

21H.382

Finance and Fraud in the Revolutionary Atlantic

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Office hours: Tu 10:30-11:30, Th 4-5

E51-285
Th 7-10pm

“I would have you consider Sir, the many thousands of Families that have been utterly Ruin’d, in the Kingdom of France, in advancing your Schemes, without your being able, from your abundant qualities, to produce any one Project to do Justice to the oppressed and miserable, before you undertake any thing here relative to the Publick.”

-- Anonymous, *A Second Letter to Mr. Law* (London, 1721)

The 2008 financial crisis has reopened a longstanding wound in modern Atlantic history: a pervasive insecurity about the capacity of liberal-democratic and capitalist institutions to ensure financial justice. This seminar looks back to a period of Atlantic history when financial power and republican norms first began to conflict in a sustained and direct manner, and asks what we can learn from those earlier conflicts. The eighteenth century was a period of recurring financial crisis that also generated powerful and enduring norms of what a just society should look like. Beginning with the first major stock market crashes (the South Sea and Mississippi Bubbles) in 1719-1720, the eighteenth-century North Atlantic provided unprecedented opportunities for colonial joint-stock companies, banks, and land speculators to wreak havoc on society at large through the creation of novel instruments of credit, debt, and investment. We will look at the rising tides of popular resentment and political conflict that such crises generated, as well as the responses of the American and French revolutionary and post-revolutionary legal systems.

Required Texts:

There is one required text in this course:

- John Kenneth Galbraith, *A Short History of Financial Euphoria* (New York: Penguin, 1990).

The quickest and cheapest way to obtain this text is to purchase it as an ebook on www.amazon.com, www.bn.com, iBooks, or another ebook vendor. A more expensive paperback edition should also be available at the MIT Coop shortly. Finally, you can find the Galbraith text on reserve at Dewey Library.

All other readings will be made available via Stellar or via hyperlinks provided below in the schedule of topics and readings.

Course Format, Assignments, and Evaluation:

This is a research seminar that meets once a week for three hours. Our sessions are devoted to close readings of texts that must be read carefully and critically in advance in order for the class to work. Regular attendance at class is thus an essential element of the seminar. Students will be asked to demonstrate their engagement with the texts primarily by way of participation in our group discussions, but also by means of periodic Stellar web-site forum posts during the course of the semester. These comments should consist of 200-300 words on a topic that will be posted on the Stellar Forum at least one week before the responses are due. Your responses should be thoughtful and thought-provoking. You are not expected to do any extra preparation for this post. We will do three of these exercises. You will receive a composite grade for all three of your forum posts and that grade will form a portion of your overall final grade.

In addition, you are expected to prepare two papers. The first paper should be 7-8 pages and will relate to the issues raised by Parts One and Two of the seminar. I will issue an essay prompt two weeks before the paper is due; the deadline is 8pm on March 16 (papers to be submitted online via Stellar). The second paper should be 12-14 pages and can be on a topic of your choosing, provided that it falls within the broad parameters of the course. For this assignment, you must discuss your topics with me in advance, and must show me a detailed outline with source notes or a rough draft by April 24. The paper is due by Thursday, May 15 at 4pm.

Grades will be determined as follows:

- Paper #1 = 20%
- Paper #2 = 40%
- Stellar forum posts = 10%
- Seminar participation = 30%

Schedule of Topics and Reading Assignments:

Please note: the following list of topics and reading assignments can be considered stable for the most part but is likely to change in small ways as we progress throughout the semester. I will periodically post updated versions of the syllabus to our Stellar course site, with accompanying email announcements to the class participants.

Part One: Introduction

Feb. 6: Nuts and bolts (what this seminar is about)

Feb. 13: Thinking about Financial Crisis

Readings:

- a) Hyman Minsky, "The Financial Instability Hypothesis," Working Paper no. 74 (May 1992), Levy Economics Institute of Bard College, at www.levyinstitute.org/pubs/wp74.pdf.
- b) Charles P. Kindleberger and Robert Aliber, *Manias, Panics, and Crashes: A History of Financial Crisis*, 5th ed. (Hoboken, NJ: Wiley, 2005), ch. 2 (pp. 24-37).
- c) Carmen Reinhart and Kenneth Rogoff, *This Time is Different: Eight Centuries of Financial Folly* (Princeton, NJ: Princeton University Press, 2008), ch. 1 (pp. 3-20), at <http://press.princeton.edu/chapters/s8973.pdf>.

