Financial History, Historical Analysis, and the New History of Finance Capital[1]

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The traditional way of starting an essay on the history of capitalism is by not defining the term. The practice is regrettable, since it elides multiple definitions of which two most obviously stand out. For Karl Marx, the essence of capitalism was the separation of labor from the means of production, the concentration of the latter in the hands of the capitalist class, and the development of a political superstructure to secure property rights.[2] For Milton Friedman, who positioned himself as the Marxist's mid-twentieth-century bête noire, capitalism was synonymous with markets and their association with private property and voluntary exchange.[3] The Marxian portrait lends itself to a characterization of the economic system as unequal, exploitative, and unstable, whether due to a falling rate of profit or, in its twenty-first-century variant, an ever-increasing concentration of wealth and power in the hands of the 1 percent. Friedman and his followers, on the other hand, see unregulated market exchange as expressing freedom of choice, as a vehicle of opportunity and self-improvement, and as a mechanism for competing away inefficiencies.

Both conceptualizations are of ideal types. Both are ahistorical since they treat capitalism as a disembodied system detached from time and place. For Marx, the dynamics of the system arise out of a struggle between classes that occurs independently of the particulars of the setting. For Friedman, the magic of capitalism is its extraordinary facility at aggregating the decisions of self-interested individuals—homos

[1] The title is a take on Eric Hilt's "Economic History, Historical Analysis, and the 'New History of Capitalism," as applied to my particular case. I thank Francesco Boldizzoni, Marc Flandreau, and two anonymous referees for helpful comments.

[2] Marx himself made relatively little use of the actual term "capitalism" in volume 1 of *Capital* and elsewhere.

[3] A straightforward statement is Friedman and Friedman, *Free to Choose.*

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economicus—into a social optimum in any context in which an unregulated market exists.

This analysis of ideal types, whether undertaken by neoclassical economists or class theorists, appeals to neither the "new economic historians" who reside in economics departments nor to "new historians of capitalism" whose disciplinary home is history.[4] Both are dissatisfied with the disembodied nature of such analyses. Both are concerned to understand how the response of individuals to the economic problems that they confront is shaped by a particular historical setting. Economic historians respond to this dissatisfaction by assembling large data sets that can expose the particularities and historically contingent nature of economic behavior. They use these data points of historical information on, inter alia, individual consumers, investors, and entrepreneurs, together with statistical techniques, to document actual economic behavior, dispensing with the economist's assumption of convenience, utility maximization. They use historical data to contextualize economic behavior and demonstrate how it is shaped by the specific context.

Historians of capitalism substitute narrative for statistical methods in an effort to make their portrayal of historical action more vivid and context-specific. They invoke global history to demonstrate how national cases are embedded in a larger social and economic setting and a broader set of power relations. They embed their analyses of economic processes in the twenty-first-century historian's framework, emphasizing race, gender, and ethnicity in order to show how the dynamics of the economic order are contingent on its social underpinnings.[5]

Thus, economic historians and historians of capitalism see economic structure and organization as contingent. Both see it as contextually and historically specific. Both challenge the economist's conception of an ideal, rarified market. Both seek to denaturalize the economic order. In their common emphasis on how economic relations are shaped by historical context, the two schools are natural allies.

[4] "New economic history" is the self-referential label adopted by economists who applied economic theory and statistical methods to historical problems in the 1960s and 1970s. Temin, ed., *New Economic History*, provides an introduction to this early scholarship. "New history of capitalism" is the collective rubric applied to historians who more recently sought to revive the study of economic structures and relations in their discipline. Both schools sometimes invoke the modifier "new" to differentiate themselves from their disciplinary predecessors.

[5] See Beckert, "History of American Capitalism."

That's the positive take, anyway.[6] The negative take is that economic historians, concentrated in economics departments, have been corrupted by that discipline's obsession with statistical technique, causing them to focus on ever-narrower questions to which such technique can be neatly applied to the exclusion of aspects of economic behavior that are not easily measured and quantified. They narrow their audience to that small subset of historical scholars with advanced training in mathematics. Historians of capitalism, lacking that training, disregard their colleagues' statistical analyses and, all too often, the findings of a half-century of scholarship in economic history. Lacking a statistical mindset, they use evidence selectively, in a manner consistent with their grand narrative. In this view, the two sides are engaged in a dialogue of the deaf, where no communication, much less synthesis, takes place.[7]

Evidently, then, questions about the state of the field serve as something of a Rorschach test.[8] Being optimistic by temperament, I will make the positive case in this essay—that dialogue and maybe even synthesis are possible. Even if dialogue and synthesis are not yet evident, the preconditions for their existence are present. Among economic historians resident in economics departments, an appreciation of the importance of large processes, of the global reach of markets and capitalism, and of the ever-present question of race never went away.[9] Despite their reliance on statistics, economists concerned with historical issues never in fact abandoned the use of narrative.[10] Contrary to the belief that "the half has

[6] For earlier hints in this direction, see Galambos, "Is This a Decisive Moment for the History of Business, Economic History, and the History of Capitalism?"; Lamoreaux, "The Future of Economic History Must Be Interdisciplinary."

[7] See Olmstead and Rhode, "Cotton," and also Hilt, "Economic History," for the latter tone.

[8] One is reminded of the contrast between Fogel, "'Scientific' History," and Kousser, "Revivalism of Narrative," in battles ignited by the new economic history in the 1960s and 1970s.

[9] An example of a book in the economic history mainstream that emphasizes large processes and global capitalism is Findlay and O'Rourke, *Power and Plenty*. Race has been at the center of "new economic histories" of the American South since Conrad and Meyer, "Economics of Slavery in the Ante Bellum South" (1958)—arguably the very first contribution to the new economic history—and Fogel and Engerman, *Time on the Cross*, which introduced the methodology to the general public.

[10] Friedman and Schwartz's *Monetary History of the United States, 1867–1960*, sometimes referred to as the single most influential work in economics in the twentieth century, is fundamentally a narrative history. Friedman and Schwartz's narrative approach continues to influence research in monetary and financial history, as in Romer and Romer, "Does Monetary

never been told," new economic historians never lost sight of the importance of slavery for American economic development nor of the importance of giving voice to the enslaved.[11] Economic historians no longer feel obliged to dismiss traditional historical findings, the revolutionary fervor of the 1960s and 70s generation having given way to an awareness that iconoclasm is not everything. Nor must they defend themselves against unsympathetic colleagues, economists having been reminded of the limitations of their abstract theories and of the existence of historical precedents by the global financial crisis and therefore having grown increasingly sympathetic to the historical enterprise.[12]

Another basis for dialogue is that—notwithstanding the emphasis in history curricula on race, gender, ethnicity, and psychology—the old staples of business history, labor history, and financial history never actually went away. That said, the rebirth of the history of capitalism in history departments allows the history of material processes to share the stage with "literary-inflected analyses of identity formation and collective memory."[13] Initiatives like the Cornell University boot camp for historians of capitalism seeking to acquire facility in quantitative methods and economic theory enable more scholars in history departments to access and utilize research by economic historians.[14]

Having emphasized the importance of time, place, and context, I will elaborate these arguments by drawing on a specific historical literature, that on the development of financial markets in the United States. This is an appropriate case for several reasons, aside from the fact that it utilizes my expertise. There is the association of capitalism with finance capitalism in the Marxist-Leninist canon and, equally, the tendency for neoclassical economists to take finance as epitomizing the efficiency of market outcomes.[15] There is the disproportionate attention that early

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Policy Matter?" and "Identification and the Narrative Approach." Another example, involving economic historians in collaboration with other social scientists, is Robert Bates et al., *Analytic Narratives*.

