Sociology and political economy of financial markets
L1. Historical sociology of financial markets

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First studies of finance as economic sociology

- Financial market as a good/perfect example of a (pure) market
  - Influenced by networks of interaction (Baker, 1984)
  - Influenced by cultural conception of what is legitimate or not (de Goede, 2005)
  - Influenced by power games in economic fields structured by legal constraints (Fligstein, 2002)

The social studies of finance as a new school

- Social studies of finance label
  - Coined in France in 1999/2000 on the model of the "Social Studies of Science" label, under Callon-Latour's influence, STS spirit
  - Focus on science & knowledge (scientific embededdness) with the concept of *performativity* (Callon, 1998; MacKenzie, 2006)
    - But not only
  - European style?
  - Multidisciplinary

Political economy approach

- Key theme: State and Economy interactions
  - Key issue, especially for finance: regulation & deregulation
- Actors:
  - Firms; lobbies. Workers, unions
  - Governments, political personnel, international organization
  - Electors' preference / knowledge / ideology
- Instrumental power
  - Lobbying power
  - Network of interconnection: revolving doors
- Structural power
  - Ideology

Between sociology & Political Economy. Financialization.

- A new the emerges in the early 2000s : financialization
- Neo-marxist inspiration (Krippner 2005)
  - Streams of surplus value come from financial operation rather than from trade of goods and services
- A macro approach towards finance
  - Within and beyond finance sector
  - Nation / world scale
- Global regime of resources key for explaining financialization
  - Neoliberalism
  - Class, gender and minority struggles
  - Welfare state

Specificities of sociology & political economy of finance

- Small & disappointing, not very specific?
- Open minded approach of finance: humans with their skills & limitations, hierarchies, norms & beliefs
- Studying finance more as symptom of the modern world than as public policy issue to solve
  - Finance as an excellent observatory of the transformation of modern capitalism :
    - Marketization
    - Scientization
    - Inequality / power / discrimination / etc.
- An ambition to explain the finance that *you will face*.

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A political history of financial markets

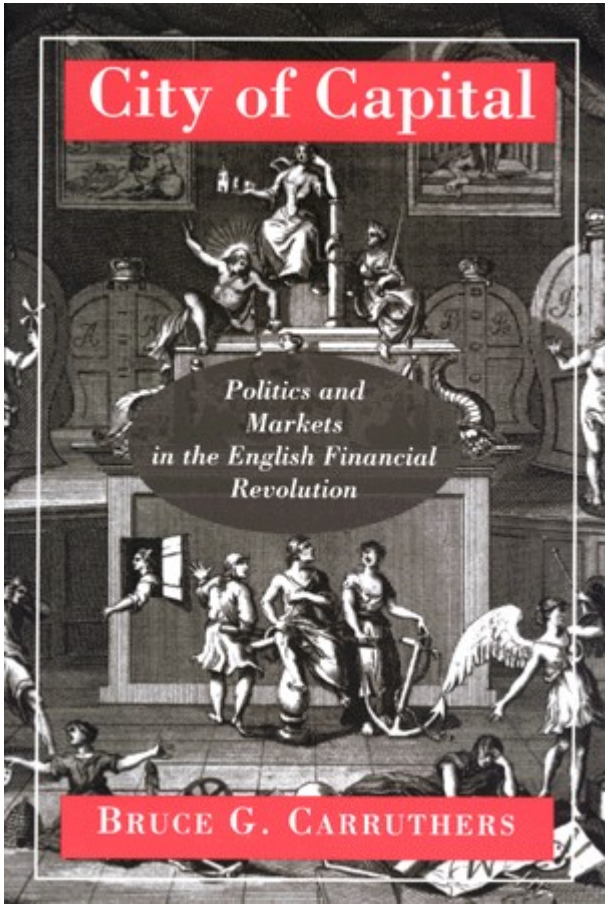
State, race, and markets: Financializing public policies

Robinson III, John N. 2020. "Making markets on the margins: Housing finance agencies and the racial politics of credit expansion." *American Journal of Sociology* 125(4): 974-1029

Finance and politics

- Apolitical finance
- History shows political foundations of finance
  - State complex relation with the markets
    - Institutes the market
    - Compete with the market
    - Regulates the market
  - Exchange is political

A political exchange: the case of London (Carruthers, 1996)



