The South Sea Bubble: Marketing in the Service of Fraud

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The South Sea Bubble, which rocked British society at the beginning of the eighteenth century, is the first example of stock market manipulation on a grand scale. Operating in a market to which such financial offerings were a novelty, the promoters of the South Sea scheme used relatively sophisticated marketing and communications techniques to inflate the value of the company's shares, and through their success spawned a plethora of imitators, some genuine and some bogus. The promoters' communication strategies in particular offer interesting precedents to some of the methods used by market manipulators of the present day.

The Internet has increased both the amount of information available to investors and the speed with which it is disseminated. Because the financial community has not yet adjusted to these new conditions, the pronouncements of media pundits and financial operators with vested interests can have rapid and disproportionate effects on stock prices (Kurtz 2000). In addition, however, there is growing concern about the potential of the Internet for the deliberate manipulation of stock prices - concern that seems well founded.

Yet while use of the Internet may be catching authorities unawares, the use of available channels of communication to manipulate stock prices has existed for as long as stocks have been traded. The first such instance seems to have been the rise and fall of Britain's South Sea Company in 1720, an event known as the South Sea Bubble. Since joint stock companies with transferable shares were relatively recent developments, a knowledgeable class of investors had yet to emerge. Instead, members of the middle and upper classes, from tradesmen to the royal family, sank their savings into a venture that appeared to have the security of Parliament behind it, but was in fact a fraud on a grand scale.

The aim of this paper is not to advance historical knowledge of the development of corporations and corporate finance, or to relate the actions of investors and speculators in the early eighteenth to current theories of consumer behavior. It focuses instead on the marketing strategies employed by the promoters of the South Sea Company, and in particular on their use of marketing communications. Market manipulators of today may demonstrate a higher degree of refinement, but the way they operate is fundamentally similar to that of their predecessors three centuries ago.

THE SOUTH SEA BUBBLE: AN OVERVIEW

The story of the South Sea Bubble begins in 1711. Britain had been involved in the War of Spanish Succession since 1703, and the war effort had cost the country dear, leaving the government confronting an unsecured public debt of more than £10 million. A group of merchants joined together and purchased £9 million of the debt, in return for which they received exclusive English trading rights to Spain's colonies in South America, extending down the east coast from the Orinoco river to Tierra del Fuego, and then northward up the entire west coast (Neal 1990, p. 52). These were rights that Spain was expected to cede as part of a peace agreement. The company formed by the merchants was called the South Sea Trading Company, and was organized on the new joint-stock principle as a corporation with transferable shares. Holders of the national debt were obliged to exchange their government securities for shares at par in the company. In addition to its trade monopoly, the company was to receive an annual payment from the government of 6 per cent of the debt it had taken over. Although the company's ostensible purpose was to engage in trade, therefore, "The primary motivation for the company from the beginning was to fund a major part of the total national debt, accepting a lower interest rate on its share of the national debt than had been paid by the government previously" (Neal 1990, p. 52). This is not surprising, given that the South Sea scheme was promoted by Robert Harley, leader of the Tory party and soon to become Lord Treasurer. Harley was seeking a body that would compete with the Bank of England, that had been established by his Whig rivals in 1694.

The company seemed well positioned to exploit the trading opportunities offered by Spain's rich South American colonies. However, when the treaty ending the war was signed in 1713, its terms limited British access to the South American ports to one ship per year. Although the company managed to secure a contract to transport slaves from Africa to Spanish America, these operations lost money. It did not undertake the first of its annual voyages to South America until 1717, and the following year Britain and Spain went to war again.

The year 1719 saw the British government once more confronting debt problems, and once again the South Sea Company offered a way out. This time the directors proposed to take over the entire national debt, then standing at almost £31 million. The debt was to be converted - voluntarily - to company stock at terms to be agreed later. This not only would save the government the interest payments due on the debt, but also would bring in an annual fee from the company of £7.5 million. In April 1720 Parliament agreed to accept the offer and passed the South Sea Act, though only after determined lobbying by the company including the payment of large bribes to politicians and courtiers.

