



Financial revolutions and economic growth: Introducing this EEH symposium

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Abstract

This special issue of *Explorations in Economic History* includes four articles that delve into the 19th century financial development of Belgium, Germany, Sweden, and Japan, and relate these developments to economic growth. In this guest editor's introduction, we survey current thinking about "financial revolutions" and their role in rapidly assembling the factors that can set modern growth into motion, and link this paradigm to both the more traditional and recent literatures on banks, stock markets, and growth. We conclude with summaries and some commentary on the articles that follow.

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1. Introduction

Over the past half century the dominant view of economists and economic historians on the relationship between financial development and economic growth has made an about-face. The old view was pithily stated by Joan Robinson (1952): "By and large... where enterprise leads finance follows." At that time, Robinson and others considered technolog-

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ical change to be the driving force of economic modernization, both in the first industrial revolutions (i.e., the advent of the factory system) of the late 18th and early 19th centuries as well as in the second industrial revolutions (i.e., the rise of big business) of the late 19th and early 20th centuries. These technological revolutions created new and enlarged demands for finance, and financial systems responded to those demands by delivering new financial institutions, markets, and instruments. Lonely indeed were the few who thought financial development might have played a more active role in economic modernization. Among those few, as Van Nieuwerburgh et al., remind us in their contribution to this symposium, were [Gurley and Shaw \(1955\)](#), who expressed regret at the “inadvertent undervaluation by economists of the role that finance plays in determining the pace and pattern of growth.”

Half a century later, it is increasingly evident that economists and economic historians subscribe to a dramatically different view of the finance-growth nexus, one that might be characterized as, “Where finance leads, enterprise follows.” Here, we do not need to cite the growing body of evidence and interpretation that has led to the shift of thinking because others, for example, [Levine \(2005\)](#), and [Rajan and Zingales \(2004\)](#), have already done that. But we might ask ourselves why such a change of thinking occurred.

We believe that there are several reasons.

- (1) The world economy changed. From World War I to the 1970s, finance was in many ways repressed, which might have led scholars during that era to think finance did not matter all that much, and therefore possibly never had mattered all that much. The hostilities of 1914–1918 undermined the gold standard, unleashed hyperinflations, and led to slower growth in world trade. Capital flows were also reduced in the decade that followed. In 1929, stock markets crashed and soon bank failures all over the world destroyed money as the world economy slipped into the Great Depression. Politicians and the public quickly found the financial system and financiers to be convenient scapegoats for the economic debacle. Governments responded by repressing financial markets in various ways and by nationalizing financial institutions or, as in the United States, segmenting and cartelizing them.

Governments also assumed a larger role in the allocation of capital both domestically and internationally, and, as a by-product of the Keynesian revolution, in managing their economies with fiscal and monetary policies. The combination of domestic economic policy discretion with the post-World War II Bretton Woods system of fixed exchange rates meant that flows of capital across borders had to be strictly controlled, even repressed. With capital flows bottled up and banks strictly regulated in the interests of safety above all, stock and bond markets became pale imitations of what they had been before 1929 and even less like they were in 1914. Given these mid-20th century circumstances, it is perhaps not surprising that scholars thought finance did not matter very much.

But then the firms and government of the United States flooded the world with dollars, quickly turning a dollar shortage after World War II into a dollar glut by the 1960s. In that decade the United States attempted to stem the outflow of dollars by closing its large capital markets to the world with interest-rate-equalization taxes and “voluntary” restraints on capital exports, but to no avail. American and foreign money-center banks began to shift operations to London, where Eurodollar markets could be used to fund international operations beyond the reach of US laws and

regulations. When it became obvious that the United States did not have enough gold reserves to meet its convertibility commitments under Bretton Woods, President Nixon in the early 1970s severed the link of the dollar to gold, ushering in a new world order of market-determined exchange rates. The United States then went back to its traditional preference for free international capital flows. The world followed. By the 1980s, decades of governmental repression of finance gave way to a new era of financial innovations, one in which finance began to provide discipline for governments and firms. Finance once again mattered, as it had before 1929 and 1914.

