

NEW ORLEANS NOSTALGIA

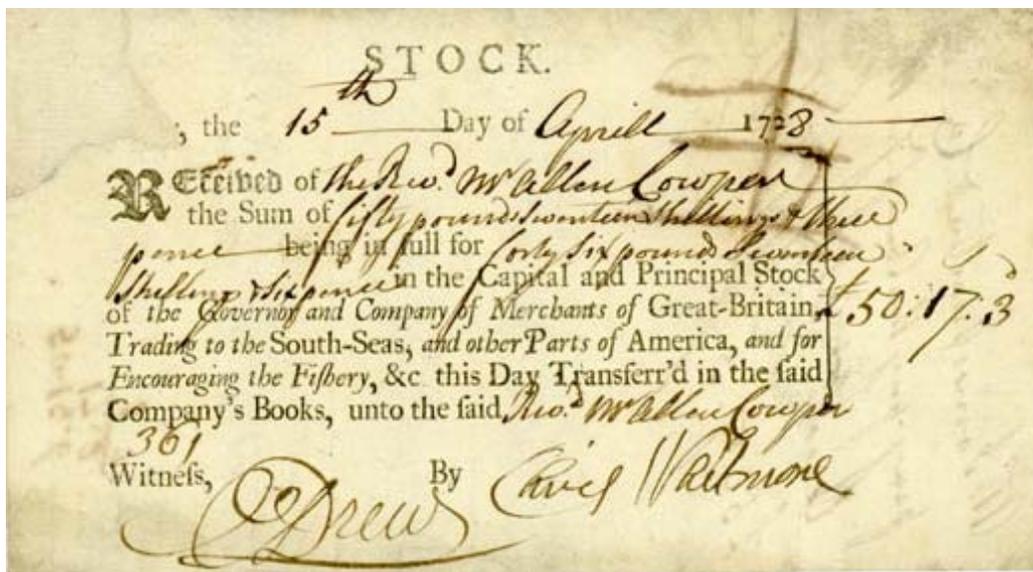
Remembering New Orleans History, Culture and Traditions

By Ned Hémard

Bubbles

No, Bubbles is not about Pete Fountain working for Lawrence Welk, nor is it about some exotic dancer on Bourbon Street. But don't be depressed. Major depression, or melancholia (wrote Freud in 1917), was a response to loss. And in 1929 there began a major depression, a great one, both psychologically and economically. Those hardest hit endured great losses. For over a century before, when the economy had a problem, it was a panic. But before that, they had bubbles. There were three great bubbles, and they played an important role in the history of Louisiana.

The three bubbles are explained at length in Charles Mackay's famous 1841 book entitled "Extraordinary Popular Delusions and the Madness of Crowds". Perhaps the title came from what Sir Isaac Newton had to say about his losses (£20,000) from the South Sea Bubble: "I can calculate the movement of the stars, but *not* the madness of men."



South Sea Bubble stock certificate

The first bubble was the Dutch tulip mania of the early seventeenth century. People from all walks of life bought and sold tulip bulbs,

speculating on their future value. Some bulb varieties became the most expensive commodities in the world, at least until 1637 when the bubble went pop. The people of Holland should have known better, but history would repeat itself.

Spanning two and a half centuries, Hope & Co. was a famous Dutch bank founded by a Scottish family. They barely survived the bursting South Sea Bubble in 1720, the year in which many other Dutch bankers (as well as English investors) went bankrupt. This was due to over-speculation in the South Sea Company, founded in 1711. The company was granted exclusive trading rights in Spanish South America, and was structured so as to finance Britain's national debt.

Back around the same time, France was involved in its own speculative plan, and the architect was another Scotsman. His name was John Law.



Cartographer Matthäus Seutter's Mississippi "Bubble" Map, circa 1728

During the infancy of Louis XV, the Duke of Orléans was Regent and France's annual deficit was 65 million francs. Law saw a solution in creating a national bank that printed paper money and offered stock in the newly formed Mississippi Company. Investors with royal blood were let in on the ground floor. Superb marketing bolstered the future prospects of this new colonial enterprise. In 1718 Louisiana would have a new city and it would be named for the Regent, *La Nouvelle*

Orléans. In October of 1720, this third bubble also burst – but not without creating the necessary impetus for a magnificent metropolis.



Cartouche from bottom right-hand corner of Seutter's map representing John Law's Mississippi Bubble

The goddess Fame is blowing a trumpet above a statue of Plenty pouring coins and jewels from a cornucopia, symbolizing the Mississippi River. Some speculators are receiving stock certificates from winged cherubs and the goddess Commerce, while others are committing suicide. The cherubs at the base are cutting piles of paper into stock shares. Two small children are blowing bubbles from pipes.

Not long after the American Revolution and the one in France, a new rebellion came along. The slave revolt in Haiti lost Napoleon 40,000 men and a brother-in-law, General Leclerc. He, like so many others, had died from yellow fever. Napoleon fumed: "Damn sugar, damn coffee, damn colonies!" He decided to sell the Americans not just New Orleans but the whole vast territory known today as the Louisiana Purchase.

Hope & Co., which by this time had offices in London, joined Britain's Barings Bank in financing the purchase. Thanks to the negotiations of Henry Hope and Francis Baring, shares were issued despite the fact that Britain was still at war with France. And this helped fund Napoleon's continued war effort against England. Such is business.

Britain's oldest merchant bank, Barings would finally collapse on February 26, 1995. It was a case of financial risk management gone haywire. Nick Leeson, a single trader at a small office in Singapore, lost \$1.4 billion speculating on futures contracts. Ewan McGregor, another Scot, starred in the movie, "Rogue Trader", based on Leeson's autobiography.



Nick Leeson on the cover of Time played by Ewan McGregor

But that famous Scot born just three years after the South Sea and Mississippi Bubbles exploded, Adam Smith, had written about the "knavery and extravagance" of the South Sea Company and no small number of other dynamic economic observations. Memories fade, and along come new schemers with ever more inventive plans.

NED HÉMARD

New Orleans Nostalgia
"Bubbles"
Ned Hémard
Copyright 2006 and 2013