It is clear that the company could only make the annual fee payments if it exchanged South Sea stock for government obligations at prices well above par. In other words, the greater the value of company stock at the time it was converted, the greater the profits for the company. The company's directors therefore began by various means to drive up the stock price. Stories were circulated about the rosy prospects for trade with Spain, while at the same time new issues of stock were offered to a public eager to share in the potential profits. The company offered £2 million in new stock at £300 a share, payable in installments. After investors had eagerly snapped it up, the directors announced that the company's cash position was so strong that it could lend money on the security of its stock. The price of the old stock rose to 325, whereupon the company issued more stock and made more loans. This maneuver was repeated several times.

In order to continue to pay out profits, the company needed to continue to raise more capital, and to see the price of its stock continue to rise. For the first six months of 1720 the directors were successful in achieving this. The value of a South Sea share, worth 128 on 1st January 1720, rose to 175 at the end of February, 380 at the end of March, 520 at the end of May, and a peak of 1050 on 24th June. Such was the Company's success that many other so-called bubble companies entered the field, all hoping to persuade investors to sink money in their various schemes, most of which seem to have been worthless and many of which were bogus. Such was the investment frenzy gripping the country that the total value of British shares has been estimated at some £500 million, which was about five times greater than Europe's cash base (Jackson 1999).

Such a situation could not last. At the end of June, amid rumors of the South Sea Company's directors selling their holdings, the share price began to slide. By mid-August bankruptcy listings in the London Gazette reached an all-time high, as investors who had bought on credit were left exposed. By the end of September South Sea stock stood at 135 and by December it had sunk to 128.

Repercussions of the crash were considerable. Thousands of investors were ruined while many more suffered heavy losses. Sir Isaac Newton, the physicist and astronomer, sold £7,000 of stock in April for a 100 per cent profit, but then went back into the market at the top and lost £20,000. "I can calculate the motions of the heavenly bodies," he lamented, "but not the madness of people" (quoted by Reed 1999, p. 5). There was a spate of failures among banks and goldsmiths who had advanced loans on the security of inflated South Sea stock. Work on new country mansions for the *nouveaux riches* came to an abrupt halt. Some of those implicated in the company's shady dealings, notably its cashier Robert Knight, fled the country, taking incriminating evidence out of the reach of Parliament. One committed suicide. George I returned hastily to London from Hanover, and recalled Parliament. The House set up a committee to examine the South Sea Company and its dealings, which exposed widespread corruption and fraud among directors, company officials, and conniving politicians. Those involved who remained in the country were stripped of their estates and most of their assets. Whig politician Robert Walpole, who had been a consistent and outspoken opponent of the South Sea scheme, became First Lord of the Treasury and Chancellor of the Exchequer in April 1721, was able to organize a scheme of reconstruction, and remained in power until 1742. The repercussions of the Bubble, including strict limitations on the formation of joint stock companies, probably held back the coming of the Industrial Revolution by several decades.

THE MARKET FOR SOUTH SEA COMPANY SHARES

Responsibility for marketing South Sea shares fell initially upon a committee of five directors headed by the forceful John Blunt. Subsequently, however, such matters seem to have been left to Blunt and the shadowy figure of Robert Knight, the company's cashier, who was responsible for making discreet payments to influential figures. A notable feature of their operation is the way they applied benefit segmentation to the transferable share, an innovation still in the introduction stage. They concentrated their efforts on three particular market segments, each of which faced a different problem, but each of which could find a solution in the form of South Sea Company shares.

Upper Class Women

A married woman at this period was considered under English law to be a *femme sole* with respect to her separate estate or personal property, which meant that in theory at least she could use her own funds to buy stock and retain it as her personal estate. This was not really a right established in law, but something that was allowed because the law had not yet evolved to take account of this new situation (Carswell 1993, p. 119). Stocks seem to have been attractive to fathers since they represented a form of property that a married daughter could properly retain as personal estate.