- (2) Finance theory advanced. As the world was turning away from repressing financial markets and institutions and toward liberating them to allocate capital and manage risks, financial economists made a number of breakthroughs. Among the leading ones were modern portfolio theory, the Modigliani-Miller corporate finance theorems, the capital-asset-pricing model, and the Black-Scholes-Merton option pricing analyses. Financial economics became a lively area of scholarly research and discourse, with manifold applications in the real world of finance. Wall Street hired Ph.D.s in “rocket science” finance.
- (3) Financial history advanced. As monetary and macro economists such as Gurley and Shaw, Friedman and Schwartz (1963), and Goldsmith (1969, 1985) used historical data in attempts to persuade other economists of the importance of financial development, so too did seminal economic historians such as Gerschenkron (1962), Cameron (1961, 1967, 1972); and Landes (1969). Gerschenkron made the provision of capital to industrial firms and the role of banks therein key features of his analysis of the patterns of European industrialization during the 19th century. Cameron spearheaded a number of studies of the role of banking, and finance more generally, in historical economic modernizations, and he along with Gerschenkron and Landes drew attention to a financial revolution wrought by the appearance of universal banks around the middle of the 19th century. Tracy (1985) drew attention to an even earlier financial revolution in the Netherlands during the 16th and 17th centuries, a lead followed and further developed by scholars such as t’Hart and her collaborators (1997), and De Vries and van der Woude (1997). Even earlier, Dickson (1967) explored England’s financial revolution of the late 17th and early 18th centuries, a lead again followed by others including North and Weingast (1989) and Neal (1990). We ourselves (Rousseau and Sylla, 2003, 2005) have drawn attention to a financial revolution in the United States shortly after the Constitution went into effect, and Wright (2002) amplifies that analysis. And one of us (Sylla, 1999), following up on the work of scholars of Japan’s economic history such as Rosovsky (1966) and Tamaki (1995), identifies a financial revolution in Japan during the 1870s and 1880s. The other (Rousseau, 1999) links these financial developments econometrically to real activity in Japan from 1885 to 1913.

The work of these and other financial historians has not had as much impact as it should on the efforts of mainstream economists exploring the finance-growth nexus. Modern macro and growth economists usually work with large cross-country data sets available for anywhere from 40 to 160 countries since about 1960. Analyzing these data, they find that countries with more developed banking systems and securities markets tend to grow faster than those with less developed systems and markets (see, for example, King and Levine, 1993; Levine and Zervos, 1998). These contributions did

much to refocus attention on the link between financial factors and real activity, and their influence on the way that economists now think about the nexus should in no way be underestimated. But some of these results have been challenged as perhaps driven by sample outliers, while others contend that special cases of rapid growth—for example, in East Asia—might have better fundamental explanations than financial development.

We believe that macro and financial economists ought to pay more attention to the work of financial historians because that work on several dimensions makes a stronger case for finance-led growth than does much of the mainstream literature. History's financial revolutions—those of the Netherlands around 1600, of Britain around 1700, of the United States before 1800, of continental Europe in the mid-19th century, and of Japan before 1900—took place before those nations achieved their high rates of modern economic growth, suggesting at least that growth might have been finance led. In our view, a financial revolution consists of creating all or most of the key components of a modern financial system, which include well-managed public finances, stable money, a central bank, a banking system, securities markets, and corporations. The economic growth of countries that had such financial revolutions considerably exceeded that of most others. The gains in growth, though of course not attributable to finance alone, were far from marginal. [Rousseau \(2003\)](#), using the time-series tools of macro-econometrics, finds empirical support for this view.

Still another reason why macro and financial economists might give more heed to financial history is that the work of historians often emphasizes the importance of state actions in creating modern financial systems. In our modern neo-liberal era, governmental financial activities—taxing, spending, borrowing, creation of money via dependent central banks, and so on—are viewed mainly as regressive rather than progressive forces. Financial economists reflect that somewhat ideological stance when they emphasize private-sector bank credit and securities financing, which are “good,” as opposed to public sector financing, which is “bad.” They seem heartened when statistical analyses confirm these priors, and it may well be that in the multi-country data sets of recent decades, less private financing and more government financing are associated with lower growth rates.

