

Capitalism in the Age of Revolution (Fall 2016)

Guidelines for Paper 1

Here are two approaches you may choose from in writing the first paper. While you are free to choose another approach, your paper should be defined by an analytical question along these lines, and should involve a focused comparison between the Mississippi and South Sea Bubbles.

1. In *Manias, Panics, and Crashes: A History of Financial Crises* (5th ed., 2005), Charles Kindleberger and Robert Aliber write:

“Some bubbles are swindles, some are not. The Mississippi Bubble was not a swindle; the South Sea Bubble was. A bubble generally starts with an apparently legitimate or at least legal purpose. What became the Mississippi Bubble initially started as the Compagnie d’Occident, to which the Law system added the farming-out of national tax collections and the Banque . . . [John Law’s] activities were not a swindle, but his financial demise reflected a mistake that was based on two fallacies: (1) that stocks and bonds were money and (2) that issuing more money as demand increased was not inflationary. // In the South Sea Bubble, the monopoly of trade in the South Atlantic was purely incidental. Very quickly, consolidation of British governmental debt overwhelmed the South Atlantic trade aspects of the enterprise, and stockjobbing overwhelmed government debt shortly thereafter . . . To get the cash to pay profits, the South Sea Company both needed to increase its capital and to have the price of its stock increase continuously. And it needed both increases at an accelerating rate as in a chain letter or in a Ponzi scheme.”

Kindleberger and Aliber distinguish a “swindle” from “ordinary robbery” in that swindles involve an “abuse of trust.” And they distinguish swindles from bribery of government officials (or of the employees of one business by those of another) in that swindles involve “both misrepresentation and the violation of an explicit or implicit trust between particular groups.”

Please comment on the validity of this comparison, with specific reference to our readings from the first three weeks of the seminar (as well as your document from the South Sea Bubble Collection at HBS).

Kindleberger, Charles P., and Robert Aliber. *Manias, Panics, and Crashes: A History of Financial Crises*. 5th edition. Wiley, 2005.

2. For the first week of this seminar, we read several readings that attempt to set forth a definition or interpretation of capitalism. Do you think the Mississippi and South Sea Bubbles are a reflection of inherent tendencies within capitalism as defined by any of these interpretations? Or are the essential causes of these early financial crises “exogenous” to the practices and culture of capitalism? Please take into account the arguments of McCloskey, Sewell, Minsky, and Kocka in responding to this prompt, and make use of the readings on both the Mississippi and South Sea Bubbles (in addition to your document from the South Sea Bubble Collection at HBS).

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