

History of Financial Turbulence and Crises

Prof. Michalis M. Psalidopoulos

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Course description:

The outbreak of the 2008 financial crisis has rekindled academic interest in the history of financial turbulence and crises – their causes and consequences, their interpretations by economic actors and theorists, and the policy responses they stimulated.

In this course, we use the analytical tools of economic history, the history of economic policy-making and the history of economic thought, to study episodes of financial turbulence and crisis spanning the last three centuries. This broad historical canvas offers such diverse historical examples as the Dutch tulip mania of the late 17th century, the German hyperinflation of 1923, the Great Crash of 1929, the Mexican Peso crisis of 1994/5 and the most recent sub-prime mortgage crisis in the US.

The purpose of this historical journey is twofold: On the one hand, we will explore the principal causes of a variety of different manias, panics and crises, as well as their consequences – both national and international. On the other hand, we shall focus on the way economic actors, economic theorists and policy-makers responded to these phenomena. Thus, we will also discuss bailouts, sovereign debt crises and bankruptcies, hyperinflations and global recessions, including the most recent financial crisis of 2008 and the policy measures used to address it. What is more, emphasis shall be placed on the theoretical framework with which contemporary economists sought to conceptualize each crisis, its interplay with policy-making, as well as the possible changes in theoretical perspective that may have been precipitated by the experience of the crises themselves.

Last but not least, the course seeks to provide an introduction to important themes in economic and social history, and highlight the usefulness and significance of both economic history and the history of economics to modern economists.

Course objectives:

By the end of the course, students will be familiar with:

- The typology, terminology and basic etiology of different financial crises, as well as the principal historical facts surrounding major crises. This includes distinguishing between different types of crises (currency, debt, financial, liquidity, etc.), being able to highlight key differences and similarities, as well as discussing and evaluating their causes and consequences.
- The methods applied by economic historians to topics in financial history, and their significance to modern day economists. Historical scholarship in economics finds itself in an ongoing discussion about what events or processes are significant, how one can define and assess them and, especially, why it is important for present day social scientists to be literate in economic history.
- Ways to synthesize knowledge of economic history, the history of economic policy and the history of economic thought to forge one's own original way of looking at contemporary episodes of economic turbulence – and the way they are interpreted and tackled by policy-makers.

Course prerequisites:

Apart from a working knowledge of intermediate macroeconomics, the course assumes little prior knowledge of financial history or the history of economic thought, although a background in these fields will be an advantage. Throughout the course, emphasis shall be placed on historical rather than financial/mathematical tools for studying crises.

Course outline:

The main outline of the course is given below, along with some supplementary reading allotted to each week of coursework; the main book to be studied throughout the course is:

Charles P. Kindleberger, 2000. *Manias, panics, and crashes : a history of financial crises*. New York: Wiley

This is the fourth edition of the classic book by Charles Kindleberger, and the last one to be signed by him alone. The book is now in its fifth edition with Robert Aliber as co-author; whilst this will also serve the purposes of the course, students are encouraged to make an effort to obtain a (used) copy of any previous edition.

Because of the structure of the book, individual chapters cannot be matched to specific weeks of study, but students will be expected to have covered most of the material included by the middle of the course.

For a good introduction into various issues relating to the history of economic thought, students are encouraged to turn to:

H.W. Spiegel, 1991. *The Growth of Economic Thought*. Durham: Duke University Press.

For a brief introduction to economic history, students could use the following book:

Angus Maddison, 1995. *Monitoring the World Economy, 1820-1992*. Paris: OECD.

Week 1 – Introduction

... course objectives; basic theoretical concepts and taxonomies of financial crises; a summary narrative of historical experience;

Galbraith, J.K. (1994) *A Short History of Financial Euphoria*, New York: Penguin. Read chapters 1-2.

Neal, L. and Weidenmier, M. (2002), 'Crises in the Global Economy from Tulips to Today: Contagion and Consequences', *NBER Working Paper*, No. w9147.

Eichengreen, B. and Portes, R. (1987), 'The anatomy of financial crises', in R. Portes and A.K. Swoboda (eds.) *Threats to international financial stability*, Cambridge: Cambridge University Press.

Eichengreen, B. (2003), 'Three generations of crises, three generations of crisis models', *Journal of International Money and Finance*, 22.

