	2.4	44	24.0
all	25	33.3	9	10.7	9	17.1	43	61.2
<i>total</i>	169	96.5	68	30.4	45	30.7	282	157.5
loans	62	475.9	25	209.7	17	103.9	104	789.4
<i>certain matches only</i>								
1st	11	5.4	0	0.0	1	0.2	12	5.6
2d	11	3.3	2	0.6	4	1.2	17	5.1
1st and 2d	1	1.2	1	0.6	1	1.2	3	3.0
3d/4th	40	7.1	26	4.8	15	3.4	81	15.3
1st and 3d/4th	17	16.7	7	6.5	2	1.8	26	24.9
2d and 3d/4th	21	12.4	7	4.4	5	2.0	33	18.7
all	14	20.3	6	7.4	4	7.9	24	35.6
<i>total</i>	115	66.4	49	24.2	32	17.5	196	108.2
loans	40	307.6	19	175.5	9	56.7	68	539.7

Table 13: Members of Parliament whose names appear on the lists of the four money subscriptions. Source: HL/PO/JO/10/5/56 to 62.

If one wants a cynical explanation, one can argue that there were enough swing Whigs personally involved in the South Sea operation to create a blocking coalition with the Tories. More plausibly in my opinion, the controlling issue was that of the remission, which was highly unpopular in the constituencies. Obviously the clamor of the owners of redeemables, who numbered in the tens of thousands and were “of the meaner sort,” were not enough.⁷⁰

6.3 Walpole’s legacy

Robert Walpole is clearly the central figure in this period. He set in motion the restructuring of the debt in 1717, was conveniently absent at the birth of the South Sea scheme, and returned to power when it collapsed. For a while he tried to shield the most prominent members of government from a vengeful House of Commons, spending much political capital and earning the nickname of “the Screen” (Realey 1931, 19), but he managed to draw a line under the South Sea episode.

Because Walpole went on to remain prime minister for a yet unsurpassed twenty years, the “great man” looms large in the history of eighteenth-century Britain. Much of the historiography has seen his handling of the matter as skillful (e.g., Dickinson 1973, ch. 4) though his biographer Plumb (1956–60, 357) was much more discerning. Few historians have delved into the restructuring of the South Sea. Dickson (1967, 176), who did, saw

⁷⁰This expression is from Robert Jacomb, Walpole’s banker and adviser (CUL Ch(H) Papers 88/68. The *Daily Post* (26 May 1721) put their numbers at 50,000.

him as the man who “applied the harsh cautery of common sense to the soaring dreams and megalomaniac expectations of the South Sea year” and added: “there is no doubt that the hard, tough men who ran the City and its institutions recognized in his handling of this and subsequent financial issues a competence equal to their own” (Dickson 1967, 197).

The reputation of financial mastery, in my opinion, does not bear scrutiny. His first two attempts at salvaging the situation in September and November 1720 were misguided and hopeless, though one could argue that he did not have all the facts at hand, at least initially.

The tumultuous period from May to August 1721 in Parliament shows that he did not control the House. His main goal throughout was to preserve the main result of the South Sea operation, the conversion of irredeemables which he had planned in 1717 but was not carried out. When convenient he attached importance to the letter of the law, insisting in December 1720 that there had been no “breach of Parliamentary faith.” But that was spoken at a point where he hoped to leave Parliament out of the “nice and delicate matter” of redistribution. Once Parliament changed its mind and decided to intervene, the common law was out. What principles should have guided the redistribution that did, in fact, take place?

His view on the remission of the £7m were initially flexible. He clearly hoped that it would happen in his ingraftment plan, but didn’t fight for it yet. When the question became central in May 1721, he could not summon the necessary majority. Much of the opposition he encountered was both predictable and immaterial: The Tories did not have anything like a majority. The difficulty came from the Whigs who were less attached to the Court, and repeatedly gave him trouble. Some would turn out to form part of the Whig opposition he faced later on in the Commons, like Poulteney. The full remission only occurred in 1723, after the 1722 election had provided him with a more solid majority, procured by the usual corrupt methods of the time (Realey 1931, 111–15).

But isn’t the proof in the pudding? The South Sea crisis was a period of great uncertainty. The anger in the country was widespread, as shown by the dozens of petitions that flooded the Commons from all parts of the country in the spring of 1721.⁷¹ Much of the furore had been redirected against the Directors, but their confiscated estates failed to provide much relief, and Walpole’s screening of his colleagues tainted his restructuring. The near-riot by the annuitants on August 3 mentioned above shows the limits of “demands from below” for credible commitment (Murphy 2013). Years later, Arthus Onslow, who would serve as Speaker of the Commons from 1728 to 1761, recollected the situation in London in the fall of 1720 (HMC 1895, 504):

I have often wondered that this did not produce some convulsion in the State. That it did not was certainly owing to people of all denominations thinking of nothing but their own losses and flattering themselves with the hopes of some quick turn in the public credit as they called it, to recover their late fortunes. If otherwise, or some bold men had taken advantage of the gen-

71

eral disorder men's minds were in, to provoke them to insurrection, the rage against the Government was such for having as they thought drawn them into this ruin, that I am almost persuaded, the King being at that time abroad, that could the Pretender then have landed at the Tower, he might have rode to St. James's with very few hands held up against him. I was at London in the midst of this confusion and well remember that I then made this reflection.

