Knowledge and coping strategies during stock market crashes (18th to 20th century)

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Knowledge and non-knowledge play an important role in securities trading. This becomes particularly evident in the event of a stock market crash, as is shown time and again.

The first panel on (non-)knowledge featured three papers which examined the roles of knowledge and non-knowledge in trading stocks but showed how different these can be. By examining joint stock companies for railway construction in Bavaria and Prussia, CHRISTOPH DOMINIK BLUM (Tübingen) showed the existence of considerable non-knowledge among both economic actors as well as actors in government and administration during the founding boom of joint-stock companies during the 1830s and 1840s, the so-called German Railway Mania. Due to the novelty of the joint stock system, the actors on both sides lacked knowledge and experience in dealing with shares and corporations. The laws enacted by the Prussian government, for example, contained both restrictive and liberal elements in an attempt to not burden the market, but at the same time not to fuel speculation either – a plan that did not work out as hoped. Blum concluded that numerous misjudgements ultimately led to the stock market crash in 1844. He further showed not only the non-knowledge of a specific group of actors but also depicted the interplay of different groups of ignorant actors.

FREDERIC STEINFELD (Gothenburg) took a completely different approach in his study of the non-knowledge of investors regarding balance-sheet figures of the German chemical industry around 1900. He showed how the management of the chemical company Bayer developed innovative balancing practices, with which they were able to deceive not only their shareholders but also competing companies about the profits and the value of their enterprise. Bayer's management did this by creating hidden reserves, which were not disclosed to the public. This balance sheet manipulation enabled Bayer to report the amount of its profits as it preferred and it also allowed it to influence the amount of dividends paid to stockholders. It was not until Bayer entered into a co-operation with two other chemical groups in 1904 that the possibilities for corporate management to manipulate the balance sheet decreased sharply. Steinfeld emphasized that such accounting manipulation posed challenges not only to contemporary shareholders and to competitors around 1900, but also has implications for economic historians today. Because, even though balance sheets may appear objective at first glance, they must be subjected to critical scrutiny.

TOMAŽ MESARIČ (Budapest) illustrated how private investors gained knowledge about the stock market from daily newspapers. He studied the period of securities speculation after the reopening of the Vienna Stock Exchange from 1916, with a focus on the last phase of speculation from 1923 to 1924. He examined the influence of stock market and financial news from daily newspapers on the largely inexperienced Viennese investors regarding their stock market purchase decisions. By subjecting three Viennese newspapers to quantitative analysis, Mesarič noted that in the end, with the collapse of the stock exchange prices in 1923, newspaper coverage turned against the stock market, at which point even private investors withdrew.

The subsequent discussion emphasized the different forms of knowledge and non-knowledge and their relevance for stock market history. While Blum examined the impact that non-knowledge regarding stocks can have on trading, Steinfeld showed how actors strategically used their insider knowledge and the non-knowledge of outsiders to their advantage. Mesarič sketched out how stock traders acquire knowledge in the first place and the impact of this on their investment behavior. It was emphasized that it is never possible to know everything and that decisions must always be considered against their respective background.

In a keynote address, MARGRIT SCHULTE BEERBÜHL (Düsseldorf) spoke about the first appearance of a lender of last resort. She showed that the 18th century was an experimental phase in dealing with speculative bubbles. When the bubble burst, government institutions stepped in as lenders of last resort and supported those that were too big to fail with fresh capital. Knowing that even in times of crisis there were institutions that had enough money to issue loans and stabilize the market again was of great importance to investors. She thus added an important factor to the papers and the earlier discussion, namely, the impact a lender of last resort has on securities trading.

