



## OTHER PEOPLE'S MONEY: THE LAW, POLITICS, AND HISTORY OF FINANCE

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### Course Description:

Imagine a large pile of money. The virtue of the most basic forms of money is that it is fungible—meaning, you can buy anything with it and one dollar is as good as any other. But now place that pile of money into a bucket, and write something on that bucket: perhaps “hedge fund,” or “central bank,” or “payday lender.” The bucket is everything: even if the money on the inside is the same, the bucket will change the way insiders and outsiders alike treat that money.

This course surveys a large number of these “buckets”—“financial institutions,” we’ll call them, though we use this term very broadly. These institutions are those that undergraduate and graduate students will encounter throughout their careers, whatever those careers might be. They include, among others:

1. Investment banks
2. Community banks
3. Central banks
4. University endowments
5. Hedge funds
6. Insurance companies
7. State funded enterprises
8. Payday lenders
9. Public pension funds
10. Mutual funds
11. Fintech

During this survey, we will ask a series of questions. Where does this institution come from? How has it changed over time? What is the political context? What is the regulatory context? In other words, we’ll look at the institution’s *law*, *history*, and *politics*, touching only briefly (and with no expectation of prior familiarity) on the

economics and finance undergirding each one.

The course will be highly interactive as we learn these sometimes technical topics. While a background or interest in finance may be helpful, I encourage students with no background to enroll and will assume as much in each lecture.

### **Grading:**

Your grade is divided into four equal parts: 25% class participation, 25% for the first in-class exam, 25% for the second in-class exam, and 25% for the final projects. (More on the final projects, below.)

Class participation is mandatory. I will alternate between soliciting volunteer comments on the reading material/class discussion and “cold calling” students. Inadequate preparation will be noted and held against your participation grade. Because class discussion is so essential, I will work hard to create a comfortable atmosphere where theories can be ventured without embarrassment.

The in-class exams will be a mix of multiple choice, short answer, and brief essay questions. You will be expected to complete the exam during the 80-minute course session.

The final project will be to choose a specific financial institution and provide a legal, political, and historical assessment. Examples might be a specific country’s central bank, a specific hedge fund, or something similar. The assessment should be 2,000 words multiplied by the number of students participating (no more than three students per group; solo projects are perfectly appropriate). You may divide the group work however you like, but each student must clearly identify individual contributions so that they can be graded accordingly.

**Note: I will be running each report through anti-plagiarism software. Plagiarized work will result in severe consequences for the student(s), consistent with the University of Pennsylvania’s and Wharton’s rules and policies.**

### **Required Texts:**

All required texts will be available through the course bulk pack available at STUDY.NET. I will also supplement that reading throughout the semester.

### **Class Format and Policies:**

This course will involve some lecture and some group discussion, and requires

students to be present and engaged. To that end, I will take strict attendance: tardiness and absences will cut against the all-important participation grade. At the beginning of the course, we will also take a class vote about whether we should strictly forbid the use of laptops, tablets, or any other internet-enabled device.

### **Readings:**

An updated syllabus with specific reading assignments will be posted to the course's Canvas website at least two weeks ahead of the relevant class period.

### **Course Thumbnail (tentative and subject to revision):**

1. Introduction: Other People's Money [20 pages]
  - a. Harry Frankfurt, "On Bullshit," *Raritan Quarterly Review* No 6, no. 2 (Fall 1986)

#### Part I: The Institutions

2. The Modern Corporation: Limited Liability and Joint Stock Ownership Through the Centuries [52 pages]
  - a. Stephen Bown, *Merchant Kings: When Companies Ruled the World, 1600-1900*, Introduction and Chapters 1 (Dutch East India) (45 pages)
  - b. Ida Tarbell, "The History of the Standard Oil Company," *McClure's*, November 1902 (17 pages)
3. The Modern Corporation: The Rise, Fall, and Meaning of Public Ownership [75 pages]
  - a. Berle & Means, *The Modern Corporation and Private Property*, introduction and chapter 1 (18 pages)
  - b. Hansmann & Kraakman, "The End of History of Corporate Law," Parts I & II (15 pages)
  - c. Davis, *The Vanishing Corporation*, introduction, chapter 2, chapter 8. (45 pages)
  - d. *Citizens United v. FEC* (excerpts) (2 pages)
4. Community Banking: Financing Main Street [75 pages]
  - a. Newspaper articles on Wells Fargo:
    - i. Randall Smith, "In Tribute to Wells, Banks Try the Hard Sell," *Wall Street Journal*, Feb. 28, 2011

