The Bubble Act of 1720

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working conditions. His political stance was mirrored by his private actions. He improved working conditions in his own company and made substantial donations to schools, libraries, and universities.

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**BUBBLE ACT OF 1720.** The Bubble Act was passed by the English Parliament in June 1720, at the height of the South Sea Bubble, two months before the bubble burst. The act itself remained in force for 105 years and is often said to have constrained the organization of business and limited economic growth.

The act prohibited the formation of associations that presumed to act as corporate bodies and to raise transferable shares (resulting in limited liability of shareholders and the issue of equities on a stock market) without being duly incorporated by either Royal Charter or Special Act of Parliament. It provided for both severe criminal sanctions (including seizing the offenders' entire estate) and civil remedies to parties harmed. In addition, by declaring the illegality of an association, the act enabled the annulment of all contracts entered into by that association.

Three explanations are offered in the literature for the enactment of the Bubble Act. The first, from a public-benefit perception of regulation, suggests that it was promoted by those hostile to the development of the share market. It was a reaction to the South Sea Bubble, and intended to protect unwary investors and the public in general. The second explanation, from a public-choice approach to regulation, views incorporation as a commodity to be sold to groups of income-seeking entrepreneurs. The act was enacted by Parliament as an interested institution, in order to restore lost incomes after the bubbles of 1720 had bypassed parliamentary incorporation and evaded the payments involved in the process of negotiating incorporation by special act of Parliament. The third explanation views the act as a measure introduced by the South Sea Company itself to ensure the success of its scheme for converting the national debt into company shares. This scheme was designed both to relieve the government of irredeemable high-interest debt and to benefit the company, and it relied on a rise in the price of South Sea shares. The act was intended to block public investment in other bubble companies and to divert more money to buying South Sea shares. This third explanation suits both the interest-group and the public-benefit views of regulation, and may best fit the historical record of the legislative process and the priorities of those in power.

The market crash, and the taint of scandal that long continued to attach to incorporation, caused people to avoid the corporate form. For these reasons, the Bubble Act lay dormant, with the exception of a single prosecution in 1721, for its first eighty-seven years. In 1808, the act was revived; and, from then until it was repealed in 1825, it served as the basis for criminal proceedings against over ten businesses that sought to raise share capital. These proceedings forced the courts to interpret the somewhat ambiguous act. In some cases, judges attempted to limit its scope and apply it only to fraudulent companies; in other cases, more conservative judges interpreted the act as applying to every unincorporated company. Decisions of the latter type raised questions about the legality of a large number of enterprises in key sectors of the economy and alarmed the business community. The act was finally repealed for reasons rooted in the boom of 1825 and the changing balance of power in that year among Members of Parliament with business interests, the government, and the judiciary.

The long-term effects of the Bubble Act are debated. It was not as well-defined a turning point as some historians claimed. It was not a major cause of Bubble or of the collapse, and it was relatively inconsequential in the period 1722 to 1807, when memories of it were dim among business attorneys and members of the general public. However, it was influential between 1808 and 1825 when it was high on political, legal, and business agendas. Even after the act was finally repealed, in 1825, its basic prohibition was established by conservative judges as a common-law prohibition. Only two decades later, with the introduction in 1844 of general and free incorporation, did the effects of the act finally end.

[See also Financial Panics and Crashes.]

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BULLION refers to gold and silver used for monetary purposes. More specifically, bullion means uncoined precious metals, such as gold and silver bars or demonetized coins (i.e., coins that are not legal tender). The appreciation of gold and silver and their employment as money since ancient times is due to the specific characteristics of these metals. Their brilliant appearance and their resistance to corrosion are the reasons for their high value in most cultures. Furthermore, their remarkable malleability and softness permitted the manufacture of thin gold leaves and fine silver objects. It is easy to cut these metals into small pieces of the same size and mark them. Transportation costs for precious metals, like precious stones, were rather low because of their high value in relation to their weight and volume. Furthermore, these metals were available in many parts of the world in quantities that were large enough to supply the monetary demand of preindustrial societies. Therefore, gold bars were being used by the Egyptians as a monetary unit even as early as the reign of Menes (3100 BCE), and silver served as means of payment in Mesopotamia at the time of Hammurabi (1728–1686 BCE).

Gold production was restricted for a long time to surface activities, such as gold washing. Silver extraction required at least some basic underground mining techniques, and the ore gathered had to be refined and smelted. Whereas gold was usually refined with mercury (amalgamation), lead came to be added to the silver ores from the mid-fifteenth century (Seiger process).

In the ancient world, gold and silver were produced in many world regions. There are references to China and India as well as to the Middle East, Africa, and ancient America. In Europe, early sources on gold and silver mining mention the Carpathian Mountains and Bohemia, Phoenicians and Greeks also relied on production in the eastern Mediterranean area. The Romans conquered the Iberian Peninsula in order to gain access to its gold and silver riches. Besides larger mining districts, numerous small ventures existed that had local importance. By the end of the Roman Empire, the production of precious metals had become a capital-intensive enterprise worked by skilled and free laborers as well as by slaves. The political upheavals of the following period destroyed a larger part of the European mines. European gold production became almost insignificant; and from the thirteenth century, Christian territories were importing large quantities of African gold. The European bullion supply worsened when, during the first half of the fifteenth century, the mining centers of the Balkans were occupied by the Turks of the Ottoman Empire. At the same time, the Ottomans expelled Venetians and Genoese from their colonies in the eastern Mediterranean. Therefore, Europeans no longer had direct access to the North African gold trade with the Sudan, and precious metals could no longer be acquired from the Bal-kans. Such an insufficiency in European supplies of precious metals ultimately led to what many historians have called a “bullion famine” from the later fourteenth to the later fifteenth centuries. Even with the depopulations of this late-medieval period, the monetary situation was aggravated by the fact that the use of money spread, increasing the demand for precious metals not only in the Mediterranean but also in northwestern and central Europe.

Throughout the worsening bullion shortage, the search for new deposits was intensified, and mining and refining techniques were improved. As the famous work of Georgius Agricola, De re metallica, published in 1556, shows, methods for the drainage and transportation of ore from underground deposits to the surface were improved, employing a large number of water-powered wheels. In the case of silver mining, new refining techniques (Seiger), using lead to separate silver from argentiferous-cupric ores, were developed in order to be able to process vast deposits of low-grade ores in central Europe. The combination of these measures, as well as the search for new deposits, especially in the Alps (Tirol), Saxony, Bohemia, and Hungary, helped to overcome the “bullion famine” from the later fifteenth and early sixteenth centuries.

In addition, the Portuguese, in reaching West Africa and the “Gold Coast” by sea in the 1470s, had restored European access to the West African gold trade. During the first decades of the sixteenth century, the Portuguese were importing about 700 kilograms (1,540 pounds) of gold per year; between 1470 and 1550, the Portuguese had shipped 36 metric tons (39 short tons) of gold to Europe. Finally, the discovery and exploitation of the Caribbean gold mines at the beginning of the sixteenth century put an end to the European “bullion famine.” Gold and especially silver from the mines of the American mainland became a major source of bullion supply from the mid-sixteenth century.