Women's' actual involvement in buying and selling stock (stock-jobbing as it was termed) probably was limited to some extent by social prejudice and spousal opposition. Such activities generally are presented in contemporary writings as a way by which women could circumvent restrictions imposed by their spouses. Stock-jobbing also was said to provide women with erotic gratification, thus reducing or even replacing the pleasure they derived from men (Ingrassia 1995).

The importance of women as stockholders was already apparent several decades before the South Sea Company was launched. Carswell (1993, p. 8) estimated that by 1685 women held 20 per cent of India and Africa Company bonds, while the number holding ordinary shares in the East India Company doubled between 1675 and 1691. The largest single shareholder in the Bank of England also was a woman, the Duchess of Marlborough, while others who dealt in stock included the ladies of the Prince of Wales' court, the daughters of Earl Ferrers, the Duchess of Rutland, and the Countess of Gainsborough (Carswell 1993, p. 119).

The involvement of women as speculators is satirized in plays of the Bubble year such as William Rufus Chetwood's South Sea; or, the Biters Bit (1720), the same author's The Stockjobbers: or, the Humours of Exchange Alley (1720), the anonymous Exchange Alley: or, the Stockjobber turn'd Gentleman (1720), and Thomas D'Urfey's The Two Queens of Brentford (1720), the Prologue to which links stock prices to women's emotions:

> "The Ladies too in Coach to Brokers run,
> The Fair, the Brown, the freckl'd and the Dun;
> Fat Widows smile when dear Stock rises high;
> But if the vote comes that it falls - they cry."
> (D'Urfey 1729, quoted by Ingrassia 1995, p. 205).

Scottish Noblemen

When England and Scotland were united by the Act of Union (1707), 16 seats were allocated to Scottish peers. However, they appear not to have had the resources needed to maintain suitably prestigious establishments in London and the Home Counties in addition to their estates in Scotland. The Scottish economy had suffered from a series of harvest failures beginning in 1695, while the catastrophic failure of the so-called Darien Scheme - an attempt to establish a Scottish colony on the Isthmus of Darien (Panama) - had cost the country almost 25 per cent of its liquid capital (www.bbc). The Scottish peers' financial needs already had led a number of them to invest in France in the Mississippi Company, whose operations were controlled by Scottish financier John Law. Subsequently they were to become involved in the affairs of the South Sea Company in ways not always legitimate. The Earl of Rothes, for example, was the recipient of fictitious stock on which he was able to clear a profit of £18,500, while a number of others were the recipients of large loans which they promptly reinvested in company stock (Carswell 1993, p. 162).

Army Officers

Broadly speaking, officers in the British army could gain promotion in two ways. One was by distinguishing themselves in the service of their country. The other was by purchasing a commission at a higher rank. With the end of the war with Spain, Britain appeared to be facing a prolonged period of peace, which effectively closed the first avenue. Then in the Spring of 1720, for the first time, the government published a tariff listing the rates for purchasing commissions in the various regiments of the army. Even a captaincy in a lowly marching regiment cost £1000, while a colonelcy in the Dragoons cost £7000 (Carswell 1993, p. 119). Not surprisingly, the prospect of making a quick profit on stock transactions was to prove irresistible to many anxious to find the funds needed to climb the military ladder.

COMPETITION

The South Sea Company was in competition for the investment capital it needed to keep its stock at a suitably inflated level. It was confronted by a horde of speculators, motivated by the desire to enrich themselves as the South Sea directors had done, who were offering shares in their enterprises to a public eager to make a quick profit. There probably were hundreds of such bubbles, though it is impossible to be precise since some were advertised under different names at the various coffee houses where books were opened, and some existed in name only. By April 1720, however, they were being advertised at the rate of some 30 a month, and more than 100 were advertised in May and the first two weeks of June. Newspapers had to double in size to carry the notices. Some of these schemes, such as those to exploit fishing or mining interests, may have been honest though risky. Some may have been well-intentioned but lacking practicality, such as the machine gun that fired round bullets at Christians and square bullets at Moslems (Carswell 1993, p. 64). Others were so obviously fraudulent that one cannot but help wonder at the gullibility of the public. The most outrageous example is surely "A company for carrying on an undertaking of great advantage, but nobody to know what it is." As described by Mackay:

> The required capital was half a million, in five thousand shares of 100 pounds each, deposit two pounds per share. Each subscriber, paying his [or her] deposit was entitled to 100 pounds per annum per share. How this immense profit was to be

obtained, [the proposer] did not condescend to inform [the buyers] at that time, but promised that in a month full particulars should be duly announced, and a call made for the remaining 98 pounds of the subscription. Next morning, at nine o'clock, this great man opened an office in Cornhill. Crowds of people beset his door, and when he shut up at three o'clock, he found that no less than one thousand shares had been subscribed for, and the deposits paid. He was thus, in five hours, the winner of two thousand pounds. He was philosophical enough to be contented with his venture, and set off the same evening for the Continent. He was never heard of again (Mackay 1841, p. 7).

As Carswell points out, however, even in some of the most outrageous-sounding cases we should not immediately assume gullibility on the part of the public. "Swindles, in the sense of being primarily money-getters, most of these companies undoubtedly were; but they illustrate more than the gullibility of the age. They sprang from a vision of material progress in advance of the technical capacity to achieve it" (Carswell 1993, p. 128-9). Certainly there are companies for such purposes as developing a wheel for perpetual motion, improving and trading in woad, extracting silver from lead, and importing broomsticks from Germany. At the same time, however, there is the company for settling the country on a desolate river more than seventy miles up the main continent in Acadia (present-day Montreal), the "Grand Dispensary" that was to provide affordable medicine and physician services to every family in Britain, and the company for making deal-board out of sawdust (which Mackay writing in 1841 saw as a joke). We also should bear in mind that those purchasing the stock were - probably for the first time - not doing so as an investment, but in order to make a capital gain. In other words they were speculators rather than investors, so that the rationality and ultimate profitability of the enterprise were of little consequence. The aim was to part with the stock as quickly as possible.

Mackay (1841, p. 6) estimates that these bubble companies attracted some £1.5 million - money that otherwise might have gone to the South Sea Company. Accordingly, the South Sea syndicate set out to destroy current competition for investment, and to secure the company's position by preventing any further incorporation of joint stock companies. In February 1720 the House of Commons passed a resolution criticizing the number of such companies, and the extent to which they were operating outside the scope of their charters. The person responsible for bringing this issue before the House was Member of Parliament John Hungerford, holder a large number of South Sea shares, and it was Hungerford who subsequently chaired the Commons Committee set up to examine the whole question. Not surprisingly, when the Committee reported in April 1720 it recommended a statutory ban on all joint stock operations not authorized by royal charter, a recommendation implemented by the passing of the so-called Bubble Act. A further significant event took place on 12th July 1720, when an order in council dismissed 18 petitions for charters and patents that, if granted, would have enabled the petitioners to operate joint stock companies, and declared to be illegal and abolished a further 86 companies already operating. At a stroke, therefore, the South Sea Company had virtually eliminated all its competitors except for a handful of concerns such as insurance companies, the East India Company, and the Bank of England. While these might attract investors in search of stability, they were unlikely to draw the kinds of people who bought South Sea or other bubble shares by way of speculation, and so were unlikely to have been considered as direct competitors.

MARKETING COMMUNICATIONS

Speaking against the South Sea project in the House of Commons, Robert Walpole declared its purpose was "to raise artificially the value of the stock, by exciting and keeping up a general infatuation..." (Mackay 1841, p. 4). Not only did the company act as Walpole had predicted; it pursued its aims by utilizing the available channels of communication to an extent never before witnessed, and with a degree of sophistication that is little short of extraordinary.