- ii. E. Scott Reckard, “Wells Fargo's pressure-cooker sales culture comes at a cost,” *Los Angeles Times*, February 2013.
    - iii. Adam Davidson, “How Regulation Failed with Wells Fargo,” *New Yorker*, September 13, 2016
  - b. Calomiris and Haber, *Fragile by Design: The Political Origins of Banking Crises and Scarce Credit*, Princeton University Press, 2014. (chapters 1-2).
5. Investment Banking #1: The Fall and Rise of the Financial Supermarket [60 pages]
- a. Brandeis, Louis. 1914. *Other People’s Money and How the Banker’s Use It*, Preface and Chapter One
  - b. Sabeel Rahman, Democracy and Productivity: The Glass-Steagall Act and the Shifting Discourse of Financial Regulation, *Journal of Policy History*, vol 24 no. 4 (2012) [excerpts]
  - c. Jamie Dimon, “Letter to Shareholders,” April 2014
  - d. Anat Admati & Martin Hellwig, *The Bankers New Clothes: What’s Wrong with Banking and What To Do About It*, Princeton University Press, 2013 (Introduction and Chapters 12).
6. Investment Banking #2: God’s Work, or the Vampire Squid? [30 pages]
- a. Matt Taibbi, “The Great Bubble Machine,” *Rolling Stone*, April 2009
  - b. Testimony of Lloyd Blankfein, CEO of Goldman Sachs, Financial Crisis Inquiry Commission, January 13, 2010
7. Central Banking: History [40 pages]
- a. Bagehot, *Lombard Street*, introduction and chapters 1-2
  - b. Conti-Brown, *The Power and Independence of the Federal Reserve*, chapters 1-2
8. Central Banking: Present and Future [65 pages]
- a. Conti-Brown, *The Power and Independence of the Federal Reserve* (introduction, Chapter 11, conclusion)
  - b. El-Erian, *The Only Game in Town: Central Banks, Instability, and Avoiding the Next Collapse*, Random House, 2016. [Part I]
9. Payday Lending and Other Consumer Lending [43 pages]
- a. Louis Hyman, *Debtor Nation: The History of America in Red Ink*, introduction and chapter 3
  - b. Pew Trust, *Payday Lending in America*
  - c. Thaya Brook Knight, “Payday Lending is not Harmful to Low Income

Borrowers,” The Hill, May 6, 2016

10. Credit Unions [45 pages]

- a. Donal McKillop and John O.S. Wilson, “Credit Unions: A Theoretical and Empirical Overview,” *Financial Markets, Institutions, & Instruments*, June 2011.

11. More Money than God: Hedge Funds in the Modern Economy [60 pages]

- a. Sebastian Mallaby, *More Money than God: Hedge Funds and the Making of a New Elite*, Penguin, 2010. (introduction, chapter 9, conclusion)

12. More Money than God: Hedge Funds, Liquidity, and Information [60 pages]

- a. Henny Sender, Faces of the Crisis: John Paulson, *Financial Times*, January 1, 2009
- b. Sheelah Kolhatkar, John Paulson’s Very Bad Year, *Bloomberg Business*, June 28, 2012
- c. “Harvard Receives its Largest Gift,” *Harvard Gazette*, 2015
- d. Victor Fleischer, “How a Carried Interest Tax Could Raise \$180 Billion,” *New York Times*, June 5, 2015
- e. George Packer, “A Dirty Business: New York City’s Top Prosecutor Takes on Wall Street Crime,” *New Yorker*, June 27, 2011

13. In class exam

14. Insurance: Origins and Systemic Risk

- a. Jonathan Levy, *Freaks of Fortune: The Emerging World of Capitalism and Risk in America*, Harvard University Press, 2012 (Prologue and Chapter 1).
- b. Viviana Zelizer, “Human Values and the Market: The Case of Life Insurance and Death in 19<sup>th</sup> Century America,” *American Journal of Sociology* (Nov 1978).
- c. Michael Lewis on AIG
- d. Amicus Brief in *MetLife v. Financial Stability Oversight Council*