The second panel was dedicated to contemporaries' perceptions of financial crises. ANNA WEININGER (Tübingen) focussed on three German monographs published between 1826 and 1858 and the authors' perception of the crash of 1825/26. She highlighted the moral attitudes of selected authors towards speculation, their views on nationalism and their attitudes to the laissez-faire market, arguing that these aspects could be understood as forms of social knowledge. Although the authors all considered speculation morally questionable, their opinions differed significantly regarding nationalism and the idea of a laissez-faire market. The sources demonstrated how the experience of the crisis of 1825/26 played a large part in shaping the authors' opinions about the financial market. Weininger pointed out how research into personal perceptions of contemporary actors in the world of finance can open up new possibilities of linking economic history to cultural history.

HEIKKI MIKKONEN (Tampere) presented his work on the perception of economic crises and economic fluctuations in Swedish and Finnish business associations in the late 19th and early 20th centuries, dealing with the question of what contemporaries considered important economic knowledge within the framework of economic policy and entrepreneurial decisions. Both in Sweden and in Finland the crisis of 1873 was first perceived as a foreign phenomenon before it began to have an impact on the respective economies. Mikkonen showed that the crises were perceived as part of the natural order of capitalism that politics could not prevent. In both countries, economic theories developed to deal with the phenomenon. Nevertheless, the unanimous conclusion of these countries remained that such crises could not be prevented.

The last panel of the workshop focussed on the cultural and artistic engagement with financial crises. SUZANNE KOOLOOS (Amsterdam) presented her research on the (non-) knowledge of „the fool" in times of crisis. Her focal point was the work „Het groote Tafereel de Dwaasheid" (The Great Mirror of Folly), published in 1720 after the bursting of the South Sea and Mississippi Bubbles. She used this source to show how crisis narratives were created and economic knowledge was disseminated among the population and how this knowledge was sold. Artists created so called „bubble objects" in which they used depictions of the fool and symbols of the wind trade, thus acting as disseminators of economic narratives and making a profit. Kooloos emphasized that this kind of representation was a way of formulating criticism about economic processes, which was widely understood in society, but that it was also a way of spreading knowledge about the financial sector more generally.

The concluding discussion focussed on the role of knowledge in economic matters and summed up that non-knowledge was and still is a big part of speculation. What kind or amount of knowledge is available or used depends to a certain extent on the respective positions and goals of the actors. It was also pointed out that the respective speculators and other financial actors generally assume that they had been provided with sufficient information, whereby in retrospect, it becomes obvious that they were not. The participants once again emphasized how important it is for (economic) historians to think about the context of their period of study and to measure contemporaries by the standards of their time rather than those of today. Finally, it was underlined that aspects of morality and emotions can be regarded as forms of knowledge and have a huge impact on economic decisions.

The workshop allowed considerations of knowledge and non-knowledge by reflecting on contemporary reactions to stock market crashes from different perspectives, different moments in time, and different geographic locations. Through various perspectives, numerous forms of knowledge could be outlined, and new angles considered. The examination of individual actors or case studies in respect to what effects the respective (non-) knowledge had on the actors led to impressive new insights. Several papers added value by showing how profitable it is to shift the perspective of research away from the end of the 19th century to earlier decades and centuries.

Conference overview:

Panel I: (Non-)Knowledge

Christoph Dominik Blum (Tübingen): Joint stock companies as a new form of corporate finance. The role of non-knowledge in dealing with them and the crash of 1844

Frederic Steinfeld (Gothenburg): „At the end of the year, we define our public balance as we please." – Balance manipulation in the German chemical industry around 1900

Tomaž Mesarič (Budapest): „Stock apprehension." The Vienna stock exchange bubble and its „inexperienced" speculators: 1923–1924

Keynote

Margrit Schulte Beerbühl (Düsseldorf): Knowledge and management of 18th century speculation crises

Panel II: Perception

Anna Weininger (Tübingen): „A terrible storm broke loose over the trading world." Contemporary perceptions of the European market crash of 1826

Heiki Mikkonen (Tampere): Crises and economic knowledge in Swedish and Finnish economic associations before the First World War

Panel III: Engagement

Susanne Kooloos (Amsterdam): Theatres of knowledge. Financial speculation and The Great Mirror of Folly (1720)

Concluding Discussion

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