The City of Capital

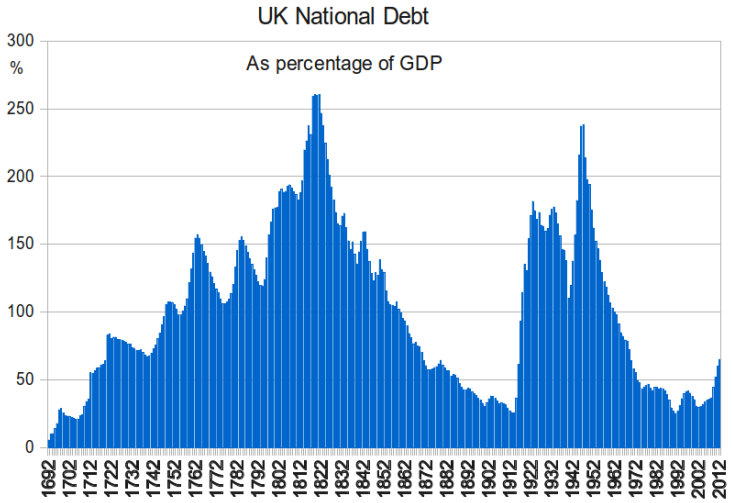
- Aims
  - "About how politics and political conflict influence economic institutions." (p.6)
  - Politics and markets are not (always) distinct spheres.
  - Markets' development not only due to property rights but also affected by political partisanships and connections. (p. 14)
- Conflict in question: Whigs vs. Tories
- Period: 1672-1712
  - Glorious revolution (1688-1689)
  - Bill of rights (1689)
- Case: market dominated by three joint-stock companies: the East India Company, the Bank of England, and the South Sea Company

Historical background

- Establishment of the political parties new organization of English politics, competition to take control over the government
  - 1679-1681 (exclusion bill): Country party (Whig ancestor) wants to exclude James II from the crown because of his Catholicism. Tories against.
- Growing importance of the Parliament (e.g. its increasing role in public finance): from now on, Britain was governed by King-in-Parliament, and not by the King alone
  - Glorious revolution and bill of rights
- Persistent religious conflicts: Catholics vs. Protestants.
  - Minor issue Anglicans versus non conformists (Huguenots)

A weak state becoming a great power

- Not a strong monarchy as France
- Engaged in many wars, especially with France
- How to collect resources?
  - Through taxes (limited)
  - Through debt
    - 1672: last default of Charles II
    - Short term debt
    - Conversion of short term debt to long term debt
    - 1693 transferable debt mechanism



Politics and the joint-stock companies

- 3 joint-stock companies :
  - (Old / United) East India Company; South Sea Company , the Bank of England
  - Funding British debt and enabling the weak English State to sustain expensive wars.
    - 1712: big 3 ➔£ 16 million loans to the British government
      - 62% of the funded debt; 35% of the total debt (funded debt and unfunded debt)
- Mutual dependence between the crown and the joint-stock companies
  - Colonial and commercial privilege / monopolies
- Basis of the politicization
  - Religion: many dissenters among stock holders

Social characteristics of stock holders

- Male
- A small but significant minority of dissenters
- Mainly coming from the bourgeoisie (traditional aristocratic elites are not present)

Selected Social and Financial Characteristics of Bank of England Shareholders, 1712

Sex:	*Frequency*	*Percent*	*Average Shareholdings*	*Average Transactions*
Male	3,610	81.7	£1,364.1	1.6
Female	795	18.0	£680.3	0.5
Other	14	.3	£756.8	2.2
Total	4,419	100.0	£1,239.6	1.4
Social Background:	*Frequency*	*Percent*	*Average Shareholdings*	*Average Transactions*
Orthodox*	4,139	93.7	£1,112.0	1.3
Unorthodox**	280	6.3	£3,118.5	3.4
Total	4,419	100.0	£1,239.6	1.4
Social Status:	*Frequency*	*Percent*	*Average Shareholdings*	*Average Transactions*
Commoner	4,282	96.9	£1,170.3	1.4
Baronet or Peer	137	3.1	£3,396.8	1.0
Total	4,419	100.0	£1,239.6	1.4

* Native English. ** Foreigner, Naturalized, Huguenot, Quaker, or Jewish.
Sources: See appendix.