15. State Finance #1: The Case of Sovereign Wealth Funds

- a. “The New Rothschilds,” *The Economist*, September 27, 2007
- b. “The Invasion of the Sovereign Wealth Funds,” *The Economist*, November, 2008
- c. Gilson & Milhaupt, “Sovereign Wealth Funds and Corporate Governance: A Minimalist Response to the New Mercantilism,”

Stanford Law

16.State Finance #2: State Capitalism

- a. “The rise of state capitalism,” *The Economist*, Jan 21, 2012
- b. Robert Blackwill and Jennifer Harris, *War by Other Means: Geoeconomics and Statecraft*, Harvard University Press, 2015 (introduction and chapter 1).

17.Private Equity

- a. Daniel Fisher, “The Truth about Bain: Inside the House that Mitt Built,” *Fortune Magazine*, Oct 3, 2012
- b. David Carey and John Morris, *King of Capital: The Remarkable Rise, Fall, and Rise Again of Steve Schwarzman and Blackstone*, 2012

18.University Endowments

- a. David Swensen, *Pioneering Portfolio Management: An Unconventional Approach to Institutional Investment*, Free Press, 2009 (chapters 1 and 2)
- b. Victor Fleischer, “Stop Universities from Hoarding Money,” *New York Times*, Aug 19, 2015
- c. Peter Conti-Brown, “Scarcity Amidst Wealth: The Law, Finance, and Culture of University Endowments in Financial Crisis,” *Stanford Law Review* vol 63, 2011 (introduction, part I, part II, and part V).

19.The Promise and Perils of Public Pension Funds

- a. David Webber, “The Use and Abuse of Labor’s Capital,” *NYU Law Review*, vol 89 (introduction and Part III)
- b. Joshua Rauh, “Hidden Debts, Hidden Deficits: How Pension Promises Are Consuming State and Local Budgets,” *Hoover Institution*, April 11, 2016

20.Mutual Funds: Managing Private Retirement

- a. William Birdthistle, *Empire of the Fund: The Way We Save Now*, introduction [20 pages]
- b. Matt Fink, *The Rise of Mutual Funds: An Insider’s View*, introduction, chapter 1 [31 pages]
- c. Jason Zweig, “Are Index Funds Eating the World?” *Wall Street Journal*, August 26, 2016
- d. Jeff Sommer, “A Mutual Fund Master, Too Worried to Rest,” *New York Times*, Aug 11, 2012

21.Mutual Funds: Activism, Policies, and Politics

- a. David Webber, “The Use and Abuse of Labor’s Capital,” 89 *NYU Law*

Review 2106 (2014)

- b. JP Morgan White Paper, “The Activist Revolution: Understanding and Navigating a New World of Heightened Investor Scrutiny,” January 2015.

## 22. Fintech: Blockchain and Crowdfunding

- a. Nathaniel Popper, *Digital Gold: Bitcoin and the Inside Story of the Misfits and Millionaires Trying to Reinvent Money*, introduction.
- b. Ken Rogoff, *The Cash Curse*, introduction

## Part II: Themes

### 23. Consumer Protection

- a. Elizabeth Warren, “Unsafe at Any Rate,” *Democracy*, summer 2007
- b. Todd Zywicki, “The Consumer Financial Protection Bureau: Savior or Menace?” 81 *George Washington University Law Review* 856 (2013).

### 24. Financial Inclusion

- a. Michael Barr, “Minority and Women Entrepreneurs: Building Capital, Networks, and Skills,” Hamilton Research, March 2015
- b. Peter Wallison, Minority Report, Financial Crisis Inquiry Commission

### 25. Financial Stability

- a. Carmen Reinhart & Kenneth Rogoff, *This Time is Different: Eight Centuries of Financial Folly* 2010 (excerpts)
- b. Eric Rosengren, Boston Fed President, Defining Financial Stability, and Some Policy Implications of Applying the Definition, Keynote Remarks at the Stanford Finance Forum Graduate School of Business, Stanford University, 2011

### 26. Economic Growth

- a. Andrew Palmer, *Smart Money: How High-Stakes Financial Innovation is Reshaping Our World—For the Better*, 2015 (excerpts)

### 27. What will you do with your life?

### 28. In class exam