



## LGST 243X/643X

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

Prof. Peter Conti-Brown

Legal Studies & Business Ethics Department 647 Jon M.  
Huntsman Hall

e-mail: [petercb@wharton.upenn.edu](mailto:petercb@wharton.upenn.edu)  
Office Hours: Tuesdays and Thursdays, 1 – 3pm

#### **Course Description:**

Imagine a large pile of money. The virtue of the most basic forms of money is that they are fungible—meaning, you can buy anything with money 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. The law changes. The politics change. The history changes.

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. Financial technology, or 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. It is not an economics or finance course. While a background or interest in finance may be helpful, I encourage students with no such background to enroll and will assume as much in each lecture.

### **Grading:**

Your grade is divided into three parts: 25% class participation, 25% for six response papers, and 50% for the final projects. (More on the final projects, below.)

*Class participation.* Each class session, you will receive a grade of 0, 1, or 2 for class participation. Punctuality, attendance, professionalism, and the quality of your comments (meaning, how engaged with the reading, how responsive to other students, how focused on the discussion, and how frequent) determine that grade. I will take attendance and start each session precisely on time and will make a note of any latecomers or missing students each session for grading purposes. For class participation, I will solicit volunteer comments on the reading material/class discussion but will also “cold call” to ask students to walk through the assigned readings. Each student can't comment in each session, of course, but I should hear from you at least every other session, at least once.

I'm very serious about attendance and punctuality, which will annoy some of you but affect all of you. This sounds harsh, I know. But hard experience teaches that prepared class participation is the best pedagogical tool we have available to us. If personal emergency means you'll have to miss class or arrive less prepared, please notify me at least an hour before the beginning of the session. See me of course with any concerns.

By “professionalism,” I essentially mean how you treat others during class and how you interact with me with respect to grade finagling outside of class. Students who constantly ask for exceptions to rules or want to litigate grades run afoul of the professionalism standard. Those who demean others in class do much more significantly.

*Response Papers.* You should write six short response papers, 200 – 300 words. These

will be uploaded to Canvas and receive a 0, 1, or 2, but no comments. You must submit them 48 hours prior to the relevant class session. Late submissions are given no credit.

*Final Project.* 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 (the Central Bank of Kenya, for example), a specific hedge fund (Fortress Investment Group, for example), 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.

**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):**

Session 1: January 11, 2018

Introduction, Bullshit, and Consumer Protection

- a. Harry Frankfurt, "On Bullshit," *Raritan Quarterly Review* No 6, no. 2 (Fall 1986)
- b. Elizabeth Warren, "Unsafe at Any Rate," *Democracy*, summer 2007
- c. Ronald Rubin, "The Tragic Downfall of the Consumer Financial Protection Bureau," *National Review*, December 21, 2016.

Session 2: January 18, 2018

Financial Inclusion, Financial Stability, and Economic Growth as organizing principles

- 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
- c. Reinhart & Rogoff, *This Time is Different: Eight Centuries of Financial Folly* 2010 (preface)
- d. 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

Session 3: January 25, 2018

#### The Modern Corporation as a Financial Institution

- a. Ralph Gomory & Richard Sylla, *The American Corporation, Daedalus*, Spring 2013
- b. Ida Tarbell, “The History of the Standard Oil Company,” McClure’s, November 1902 (17 pages)
- c. Davis, *The Vanishing Corporation*, introduction, chapter 2, chapter 8. (45 pages)
- d. Hansmann & Kraakman, “The End of History of Corporate Law,” Parts I & II (15 pages)
- e. Amicus Brief of Historians, *Sebelius v. Hobby Lobby*

Session 4: February 1, 2018

#### Community Banking and Payday Lending

- 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
- d. Readings on Wells Fargo
- e. Selgin review of Calomiris and Haber

Session 5: February 8, 2018

#### Investment Banking

- a. Brandeis, Louis. 1914. *Other People's Money and How the Banker's Use It*, Preface and Chapter One Jamie Dimon, "Letter to Shareholders," April 2014
- b. 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).
- c. Matt Taibbi, "The Great Bubble Machine," *Rolling Stone*, April 2009
- d. Testimony of Lloyd Blankfein, CEO of Goldman Sachs, Financial Crisis Inquiry Commission, January 13, 2010

Session 6: February 15, 2018

#### Central Banking

- a. Bagehot, *Lombard Street*, introduction
- b. Conti-Brown, *The Power and Independence of the Federal Reserve*, introduction, chapter 1
- c. Conti-Brown, *The Power and Independence of the Federal Reserve* (Chapter 11, conclusion)
- d. The Economist, Buttonwood

Session 7: February 22, 2018

#### Venture Capital and Crowdfunding

- a. Readings TBD

Session 8: March 1, 2018

#### Hedge Funds

- a. Sebastian Mallaby, *More Money than God: Hedge Funds and the Making of a New Elite*, Penguin, 2010. (introduction, chapter 9, conclusion)
- b. Henny Sender, Faces of the Crisis: John Paulson, *Financial Times*, January 1, 2009
- c. Sheelah Kolhatkar, John Paulson's Very Bad Year, *Bloomberg Business*, June 28, 2012
- d. "Harvard Receives its Largest Gift," *Harvard Gazette*, 2015

- e. Victor Fleischer, “How a Carried Interest Tax Could Raise \$180 Billion,” *New York Times*, June 5, 2015
- f. George Packer, “A Dirty Business: New York City’s Top Prosecutor Takes on Wall Street Crime,” *New Yorker*, June 27, 2011

Session 9: March 15, 2018

Insurance

- 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*

Session 10: March 22, 2018

State Finance: State Capitalism and Sovereign Wealth Funds

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

Session 11: March 29, 2018

Private Equity, University Endowments

- a. Daniel Fisher, “The Truth about Bain: Inside the House that Mitt Built,” *Fortune Magazine*, Oct 3, 2012
- b. Schwarzman, two profiles
- c. David Swensen, *Pioneering Portfolio Management: An Unconventional Approach to Institutional Investment*, Free Press, 2009 (chapters 1 and 2)
- d. Victor Fleischer, “Stop Universities from Hoarding Money,” *New York Times*, Aug 19, 2015

- e. 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).

Session 12: April 5, 2018

#### 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

Session 13: April 12, 2018

#### Mutual Funds

- a. William Birdthistle, *Empire of the Fund: The Way We Save Now*, introduction
- b. Jason Zweig, “Are Index Funds Eating the World?” *Wall Street Journal*, August 26, 2016
- c. Jeff Sommer, “A Mutual Fund Master, Too Worried to Rest,” *New York Times*, Aug 11, 2012
- d. Bebchuk, “The Myth that Insulating Boards Serves Long-term Value,” *Columbia Law Review*, 2013
- e. JP Morgan White Paper, “The Activist Revolution: Understanding and Navigating a New World of Heightened Investor Scrutiny,” January 2015.

Session 14: April 19, 2018

#### Fintech and Advice for the Road

- 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