Selected Social and Financial Characteristics of United East India Company Shareholders, 1712

Sex:	*Frequency*	*Percent*	*Average Shareholdings*	*Average Transactions*
Male	1,926	85.2	£1,548.6	1.8
Female	331	14.6	£643.0	0.4
Other	4	0.2	£595.0	0.5
Total	2,261	100.0	£1,414.5	1.6
Social Background:	*Frequency*	*Percent*	*Average Shareholdings*	*Average Transactions*
Orthodox*	2,016	89.2	£1,180.4	1.3
Unorthodox**	245	10.8	£3,309.0	4.3
Total	2,261	100.0	£1,414.5	1.6
Social Status:	*Frequency*	*Percent*	*Average Shareholdings*	*Average Transactions*
Commoner	2,212	97.8	£1,348.0	1.6
Baronet or Peer	49	2.2	£4,409.5	1.7
Total	2,261	100.0	£1,414.5	1.6

* Native English. ** Foreigner, Naturalized, Huguenot, Quaker, or Jewish.
Sources: See appendix.

Political characteristics

- Banks and big money are rather Whigs
  - Bank of England
  - United East India
- But some institutions were Tories
  - Old East India
  - Land Bank (failure)
  - South Sea Company

TABLE 6.2
Political Affiliations of Bank of England and United East India Company Directors, 1712

	Bank of England Directors	
	Frequency	*Percent*
Tory	2	4.4
Whig	37	82.2
Unknown	6	13.3
Total	45	100.0
	East India Company Directors	
	Frequency	*Percent*
Tory	14	33.3
Whig	22	52.4
Unknown	6	14.3
Total	42	100.0

Sources: India Office Library B/255, Acres 1940, and appendix.

Political Affiliations and Financial Characteristics of Bank of England and United East India Company Shareholders, 1712

Bank of England Shareholders:				
	Frequency	*Percent*	*Average Shareholdings*	*Average Transactions*
Tory	497	11.2	£1,251.3	1.5
Whig	1,107	25.1	£2,242.4	2.4
Split Support	7	0.2	£1,100.7	1.4
Unknown	2,808	63.6	£841.1	0.9
Total	4,419	100.0	£1,239.6	1.4
East India Company Shareholders:				
	Frequency	*Percent*	*Average Shareholdings*	*Average Transactions*
Tory	272	12.0	£1,534.2	1.6
Whig	674	29.8	£2,315.9	2.9
Split Support	4	0.2	£875.0	6.0
Unknown	1,311	58.0	£927.1	0.9
Total	2,261	100.0	£1,414.5	1.6

Joint-stock companies are political battlefields

- Between joint-stock companies and crown
  - Bankers can refuse to fund or to discount the debt if they don't agree with the politics
  - Crown can grant or not privileges, promote or not competition
- Between joint-stock companies
  - Elimination of rivals. Organizing run on banks
  - Managing mergers
- Inside the joint-stock companies for its direction
  - Election for directors
  - Trading of shares

Bank of England

- Funded in 1694 in order to lend money to the crown
- Very Whig
  - Many dissenters
- Strong opposition of Tories
  - Try to launch an alternative project in 1696: Land Bank
  - Strong opposition of the Bank England to the Land Bank
  - Finally the Land Bank is a failure
- Bank and the crown
  - 1710: Defend Whig ministers and advise the queen not to replace them with Tories
  - Refuse to discount bills
  - Tories worried by the power of Whigs on the State through banks

  ➔ Tories try to mobilize in order to win the joint-stock board elections in 1711.
    - Average number of votes for winning candidates for Bank of England directors election :
      - 1709: 223 ; 1710: 755 ; 1711: 1197 ; 1712 : 384

East India Company

- Old East India
  - Tory Company
- Trading privilege and monopoly provoking jealousy
  - Political contestation
  - "Interlopers" trying to trade with India without authorization
- Secure monopoly
  - Royal charter (confirmed in 1693 for 20 years)
  - Try to obtain a Parliament charter in 1698
    - Offered £700,000 at 4% against parliamentary charter
  - "Cornered" by the interlopers who offered £2,000,000 at 8% to the government and got the deal done (despite higher rate)

The United East India company

- Existence of two East India Companies
  - Old: Tory, New: Whig. Political rivalry
  - But pressure for unification
  - Merger signed in 1702, completed in 1709
- Political rivalry becomes internal to United firm
  - Especially with the 1710 political episodes, where Tories try to conquer boards of both joint-stock companies

The South Sea Company

- 1711: created by Harley's Tory minister
- Directors appointed by the queen (therefore by Harley) rather than elected by stock holders
  - Securing the Tory domination on this new firm.