[11] See, for example, Wright, *Slavery*. I am alluding to Baptist, *Half Has Never Been Told*.

[12] See "Larry Summers and Martin Wolf: Keynote at INET's Bretton Woods Conference 2011," www.youtube.com, April 9, 2011.

[13] The quote is from Marler, "Interchange," 535.

[14] On the Cornell boot camp, see http://hoc.ilr.cornell.edu/summer-camp.

[15] Hilferding, *Finance Capital* (1910), and Lenin, *Imperialism* (1917). The seminal neoclassical statement of financial market efficiency is Fama, "Efficient Capital Markets" (1970). Application of this approach and its strong priors to financial history include McCloskey and Zecher, "How the Gold Standard Worked," and Brown and Easton, "Weak-Form Efficiency."

practitioners of the new economic history paid to tests of financial market efficiency, but also the prominence that historians of capitalism accord to financial markets and relations.[16] And there is the impetus that the financial crisis of 2007–2008 and its echoes of crises past gave to both the history of capitalism and economic history.

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The pre-history of U.S. finance—financial conditions in the English colonies before the War of Independence—is the first phase, chronologically speaking, in American financial history as studied by both economic historians and historians of capitalism. Drawing on diaries, account books, pamphlets, personal correspondence, and probate records, scholars have pieced together a picture of colonial finance in which formal financial relationships were few and social relations figured importantly in the provision of credit.[17] The predominant form of colonial finance was merchant credit. Large merchants exporting commodities gained access to bank credit through bills of exchange supplied by their British agents.[18] Plantation-grown, slave-raised cotton, tobacco, rice, and sugar, the export staples of the Southern colonies, were central to this process.[19] In addition, large merchants extended credit to local merchants. Those local merchants in turn extended short-term accommodation to small farmers who settled their debts by making payment in produce at harvest time.[20]

[16] Hyman, *Debtor Nation*; Levy, *Freaks of Fortune*; Ott, *When Wall Street Met Main Street*; White, *Railroaded*; O'Malley, *Face Value*.

[17] Examples of the respective approaches are Flynn, "Duration of Book Credit in Colonial New England," and Murphy, *Other People's Money*, 40–41. Both build on work by colonial historians such as Perkins, *American Public Finance*, and Rothenberg, *From Market-Places to a Market Economy*.

[18] It is sometimes argued that there were no banks in the thirteen colonies, but this is not accurate. There were no limited-liability joint-stock banks, since establishing one required a charter from the British authorities, who were loath to grant it. (So much for the assertion that earlier scholars neglected power relations or that they failed to account for the larger geographic context of the American economy.) Private banks did exist; many were short-lived, but some operated for extended periods. Unlimited liability made these risky businesses for their proprietors, limiting their operation.

[19] Burnard, in *Planters, Merchants and Slaves*, traces the rise of the plantation in British North America but does not devote much attention to the role of credit.

[20] Small farmers might also provide commensurate value in services (tilling the merchant's field, for example) or, in a minority of cases, make payment in specie or notes.

Conventional accounts suggest that a majority of transactions between unrelated parties in this period involved a form of accommodation known as book credit.[21]

Colonial governments for their part used bills of credit to pay soldiers and other providers of public services. They operated what were, in effect, banks of emission. They created land banks that operated loan offices in each county, providing farmers with credit in the form of certificates worth up to 50 percent of the assessed value of their improved land. Experience with these practices was uneven. Thus, Massachusetts operated a colonial bank that emitted a large volume of notes in the first half of the eighteenth century but then, in response to the resulting inflation, abolished paper money in favor of specie in 1750. The Currency Acts of 1751 and 1764, passed by an English Parliament alarmed by this inflation and leery more generally of the colonies' financial self-management, limited the issuance of paper currency first in New England and then throughout British North America.

This last aspect of colonial finance—the connection between note issuance and inflation—has been extensively studied by economists and economic historians but less so by historians of capitalism. New economic historians have tested for a relationship between changes in note supply and inflation, using extrapolation to infer the quantity of notes in circulation and seeking to explain why some colonial notes held their value despite not being backed by gold or silver.[22] The controversy over this last question is revealing; it shows that the methodological approaches of those trained as economic historians are not monolithic. Scholars with backgrounds in monetary economics rely mainly on theoretical priors: Bruce Smith invoked the fiscal theory of the price level—that is, the idea that colonial notes were implicitly backed by future tax revenues.[23] Scholars with backgrounds in history, in contrast, invoke social relations, asserting that convention—the belief that others in one's social circle would accept notes at par—explained the tendency for such notes to maintain their value even when large quantities were issued.[24]

An account of colonial finance would not be complete without men-

[21] This is the conclusion of Soltow, *Economic Role of Williamsburg*.

[22] See West, "Money," and Grubb, "Circulating Medium."

[23] See Smith, "American Colonial Monetary Regimes."

[24] Schweitzer, *Custom and Contract*.

tion of indentured servitude, under which credit was extended to voluntary immigrants to the colonies in return for their signing of binding labor contracts. As many as two-thirds of all white immigrants to the British colonies between 1630 and the Revolution arrived under indenture. Some economic historians have characterized indentures as a way of relaxing financial constraints and enabling workers to efficiently borrow against their future labor income.[25] Others object that contracting occurred under conditions of asymmetric information that entailed the abrogation of legal rights and human liberties to an extent that workers came to regret.

Whereas economic historians have devoted considerable attention to these practices, historians of capitalism have not focused on indentured servitude with the intensity with which they have studied African American slavery.[26] The contrast may be indicative of the consciousness of race among scholars in history departments in general, and among historians of capitalism in particular.[27] It is more striking because there is a debate over the extent to which masters relied on physical violence versus positive economic incentives (the provision of additional food, clothing, lodging, and wages) to elicit labor effort from their indentured servants—a debate that parallels the literature about reliance on violence (specifically whippings) as an organizational device in the context of plantation slavery. Whereas earlier accounts of indentured servitude emphasized recourse to violence, new economic historians questioned that conclusion.[28] Historians of capitalism have not, to my knowledge, weighed in.

It can be argued that this relative neglect of the treatment of indentured servants reflects the limits of the sources. In the case of plantation

[25] See Galenson, "Rise and Fall."

[26] Or "slave racial capitalism," in the words of Walter Johnson, *River of Dark Dreams*. Work on indentured servitude by economic historians includes Galenson, *White Servitude in Colonial America*, and Grubb, "Redemptioner Immigration."

[27] Wright, *Slavery*, notes that race played a role in the decline of indentured servitude in the early nineteenth century, insofar as American jurists rejected contracts that bound white persons to labor-market terms that resembled those of black slaves, while abolitionists worried that owners under pressure to free their slaves might use indenture contracts to retain their services.

[28] An account of indentured servitude that emphasizes recourse to violence is Morgan, *American Slavery*. An economic historian's dissent is Galenson, "Rise and Fall." The parallel is with the dispute over whipping between Baptist, *Half Has Never Been Told*, and Olmstead and Rhode, "Cotton."

slavery, the existence of detailed records has allowed reliance on physical violence to be carefully scrutinized.[29] Indentured labor was managed more atomistically and therefore left a more fragmentary historical record; this renders the treatment of indentured servants more difficult to analyze and the resulting debate more difficult to resolve. This said, the fact that historians of capitalism have not contributed commensurately to this literature may reflect less the limits of the sources than their preoccupation with the racial dimension of capitalist relations.