On the other hand, historians find that the financial revolutions that led to higher rates of growth in the Netherlands, Great Britain, the United States, and Japan were engineered in the first instance by governments seeking answers to the age-old question of how to pay for wars. The governments of these countries stabilized their currencies, established tax-gathering bureaucracies, made their public debt securities credible in the eyes of investors, and founded central banks that aided government finance while promoting financial-system stability (e.g., [Ferguson, 2001](#)). With these key elements of finance in place, banking systems, securities markets, and corporations developed and flourished, completing the financial revolutions.

There thus may be a lesson of financial history for those laboring to improve national financial systems around the world today. Instead of viewing governmental financial activities as negative and repressive, and putting most of the emphasis on improving private banking and securities markets, it might be best to start with improving public finances, central banking, and currency stability. History suggests that once those basic objectives are realized, better banking and securities markets will naturally emerge and develop.

2. How does financial development promote economic growth?

The traditional literature on the role of financial deepening in economic growth, much of it with roots in the development economics paradigm (e.g., Goldsmith, 1969; Gurley and Shaw, 1955; McKinnon, 1973; Shaw, 1973), typically identifies four channels through which finance can influence the characteristics of an economic general equilibrium. The resolution of informational asymmetries between lenders and borrowers and the reduction of transactions costs are central to these channels. In most accounts, they deliver a distinct and first-order role for finance that is absent in frictionless models of the financial system such as that described by Fama (1980).

First, and perhaps foremost among the channels from a historical perspective, is the role of a financial system in promoting the pooling of capital. In primitive economies, the introduction of money as a store of value and transactions medium relaxes the constraint that economic agents consume their surpluses on a regular basis, allowing instead for surpluses to accumulate in the form of money that can later fund highly-productive but indivisible investments (see McKinnon, 1973, Chapter 2). To the extent that a wider range of savings vehicles than the simple holding of money balances is available, modern economies should be even better able to mobilize the blocks of capital needed to undertake large investments. As confidence in the ability of financial intermediaries to meet their obligations to the public grows, more savers choose to lodge their excess balances with them rather than consuming or attempting more marginal and incremental projects. Economists call this the “capital accumulation” or “debt accumulation” channel (Gurley and Shaw; Bencivenga and Smith, 1991) through which finance affects growth.

More important in modern economies, however, is the ability of a financial system to direct resources to those projects that carry the highest returns under the implicit assumption that such projects also offer high social returns. A financial system accomplishes this key task by screening applicants for external financing and monitoring those that actually receive funds. In a banking setting, such screening and monitoring involves loan applicants and recipients, where the loan department of the bank aims to resolve or reduce informational asymmetries on both sides of the transaction. In equity markets this task usually falls upon brokers, dealers, and the financial press, all of whom operate in a deep and liquid financial market to ensure that securities are made available at prices that reflect something close to the intrinsic value of the underlying investments.

A financial system also provides diversification services for its participants (see Diamond, 1984). Without a financial system or with only a primitive one, agents with surpluses may be faced with limited investment opportunities that involve exposure to industry-specific risks. To manage such risks, investors may choose to hold more safe assets and fewer risky ones than might be optimal from the perspective of a social planner. A good financial system, by making risky investments available across a wide range of sectors and economic environments, encourages investors to purchase the potentially high-return securities that are needed to promote optimal growth. Among the instruments that become available for risk sharing in modern economies are insurance claims and hedging vehicles such as futures and options. All of this leads to what may seem the paradoxical conclusion that modern financial systems, by helping investors to manage risk, actually promote greater risk taking and higher growth.

Yet another way that finance can affect real activity is by lowering the cost of making regular financial transactions. If investors must expend an excessive amount of resources

in buying and selling their securities, the securities themselves will be less valuable and thus less desirable to hold for their expected payment streams. Financial markets avoid these frictions by concentrating the liquidity for individual assets in a single market mechanism, making direct finance increasingly feasible, and ultimately even a substitute for intermediated markets.

The existence of financial markets can have real effects that extend beyond those agents that actually operate within it. For example, a stock market provides entrepreneurs and venture capitalists with a potential exit mechanism for their more successful projects. When projects are passed from venture capitalists to the more diffuse market-at-large, resources are freed for proceeding with new potentially high-return startups. By offering such a mechanism, financial markets promote entrepreneurial activity more generally.