Trading on the London Stock market

- What influences individual market behavior?
  - Institutional setting of the market
  - Characteristics of the financial commodities available on the market
  - Preferences of the market participants
- Theories applied
  - The Law of Indifference (W. Stanley Jevons, 1931)
  - Gary Becker's theory of discrimination (1971)
    - Discrimination a costly preference
  - The Homogeneous Middleman Group Theory (Janet Landa, 1981)
    - Minority population involved in intermediary occupations
    - Homogeneity => Trust
  - Mark Granovetter's (1985) concept of "embeddedness"

The structure of the financial market

- A variety of financial instruments existed that could be used for transactions
- Possibilities for long-term investment were also numerous: land, mortgages, deposits, and passive or active investment in commerce (trading or investing in stocks or bonds)
- The financial market was virtually nonexistent before 1670s → very few possibilities for investment
- Substantial growth of the number of transactions and their total value

Setting of the stock market

- London stock market emerged extremely rapidly (1680s-1690s)
- The growth of the market led to a certain extent of the division of labor (brokers, jobbers, *etc.*)
- Routinization of the contracts and the transactions; increasing sophistication of the market
- Spatial centralization of the stock market
- Imitating the Dutch market
- Conclusion: it looks almost like an ideal place for *homo economicus*

Prices

- Share prices were published regularly in the *Course of the Exchange*
- They were the most important piece of information for the traders and the investors and are equally interesting for the researcher
- Analyzing the data from December 31, 1711 to the end of 1712

Bank of England, United East India Company, and South Sea Company
Share Prices, 1712

Bank of England:			
Mean	112.04	Standard Deviation	2.17
Median	112.50	Coefficient of Variation	0.01936
Minimum	107.75	Maximum	117.00
East India Company:			
Mean	117.19	Standard Deviation	3.53
Median	117.50	Coefficient of Variation	0.03012
Minimum	109.25	Maximum	124.00
South Sea Company:			
Mean	75.83	Standard Deviation	2.74
Median	75.00	Coefficient of Variation	0.03613
Minimum	71.25	Maximum	82.00

Source: Castaing, *Course of the Exchange*.

Why 1712?

- An ordinary year
  - No crash, no boom, no wars, no elections
- Data reasons
  - London Poll books for 1710 and 1713 parliamentary elections (no secret ballot)=> indicates by constituencies the votes of electors.
  - Data for political affiliation and guild affiliation

Social patterns of share ownership and trading

- What kind of data can be used to study this?
- Shareholders were a diverse group, but with a significant overrepresentation of men, merchants, non-gentry, and Whigs (the market was dominated, though not monopolized by them)
- Analyzing data with log-linear techniques. Three models: "no effect", "quasi-independent", and "endogamy"
- The third model fits the dataset the best, showing the discrimination on the basis of politics
- Endogamy model doesn't work for more active traders (>7 transactions), but it is relevant for the larger group of less active traders, as well as for the wealthier traders
- Conclusion: endogamy was not a universal phenomenon

A tendency to endogamous trading

- Do Tories trade with Tories & Whigs with Whigs?
- Loglinear analysis
- Quasi independence ➔ significant residual
- Endogamy hypothesis adds explanation
  - 18% of Tories' trades are with Tories vs 11% of Whigs' trades are with Tories (×1.7)
  - 58% of Whigs' trades are with Whigs vs 51% of Tories' trades whith Whigs (×1.3)

TABLE 7.6
Party Trading in United East India Company Shares, and Log-Linear Analysis

	Tories	*Whigs*	*Unknown*
Tories	39		
Whigs	221	565	
Unknown	134	610	228

Model	*Degrees of Freedom*	G^2
1. No effects	5	1,071.20
2. Quasi-independence	3	15.78
3. Endogamy	2	2.14

Source: See appendix.

Tendency for endogamous trading

- Activity
  - Stronger among inactive traders than among active traders
  - Active traders closer to the law of indifference
- Wealth
  - Stronger among wealthy shareholders
  - Wealthy shareholders more politically involved.

It is due to minorities... But not only

- Minorities trader more with one another at United East India
  - Huguenots, Quakers and Jews' trade 2.2 more with themselves than other groups trade with them
  - Middle men theory
- Minorities close to Whigs and coded as Whigs
- However when removing minorities ➔ still a substantial tendency for Whigs to trader with Whigs

Things are different at Bank of England

- Ethnic embeddedness is similar to that of United East India Company
- However, no significant political embeddedness
- Discards an economic explanation for endogamy

Explanations of endogamy

- Though property rights were relatively secure, we might still suppose that endogamy could be a response to the risks (in accordance with the Homogeneous Middleman Group theory), notably because there was more endogamy among the traders of the East India Company shares
- However, it is still unclear why traders discriminated along party lines, and didn't choose other groups of distinction (e.g. the guilds)
- Therefore, the researcher should look for non-economic explanations

Political explanations of endogamy

- The case of East India Company shareholders: company shares conferred both economic and political rights
- Therefore, within-party transactions were beneficial not only for the individual traders, but for the party as well
- The fact that active trader are less likely to practice endogamous choices supposes that political endogamy involves a certain economic price

Why Political Embeddedness in East India Company ?