Recommended:

- a) Justin Fox, *The Myth of the Rational Market: A History of Risk, Reward, and Delusion on Wall Street* (New York: HarperCollins, 2009).
- b) Albert Hirschman, "Rival Views of Market Society," in *The Essential Hirschman*, ed. Jeremy Adelman (Princeton, NJ: Princeton University Press, 2013), 214-247.
- c) Marieke de Goede, *Virtue, Fortune, and Faith: A Genealogy of Finance* (Minneapolis: University of Minnesota Press, 2005), esp. chs. 1-2.
- d) John Cassidy, *How Markets Fail: The Logic of Economic Calamities* (New York: Picador, 2009).

Feb. 20: A Survey of the Major Financial Crises

Readings:

- a) John Kenneth Galbraith, *A Short History of Financial Euphoria* (New York: Penguin, 1990), available as an ebook on www.amazon.com, www.bn.com, iBooks, and other ebook vendors.

- b) “Crash course: The origins of the financial crisis,” *The Economist*, Sept. 7, 2013, at <http://www.economist.com/news/schoolsbrief/21584534-effects-financial-crisis-are-still-being-felt-five-years-article>.
- c) James Stewart, “Eight Days,” *The New Yorker*, Sept. 21, 2009, at http://www.newyorker.com/reporting/2009/09/21/090921fa_fact_stewart?currentPage=all.
- d) Jed Rakoff, “The Financial Crisis: Why Have No High-Level Executives Been Prosecuted?,” *The New York Review of Books*, Jan. 9, 2014, at <http://www.nybooks.com/articles/archives/2014/jan/09/financial-crisis-why-no-executive-prosecutions/?pagination=false>.

Recommended:

- a) Simon Johnson and James Kwak, *Thirteen Bankers: The Wall Street Takeover and the Next Financial Meltdown* (New York: Vintage, 2011).
- b) Charles W. Calomiris and Stephen H. Haber, *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit* (Princeton, NJ: Princeton University Press, 2014).

Part Two: The First Financial Crises

Feb. 26 (**Note: this is rescheduled from Feb. 27, meeting also @7pm**):
The South Sea and Mississippi Bubbles (I)

Readings:

- a) James Macdonald, *A Free Nation Deep in Debt: The Financial Roots of Democracy* (New York: Farrar, Straus and Giroux, 2003), ch. 5 (pp. 179-219).
- b) François R. Velde, “John Law’s System,” *The American Economic Review* 97, no. 2 (May 2007): 276-279.
- c) Rik Frehen, William N. Goetzmann, and K. Geert Rouwenhorst, “Finance in the Great Mirror of Folly,” in *The Great Mirror of Folly: Finance, Culture, and the Crash of 1720*, ed. William N. Goetzmann, Catherine Labio, K. Geert Rouwenhorst, and Timothy G. Young (New Haven, CT: Yale University Press, 2013), 63-88.

Recommended:

- a) John Carswell, *The South Sea Bubble* (London: Sutton, 2002).
- b) Richard Dale, *The First Great Crash: Lessons from the South Sea Bubble* (Princeton, NJ: Princeton University Press, 2004).

- c) Charles Mackay, *Extraordinary Delusions and the Madness of Crowds*, 2nd ed. (London: Office of the National Illustrated Library, 1852), chs. 1-2, at <http://www.econlib.org/library/Mackay/macExCover.html>.
- d) P.M. Dickson, *The Financial Revolution in England: A Study in the Development of Public Credit, 1688-1756* (London: Macmillan, 1967).
- e) Walter Bagehot, *Lombard Street: A Description of the Money Market* (London: Henry S. King, 1873), esp. ch. 3, at <http://www.econlib.org/library/Bagehot/bagLomCover.html>.
- f) Emily Kadens, "The Pitkin Affair: A Study of Fraud in Early English Bankruptcy," *American Bankruptcy Law Journal* 84 (2010): 483-570.

March 6: The South Sea and Mississippi Bubbles (II)

Reminder: Forum #1 responses due by 6pm today

Readings:

- a) Carl Wennerlind, *Casualties of Credit: The English Financial Revolution, 1620-1720* (Harvard University Press, 2011), ch. 6 (pp. 197-234), epilogue (pp. 234-245).
- b) Thomas E. Kaiser, "Money, Despotism, and Public Opinion in Early Eighteenth-Century France: John Law and the Debate on Royal Credit," *The Journal of Modern History* 63, no. 1 (1991): 1-28.