Marketing communications were important to the company in two ways. One was to serve as a channel by which the promoters could disseminate information - often speculative or untrue - that would help to drive up the value of South Sea stock. The other, equally important to the company's success, was to counteract the effects of a tirade of criticism and innuendo that was unleashed not only upon the South Sea Company itself, but also upon the many other bubble companies whose promoters imagined they could emulate its success. In addition to attacks in Parliament, the company and its imitators were ridiculed in popular ballads such as *The Stocks*; or, *High Change in 'Change Alley*, *The South Sea Whim*, and *The Broken South Sea Taylor's Ditty*; parodied in theatrical farces by playwrights such as D'Urfey and Chetwood (Ingrassia 1995); satirized in pamphlets and newspapers by the likes of Defoe (previously employed by Harley) and Mainwaring (Dugaw 1998; Mackay 1841); and caricatured in prints by Hogarth and others. Hogarth's *An Emblematical Print on the South Sea Scene*, for example, shows speculators riding on a merrygoround, Honor being broken on a wheel by Self-interest, Honesty flogged by Villainy, and Trade lying starving. A broken wheel of fortune symbolizes the abandonment of values for quick money. *Lucipher's New Row-Barge*, artist unknown, depicts demons rowing Robert Knight, the South Sea Company's cashier, into the jaws of Beelzebub, while engravings on a set of playing cards (circa 1721) show erstwhile South Sea investors in various states of ruin (Reed 1999).

Press Relations

The passing of the South Sea Bill probably could not have been achieved without the extensive use of publicity. Further, the infatuation of the public with South Sea stock during the bubble year 1720 is certainly due in large measure to the rapid rise of journalism and its impact upon an audience still relatively unsophisticated. Newspapers, had begun to flourish in London at the end of the 17th century, and had developed so extensively that the city probably owed its position as a commercial and information center to the proliferation of newspapers and other periodicals published there, including apparently the first regularly printed stock price list (Neal 1990, p. 21). London's first regularly printed daily newspaper, *The Daily Courant*, appeared in 1702, and the first evening paper four years later (Sutherland 1934-5). By 1720 there were 84 newspapers circulating in the United Kingdom, with a combined circulation of 3,500, most of that in London (Bruttini 1975). They represented an important new communication channel open to the company.

Newspaper publishers found it in their interests to carry business news and share prices, since this attracted readers. It is not surprising, therefore, to see the first known advertisement for a "stock jobber" (i.e. broker) appearing in 1696 in Houghton's *A Collection for the Improvement of Husbandry and Trade*. The joint stock companies, for their part, found it to their advantage to cultivate newspaper editors. The promoters of the South Sea Company clearly understood the potential offered by the newspaper press, prevailing upon publishers to print the company's stock quotation in bold type, and anticipating today's financial publicists by sending out at least one news release (Dickson 1963, p. 143). They also seem to have pioneered the use of press conferences (Carswell 1993, p. 75).

At the same time that newspapers were growing in number and importance, printed pamphlets were being published at a rate of many hundreds each year. At the time the South Sea Bill was before Parliament, many pamphlets were published extolling the virtues of the scheme. They emphasized the masterful way the country's financial problem had been deal with, and made much of the opportunities for English exports to South America, ranging from Cheshire cheese to scales for weighing gold and silver. While some of this activity may have been orchestrated by Blunt and the South Sea promoters, the instigator seems more likely to have been Harley, who employed a formidable array of literary talent including Jonathan Swift and Daniel Defoe. The Whig opposition, for their part, could call upon such gifted propagandists as Joseph Addison and Richard Steele (Reed 1999; Carswell 1993, p.36).

Word of Mouth

Although the press represented an important means of communication, it must be remembered that newspapers had appeared comparatively recently, and that the main means for disseminating and discovering information remained word of mouth. The South Sea syndicate seem to have utilized this channel particularly effectively. Setting the rumor mill in motion was not difficult, since the trading of stocks was concentrated in and around Exchange Alley in the City of London, and in nearby coffee houses, taverns and brothels. Conditions in the alley were so chaotic that a stock might be sold 10 per cent higher at one end than the other (Mackay 1841, p. 8), so providing fertile ground for the rumormongers.