Minsky, H. P. (1992) 'The Financial Instability Hypothesis', *Jerome Levy Economics Institute of Bard College*, Working Paper No 74

Oliver, M. J. (2008), 'Financial Crises', in M.J. Oliver and D.H. Aldcroft (eds.) *Economic Disasters of the Twentieth Century*, Edward Elgar. Chapter 6.

Week 2 – Crises in the 18th century

... the tulip crisis (1636-7), the South Sea Bubble (1720), the 1763 crisis after the seven year war, the crisis of 1772-3, the *Assignats* and inflation during the French Revolution (1789-97).

Galbraith, J.K. (1994) *A Short History of Financial Euphoria*, New York: Penguin. Read chapters 3-4.

Garber, P.M. (1990), Famous First Bubbles, *Journal of Economic Perspectives*, 4(2), pp. 35-54.

Hoppit, J. (1986), 'Financial Crises in Eighteenth-Century England', *Economic History Review*, 39, pp. 39-58.

Schnabel, I. and Song Shin, H. (2004), 'Liquidity and Contagion: the Crisis of 1763', *Journal of the European Economic Association*, 2, pp. 929-68.

White, E. N. (1995), 'The French Revolution and the Politics of Government Finance, 1770-1815', *Journal of Economic History*, 55, pp. 227-55.

Week 3 – The 19th century

... the banking crisis in the USA (1818-9), the crisis of 1815, the London crisis of 1825, the panic of 1837, the railroads "mania" (1847), the *Ohio Life* bankruptcy (1857), the *Overend and Gurney* bankruptcy (1866), "Black Friday" in the USA (1869), the Vienna crisis of 1873, the bankruptcy of *Union Generale* (1882), the crisis of 1890.

Bordo, M. (1985), 'Financial crises, banking crises, stock-market crashes and the money supply: some international evidence, 1870-1933', in F. Capie and G.E. Wood (eds.) *Financial Crises and the World Banking System*, London: Macmillan.

Galbraith, J.K. (1994) *A Short History of Financial Euphoria*, New York: Penguin. Read chapter 5.

Rousseau, P. (2002), 'Jacksonian monetary policy, specie flows, and the panic of 1837', *Journal of Economic History*, 62.

Ford, G.A. (1956), 'Argentina and the Baring crisis of 1890', *Oxford Economic Papers*, 8, pp. 127-150.

Arnold, A.J./S. McCartney (2003), 'The Railway Mania of 1845-47: Market irrationality or collusive swindle based on accounting distortions?', *Accounting, Auditing and Accountability Journal*, pp.821-852

Week 4/5 – The early 20th century

... the US banking crisis of 1907 and the creation of the Federal Reserve System, the interwar period prior to the Great Depression, the German hyperinflation of 1923.

Moen, J. and E. W. Tallman (1992) 'The Bank Panic of 1907: The Role of Trust Companies', *Journal of Economic History*, 52(3), 611-630

Johnson, J.F. (1908), 'The Crisis and Panic of 1907', *Political Science Quarterly*, 23, pp. 454-467.

Sprague, O.M.W. (1908), 'The American Crisis of 1907', *Economic Journal*, 18, pp. 353-372.

Hetzel, R. L. (2002), 'German Monetary History in the first half of the twentieth century', *Economic Quarterly - Federal Reserve Bank of Richmond*; 88(1); pp. 1-35.

Meltzer, A. (2003), *A History of the Federal Reserve, Vol. I, 1913-1951*, Chicago: Chicago University Press. Chapter 3 (pp. 65-137).

Week 5/6- Theoretical explanations and implications for economic policy-making.

....The 19th century: the Bullionist Controversy, the Currency versus the Banking School, sunspot theory. Early 20th century: the natural versus the nominal rate of interest. The Interwar period: Fisher, Schumpeter, Kalecki, Keynes, Hayek and the Austrian school. Post WWII re-statements: Friedman, Minsky, Kindleberger. Financial regulation/deregulation

David Laidler (2000) Highlights of the Bullionist controversy, A report.

Roger W. Garrison (1989) The Austrian Theory of the Business Cycle in the Light of Modern Macroeconomics, *The Review of Austrian Economics*, Volume 3, pp. 3-29