

# Financing Key Developments in History

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# FM missions and implementing them

- A mission of MoAF is to preserve, display, and teach about U.S. financial history.
- Other IFFM members may have a similar mission re their countries' financial history.
- The question is, How do we implement this mission? In a way that engages and informs our audiences?

# A possible approach

- Young people in school and their parents (who once were young people in school) learn about key events and developments in their country's history.
- “Not much gets done without finance.”
- How about using the former point to illustrate the latter?
- Some U.S. examples follow

# America's War of Independence

- Both the national government (the Continental/Confederation Congress) and the states used the three standard methods of public finance:
- Taxation, but not a lot during 1775-1783, as taxation wasn't popular
- Borrowing, domestic and foreign, limited by revolutionaries being risky borrowers
- Printing money, used to a great extent, until national ("Continental") and state paper monies lost much of their value ("Not worth a continental")
- Data exist to document these points

# Other, later wars

- War of 1812 (1812-1815)—poorly financed
  - Mexican-American War (1846-1848)—small war, large gains for U.S.
  - Civil War (1861-1865)—innovation of bond mass marketing
  - Spanish-American War (1898)—small war
  - World War I (1914-1918)—U.S. financed itself and its allies
  - World War II (1939-1945)—led to largest debt/GDP ratio in U.S. history
  - Korean War (1950-1953)—relatively small war
  - Vietnam War (1960s-1975)—related to “great inflation” of 1970s.
  - Gulf War (1991)--small
  - Afghanistan War (2001-now)—longest war in U.S. history
  - Iraq War (2003-2010?)
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- Could illustrate different combinations of taxing, borrowing, and money printing, and their effects in terms of inflation, national debt growth, etc.

# Louisiana Purchase, 1803

- Deal with Bonaparte's France, which doubled the size of the original U.S.
- Price was \$15 million
- U.S. issued \$11.25 million of "Louisiana" 6% bonds, sold to European investors by Barings of London and Hope of Amsterdam, with net proceeds (after bankers' spreads and commissions) paid to France
- U.S. also assumed and paid \$3.75 million of claims Americans had against France for its seizures of American ships and cargoes in the undeclared war of 1798-1800.

# Erie Canal, 1817-1825

- Helped make New York “the Empire State” and New York City the leading port and largest U.S. city; it linked Albany on the Hudson River with Buffalo on Lake Erie.
- Original cost was about \$7 million
- Financed by issuing New York State bonds, which were sold to domestic and foreign investors
- State levied taxes on salt and auction sales to fund bond obligations before completion of the canal, but early canal revenues rendered these measures almost unnecessary

# Transcontinental Railroad, 1860s

- Built mostly 1865-1869; linked West Coast to East Coast, via Union Pacific and Central Pacific RRs connection Nebraska to California
- Financed by combination of public and private finance:
- U.S. government “paid” railroads millions of acres of public land continuous to their lines, and also issued Pacific RR bonds for benefit of the RRs
- Private investors bought equity shares and bonds issued by the RRs
- Financial scandals are a part of this story; some promoters got rich, but also took on large risks.



# Other older events & developments

- Banks of the United States (1791, 1816)
- Citibank (1812)
- Railroad corps (Pennsylvania, 1846; NY Central, 1853)
- Standard Oil Company (Rockefeller, 1870s)
- General Electric Co. (Edison & Morgan, 1890s)
- U.S. Steel Co. (Carnegie and Morgan, 1901)
- Panama Canal, 1900s-1910s (T. Roosevelt)
- RCA, 1920s (Sarnoff, Wall St)
- New Deal infrastructure, 1930s (dams, electric power)
- Interstate Highway System, 1950s

# Today's iconic companies: How were their start-ups financed?

- Typically, venture-capital limited partnerships (VCs) provided early-stages financing in return for equity shares.
- Going public with an IPO allowed VCs to exit their investments, sometimes with extraordinary returns, and ordinary investors to get in.
- Candidates to include: Intel, Apple, Microsoft, Amazon, Google, Facebook, ....
- These were exceptional; many VC-financed start-ups fizzled and/or failed.

# Again, the questions

- If it is the case that “Not much gets done without finance,” would this sort of history be an effective way to drive home that lesson?
- If it is, or might be, then what would be the most effective way of getting across the lesson to visitors to our finance museums and their websites? Many find history boring. How can we make it interesting and informative?
- Well-known examples cited involve public/government finance and private/business finance. Is there a place for personal finance (e.g., home mortgages, auto loans, higher education, credit cards, retirement) in this lesson? Knowing how famous events, developments, and companies were financed might make our visitors ask, “How can my personal goals be financed?”