- East India Company
  - Merge of Old East India Company (Tory) and the New East India Company (Whigs) in 1701-1702.
- 1710-1711: Tories try to take over Bank of England & East India Company
- Shareholders clearly Whig in both
- Directors
  - Bank of England: 82% Whig
  - East India: 52% Whig

City of Capital Conclusions

- Political endogamy did not serve precise economic ends nor was it related to other forms of social endogamy
- Market behavior is related to the political projects of the participants
- Though this is just a single historical case, it reveals under what circumstances politics can organize economic behavior

Appendices

What are the first (stock)-exchanges?

What is a stock-exchange?

- Building
- Exchange
- Product of exchange
- A community of professionals
- Regularity

From financial exchange to stock-exchange

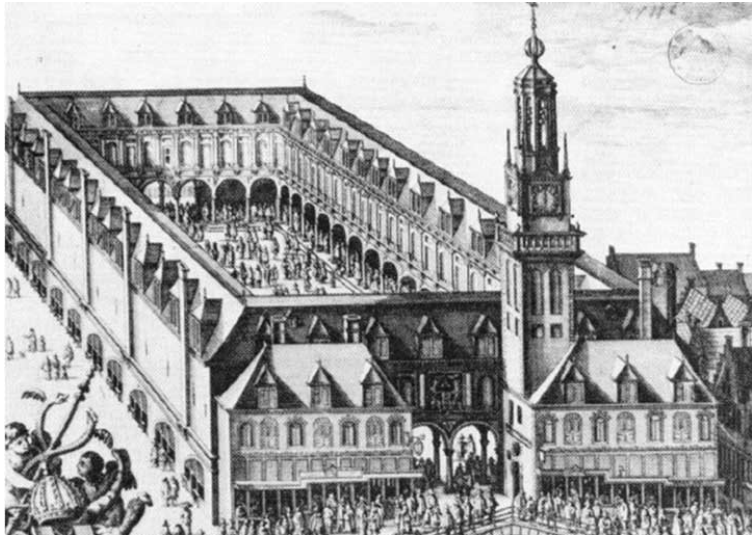
- Forms of financial exchange starts during antiquity.
  - Finance mythology tries to tell that financial exchange is as old as humanity…
    - Example: Mesopotamia Hammourabi Code 2000 BC as the first option ?
      - "Option" not to pay back a credit when harvest is destroyed by weather conditions
- Trading of bills of exchange
  - Bills of exchange ("lettres de change"): unconditional order by one party (the drawer) to another (the drawee) to pay a certain sum, either immediately (a sight bill) or on a fixed date (a term bill), for payment of goods and/or services received.
  - Solving exchange problems
  - Common during the middle ages

Dating of first (stock) exchange difficult

- What is the relevant element to date the emergence of stock-exchange?
  - Places (Building); Professionals; Intermediaries; Object of the exchange (Dematerialized Financial securities); Permanent; Regulated ….
- Places devoted to exchange
  - Regular meeting of merchants in Ostia, 200 ac.
  - Outside/on the streets: Lucques, near Saint Martin church 1111
  - Cafés
  - Buildings: Lonja Barcelona 1393, Bruges 1409, Lyon 1462, Toulouse 1469…
- Multiple exchanges: bills of exchange, public debts, shares of mines

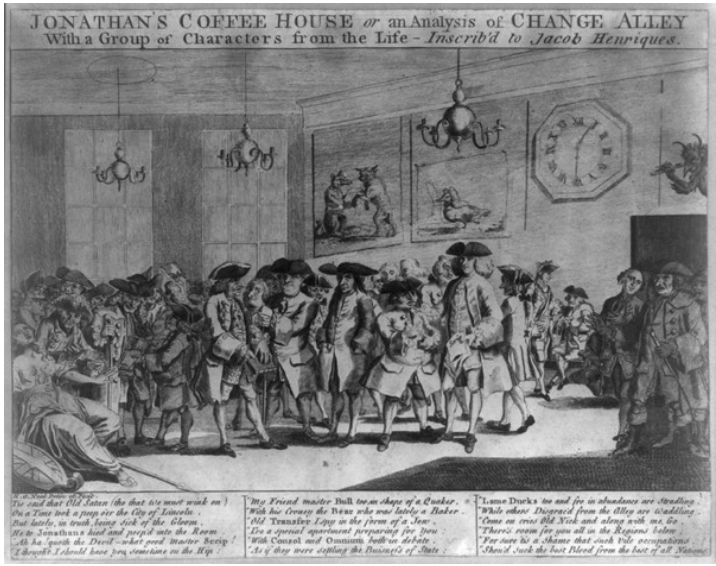
Amsterdam : the real complete stock-exchange

