

The South Sea Bubble

One of the defining moments of the implementation of the Anglo-Dutch Liberal system was what was later known as the “South Sea Bubble.” It was a scheme based on the insane discovery of the Bank of England (1694) and the British East India Company (1696) that speculation in government debt to fund wars was one of the so-called great advances made by the 1688 “Glorious Revolution.” This is the origin of central banking in the modern era. It was modeled on the earlier Bank of Amsterdam (1609), which was in fact modeled on the Venetian banking system.

As Washington Irving points out in his “The Great Mississippi Bubble,” the South Sea bubble was modeled on the Mississippi bubble of John Law. It is very suggestive that Law was in Venice before he returned to France and got the funding scheme through, and he died in Venice. However, the South Sea Chartered Company developed a scheme that took a certain portion of the government debt and issued stock against it. The English government paid 5-6% interest to the company, and the

company got the monopoly for issuing stock to holders of this debt, and also lending the government monies at interest. The reason a holder of government debt would take stock for it is based upon the massive up-valuation of the stock. So the government debt was literally “securitized.”

On April 14, 1720, the stock was sold at £300 per share. On April 29, it was £400. On June 17, it was sold at 1,000, and again on Aug. 24 it was £1,000 per share.

By October 1720, the stock had crashed to £230.

As fast as bubbles go up, they come down faster and harder. The entire British monarchy was involved in the scheme; most of the Parliament, and thousands of small investors were wiped out. Estimates are that 30,000 people—one quarter of the population of London—were bankrupted.

It was not just merely a swindle; it was in fact the actual theory behind the Anglo-Dutch system, a system based on looting—in this case the public treasury. It doesn’t work and always collapses. Bubbles are always the result of these Venetian systems, which, in every case, are played out to their conclusions, leading to the destruction of both the country that uses it, and dark ages for mankind.

—Gerald Rose