But by 1722 all seemed forgotten. If the Jacobites had a chance at restoration in 1720, they failed to act upon it quickly enough. Plotting did take place, but when it was revealed in the spring of 1722 (the Atterbury plot), it was easily suppressed and ended up playing into Walpole's hands. The country rallied around the government and he was able to tar any opposition to him with the brush of treason.

7 Provisional conclusion

Who won and who lost? The government, in the end, gained nothing, but repudiated its obligations to some creditors and enriched others. The old proprietors were the big winners. If one takes into account the loans made by the South Sea Company, which Parliament turned into gifts, the old proprietors did even better and the early money subscribers came out even. To be sure, the old proprietors and early money subscribers who did so well were not stockholders any more in 1723, since their pledges (stock and subscription receipts) were forfeited. The "average" old proprietor or early money subscriber did not do as well, but still vastly better than the other classes.

This unequal treatment could have been avoided. Even without trying to claw back the money wasted in loans, it was possible to treat all categories more equally and limit losses to 22 have done better with selective capital calls or other measures. At the same time in France, the government of an absolute monarchy dealt with half a million claimants and made extraordinary efforts at fairness (Chrétien-Deschamps 2015). The number of individuals involved in Britain was two orders of magnitude smaller and the efforts were timid.

The paradox may well be that an absolute monarchy has more to fear from treating its subjects unequally, and more powers to reestablish fairness. Conversely, if taxpayers are the dominant voice in Parliament then creditors may well count themselves happy if they do not suffer in the aggregate.

If a consensus that creditors trump taxpayers ever emerge in Britain, it was later than 1722. The 1717-22 period was chaotic, and Walpole was not yet the "English Colossus." It must have helped that Britain did not face a serious war for another twenty years, and for this Walpole no doubt deserves credit.

Bibliography

- Anderson, Adam. 1787. *An historical and chronological deduction of the origin of commerce, from the earliest accounts*. London: J. Walter.
- Bannister, Saxe, ed. 1859. *The Writings of William Paterson*. London: Judd & Glass.
- Barro, Robert J. 1979. "On the Determination of the Public Debt." *Journal of Political Economy* 87, no. 5, Part 1 (October): 940–971.
- Blunt, John. 1732. *A True State of the South-Sea-Scheme, as it was first form'd*. London: J. Peele.
- Carswell, John. 1960. *The South Sea Bubble*. Stanford: Stanford University Press.
- Cobbett, William. 1806–20. *Parliamentary history of England from the Norman conquest, in 1066 to the year 1803*. London: T. C. Hansard.
- Cox, Gary W. 2016. *Marketing Sovereign Promises*. Cambridge University Press.
- Coxe, William. 1798. *Memoirs of the Life and Administration of Sir Robert Walpole, Earl of Orford*. London: T. Cadell, Jun. / W. Davies.
- Crookshanks, John. 1718. *Some Seasonable Remarks on a Book Publish'd in the Month of July, 1718*. London.
- Dale, Richard S., Johnnie E. V. Johnson, and Leilei Tang. 2005. "Financial Markets Can Go Mad: Evidence of Irrational Behaviour during the South Sea Bubble." *The Economic History Review* 58 (2): 233–71.
- Defoe, Daniel. 1717a. *Fair Payment No Spunge*. London: J. Brotherton / W. Meddows.
- . 1717b. *The conduct of Robert Walpole, Esq; from The Beginning of the Reign of her late Majesty Queen Anne, to the present Time*. London: T. Warner.
- Dickinson, Harry Thomas. 1973. *Walpole and the Whig supremacy*. Men & Their Times S. London: Hodder & Stoughton.
- Dickson, Peter George Muir. 1967. *The Financial Revolution in England : a Study in the Development of Public Credit, 1688–1756*. London: Macmillan.
- Eaton, Jonathan, and Mark Gersovitz. 1981. "Debt with Potential Repudiation: Theoretical and Empirical Analysis." *The Review of Economic Studies* 48, no. 2 (April): 289.
- Eichengreen, Barry, Asmaa El-Ganainy, Rui Esteves, and Kris James Mitchener. 2021. *In Defense of Public Debt*. Oxford University Press New York, November.
- Giusti, Giovanni, Charles Noussair, and Hans-Joachim Voth. 2014. *Recreating the South Sea Bubble: Lessons from an Experiment in Financial History*. ECON - Working Paper 146. Department of Economics, University of Zurich.