Over the course of this symposium, we will encounter historical examples in which most of these channels of finance-led growth are at play.

3. This symposium

The four articles that follow expand and enhance our understanding of the relationship of financial development to economic growth in the 19th-century histories of Belgium, Germany, Sweden, and Japan. Here, we provide summaries of each article and some comments on what we see as their relationship to previous work and implications for future research.

3.1. *Van Nieuwerburgh, Buelens, and Cuyvers on Belgium*

Stijn Van Nieuwerburgh, Frans Buelens, and Ludo Cuyvers lead off with an article that explores the role of the stock market in Belgium's economic growth from 1832 to the present. The wide swath of history covered by the analysis suggests from the outset that the time series dimension of the available data for Belgium will be called upon to speak about the long-run effects of finance. And indeed the article does demonstrate the use of state-of-the-art time series econometrics. In so doing it is ideal for asking, for example, how much additional steady-state growth the Belgian economy could expect, both historically and in a forward-looking sense, from, say, a 10% increase in the ratio of stock market capitalization to GDP. This type of question perplexes the standard cross-country growth regression, which is better designed to ask, for example, about the additional growth that a developing country such as Bangladesh might expect if it became more like one of the technological leaders such as the United States or Britain. This is because cross-country regressions perform best when set to the task of organizing between-country variation in the data, rather than the within-country variation that is usually suppressed with a set of dummy variables for time. In the study of the finance-growth relationship, it is exactly these within-country effects that are most informative about the mechanisms of causation that might be at work.

The study begins by tracing out important elements of Belgium's financial history, an exercise that is particularly appealing since Belgium is generally believed to be the first continental European country to have industrialized. Consistent with the "financial revolutions" hypothesis, the emergence of the Brussels stock exchange in 1801 corresponds closely in timing with this industrialization. Perhaps surprisingly, however, at least from the perspective of this hypothesis, is that the period between 1870 and 1935 seems to be

the one during which the stock market had its greatest impact on real activity. Over this period, the number of securities listed on the exchange rose from about 150 in 1870 to a peak of nearly 1600 in the mid-1920s. The increasingly international character of the securities traded can account for much of the rise, including a sharp increase from 1890 to 1910 in the number of Belgian firms whose main operations were conducted abroad. As Jovanovic and Rousseau (2001) show for the United States, the period from 1890 to 1930 in Belgium also saw rapid growth in the number of initial public offerings, perhaps driven by technological advances such as electrification and the internal combustion engine, that made it more profitable (in terms of the discounted value of expected future dividends) for firms to go public rather than to remain closely held. As also was the case for the United States, Belgium benefited from the presence of an active stock market to absorb these new ideas and bring them to market quickly. The presence of a deep and liquid financial market at times of positive technological shocks is at the heart of the mechanism through which a good financial system can cause economic growth.

The authors go on to argue that the emergence of Belgium's universal banking system early on was an important pre-condition for the growth-enhancing role of the stock market. The econometric analysis shows that banking was indeed an engine of growth over the entire 1832–2002 period, but that it also had a direct impact on stock market development in the critical 1873–1914 period. This result is consistent with scholars who point to an appropriate “ordering” of financial liberalization that has the development of stock markets following the establishment of a sound banking system (McKinnon, 1991).

3.2. *Burhop on Germany*

Carsten Burhop's article on Germany contributes in an important way to a long-standing debate (key contributions to which he references) on the role of banks in Germany's industrialization during the second half of the 19th century. His contribution is twofold. First, he presents longer and more comprehensive data series pertinent to the debate than have been available to earlier researchers. Second, he subjects the data to modern econometric causality tests that were not available to most previous investigators.

Burhop's key finding is that German joint-stock credit banks positively affected capital formation in Germany's modern (industrial and railway) sector from the 1850s to the 1880s. On the other hand, there is little or no support for the hypothesis that the credit banks played a similar leading role in the German economy's overall growth from 1860 to 1913. If anything, savings banks were more important than credit banks in promoting German capital formation in the three decades before World War I.