Film (to be shown in class): Niall Ferguson, "Blowing Bubbles: The Emergence of Stock Trading" (BBC Worldwide), at <http://digital.films.com/play/6NJKNQ>.

Recommended:

- a) Peter Temin and Hans-Joachim Voth, "Riding the South Sea Bubble," *American Economic Review* 94, no. 5 (2004), at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=485482.
- b) Peter M. Garber, "Famous First Bubbles," *Journal of Economic Perspectives* 4, no. 2 (1990): 35-54.

March 13: Working with Primary Sources

Readings:

- a) Montesquieu, *The Persian Letters* (1721), trans. C.J. Betts (New York: Penguin, 1993), letters 138, 142, and 146.
- b) John Trenchard and Thomas Gordon, *Cato's Letters, or Essays on Liberty, Civil and Religious, and Other Important Subjects*, vol. 1 (1720-1721), preface (read only the first few pghs.) and letters

1-11, at

http://oll.libertyfund.org/?option=com_staticxt&staticfile=show.php?title%3D1237&Itemid=27.

- c) Review this website describing the Harvard Business School's Kress collection on the South Sea Bubble: <http://www.library.hbs.edu/hc/ssb/index.html>; then, identify one primary source in the collection that is of particular interest to you, and read/view it either via the list of links to digital content available on that website (http://www.library.hbs.edu/hc/ssb/digital_list.html) or via Eighteenth-Century Collections online, which you can find here: <http://libraries.mit.edu/get/ecco>.

Recommended:

- a) *Letters to John Law: A Collection of Works*, ed. Gavin John Adams (N.p.: Newton Page, 2012).

Reminder: Paper #1 due online at 8pm on March 16

Part Two: Financial Politics in the American and French Revolutions

March 20: Land Speculation in Eighteenth-Century British America

Readings:

- a) A. M. Sakolski, *The Great American Land Bubble: The Amazing Story of Land-Grabbing, Speculation, and Booms from Colonial Days to the Present Time* (New York: Harper, 1932), chs. 1-2 (pp. 1-53), at <http://mises.org/document/6648/The-Great-American-Land-Bubble-The-Amazing-Story-of-LandGrabbing-Speculations-and-Booms-from-Colonial-Days-to-the-Present-Times>.

Recommended:

- a) Charles Royster, *The Fabulous History of the Dismal Swamp Company* (New York: Vintage, 2000).
b) Jane Kamensky, *The Exchange Artist: A Tale of High-Flying Speculation and America's First Banking Collapse* (New York: Penguin, 2008).

April 3: William Duer, the Ohio Valley, and the Panic of 1792

Readings:

- a) Cathy Matson, "Public Vices, Private Benefit: William Duer and His Circle, 1776-1792," in *New York and the Rise of American Capitalism: Economic Development and the Social and Political*

History of an American State, 1780-1870 (New York: New York Historical Society, 1989), 72-123.

- b) Suzanne Desan, "Transatlantic Spaces of Revolution: The French Revolution, Sciotomanie, and American Lands," *Journal of Early Modern History* 12, no. 6 (2008): 467-505.

Recommended:

- a) Robert Jones, "William Duer and the Business of Government in the Era of the American Revolution," *The William and Mary Quarterly* 3rd ser., 32, no. 3 (1975): 393-416.
- b) Cathy Matson, "Flimsy Fortunes: Americans' old relationship with paper speculation and panic," *Common-Place* 10, no. 3 (April 2010), at <http://www.common-place.org/vol-10/no-03/matson/>.
- c) Scott Reynolds, *A Nation of Deadbeats: An Uncommon History of America's Financial Disasters* (New York: Knopf, 2012), chs. 1-2.
- d) Joseph Stancliffe Davis, "William Duer, Entrepreneur, 1744-99," in his *Essays in the Earlier History of American Corporations*, 2 vols. (Cambridge, MA: Harvard University Press, 1917), 1:109-345.

April 10: Fiscal and Financial Crisis in Revolutionary France (I)

Readings:

- a) Gail Bossenga, "Financial Origins of the French Revolution," in *From Deficit to Deluge: The Origins of the French Revolution*, ed. Thomas E. Kaiser and Dale K. Van Kley (Stanford, CA: Stanford University Press, 2011).
- b) Lynn Hunt, "The Global Financial Origins of 1789," in *The French Revolution: A Global Perspective*, ed. Suzanne Desan, Lynn Hunt, and William Max Nelson (Ithaca, NY: Cornell University Press, 2013), 32-43.