When the South Sea Bill was under discussion in Parliament, the directors and their friends were extremely active in spreading rumors designed to enhance the company's prospects. Treaties favorable to England were said to be under negotiation, under which Spain would grant English merchants free trade to all her colonies. English cotton and woolen goods were to be exported to Mexico, and gold and silver from Spanish mines would come flooding into England. So bright were the prospects, it was said, that merchants trading to the South Seas would be the richest the world had ever seen (Mackay 1841, p. 4). When, contrary to popular expectation, the price of South Sea stock actually fell from 310 to 290 after the Bill received the royal assent, the directors took prompt action.

> Immediately their busy emissaries were set to work. Every person interested in the success of the project endeavored to draw a knot of listeners around him, to whom he expatiated on the treasures of the South American seas. Exchange Alley was crowded with attentive groups...Visions of ingots danced before their eyes..." (Mackay 1841, p. 5-6). One rumor in particular, that was said to have an immediate effect, was that Spain had offered unlimited access to its colonies in exchange for Gibraltar and Port Mahon (Minorca). As a result, the price of South Sea stock rose within a few days from 290 to 340.

Blunt and Knight also clearly understood the impact of the political environment on the company's financial operations. The Old Pretender, the Jacobite claimant to the British throne, had led a rebellion in Scotland in1715 but had been comprehensively routed. At the time of the South Sea stock issue in 1719, Jacobite forces attempted another landing in Scotland. This caused a scare among investors, who were unwilling to involve themselves in a scheme relating to a national debt that a Jacobite administration might repudiate. The directors responded by circulating a rumor that the Pretender had been taken prisoner, which generated such a wave of confidence that they were able to dispose of the offering at a premium of 114. On a later occasion, Knight and his deputy Surman were seen working the coffee houses with stories about large foreign buying orders for South Sea stock that would help maintain its price. Such rumors no doubt fell on fertile ground, since

French and particularly Dutch investors were known to be holders of substantial amounts of stock.

Lobbying

As has been seen, the company was able to call on the support of many friends in the two Houses of Parliament. The directors appear to have generated this support not so much through persuasive argument as through outright bribery, though since Knight absconded with the company's secret records, in many cases it is not possible for scholars to be absolutely sure.

At the time that Parliament was considering the South Sea Bill, promotion of the measure was in the hands of a committee of five directors led by Blunt, with Knight operating out of the spotlight. Their main task was the acquisition and gratification of what were termed "friends" in Parliament. Given the culture of the period, the initiative may well have come from the friends themselves, in the form of an intimation that they expected some consideration for their support of the Bill. The *modus operandi* by which friends were rewarded was presided over by Knight, and was completely fraudulent. A certain amount of stock would be transferred to a "friend" at a nominal price at or near the current market price. The "friend" did not pay for it. He was entitled, nevertheless, to "sell" it back to the company at some future date, and to claim his "profit" on the difference between the transfer price and the selling price. The agreed number of shares was "transferred" by Knight, either directly or through an intermediary. The transfers were bogus because at the time of the transaction the company did not have sufficient shares to cover them.

Among the recipients of this corporate largesse were James Craggs (Postmaster General), the Earl of Sunderland (Lord High Treasurer), Madame von Platen and the Duchess of Kendal (George I's mistresses), the Duchess's two "nieces" (actually her daughters by George I), and Aislabie (Chancellor of the Exchequer), as well as members of both Houses of Parliament. As an example of how the scheme operated, Aislabie struck a deal whereby he could collect £200 for every point that his South Sea stock rose above 130. On the day it was "transferred" it already stood at 180 (Carswell 1993, p. 95-6).