These findings are of significance for at least two reasons. First, they argue for disaggregating comprehensive measures of growth such as GDP into modern and traditional sectors. Almost by definition in historical cases of economic modernization, the modern sector starts out small, but then grows rapidly and eventually dominates economic output. This might explain why so many investigations of developing historical economies find gradual accelerations in the growth of comprehensive measures such as GDP and GDP per capita. Sometimes such findings are taken as evidence against the concept of an “industrial revolution.” But it is possible that revolutionary changes during a concentrated period of history might take place in the small modern sector of an economy without showing up very much in GDP growth for a considerable time afterwards. In that case,

revolutionary changes and gradual accelerations of growth in the whole economy could be entirely consistent, not inconsistent, with one another.

Second, Burhop's findings bear on Gerschenkron's famous contention of half a century ago that joint-stock credit banks in Germany's industrialization were crucial substitutes for the missing prerequisite of mercantile capital accumulations that were present to finance modernization in earlier cases of industrial development, notably that of England. Since Gerschenkron made that argument long ago, it has been subjected to extensive testing and criticism (see Burhop's discussion and references) because a strong connection of banking development to economic growth was not found either in aggregated data or in disaggregated data that were available for the late period of Germany's industrialization, from the 1880s to World War I. By extending the database back in history, Burhop is able to make a fairer test of Gerschenkron's hypothesis, which was more about the early phases of German industrialization when the joint-stock banks first appeared than about its later, mature phases. Burhop's findings indicate that Gerschenkron's argument about Germany is perhaps more supportable than his later critics suggested it was.

3.3. *Ögren on Sweden*

Sweden, a relative small country on the northern periphery of Europe, is considered by historians to have had a relatively backward economy until the 1870s, when it began to grow rapidly. By the early 20th century, Sweden was transformed from one of Europe's poorer economies to one of its richest. Sandberg (1978, 1979) located the impetus for this transformation in Sweden's financial liberalization of the 1850s and especially the 1860s, which resulted among other things both in more banks and new forms of banking. But Sandberg's analysis was challenged by Kindleberger (1982, 1984), who raised doubts about the sophistication of Swedish banking and suggested there were other reasons for Sweden's transformation.

Anders Ögren's detailed study of Sweden's Enskilda banks, the country's dominant banking form in the 19th century, within the context of Sweden's overall monetary and banking system reinforces Sandberg's position in the earlier debate. He does so by demonstrating, with new data that he compiled, a marked financial deepening, that is, a boom in Sweden's per capita money supply and a steep drop in velocity, after the financial liberalization of the 1860s and before the upsurge in Swedish economic growth after 1870.

Ögren's article also makes an important contribution to another debate, one about the nature of Sweden's banking system. A number of scholars he cites argued that Sweden was a case of free banking because the Enskilda banks until the end of the 19th century could freely issue banknotes that were convertible into specie. Moreover, the free banking system, given the country's rapid economic growth after 1870, obviously worked well. Free banking analysts contrast that system with the central banking system of other countries, in which only the central bank issues notes.

In Sweden, Ögren argues, the situation was more complex than either of the two ideal types, free banking and central banking, would have it. The Riksbank, a creation of the Swedish state, also issued notes, and because of its special relationship to the state it had some characteristics of a central bank. If Sweden truly had a free banking system, the Riksbank would have functioned like any other note-issuing bank. When one bank in a free banking system receives notes (or checks) of another bank, market discipline and the receiving bank's own interest dictate that it send the notes of the other bank back

to it for redemption. That is what free banking analysts of Sweden suggest actually happened. Ögren, on the other hand, demonstrates that Riksbank notes were not sent back for redemption by note-issuing Enskilda banks; rather, they were held as reserves by those banks to back their own note issues. In other words, the Riksbank issued a base money held along with specie as reserves by other banks. Sweden therefore was not a case of free banking. Ögren further argues that the symbiotic relationship between the Riksbank and the Enskilda banks resulted in a faster monetization of the Swedish economy and more financial deepening than would have occurred under either a pure free banking system or a pure central banking system, and he suggests that this is why Swedes preferred it to either of the alternative systems that they might have chosen.