Recommended:

- a) Kathryn Norberg, "The French Fiscal Crisis of 1788 and the Financial Origins of the Revolution of 1789," in *Fiscal Crises, Liberty, and Representative Government, 1450-1789*, ed. Philip T. Hoffman and Kathryn Norberg (Stanford, CA: Stanford University Press, 1994), 253-298.

April 17: Fiscal and Financial Crisis in Revolutionary France (II)

Readings:

- a) Robert Darnton, *George Washington's False Teeth: An Unconventional Guide to the Eighteenth Century* (New York: W.W. Norton, 2003), ch. 7 (pp. 137-155).

- b) Norman Hampson, "François Chabot and His Plot," *Transactions of the Royal Historical Society*, 5th ser., 26 (1976): 1-14.

Recommended:

- a) George V. Taylor, "The Paris Bourse on the Eve of the Revolution, 1781-1789," *American Historical Review* 67, no. 4 (1962): 951-977.
- b) Rebecca L. Spang, "The Ghost of Law: Speculating on Money, Memory and Mississippi in the French Constituent Assembly," *Historical Reflections/Réflexions Historiques* 31, no. 1 (2005): 3-25.

Part Three: The Post-Revolutionary World

April 24: The Panic of 1837

Readings:

- a) Jessica Lepler, "Pictures of Panic," *Common-Place* 10, no. 3 (April 2010), at <http://www.common-place.org/vol-10/no-03/lepler/>.
- b) Edward E. Baptist, "Toxic Debt, Liar Loans, and Securitized Human Beings: The Panic of 1837 and the fate of slavery," *Common-Place* 10, no. 3 (April 2010), at <http://www.common-place.org/vol-10/no-03/baptist/>.
- e) Alisdair Roberts, "An Ungovernable Anarchy: The United States' Response to Depression and Default, 1837-1848," *Intereconomics: Review of European Economic Policy* 45, no. 4 (2010): 196-202, at www.econstor.eu/bitstream/10419/66532/1/730071405.pdf.

Recommended:

- a) Joshua D. Rothman, *Flush Times and Fever Dreams: A Story of Capitalism and Slavery in the Age of Jackson* (Athens: University of Georgia Press, 2012).
- b) Joshua Rothman, "The Contours of Cotton Capitalism: Slavery, Speculation, and Economic Panic in Mississippi, 1832-1841," in Seth Rockman and Sven Beckert, eds., *Slavery's Capitalism: A New History of American Economic Development* (Philadelphia: University of Pennsylvania Press, forthcoming, 2014).
- c) Alasdair Roberts, *America's First Great Depression: Economic Crisis and Political Disorder after the Panic of 1837* (Ithaca, NY: Cornell University Press, 2012).
- d) Jessica M. Lepler, *The Many Panics of 1837: People, Politics, and the Creation of a Transatlantic Financial Crisis* (New York: Cambridge University Press, 2013).

- e) Roy Kreitner, "When Banks Fail: Creating money and risk in antebellum America," *Common-Place* 10, no. 3 (April 2010), at <http://www.common-place.org/vol-10/no-03/kreitner/>.

May 1: Towards the Modern Financial and Monetary Order (guest discussant: Christine Desan).

Readings:

- a) Christine Desan, *Making Money: Coin, Currency, and the Coming of Capitalism* (New York: Oxford University Press, forthcoming), ch. 10, epilogue, and conclusion.

May 8: Speculation and Fraud in Nineteenth-Century America

Readings:

- a) De Goede, *Virtue, Fortune, and Faith*, ch. 3 (pp. 47-86).
- b) Kindleberger and Aliber, *Manias, Panics, and Crashes*, ch. 10 (pp. 165-202).

Recommended:

- a) James Taylor, *Boardroom Scandal: The Criminalization of Company Fraud in Nineteenth-Century Britain* (Oxford, UK: Oxford University Press, 2013).
- b) Edward J. Balleisen, "Private Cops on the Fraud Beat: The Limits of American Business Self-Regulation, 1895-1932," *Business History Review* 83, no. 1 (Spring 2009): 113-60.