While such dealings may seem scandalous by present day standards, the payment of bribes in itself was not unusual. Indeed, the Duchess of Kendal was well known for the number she accepted. It may be surmised that the desire of various persons and entities to shower such favors upon her was due to her skill in selecting an appropriate situation in which to bring matters to the attention of the monarch. What was different in the case of the South Sea Company was the sheer magnitude of its operation, which involved the distribution of over £1.25 million of fictitious stock. As Reed (1999, p. 3) observes, "This was corruption on an audacious scale."

Public Relations

Carswell (1993, p. 50) wrote of the South Sea Company's directors that "A great deal of their time was spent on fostering the Company's prestige." One of their first tasks was to try to give the company an air of respectability in the eyes of merchants and investors. To this end they first took out a coat of arms, though the relevance of the motto *A Gadibus usque ad Auroram* (From Cadiz to the dawn) is unclear, given that the company's ships were to sail to the west rather than the east. In a further effort to project an image of affluence and stability, the directors rented an impressive house in the City and furnished the boardroom with 30 Spanish black upholstered chairs with beechwood frames and gilt nails. At board meetings coffee was served at the company's expense - apparently an unusual event at that time. Later the directors attempted to have a new development near St. James' Palace named South Sea Square. Had they succeeded, this would have meant that the company's integrity was established beyond question and its name effectively immortalized. For reasons that are not known, their effort was unsuccessful.

To add an aura of respectability to their enterprise, the company's promoters used a technique still employed by British public relations practitioners: namely association with the aristocracy and nobility. In fact it may have been the company's most effective marketing tool, since as Carswell wrote, "The promoters rightly reckoned that the best advertisement for the stock was the number of public men known to have faith and interest in it. Penetration of the governing class, not stock exchange rumor, was, and remained the technique by which [they] achieved their most spectacular successes" (Carswell 1993, p. 100).

The directors lobbied energetically among contacts in high places when a new subscription for shares was about to be offered. The extent of their success may be seen from the lists of names each director submitted for the third subscription in 1720. These included King George I (through a nominee), over 100 members of the House of Lords - more than half its membership - including the Lord Chancellor (the country's premier law lord), and more than half the House of Commons including the Speaker (Carswell 1993, p. 132, 184). Other subscribers included the daughters of the Prince of Wales, the Duchess of Portland, the entire board of the East India Company, and all the Commissioners of Excise. One list alone, submitted by James Craggs, allocated nearly £700,000 of stock, and included 21 peers and 154 Members of Parliament.

In fact the directors went even further, persuading the Prince of Wales to accept the titular position of Governor. Capitalizing on this coup, they also named the first ship they commissioned The Royal Prince. Following a major rift between the Prince and his father George I in 1718, the directors soon changed allegiance and elected the King as Governor in his son's place. Directors of the company in that year included four members of parliament and six holders of influential government offices.

As part of this policy of association with the ruling classes, the two prime movers in the company's operations also took steps to enhance their own personal prestige. Deputy Governor John Blunt managed to use his influence to secure for himself a baronetcy "for his extraordinary services in raising public credit to a height not known before", while cashier Robert Knight married a niece of Chancellor of the Exchequer Aislabie (Carswell 1993, p. 130).

The company's public relations efforts also extended overseas. When its directors still believed there was money to be made from trade with the Spanish colonies, they appear to have thought their cause would be best served if they could establish direct relations with the Spanish government, rather than having to rely upon the efforts of British diplomats. Accordingly when Alberoni was appointed Spain's first minister, the directors arranged for him to be presented with a gold watch, together with their best wishes (Carswell 1993, p. 64).

CONCLUSION

The events surrounding the rise and fall of the South Sea Company suggest a number of precedents to events of more recent times. Because the transferable share was a new financial phenomenon, the public lacked experience in how to deal with it. To this extent there may be parallels with the way many members of the public in the former Soviet republics lost their savings in fraudulent or insecure investment schemes at the beginning of market liberalization. The rise of the South Sea Company has been compared to that of microcomputer companies in the 1980s (South Sea Bubble 1996), and to the recent boom in Internet stocks in the sense that - like them - it never made a profit (Jackson 1999). The same writer also likens the investment frenzy surrounding bubble companies generally to the recent boom in high-tech shares.