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To say that the new nation, like its colonial predecessor, was not heavily banked is to put an understated gloss on the point. Through 1790 there were just three banks in the United States: the Bank of North America and the Massachusetts Bank, both established in 1782, and the Bank of New York, established in 1784. In the years following, and especially with the commercial boom after 1793, additional banks were established. To be sure, defining a bank is not straightforward in a period when credit might be provided not only by a dedicated institution operating under a charter granted by a state legislature, but also by merchants, manufacturers, and wealthy individuals. Be that as it may, Warren Weber, who has sought to define and enumerate banks in this period, counts 10 such institutions in the United States in 1793, 33 in 1803, and then as many as 127 in 1813.[30]

Private banks and insurance companies also complemented chartered banks in financing commerce and investment. The first private bank, Brown Brothers & Co. (a forerunner of the present-day Brown Brothers Harriman), was founded in 1818. Private banks did not enjoy limited liability and could not issue notes. But they were not otherwise restricted in the business they could pursue or where they could pursue it. The New York-based Brown Bros. & Co. arranged shipments of cotton from Southern ports to the mills of New England and Britain.[31] It lent to Southern plantation owners through their correspondents and agencies in Charleston, Savannah, New Orleans, and Mobile, the four main centers

[29] See Fogel, *Without Consent or Contract*. For a dissenting view, see Guttman, *Slavery and the Numbers Game*.

[30] Weber, "Early State Banks in the United States."

[31] Beckert, *Empire of Cotton*.

from which cotton was shipped. Not just private banks in New England and New York but also commercial banks across the antebellum South, once they came to be established, similarly engaged in such practices. And foreign banks stepped in where U.S. banks were unable or unwilling to tread; thus, Baring Brothers lent to planters with the intermediation of large cotton merchants such as W. Nott & Co., who in turn relied on the knowledge of local cotton factors (cotton brokers).

When those planters failed, Brown Bros. repossessed their plantations and assets, including their slaves, whom they managed using local agents or sold off. Sharon Ann Murphy notes the preference of banks such as Brown Bros. for settling their claims by selling slaves, who were "more liquid" (easier to sell) than land, since slave groups could be broken up.[32] Historians of capitalism argue that plantation agriculture was disproportionately integrated into the credit and financial system precisely because slaves constituted a ready form of collateral for lenders to attach, buy, and sell.[33]

These same banks underwrote and purchased the bonds of railways, state governments, and new chartered banks across the cotton South, capitalizing on their knowledge of global commodity markets and on complementarities between plantation agriculture and these other investments. They provided loans for cotton mills and manufacturers making use of this plantation-grown, slave-raised cotton.[34] In all these ways they helped to integrate the South into the national and international economies.

While these links between slavery and finance in antebellum America are an animating topic for historians of capitalism, the latter have not engaged in much systematic, statistical analysis of these practices. For their part, statistically oriented economic historians have engaged in little analysis of the connections between slavery and Southern finance. Nei-

[32] See Murphy, "Banking on Slavery."

[33] Beckert, *Empire*, 226–27. Economic historians and historians of capitalism disagree about how the worth or value of slaves was conceptualized. O'Malley argues that slave pricing was "surprisingly resistant to particulars"—that, in credit markets, mortgage transactions, and probate and bankruptcy proceedings, slaves were valued by the pound or person, as "an unvarying and uniformly valued commodity." O'Malley, *Face Value*, 74. This is similar to the conceptualization in Johnson, *Soul by Soul*, 25. O'Malley does, however, acknowledge that slaves were priced and rated in individual sales and auctions, the aspect that economic historians emphasize and study. For examples, see Kotlikoff, "Structure of Slave Prices in New Orleans, 1804 to 1862," and Calomiris and Pritchett, "Preserving Slave Families for Profit."

[34] Beckert, *Empire*, 219–20.

ther of the two leading economic histories of the antebellum Southern financial system make much mention of bound labor, for example.[35] This, clearly, is an area where there is scope for intellectual cross-pollination.

Insurance companies were another important vehicle for financial intermediation in nineteenth-century America. They sold life and fire insurance to individuals, pooled the underlying risks, and invested the proceeds in mortgages and in the bonds of state governments, railways, and other entities. They developed first in New England but did business nationally in the decades leading up to the Civil War.

Life insurance was first embraced, as Sharon Ann Murphy writes, in the rapidly growing cities of the Northeast, as creditors sought to insure the lives of debtors for money due, and eventually as families sought to protect themselves against the loss of their primary breadwinner. Southern whites were less likely to insure their own lives; in the South, life insurance was used primarily to insure owners against loss of income due to the death of slaves.[36] The slaves in question were typically skilled and urban: house servants, artisans, mill workers, and other factory employees who generated significant amounts of money income for their owners.[37]

This business thrived despite the risks of insuring slave lives—that is, despite the fact that slaves were disproportionately employed in hazardous occupations and could be physically mistreated by their owners or by overseers to whom they were hired out. Indeed, possession of an insurance policy might encourage the slaveholder to engage in just such mistreatment (it might create moral hazard just like any form of insurance), as the underwriting companies well understood. They dealt with this problem by charging higher rates on life insurance policies for slaves than for free whites of the same age and by selling policies only to masters of known reputation.[38]

[35] Schweikart, *Banking in the American South*, and Bodenhorn, *History of Banking in Antebellum America*.

[36] On life insurance and slavery, see also Starobin, *Industrial Slavery*. Murphy, in "Securing Human Property," notes that, in addition to life insurance companies, fire insurance companies also insured slaves, reflecting their status as property.

[37] Murphy, "Securing Human Property." A new economic history of urban slavery, which says little about insurance, is Goldin, *Urban Slavery*.

[38] Murphy, "Banking on Slavery," also notes the risk that a slave might lose value due to age and the danger that the owner might sell him or her to a buyer physically out of reach of potential creditors.

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A final element of the financial architecture in this period was the Bank of the United States (BUS), the new nation's proto-central bank. The literature on the BUS is history at its most traditional. Much of it is organized around the personalities of prominent political figures, from Alexander Hamilton and James Madison to Nicholas Biddle and Andrew Jackson. The Bank's principal advocate was the far-sighted Hamilton, who appreciated the multiple roles that a national financial institution could play—as a source of note emission to supplement specie that otherwise would have to be earned via exports; as a dependable depository for public funds and a tax collection agency; as a provider of short-term funding to the government; and as a mechanism for transferring funds between regions.[39]

Hamilton's initiative sought to strengthen the role of the federal government relative to the states. It sought to unify the new nation by acknowledging that financial resources were distributed unevenly (that capital was relatively abundant in the East but scarce elsewhere) and that transfers, in addition to enhancing the efficiency of the economy, might bind the new nation together politically. And by assigning shares in the Bank to both the government and individual investors, it sought to create a political constituency for the institution and to foster closer cooperation between the federal government and the business community.[40]

Hamilton's plan for what became the First Bank of the United States was opposed by Southerners such as Madison, who argued that a federal charter for the Bank would be an unconstitutional usurpation of states' rights. Similarly, Jackson criticized the Second Bank as an example of overweening federal power, leading him to veto the bill renewing its charter in 1832. But personal experience as well as political ideology almost certainly figured in his decision. Jackson's personal experience with banking and finance was unhappy. He had accepted the worthless notes of a

[39] See Sylla, *Alexander Hamilton*, not to mention Miranda and McCarter, *Hamilton: The Revolution*. O'Malley, *Face Value*, connects Hamilton's support for a proto-central bank to manage monetary conditions with his opposition to slavery. Implicitly, O'Malley connects the opposition of Southerners like Andrew Jackson to that bank (see below) with their support for the "peculiar institution."