- Old Merchant exchange 1531
- 1611
  - 1602: "First" standardized tradable public company. East India Company
  - 1611 New building for the stock exchange (building finished in 1631)
  - Professionalization of the exchange
    - Up to 4000 persons
    - 1000 Brokers
- New phenomenon by size and professionalization.
- Birth of new techniques (Options, Future trading, etc.)



London

- Royal Exchange 1571
  - Commercial exchange
  - Brokers are forbidden
- Organization of the exchange in coffee-houses
  - Jonathan's Coffee-house founded in 1680
- Construction of a new Stock-Exchange building in 1773



TRADING ON THE LONDON STOCK MARKET

TABLE 7.1
Transactions in East India Company Shares, 1661–1689

Years	Average Number of Transactions	Total Value (nearest £100)
1661–63	44	18,900
1664–66	57	23,900
1667–69	71	32,100
1670–72	126	47,000
1673–75	152	53,800
1676–78	131	55,400
1679–81	172	68,100
1682–84	780	268,300
1685–87	537	191,000
1688–89	655	238,000

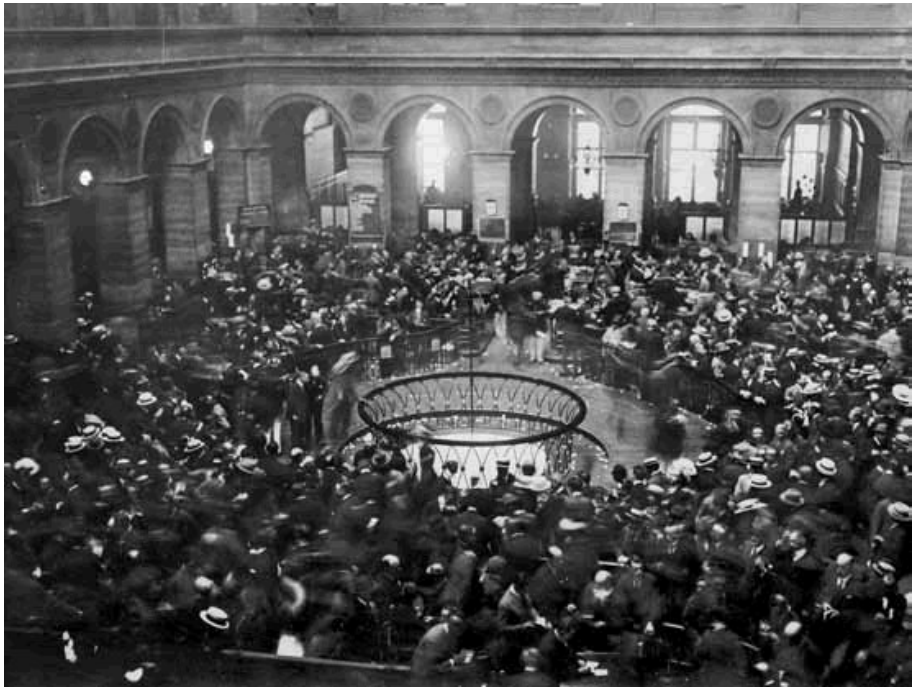
Source: Lougheed 1980: 151.

In Paris, the construction of a corporation (Lagneau-Ymonet, Riva, 2011)

- Corporatist tradition
  - 1563 "Courratiers de change" monopoly of money brokering (Pont au change).
  - Development of a stock exchange. Rue Quincampoix
- 1724 Foundation/reorganization
  - After the 1720 Law bankruptcy.
  - Monopoly of transaction to brokers (agents de change)
- Under Napoleon. Reorganization of the stock-exchange
  - Decree 1801
  - Code of commerce 1807
  - 1816 (ordonnance).