The crash when the Bubble burst has been likened to the Wall Street crash of 1929 (South Sea Bubble 1996). The repercussions, including the ministerial shakeup, have been compared to the Iran-contra affair and the savings-and-loans scandals (Dugaw 1998). Sherman (1996, p. 20) has also drawn comparisons with the savings-and-loans, commenting that like them the Bubble "...exposed brilliant and ruthless financial manipulation, unbelievable incompetence, and a relationship between government and business that depended on bribes and insider trading."

On the other hand, women today occupy a much different position in the financial markets. In the early eighteenth century their involvement was a novelty, and as such was bound to attract attention. Three centuries later they represent 47 per cent of investors in the United States. In addition, the way they invest appears to have changed. While they were portrayed during the South Sea Bubble as gamblers and speculators whose dabblings might serve as a substitute for sex, their strategies nowadays are characterized by risk avoidance and holding quality stocks. Recent studies have also shown them to be more successful investors than their male counterparts (*Individual Investor*, February 2000).

Perhaps even more compelling comparisons are to be found in recent examples of the use of modern communication technology to inflate share prices, which in essence is what Blunt and his colleagues did two centuries ago. In the first stock manipulation scheme involving fraudulent use of an Internet site, Gary Hoke was sentenced to five years of probation for creating a false report to boost the stock price of ParGain (his employer) and posting it on a bogus Bloomberg website that he created. The value of the stock jumped 31 per cent. In November of the same year two California men posted messages on over 500 Internet bulletin boards in the course of two days claiming that NEI Webworld was going to be bought out. These postings pushed up the price of NEI stock from 13 cents to more than $15 per share. The biggest Internet scam to date, however, came in September of 2000 when Internet Wire, Bloomberg, and Dow Jones all carried a story that network equipment maker Emulex was revising its earnings estimates downwards and its CEO had resigned. The story, based on a bogus press release circulated by a former Emulex employee, resulted in a 60 per cent drop in the value of Emulex stock. Even a minor can manipulate the market. In October 2000 the Securities and Exchange Commission brought and settled civil fraud charges against a 15 year old who had used online chat rooms to drive up the prices of stocks he had bought using his father's online brokerage accounts. At the time, the SEC was reported to have 180 similar cases under investigation (Peraino 2000).

Just as the Internet offers today's fraudulent operators undreamed of possibilities for duping investors on a grand scale, so the newspaper press, the new communication medium of the early eighteenth century, offered the same possibility to Blunt and Knight. The ruthless way they exploited it has provided an object lesson in deceit. While the historical context may have changed, the principles remain uncomfortably similar, and even though history may not repeat itself, the South Sea Bubble should provide sufficient pointers for the financially unwary to keep them out of trouble. Unfortunately, the misconception that such disasters could not happen again has blinded subsequent generations to the warning signals that the year 1720 has provided.

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APPENDIX I
THE SOUTH SEA BUBBLE: A BRIEF CHRONOLOGY

1711 South Sea Trading Company Purchases £9 million of Britain's national debt in return for exclusive trading rights to Spain's South American colonies.

1713 Anticipated trading concessions by Spain not forthcoming in Treaty of Utrecht.

1717 South Sea Company vessel undertakes first trading voyage to Spanish colonies.

1718 Britain and Spain resume war.

1720 (January) South Sea stock at 128.

1720 (February) South Sea stock at 175.

1720 (March) South Sea stock at 380.

1720 (April) Hungerford Committee Reports. South Sea Company takes over Britain's entire national debt.

1720 (May) South Sea stock at 520.

1720 (June) Parliament passes "Bubble Act" requiring that all joint stock companies have royal charter. South Sea stock at 1,050.

1720 (July) Order in Council dismisses 18 applications for joint stock companies and abolishes 86 already in existence. South Sea directors begin to sell their shares.

1720 (August) South Sea stock price plummets. Bankruptcies at record level.

1720 (September) South Sea stock at 135.