[40] Each of these objectives was implicit in Hamilton's *Report on a National Bank*, delivered to the Congress in 1790.

failed Philadelphia merchant in payment for six thousand acres of land, a decision that drove him to the brink of bankruptcy. Given this dubious financial record, Jackson was subsequently subject to inflated interest charges when borrowing from bankers and bill brokers, which left him a venomous critic of the banking establishment.

Then there was the leadership of the BUS itself. William Jones, founding president of the re-chartered Bank from 1816, owed his appointment to political connections more than any financial acumen. He allowed the Bank to pursue an accommodating credit policy in the boom that followed the 1812–1815 war with Britain. Under Jones, the Bank's head office in Philadelphia exercised lax oversight of its eighteen regional branches. The result was a massive land boom that collapsed when the Bank belatedly tightened credit in 1818; this was the collapse that destroyed Jackson's finances in its wake.[41]

The Bank's reputation was then restored by Biddle, its president from 1823. In contrast to Jones, Biddle was financially sophisticated and drawn from the country's newly minted financial aristocracy. Under Biddle, the Bank continued to act as fiscal agent for the government but also assumed lender-of-last-resort functions, lending specie to distressed state banks and credit to cash-strapped nonfinancial firms. It became the country's de facto bank regulator as it took steps, via its branches, to return state bank notes to their issuers, limiting the scope of the latter to abuse their note-issuance function. This all but eliminated the tendency for bank notes to trade at a discount, thereby enhancing the uniformity of the circulation.

These are the aspects of the Bank's operations on which economic historians have focused. Aside from those of a libertarian bent, they have tended to portray these activities in a favorable light, given the advantages of a uniform circulation and arguments for a lender of last resort.[42]

At the same time, it is not surprising, notwithstanding these arguments, that the Bank was soon squarely in Jackson's sights.[43] So the story

[41] While some historians have implicated agricultural prices in Europe in the frontier land cycle, Jones's Bank played an enabling role. See Dangerfield, *Awakening*.

[42] Knodell, *Second Bank*. Here the aforementioned Milton Friedman constitutes an interesting contradiction, given his anti-government, libertarian leanings but also his belief in the need for a lender of last resort. See Friedman and Schwartz, *Monetary History*. Friedman's own discomfort with the implication is evident in "Interview."

[43] There were also accusations that the Bank had favored John Quincy Adams over Jackson in the 1828 election, granting his supporters favorable access to credits and loans and even

is conventionally told as a battle between towering historical figures, from the opening skirmish between Hamilton and Madison to the decisive clash between Biddle and Jackson. But there were interests as well as personalities at play. State bankers resented the discipline that the BUS imposed on their note issuance. They found its activities unwelcome and had difficulty competing with a widely branched institution that operated across state lines and received concessionary funding via federal deposits.[44] The Bank was headquartered in the East, leading Western and Southern agriculturalists to assume that they were disfavored by its operation.

In fact the Bank did extensive business with and in these regions, with and in the South in particular, as historians of capitalism have shown.[45] Southern cotton merchants discounted bills of exchange at the branch offices of the BUS, receiving BUS notes in return, while the BUS received the full value of the note once their cotton reached its final destination. Stephen Campbell estimates that, in the year 1833, some two-thirds of all BUS notes were issued in the South to discount bills and pay out loans and that nearly half of all banknotes circulating in slave states were those of a BUS branch.[46] The BUS made loans in the form of transfers of banknotes, taking slaves as collateral. Like commercial banks throughout the South, it allowed Southern planters and businessmen to mortgage their slaves, much as a homeowner might mortgage his house.[47] Like a commercial or investment bank, the BUS might then acquire direct ownership of slaves in the course of bankruptcy and debt liquidation proceedings.[48] Thus, the Bank of the United States played an important role not only in forging a national financial market but also specifically in linking the plantation South with the larger antebellum economy.

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As for commercial banks, there was considerable interregional variation in their structure and penetration. In New England unit banks prevailed,

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bankrolling his campaign. See Murphy, *Other People's Money*. For more on Jackson and Biddle, see Kahan, *Bank War*; Opal, *Avenging the People*.

[44] Knodell, *Second Bank*.

[45] See Baptist, *Half Has Never Been Told*, and Beckert, *Empire*.

[46] Campbell, "Reimagining the Second Bank."

[47] See Murphy, "Banking on Slavery."

[48] See Kilbourne, *Slave Agriculture*.

while in many Southern and Midwestern states branching was permitted.[49] Some states required banks to obtain a legislative charter, while others allowed them to operate under general incorporation laws. In some states, bank shareholders were subject to double liability: besides losing their initial investment, shareholders in an insolvent bank would be liable for an additional amount as a disincentive for risk taking.[50] In others, single liability prevailed.

Necessarily, then, histories of banking in the early American republic are state and regional histories. Naomi Lamoreaux's history of New England banking is exemplary of the genus.[51] Early nineteenth-century New England banks, she shows, operated differently from the banks with which we are familiar today. For resources they relied mainly on capital subscriptions from partners rather than deposits. When lending, only rarely did they credit the borrower's current account; more commonly they issued bank notes that they physically conveyed to the borrower.

Most strikingly, the majority of their lending was to those self-same partners. This practice highlights the role of politics, power, and what Lamoreaux dubs "personal connections" in early nineteenth-century finance. It helps to explain why banks were seen as favoring the wealthy over the laboring class. And it rests uneasily with the rapid commercial and industrial development of New England in the early nineteenth century, since it is not clear how banks that engaged in insider lending could have fostered a vibrant, competitive market economy.

Lamoreaux does her best to reconcile these bank operations with the evident vitality of the economy. Capital subscriptions in a bank, the bulk of whose lending was to other partners, were a way, she argues, for investors to participate in enterprises that might otherwise not be open to them. They allowed investors to diversify their portfolios in the absence of active equity markets and were therefore conducive to capital formation. Lending to entrepreneurs with whom one had family or other personal connections was a way for investors to overcome information asymmetries and enforce contracts. To avoid excessive influence by individual partners, lending decisions were delegated to discount or loan

[49] For an enumeration, see Weber, "New Evidence."

[50] Macey and Miller, "Double Liability of Bank Shareholders"; Bodenhorn, "Double Liability at Early American Banks." Double liability became still more prevalent after the Civil War: see Grossman, "Double Liability and Bank Risk Taking."

[51] Lamoreaux, *Insider Lending*. See also Bodenhorn, *History of Banking*.

committees.[52] Banks that sought to expand by raising more capital had to demonstrate that they were following these best practices and not just lending for their directors' personal gain. Conversely, banks that abused these practices were competed out of business, given ease of entry by rival institutions.

This attempt at reconciliation raises as many questions as it answers, however. Over time, banks moved to competing for deposits as a way of funding their operations, suggesting that capital subscriptions alone did not suffice to meet loan demands. It could be, then, that these early nineteenth-century banks did not adequately support the credit needs of nascent industry and that the economy would have grown faster with a different financial structure. Entry was hardly free in states where legislative charters were required and incumbent bankers were politically influential.[53] Critics complained of the favoritism associated with insider lending.[54] And bank failures were rife.

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With the expiry of the Bank of the United States and of its efforts at facilitating inter-regional transfers, states in the West and elsewhere had to find other ways of ensuring an adequate supply of intermediation services to the local economy. This they sought to do by liberalizing bank-entry regulation. Where previously a legislative charter was required to establish a bank, now an aspiring entrant only had to raise a minimum level of capital and maintain a specified quantity of specie, or the equivalent in bonds, in order to ensure the convertibility of its note issuance.