Palais Brongniart The new building

- 1808: Napoleon asks Brongniart to build a new Exchange
- Inauguration in 1826



Social ideal-type of the new stock - exchanges

- Daily activity
- In a venue exclusively devoted to it
- On a limited set of assets (not all goods)
- Disappearance of the merchandise. Trade of promises.
- Full time activity for professionals who work for others (brokers) or for themselves
- Symmetry between agents.
  - In the stock-exchange trade between the brokers.
  - Outside the stock-exchange trade between brokers and clients
  - Law of indifference between trading partners.
- Necessity of some form of collective monitoring to limit opportunism
  - Rules of organization of the exchange.

19th Century Stock-exchange Structures

Let's start with a movie

- Antonioni: *L'Eclisse* (AKA: Eclipse) 1962
  - A movie on incommunicability
  - But also on the Roman stock exchange (20 minutes out of 118)
    - Excerpt one: ordinary trading in the roman stock exchange
    - Excerpt two: a financial crash

French brokering system

- "Compagnie des agents de change" defined as a private corporation instituted by the law for a goal of public order and public interest
- Under the supervision of the finance minister
- Monopoly of transaction
- Brokerage fees are fixed
- Number of brokers defined by the law. Numerus clausus.
- Solidarity fund for refunding defaulting brokers

- How to become a broker (*agent de change*)?
  - Buy or inherit a brokerage house
  - Pass a (cooptation) exam
  - Being granted by the State the title of "minister officer" (*officier ministériel)*
- A profession in an Abbottian sense (1990, *The system of professions)*
  - *Expertise*
  - *Jurisdiction monopoly*

Organization of the exchange

- In Paris: price are set through a call auction *(fixing)* versus other stock exchanges like NYSE ➔ continuous trading *(cotation en continue)*.
- Auctioneer proposes a price for some share
  - Mine *(Je prends)* hands in
  - Yours *(J'ai)* hands out
- Exchange between people
- If people still scream ➔ change in price: until a price is found that makes everybody silent.
- Normally one call auction by financial securities. But possibility of multiple call auctions.
- Multiple areas of auctions. A central pit ("*corbeille*") and 4 side pits.

Tolerance to illegalities

- Future trading
  - Banned for a long time
- Trading for self-account
- Front running and client deceiving
  - Proudhon: “the broker has the orders in advances and sees in the cards”
- Relation between brokers and banks: Brown envelops and other forms of baksheesh

A contested monopoly

- Banks and stock-exchange
  - Against paying fees to broker
- Illegal/unofficial professionals
  - *Remisiers*, *Coulissiers*
  - *Remisiers* => own clients. Share brokering fee with the broker (*Remise* = discount)
  - *Coulissiers* = unofficial brokers

A market community

- Corporatist solidarity
  - Financial solidarity
  - Labor market rules preventing turn-over
- A conservative culture
- Division of labor within the brokerage house
  - Agent, Fondé de pouvoir, Commis
  - Social classes within the brokerage house
  - Class struggles in the 1970s

London and New York (Michie, 1986)
Members and owners

- In London :
  - Members : conducting their business and represented by the Committee for General Purposes
  - Owners : the SE is their business and represented by the Committee of Trustees and Manager
  - Easy to bring in new members
- Very liberal and hierarchical organization

- In NY :
  - Members and owners are the same people represented by Governing Committee
  - A limited number of members (limited by the number of shares of the building)
- Very "aristocratic" system

London and New York (Michie, 1986)
Handling of commission rates

- In London :
  - Settlement date (every 19 and 20 days, known in advance)
  - Trading "for the account" is the norm (low need of cash)
  - Convenient for deals
- More liquidity

- In NY :
  - Delivery and payment on the following day
  - Extend the duration = paying interest to the holder
  - Large need of cash
  - Tend to exaggerate crisis
- Less liquidity

London and New York (Michie, 1986)
Jobbers and Brokers

- Jobbers and broker (1847 : official separation)
  - No distinction in the NYSE and abolished in 1986 at the LSE (the publishing year of the article)
- Jobber :
  - They held shares on their own book
  - They make market (the price)
  - They deal only with broker
  - They make profit with buying and selling
- Broker :
  - A middleman between a client and jobbers
  - They make profit on commission
- There is risk when people do both jobs (such as recommending to his client the shares on jobber's book)

State & markets

Economic needs

- State need markets and vice versa
  - Growing importance of public debt in the 18th century
  - Public debt as the main asset
  - Eviction effect or institution effect ?
    - Michie, 1999: The market as a pre-stock-exchange financing Public Debt rather than the economy (which is a pity according to Michie)
    - Marx 1864: Market for public debt enable to create the market
- Economic development
  - Fund new economic activities in the mid 19th centuries :
    - Railways
- Liquidity: Possibility to buy and sell with little drops

