



OESTERREICHISCHE NATIONALBANK
EUROSYSTEM

Comments on Helen Paul: 'Limiting the witch hunt: Recovering from the South Sea Bubble'

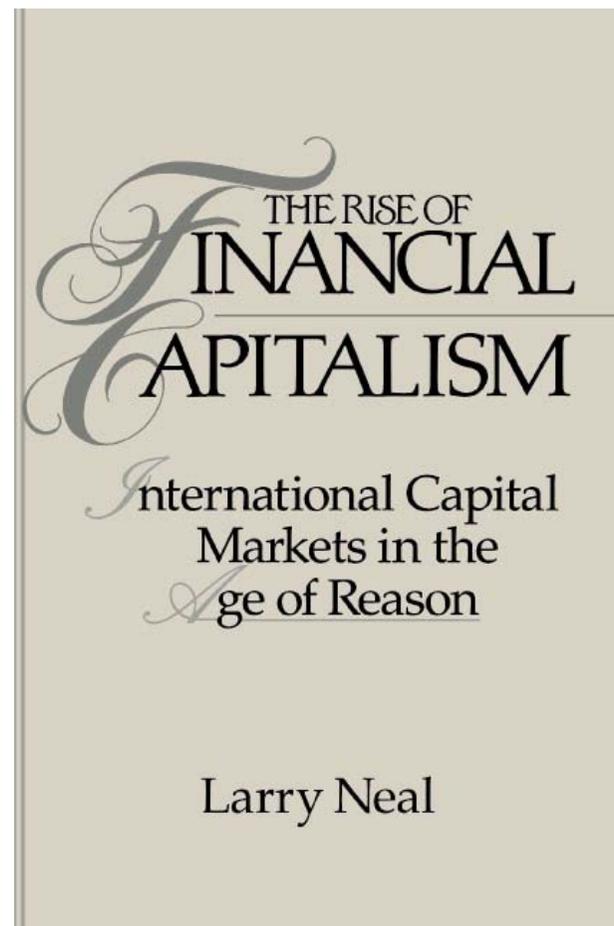
PPP IV: The subprime crisis and how it has changed the past
Geneva, 4 February 2011

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Double disclaimer

**Not necessarily the views of the
Oesterreichische Nationalbank**

Only a reader of this book



Past – Present – Policy

‘The South Sea Bubble of 1720 is a famous example of a financial crash’

‘When the Bubble burst, there was public outcry [... and] a hunt for the culprits’ (the witch hunt)

‘The history of the South Sea Bubble shows that there was not a single linear path for policy makers to follow.’

Walpole: ‘careful handling’, ‘stopped remedies worse than the disease’, ‘enabled him to embark on a remarkably successful political career’



How did this handling look like?

Most politicians don't understand financial issues and are hostile to financial sector



→ screen financial sector from ill-conceived legislation (in the absence of able defenders)

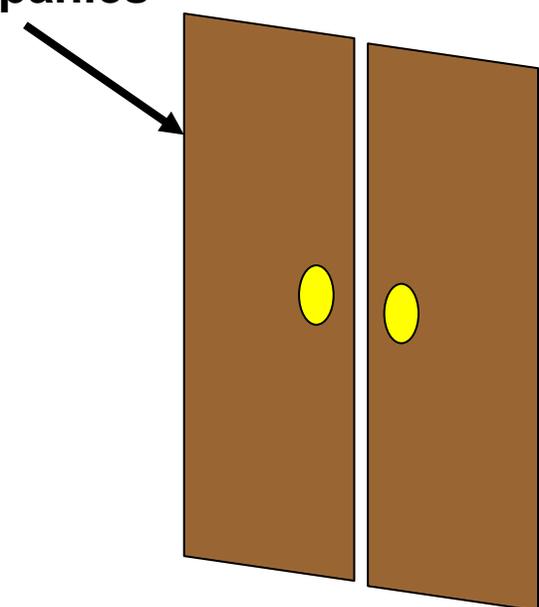
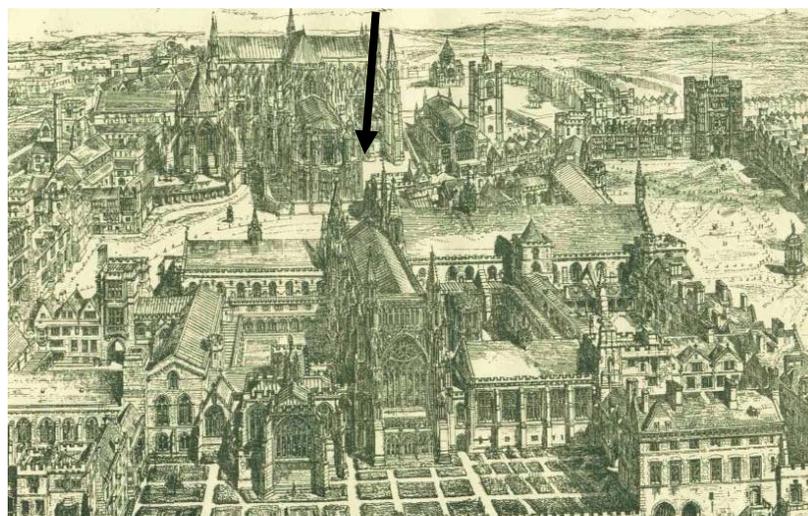
(3. Let witnesses escape with crucial info)

2. Discuss financial issues behind closed doors with representatives from major companies

1. Exhaust parliament in fruitless discussions



accounts



Personally, I would keep it with Churchill

Regulation CAN be bad (and certainly often is) – bribing officials and forging accounts IS always bad

**Second best? Trade-off? Costs of Walpole's policy not discussed.
What would have happened in the absence of Walpole's policy?**

The road which was not taken

Interesting question

But I would have liked to learn more.

What do we learn?

- Even comparatively well-informed MoP don't understand modern finance

What did these people demand?

- Altering of contracts
- Find causes of the crash and those responsible
- Restrict stock jobbing, Barnard's Act as example of damaging legislation

Would like to read more about ‘the road which was not taken’

- **Concrete proposals?**
- **What were the financial techniques that were at risk?**
- **Barnard’s Act only in 1733 – Genesis of the bill and why so late?**
- **What is rhetoric (employed to get directors etc. punished), what is true opposition to new financial techniques? What was the true risk for damaging legislation?**
- **Compare to Bubble Act (enacted BEFORE fall in SS Comp. shares)?**
- **What are the motivations? Ignorance or political allegiance or ...?**
- **How about the quality of economic arguments of Walpole’s and South Sea supporters?**

The South Sea episode and today – What are the parallels, what are the differences?

South Sea scheme

- **Swindle and bribery?**
- **Efficiency gains through making public debt tradable**
- **Distribution of efficiency gains?**
- **No losses in aggregate?**

Sub prime etc.

- **Efficiency gains?**
- **Real costs: construction, public consumption/investment, financial sector**
- **Distribution of losses?**

Implications for legislative action?

If some crises have little economic effects (but potentially large negative consequences of legislation) is it not even more important to clean image of financial sector? Reckless strategy by Walpole?