An earlier generation of financial historians saw this so-called Free Banking Era as emblematic of the Wild West—of banking as anything goes.[55] Banks, they argued, regularly defrauded their noteholders, who were defenseless in the absence of a Bank of the United States committed

[52] For evidence, again from individual bank archives but with a statistical perspective, see Meissner, "Voting Rules."

[53] This was one reason why states abandoned chartering systems, which were subject to political influence, for free banking after 1836. See Bodenhorn, "Bank Chartering and Political Corruption."

[54] See Meissner, "Voting Rules."

[55] The classic statement is Hammond, *Banks and Politics in America*. Echoes of Hammond can be heard in O'Malley, *Face Value.*

to enforcing convertibility. Subsequently, neoclassical economists invested in the notion that markets work best when they are regulated least challenged this picture, arguing that most banks that closed did so without losses to noteholders and that there were few panics or other manifestations of instability.[56]

This controversy has been addressed by economic historians utilizing extensive records assembled by state bank regulators. Their conclusion is that losses to noteholders were modest overall, on the order of 1/100th of 1 percent of national income, although such losses varied over time and across states.[57] Whereas 92 percent of free banks established in New York state paid their noteholders in full, the comparable figure in Minnesota was 44 percent. While notes issued by New York banks rarely traded at a discount of more than 1 percent, the comparable figure for banks in Minnesota was as much as 50 percent.

Two explanations have been offered for these patterns, which correspond respectively to the temperaments of the scholars advancing them. The efficient-markets view is that the economies of recently settled Western states like Minnesota, Indiana, and Wisconsin were volatile and that bank failures reflected this volatility. When the harvest failed or economic conditions deteriorated for other reasons, bond prices fell, reducing the value of the bonds backing the note issue. Depositors were not unsophisticated, so when they saw bond prices falling they scrambled to get their money out of the banks. Because the banks' assets were now less than their liabilities, failure was the inevitable and appropriate result.[58]

Another interpretation, in line with traditional historiography, is that the value of the backing varied with the stringency of laws and their enforcement. Some states required banks to value the bonds held as backing at market prices, linking the value of notes to the value of the backing and requiring banks to deposit additional bonds with the regulator in the

[56] Rolnick and Weber, "Free Banking."

[57] See Rockoff, "Free Banking Era."

[58] Rolnick and Weber, "Causes of Free Bank Failures"; Dwyer and Hasan, "Suspension of Payments." Moreover, because creditors had information on the condition of the banks, which they could obtain from commercial note reporters, they would accept the notes of a risky issuer only at a discount, which meant that their losses from failure were limited. Gary Gorton shows that the notes of new banks that had not yet acquired a reputation had higher discounts, consistent with the informed-investor view. Gorton, "Reputation Formation in Early Bank Notes." On banknote reporters and "counterfeit detectors," see Mihm, *Nation of Counterfeiters*.

event of subsequent price declines.[59] Other states like Minnesota allowed free banks to value dubious state bonds at par or face value. These banks were insolvent from the get-go; they were "wildcats" by definition. Even when the bonds were deposited with the state auditor or treasurer, there was no way of making noteholders whole.

The power relations behind these different regulatory regimes clearly warrant further analysis. It may be that New York benefitted from the existence of a bank establishment: established banks with reputations to uphold demanded regulation that would prevent the market from being ruined by fly-by-night operators.[60] In states like Minnesota, in contrast, there were few incumbent banks and little reputation to protect, leaving the door open to those interested in a quick profit. Differences in the condition of state finances may have also been at play. Allowing banks to value government bonds at par made those bonds more attractive investments to bankers than would have been the case otherwise, reducing the government's borrowing costs. In some states, railroad bonds were also accepted as backing for notes (banks adopting this practice were known as "railroad banks"), and the influence and interests of railway promotors may have similarly been involved.[61] States like Michigan permitted mortgages on real estate that was subject to inflated appraisals to be deposited as collateral.[62] And these real estate developers, railway promoters, and state politicians scratched one another's backs. Not infrequently they were one and the same.

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The Civil War brought America's experiment with free banking to a sudden conclusion. A Union government anxious to place bonds with the

[59] See Dwyer, "Wildcat Banking," and Economopoulos, "Illinois Free Banking Experience." New York adopted legislation to this effect in 1840 after a brief period when free banks were permitted to value bonds at par even when par was higher than market value.

[60] Economopoulos, "The New York Free Banking Era."

[61] While much of the literature paints railroad banks as especially failure-prone, in part because of inflated valuations of railways bonds, Atack, Jaremski, and Rousseau portray the connections between railways and banks in a more positive light in "Did Railroads Make Antebellum U.S. Banks More Sound?"

[62] See Dwyer, "Wildcat Banking," and Rolnick and Weber, "Free Banking." For more on Michigan's notorious experience with free banking, see Dove, Pacquet, and Thies, "Michigan Free Bank Experience."

public created the National Banking System, in which U.S. government bonds became the obligatory form of bank reserves. It is interesting to observe how the exigencies of war so quickly surmounted long-standing opposition to federal government regulation of the banking system.[63] Federally chartered banks were permitted to inject into circulation government-printed notes backed by those bonds. A tax was placed on the notes of state banks, leading many of the latter to apply for national charters, and finally creating a uniform national currency. State banks were not taxed out of existence, however, and with the growth of checking and loan activities in the 1880s and 1890s they experienced something of a renaissance.

Some effort was made to accommodate the different financial circumstances of different sections of the country. Capital requirements were set at lower levels for smaller cities in order to encourage bank entry in rural areas. Building on the Suffolk System pioneered in New England in the early nineteenth century, a correspondent system developed in which small banks maintained deposits with banks in larger financial centers.[64] Banks were divided into three categories: central reserve city banks, reserve city banks, and country banks, with higher reserve requirements for central reserve city banks than reserve city banks and for reserve city banks than country banks. Again, this system was seen as an effort to foster entry and the provision of financial services in otherwise underserved regions.

Not all sections of the country were happy with the result. The South, in particular, remained underbanked. Many Southern banks had been bankrupted during the war and Reconstruction period, while correspondent banking relationships were difficult to rebuild given the North-South conflicts of Reconstruction. Emancipation may have contributed to the difficulty of getting the postbellum Southern banking system up and running again, given the importance of slaves as collateral. Low incomes meant that even the relatively modest reserve requirements to which country banks were subject were a constraint on entry, and Southern representatives were in no position to make their objections heard either

[63] That said, debate over the desirability of a national system was considerable. See Million, "Debate."

[64] The literature on the Suffolk System is considerable. See, for example, Rolnick and Weber, "Suffolk Banking System Reconsidered"; Calomiris and Kahn, "Efficiency of Self-Regulated Payments Systems."

during wartime deliberations over the National Banking System or thereafter.

Westerners, for their part, continued to complain that they were underserved by the national financial system, much as they had during the Jacksonian era.[65] The correspondent system, through which Western savings were deposited with Eastern banks, made it seem as if the savings of rural residents were put to work in urban, industrial centers. Problems in those centers were then transmitted back to the countryside via the correspondent system.[66] Research using balance sheet data for individual banks confirms that problems in central reserve city banks tended to ramify through the system.[67] The political repercussions were profound: the prevailing level of interest rates in a county was a powerful predictor of the share of the popular vote garnered by the populist presidential candidate Williams Jennings Bryan in 1896.[68]

The literature on these regional differentials is characterized by a combination of statistical and institutional approaches with economic and political ones, and thus should appeal to economic historians and historians of capitalism alike. Lance Davis's seminal contribution showed that while regional financial conditions were tied together not just by correspondent banking relationships but also by the commercial paper market (the market in so-called one-name paper—in effect, promises to pay by commercial entities—bought and sold by the banks), political obstacles prevented the full integration of the South into the national financial system.[69] Richard Sylla observed Davis's omission of a role for regulatory restrictions in limiting market integration; by introducing them, Sylla further highlighted the importance of political decision making.[70] My own work built on this analysis by emphasizing the role of usury laws on the prevailing level of mortgage interest rates, while also seeking to identify the impact on rates of differences in climatic variability and default risk.[71]

[65] Only the precise definition of "West" differed between the periods.