Exchange and systemic risk

- Stock-exchange is a market of promises
  - Promise to deliver the cash
  - Promise to deliver the financial securities
- Delay in delivery
  - Increases risks of non-delivery
  - Systemic risks
- Systems for avoiding non-delivery
  - Collateral. Repo markets, etc.
  - Solidarity funds
  - At the expense of liquidity

Opportunism problem: information

- In Amsterdam in the 17th century, information and manipulation becomes crucial (Braudel)
  - Getting early information
    - Jouasso said that he could earn 100 000 Ecus if he learned the death of the Spanish king 5 hours in advance (Braudel, 1979)
    - Rothschild and his pigeons...
  - Spreading true or false rumors
    - Brokers would spread false prices in surrounding coffee houses
  - Constitution of coalitions
    - Amsterdam market: bull and bear coalitions. Changing coalition is a form of betrayal (Braudel, 1979)

Opportunism problem: cheating

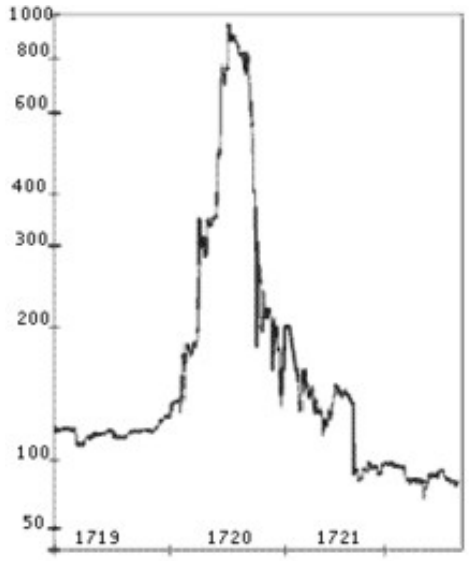
- Cheating on exchange partners and especially clients
  - Cheating on the execution price
  - Biased counseling
  - Front-running
  - Opportunistic exploitation of errors
  - Refusal to respect the promises
    - "From time to time, people who cause a disturbance, insult exchange members, spread false rumors, or are incapable of paying debts are excluded." (Weber, 1894 on Prussian stock-exchange)
- Partly managed by a strong ethical code
  - A word is a word
  - Social closure and monitoring
  - Sufficient?

Finance under public criticism (Bowen, 1993)

- Publications
  - Defoe, *The villany of stock-brokers detected,* 1701
  - Mortimor, *Every man his brokers,* 1761
- Price manipulation
  - Jobbers accused of manipulating prices in some secret society "Juntos"
- Client cheating
  - Brokers managed their business "with greatest intrigue, artifice, and trick that ever anything with a face of honesty could be handled with". (Defoe)
- Nouveau riche phenomenon. Wealth as an usurpation of status
  - "A poor lad without shoes, in a ragged plaid and rusty bonnet... gets footing at a bankers in quality of a runner... gives him credit at Jonathan's, ... Bargains for stock... opens a bankers shop... builds a palace and takes an Earl's daughter without a baubee".
  - Short cut to wealth and influence

Social order problem

- Big risks Bubbles and crash
  - 1720: London, South Sea Bubble.
  - 1720: Paris, Law Mississippi Company / India Company / Royal bank crash
    - 17 July Riots rue Quincampoix => Many people killed in crowd movements
- Social protests against speculators
  - Agrarian movements in the late 19th century and early 20th century
  - Demand for more regulation



Towards some kind of regulation of Stock Exchange activity

- A ruling problem: who sets the rules of the exchange?
  - State-rule (France) or self-rule (UK)
- Where can the exchange take place
  - Monopoly or not
- A liquidity problem
- A trust problem: trusting trading partners
  - Limiting numbers of possible stock exchange members (Numerus Clausus)
    - Strong (France, US), Limited (UK), Low (Prussia)
- Who can do what?
  - Proprietary trading
    - France (officially banned for brokers, tolerated for coulissiers)
    - End of 18th century: single capacity. Brokers / Jobbers

Towards some kind of regulation of Stock Exchange activity

- A competition problem: openness to new entrants
  - Who can access the market for what?
    - Exclusion of women in France (18th century)
- A moral and social problem
  - Is it gambling ?
    - Moral condemnation of gambling
    - Some trades might forbidden
      - Future trading
      - Option trading
      - Short-selling

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