- Great Britain. Royal Commission on Historical Manuscripts, ed. 1891. *The manuscripts of His Grace the Duke of Portland: preserved at Welbeck Abbey*. At head of title: Historical Manuscripts Commission. London: Printed for Her Majesty's Stationery Office, by Eyre / Spottiswoode.
- , ed. 1895. *Fourteenth Report, Appendix, Part IX*. C. 7882. London: Printed for Her Majesty's Stationery Office, by Eyre / Spottiswoode.
- , ed. 1897. *Fifteenth Report, Appendix, Part VI: The Manuscripts of the Earl of Carlisle*. C. 8551. London: Printed for Her Majesty's Stationery Office, by Eyre / Spottiswoode.
- , ed. 1913. *Report on Manuscripts in Various Collections, vol. VIII*. Cd. 6639. Hereford: Hereford Times Ltd.
- Hoppit, Julian. 2002. "The Myths of the South Sea Bubble" [in English]. *Transactions of the Royal Historical Society, Sixth Series*, 12:141–65.
- Hutcheson, Archibald. 1718. *Some Calculation and Remarks Relating to the Present State of the Publick Debts and Funds*. London: Henry Clements.
- . 1721a. *A Collection of Treatises Relating to the National Debts and Funds*. London.
- . 1721b. *Some Computations and Remarks Relating to the Money Subscribers, and the Proprietors of the Publick Debts*.
- Kleer, Richard A. 2015. "Riding a wave: the Company's role in the South Sea Bubble." *The Economic History Review* 68 (1): 264–85.
- Lebovitz, Adam. 2018. "An Economy of Violence: Financial Crisis and Whig Constitutional Thought, 1720-1721." *Yale Journal of Law and Humanities* 29 (2): 165–238.
- Murphy, Anne L. 2009. *The Origins of English Financial Markets: Investment and Speculation before the South Sea Bubble*. Cambridge University Press.
- . 2013. "Demanding 'credible commitment': public reactions to the failures of the early financial revolution." *The Economic History Review* 66 (1): 178–197.
- Neal, Larry. 1990. *The Rise of Financial Capitalism: International Capital Markets in the Age of Reason*. Cambridge: Cambridge University Press.
- North, Douglass C., and Barry R. Weingast. 1989. "Constitutions and Commitment: The Evolution of Institutions Governing Public Choice in Seventeenth-Century England." *The Journal of Economic History* 49 (4): 803–32.
- Paterson, William. 1717. *An enquiry into the state of the union of Great Britain, and the past and present state of the trade and publick revenues thereof*. London: A. & W. Bell.
- Pincus, Steven C.A., and James Robinson. 2011. *What Really Happened During the Glorious Revolution?* Technical report. July.
- Plumb, John H. 1956–60. *Sir Robert Walpole*. London: Cresset Press.

- Pulteney, William. 1735. *The Case of the Sinking Fund, and the Right of the Publick Creditors to it Considered at Large*. London: H. Haines.
- Quinn, Stephen. 2001. "The Glorious Revolution's Effect on English Private Finance: A Microhistory, 1680-1705." *The Journal of Economic History* 61 (3): 593–615.
- . 2008. "Securitization of Sovereign Debt: Corporations as a Sovereign Debt Restructuring Mechanism in Britain, 1694 to 1750." March.
- Realey, Charles Bechdolt. 1931. *The Early Opposition to Sir Robert Walpole, 1720–1727*. University of Kansas, Dept. of Journalism Press.
- Scott, William Robert. 1911. *The Constitution and Finance of English, Scottish and Irish Joint-Stock Companies to 1720*. Cambridge: Cambridge University Press.
- Secord, Arthur Wellesley, ed. 1938. *Defoe's Review*. New York: Columbia University Press.
- Shea, Gary S. 2007. "Financial Market Analysis Can Go Mad (in the Search For Irrational Behaviour During the South Sea Bubble)." *The Economic History Review* 60 (4): 742–65.
- Sussman, Nathan, and Yishay Yafeh. 2006. "Institutional Reforms, Financial Development and Sovereign Debt: Britain 1690-1790." *The Journal of Economic History* 66 (4): 906–935.
- Temin, Peter, and Hans-Joachim Voth. 2004. "Riding the South Sea Bubble." *The American Economic Review* 94 (5): 1654–68.
- Thomas, P. D. G. 1971. *The House of Commons in the Eighteenth Century*. Oxford: Clarendon Press.
- Tindal, Matthew. 1718. *The Defection Consider'd*. London: J. Roberts.
- Walpole, Robert. 1735. *Some Considerations Concerning the Publick Funds, the Publick Revenues, and the Annual Supplies, Granted by Parliament*. London: J. Roberts.