[66] Sprague, *History of Crises*.

[67] James, McAndrews, and Weiman, "Panics"; Paddrik, Park, and Wang, "Bank Networks."

[68] This is shown in Eichengreen, Haines, Jaremski, and Leblang, "Populists at the Polls."

[69] Davis, "Investment Market, 1870–1914."

[70] Sylla, "Federal Policy." Political and economic determinants of these interstate variations in regulatory regimes are analyzed by Mitchener and Jaremski, "Evolution of Bank Supervisory Institutions."

[71] Eichengreen, "Mortgage Interest Rates."

And this focus on mortgage interest rates in turn directed attention to institutions other than banks and the commercial paper market, namely life insurance and mortgage companies, as mechanisms for transferring loanable funds across regions.[72]

Where regional, economic, ethnic and racial groups were ill-served by this financial system, they responded by forming their own institutions. Households clubbed together in building and loan associations (B&Ls), making monthly contributions and extending mortgage loans to their members. B&Ls (also known as savings and loan associations and "thrifts") have a long history in America. This mutual model was imported from Britain in 1831, when 45 Pennsylvanians formed the Oxford Provident Building Association.[73] The thrift movement had both cultural and political aspects, as the name implies, that will resonate with historians of capitalism. Promoters such as Edmund Wrigley, author of the 1869 book *The Working Man's Way to Wealth*, saw the movement as instilling the American virtues of thrift, self-help, mutual cooperation, community formation, and, not least, homeownership.[74] They identified their initiative with the Knights of Labor, the Farmers' Alliance, the People's Party, and eventually Progressivism, portraying their associations as a way of overcoming the money trust. By the end of the nineteenth century, there were more than five thousand B&Ls in the United States with combined assets of more than $500 million.[75]

B&Ls were frequently organized along ethnic and religious lines. Blacks saw the mutual model as a response to the high fees they faced at commercial banks and mortgage companies, whether owing to discrimination or because they were perceived as presenting a high risk of default.[76] Already in the late eighteenth century, free blacks refused ser-

[72] See Snowden, "Mortgage Rates"; Kenneth Snowden, "Evolution of Interregional Mortgage Lending." For more on the development of these markets and institutions see Murphy, *Investing in Life*.

[73] Even earlier, mutual savings banks had appeared (the first, the Philadelphia Saving Fund Society, was established in 1816), although these were not linked to mortgage lending. See Payne and Davis, *Savings Bank of Baltimore*; Olmstead, *New York Mutual Savings Banks*; Alter, Goldin. and Rotella, "Savings of Ordinary Americans"; Murphy, *Other People's Money*, 121–23.

[74] Wrigley, *Working Man's Way to Wealth*. On the American conception of "home" and its connection to homeownership see White, *Republic for Which It Stands,* and Garb, *City of American Dreams*.

[75] Mason, *From Buildings and Loans to Bailouts*, 28.

[76] Details are from Mason, "Homeownership is Colorblind." For the broader context, see William Collins and Robert Margo, "Race and Home Ownership."

vices by chartered banks formed their own "mutual aid societies," which operated, generally without charter, through churches and philanthropic societies. Then, in the wake of the Civil War, black communities of emancipated former slaves established similar mutual aid societies to provide charitable services to their members. Black-owned and operated thrifts, which aided community members in acquiring land, one of freed slaves' main objectives in this period, were more formal descendants of these earlier institutions.[77]

The first black-owned and operated B&L was formed in Kinston, North Carolina, in 1865. By 1900 there were seventeen black-owned thrifts. Many thrifts, like the preceding mutual aid societies, were organized through the good offices of religious bodies. The largest black-owned thrift in Virginia, the People's Building and Loan, for example, was started in the basement of the First Baptist Church of Hampton in 1889. These cooperative institutions limited default risk by utilizing local knowledge and peer monitoring. They minimized costs by meeting in the homes of their members. Although required to file by-laws and sometimes charters with the state, they were essentially free of capital requirements and regulatory oversight. This low-cost approach was appropriate to the economic circumstances of their members, but it also meant that they left limited information on their operations to historians.

Black farmers were in some sense less fortunate. They were ill-served by the Grange and the Farmers' Alliance, rural cooperatives that provided their members with credit (along with other services such as storing and marketing their crops). Again, these cooperative movements were responses, this time by rural residents, to the perception that they were ill-served by merchants, railroads, and banks. But not all Grange and Alliance members were happy about the participation of black farmers. Although one subordinate or local Grange in Louisiana reportedly wel-

[77] Another institution targeting a black clientele in this period was the Freedmen's Savings Bank, created by the federal government in 1865 as a repository for the funds of black savers. But rather than lending to its depositors, in the manner of a mutual, it invested its deposits in government bonds, railway bonds, and large corporate loans, including an ill-fated investment in a quarry run by the younger brother of the Philadelphia financier Jay Cooke (the brother, Henry Cooke, having been installed as the Bank's finance chairman). The standard treatment is Fleming, *Freedmen's Savings Bank*. Baradaran, *Color of Money*, provides a generally critical appraisal of this institution.

comed members regardless of color, the same was not true elsewhere.[78] An organizationally segregated Colored Farmers' National Alliance and Cooperative Union, founded in 1886, operated primarily in the South, providing members with loans to purchase supplies and pay land mortgages. But white supremacists were often hostile to the growth of these black agrarian cooperatives, with their political as well as financial aspects, and sought to suppress their development. Historians for their part have paid them relatively little mind, given that they left little in the way of a documentary record.[79]

This broader institutional compass is an important corrective. It runs in parallel with the work of economic historians and historians of capitalism concerned with the antebellum period, who have sought to broaden the focus from commercial banks to include also merchants, investment banks, and insurance companies.[80] The concentration of early financial historians of the United States on commercial banks reflected the tendency to look under the lamppost—it was guided by the fact that regulators assembled information on commercial banks, facilitating historical analysis. Supplementing such analysis with a focus on, inter alia, insurance companies and mutual savings banks is more difficult but not impossible.

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The Federal Reserve Act of 1913 built on earlier institutional arrangements, such as the designation of central reserve cities under the National Banking System (all three of which, Chicago, St. Louis, and New York, now became home to Federal Reserve banks).[81] As its history is conventionally framed, half a century of financial instability had rendered the establishment of a central bank inevitable. In fact, a critical reading of the history reveals that there was nothing inevitable about the outcome.

[78] Bourne, *In Essentials Unity,* 29. The Southern Alliance expressly forbade black membership.

[79] See Goodwyn, *Democratic Promise*, 278–85. Holmes observes that historians' neglect of the Colored Farmers' Alliance "results largely from the fact that the official records and newspapers of the organization have not survived so far as any historian has been able to determine" in "Demise," 187.

[80] See the work reviewed in the third section above.

[81] And not least the historic location of the First and Second Banks of the United States.

While the instability was indisputable, different actors drew different lessons from it. Some argued for a powerful central bank patterned after the Bank of England, which had assumed the responsibilities of a lender of last resort after the Overend-Gurney crisis of 1866.[82] Others favored a more decentralized system with a reserve bank in every state, each empowered to pursue its own discount and open-market policies. Still others favored private clearinghouses organized by bankers themselves.

The 1907 panic, the most serious such event in many years, catalyzed these discussions. The fact that its resolution was contingent on the good offices of a private citizen, the immensely wealthy J.P. Morgan, heightened the prevailing sense of unease with the status quo. "Americans weren't particularly thrilled to discover just how much financial stability depended on one man," as Julia Ott has put it.[83]

Their unease led first to the passage in 1908 of the Aldrich-Vreeland Act, a stop-gap that allowed banks to form local associations and issue clearinghouse certificates as a way of providing emergency liquidity.[84] Led by Nelson Aldrich, the powerful Republican senator from Rhode Island, the framers of the Aldrich-Vreeland Act favored a centralized system controlled by the banks. Although their National Reserve Association would be made up of local branches loosely based on the model of private clearinghouses, that association would feature a uniform national discount rate set by the system's board of directors, presumably bankers themselves.[85]

Along with William Allison, Orville Platt, and John Colt Spooner, Aldrich was accustomed to setting the agenda for Senate deliberations.

[82] On the Bank of England and the 1866 crisis, see Flandreau and Ugolini, "Where it All Began." O'Malley, *Face Value*, discusses contemporary disputes about whether the Bank of England should serve as the model for a comparable American institution.

[83] Ott, "Interview." On the 1907 panic, see Bruner and Carr, *Panic of 1907*.

[84] Or, as it was described by contemporaries, the goal was to lend elasticity to the currency. Aldrich-Vreeland also provided for the creation of a National Monetary Commission to recommend a more durable solution. Academics are inclined to see intellectual consensus (sometimes referred to as the development of an "epistemic community," other times as the emergence of "class consciousness" on the part of the bankers) as a prerequisite for financial reform. If so, the deliberations of the National Monetary Commission were an important steppingstone. See Haas, "Introduction." Michael Polanyi for his part referred to "scientific communities." See Polanyi, "Republic of Science." The emergence of a common class consciousness among the bankers is the focus of Livingstone, *Origins of the Federal Reserve System*.

[85] Forder, "'Independence'"; Hofstadter, *American Political Tradition*. Recent treatments include Conti-Brown, *Power and Independence*, and Binder and Spindel, *Myth of Independence*.

But his plan for bankers' control had to contend with the longstanding anti-banker current in American politics. There was a straight line from Andrew Jackson's opposition to the Bank of the United States, through William Jennings Bryan's vilification of Eastern financial interests, to newly elected President Woodrow Wilson's suspicion of the bankers and championing of progressive values.[86] Bryan himself was, of course, Wilson's first secretary of state.

For Wilson, progressivism entailed the elimination of monopolistic practices, not least "the money monopoly." And Wilson's views had weight, given that the Democrats gained control of not just the White House but also both houses of Congress in 1912. No plan could go forward without support from the bankers. But neither could it go forward without support from Progressive office holders.

The result, not for the first time, was an awkward compromise. There would be a decentralized system of reserve banks but also a central body, the Federal Reserve Board in Washington, D.C., chaired by the treasury secretary and with members appointed by the president. The reserve banks would have Class A directors representing member banks, but also Class B and C directors, non-bankers representing "the public." Each reserve bank would be required to hold its own minimum cover, in gold and eligible paper, against its note and deposit liabilities.

But much was left unsaid, and indeed undecided, about how the Board and reserve banks would relate: under what circumstances the reserve banks would be obliged to take instructions from the Board, for example. There was no agreement on whether there would be a uniform discount rate dictated by the Board, as the proponents of the National Reserve Association had recommended, or different discount rates appropriate to circumstances in different reserve districts, the model favored by many Western and Southern congressmen. Critics of the National Banking System complained of the tendency for interest rates in the West and South to spike during the planting and harvest seasons.[87] They now hoped that Western and Southern reserve banks might be able provide

[86] As noted above, O'Malley, *Face Value*, 176, also connects the debate over the structure of the Federal Reserve System to "the long and rich history of opposition to central banking" in the United States.

[87] A study of seasonal swings in interest rates was undertaken for the National Monetary Commission by Kemmerer, *Seasonal Variations*. An economic historian's treatment is Eichengreen, "Currency and Credit."

relatively generous accommodation at these times of year.[88] But it was unclear whether the maintenance of different policy interest rates was in fact feasible in a single, integrated national financial market. The Great Depression would be needed to provide the answer.[89]

The Federal Reserve Board sought to exert its authority in 1922 by establishing an Open Market Investment Committee of five reserve bank governors, chaired by the governor of the New York Fed and tasked with coordinating discount and open-market operations system-wide. Other reserve banks pushed back against its instructions, and several, such as the Chicago Fed, sought to opt out of Board-mandated open-market operations.[90] In 1929 the shoe was then on the other foot: when the New York Fed repeatedly sought permission to raise its discount rate in order to damp down stock-market speculation, the Board of Governors withheld its approval before finally acquiescing late in the summer. When the Wall Street crash then followed, the New York Fed unilaterally cut rates, there being no time to obtain the prior approval of the Board in a crisis. An angered Board of Governors responded by prohibiting such unilateral action in the future and by preventing the New York Fed from further easing monetary policy later in the year.

In March 1930, to further rein in the New York bank, the Board replaced the Open Market Investment Committee with an Open Market Policy Committee made up of all twelve reserve bank governors. The enlarged committee was to decide policy in consultation with the Board, an unwieldy arrangement in fast-moving crisis circumstances. Two years had to pass before the committee and the Board finally agreed to a program of expansionary open market operations to counter a disastrous deflation. But those open-market operations were halted in the autumn, setting the stage for the third and greatest banking crisis of the Great Depression. The New York Fed again attempted to intercede but was hamstrung when its gold reserves fell toward their statutory limit. It requested a temporary loan of gold from the Chicago Fed, which the latter refused, concerned that it might have to intervene on behalf of its own banks. The Board declined to compel its cooperation.[91] This stasis

[88] In addition, there remained deep and abiding suspicion of federal interference in state and regional affairs as a legacy of the Civil War and Reconstruction.

[89] See Cohen-Setton, "Making of a Monetary Union."

[90] I recount this history in Eichengreen, "Designing a Central Bank for Europe."

[91] See the discussion in Wigmore, "Was the Bank Holiday of 1933 Caused by a Run on the Dollar?"

left the newly installed president, Franklin Delano Roosevelt, no choice but to declare a nationwide bank holiday. This, clearly, was no way to run a central bank.

Decision making was finally rationalized by the Banking Act of 1935, which decisively assigned authority to the Federal Open Market Committee, dominated by the seven members of the renamed Board of Governors, while removing the treasury secretary and comptroller of the currency from the latter, thereby enhancing its independence from the executive branch. In addition, the 1935 act created the Federal Deposit Insurance Corporation and a system of deposit insurance while eliminating double liability provisions for bank shareholders.[92] Both innovations sharpened incentives for risk taking by bank directors and officers—or at least eliminated earlier disincentives. For the moment, that risk taking was held in check by memories of the 1930–1933 financial crisis and by the new restrictions on bank operations imposed by the Glass-Steagall Act in 1933. Eventually, however, the consequences of these regulatory decisions would become evident.

This history of the Federal Reserve System has largely been the preserve of economists and statistically oriented economic historians, building on Friedman and Schwartz's *Monetary History of the United States*.[93] Historians of capitalism, in contrast, focus on the financial circumstances of working-class savers and investors, and on how other elements of the financial superstructure, such as the New York Stock Exchange, resisted efforts to impose outside regulation in the wake of the Great Crash and Great Depression by promulgating the concept of "investors' democracy."[94] One would like to see historians of capitalism turn their attention to how the Federal Reserve System, arguably the single most important element of twentieth-century American finance capitalism, successfully resisted more fundamental reorganization in the wake of its failures in the Great Depression. And one would like statistically oriented historians broaden their attention from the failures of the Federal Reserve and its member banks to the impact on individuals and firms.[95]

[92] Two new economic historians who deal with the history of the FDIC are Calomiris and Haber, *Fragile by Design*.

[93] Friedman and Schwartz, *Monetary History*.

[94] The contemporary phrase is also the subtitle of Ott, *When Wall Street*.

[95] Quantitatively oriented economic historians have not entirely neglected the latter. See Olney, *Buy Now, Pay Later*.

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Failures of financial institutions were all but nonexistent in the United States between World War II and the early 1980s. The time series of "failures of all financial institutions" compiled by the Federal Reserve Bank of St. Louis for this period resembles the electrocardiogram of a dead person.[96]

This changed with the savings and loan (S&L) crisis, which broke out when 1930s reforms collided with 1970s conditions. There had been considerable growth of such mutual or cooperative savings banks in the nineteenth century, as we saw in a previous section. Growth of the industry was then further stimulated by the Liberty Loan campaign of World War I, which encouraged systematic saving, and by Commerce Secretary Herbert Hoover's sponsorship of Better Homes Week starting in 1922 and his efforts to standardize housing design and construction methods so as to make home ownership practical for more Americans.[97]

It also came apart on Hoover's watch, with spiraling defaults on mortgage loans and the failure of more than 1,700 building and loans in the Great Depression. Congress responded in 1932 with the Federal Home Loan Act, which created a Federal Home Loan Bank Board to regulate the industry. The 1934 National Housing Act created the National Housing Administration to insure mortgages and the Federal Savings and Loan Insurance Corporation to insure deposits. The extensive federal intervention needed to stabilize the system was corrosive to the mutual nature of S&Ls, while insurance was conducive to additional risk taking once the latter were no longer constrained by tight regulation.

Deregulation occurred in the 1980s in response to strains resulting from accelerating inflation and rising interest rates. Historians of capitalism like Julia Ott would argue that that this deregulation should be understood as a legacy, delayed half a century by the Great Depression, of the ideology of popular finance capitalism that developed between 1900 and 1930.[98] Whatever its wellsprings, S&Ls were permitted to compete more aggressively for funding by the Depository Institutions Deregulation and Monetary Control Act of 1980. They were allowed to invest in commer-

[96] This series, known as BKFTTLA64IN, peaks in 1976, when sixteen institutions failed.
[97] See Rogers, "Planning the Family."
[98] Again see Ott, *When Wall Street.*

cial and unsecured real estate loans by the Garn-St. Germain Depository Institutions Act of 1982. Garn-St. Germain's liberalized chartering provisions made it easier for mutual thrifts to demutualize (to convert from depositor-owned cooperatives to stock-issuing entities), a shift seen as associated with increased appetite for risk on the part of loan officers and managers.[99] Finally, changes in accounting rules allowed S&Ls to include certain speculative forms of capital on their balance sheets, and to exclude the corresponding liabilities. The result was a temptation for thinly capitalized intermediaries squeezed between rising funding costs and stagnant incomes to gamble for redemption, and a tendency for the quality of new loans to decline.

Large numbers of S&Ls failed in the course of the 1980s. A line was finally drawn under the problem after 1989, with passage of the Financial Institutions Reform, Recovery, and Enforcement Act, which strengthened the enforcement powers of regulators, allowed for early intervention in troubled intermediaries, and created the Resolution Trust Company to manage and liquidate the assets of failed thrifts.

Two questions may be asked about this episode. Was it really a crisis, and if so why weren't stronger lessons drawn about the dangers of light-touch regulation? The answers are connected. Alexander Field shows that S&L failures were inconsequential for the macroeconomy—that the output losses resulting from their insolvencies were minimal.[100] S&Ls were small and systemically insignificant. The economic expansion that followed on the heels of the crisis (economists like Gerard Caprio and Daniela Klingebiel date the key events affecting the S&L industry as occurring between 1984 and 1991) was one of the longest and strongest experienced by the United States in the course of the twentieth century.[101] The fact that output losses were negligible encouraged the advocates of deregulation—some motivated by ideology, some by naked self-interest—to proceed with the final repeal of Glass-Steagall in 1999 and with light-touch regulation generally.

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[99] See Chaddad and Cook, "Economics."
[100] Field, "Macroeconomic Significance."
[101] See Caprio and Klingabiel, "Bank Insolvency."

The financial crisis of 2007–2008 is still too recent to admit of a definitive historical analysis. There are as many approaches as there are efforts to analyze it, from the popular and journalistic to the anthropological and cultural.[102] Policy has been indicted as well-intentioned if incompletely effective, but also as captured and distorted by special interests.[103] A broad consensus links instability to the excessive financialization of the economy and locates the deeper roots of that financialization in slowing income growth, widening inequality, and stagnating productivity, problems that were conveniently papered over by permissive federal housing policies, lax Federal Reserve monetary policies, and the soaring indebtedness of households encouraged to live beyond their means.

The contours of this story are broadly similar whether it is told by neoclassical economists, Marxian economists, quantitative economic historians, or historians of capitalism.[104] The commonalities of their analytical perspectives are striking. Not just historians and anthropologists but also legal scholars and economists emphasize the cultural prestige acquired by the financial industry in the decades leading up to the crisis when seeking to explain the deference exhibited by regulators and the public in the face of excessive risk taking.[105] They observe that status and social networks and not simply financial incentives contributed to realized outcomes. Focusing on financiers' assertion of a social purpose with which regulators could identify, on societal connections between the financial industry and regulators, and on the existence of complex issues justifying delegation of important decisions to technocrats, researchers seek to blend the materialist incentives emphasized by economists and economic historians with the denaturalizing of economic and financial conditions and the embedding of them in particular historical circumstances, in the manner of historians of capitalism. When it comes to the recent financial crisis, money and finance are treated as political and cultural matters, not just by historians of capitalism but also by economists commonly accused of neglecting such aspects.[106]

[102] Examples of the respective genres are Lewis, *Big Short*; McLean and Nocera, *All the Devils are Here*; Tett, *Fool's Gold*; and Kwak and Johnson, *13 Bankers*.

[103] Both perspectives are represented in Carpenter and Moss, ed., *Preventing Regulatory Capture*, and Baily and Taylor, ed., *Across the Great Divide*.

[104] See Rajan, *Fault Lines*; Brenner, "What is Good for Goldman Sachs"; Levy, *Freaks of Fortune*; and Hyman, *Debtor Nation*.

[105] Kwak, "Cultural Capture."

[106] For a thoughtful discussion of the issues and literature, see Lipartito, "Reassembling the Economic."

The global financial crisis revealed the falsehood of one leading neoclassical economist's assertion that "macroeconomics . . . has succeeded: Its central problem of depression prevention has been solved." This, in turn, has encouraged economists to adopt a more context-specific and therefore historical approach.[107] And by drawing attention to the extent and consequences of economic instability, it has encouraged historians to apply their perspectives emphasizing race, gender, ethnicity, and power not just to interpersonal relations, social questions, and cultural issues but also to the operation of the larger economic system. It reminded both groups that the recent financial crisis has historical analogs, or precedents, whose similarities with and differences from the recent crisis have yet to be fully elaborated.

Maybe, then, it just takes an economic and social catastrophe to produce a post-disciplinary dialogue.

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