Ögren's analysis of Sweden serves to remind us of a discussion having to do with the early financial system of the United States, where notes were issued both by numerous state-chartered banks and by the two Banks of the United States that the federal government had chartered to operate between 1791 and 1836. Hence, US banking conditions in that period were rather like those in Sweden half a century later. Scholars of the US system typically assumed that the monetary base was specie, but they also have noted that banks, particularly during the heyday of the second Bank of the United States under Biddle from 1823 to 1836, held lower specie reserves than they did later, and that the US public also held most of its money in the form of bank liabilities and very little in specie (Engerman, 1970; Temin, 1968, 1969). More recently, Officer (2002) makes a strong case that notes issued by the two Banks of the United States were treated by other banks as base money reserves, the same point made by Ögren about Riksbank notes in Sweden. These arguments have implications about the fundamental nature of 19th-century monetary and banking systems, as well as a range of other issues. Quite clearly, they deserve more study in the Swedish, US, and other contexts.

3.4. *Miwa and Ramseyer on Japan*

Yoshiro Miwa and J. Mark Ramseyer conclude the symposium on a cautionary note, examining whether the “financial revolution” paradigm applies to Meiji-era Japan as aptly as it might apply to the United States. While acknowledging that several elements of a financial revolution came into being around the time that Masayoshi Matsukata first served as Japan's Minister of Finance (1880–1891), the authors assert that demand from the private sector for intermediation rather than the government's need for sound public finances provided the impetus for financial development. They offer evidence from the silk reeling industry, which relied extensively on trade credit rather than banks for working capital, to support this position.

On closer inspection, however, it is reasonable to raise the question of whether the similarities between the Hamiltonian financial revolution and Japan's financial development under Matsukata outweigh the differences. For example, in the early 1880s Matsukata did indeed accomplish a successful deflation, established a central bank, privatized public firms, and generally straightened out what had become quite a mess in the public finances. The number of banks more than doubled between 1880 and 1891. In the authors' favor, however, the banking system and securities markets had already begun to emerge in the late 1870s, before Matsukata's first term began, and the public debt had seen rapid growth in the late 1870s and very little additional growth in 1880s. Miwa and Ramseyer note that these timings represent some basic inconsistencies with the notion of a financial revolution

engineered by Matsukata, and use them to suggest that the Hamilton–Matsukata analogy proposed in Sylla (1999) is overstated.

But at the same time the authors do not dispute that Japan experienced a financial revolution in the Meiji-period! Rather, they argue that one part of the revolution, namely the emergence of banks, was driven by the private sector, and that another, securities markets, could not have been engineered by Matsukata. The point of contrast, then, appears to lie in the personification of the financial revolution rather than the revolution itself. This is nevertheless a point well taken, and one that will set the stage for further investigation of the factors that put Japan's financial leap into motion.

The two other themes of the article are the demand-driven nature of the banking system, and the importance of non-bank credit in the industrial sector generally and the silk-reeling industry in particular. Miwa and Ramseyer appear to be right with respect to the first theme: banks did not develop as instruments of public sector finance but rather sprang up to help entrepreneurs in accumulating capital. Of course, the rapid expansion of banking in the United States over the first 25 years of the 19th century was not accomplished with public finance in mind either. But the Federalist financial revolution, in setting up a central bank to serve as the government's banker, provided an infrastructure conducive to the start of individual banks to meet private demands for credit. Perhaps the same thing happened when the Bank of Japan was formed.

On the issue of financing industry, Miwa and Ramseyer demonstrate that most silk-reeling firms relied on a complex web of trade credits for their working capital. Their conclusion that banks and securities markets were not important in financing these firms, however, de-emphasizes their own finding that banks remained at the top of the financing pyramid by providing funds to the merchant intermediaries who in turn offered them in the form of trade credit to smaller industrial enterprises. Some of these merchants even founded their own banks. This suggests that a developed financial system may actually serve those that it does not seem *directly* to serve, with smaller producers and would-be entrepreneurs benefiting from relationships with other firms that do have connections with the financial system. In this institutional setting, suppliers of inputs to and purchasers of outputs from start-ups and small producers can use their tie-ins with the formal financial system to provide financing help to those who do not have direct access to it. This, once again, is not all that different from conditions in the early US cotton industry, where factors discounted farmers' notes, thereby extending them short and medium-term trade credit, while the factors themselves used their relationships with city bankers to secure the actual financing.

On the whole, Miwa and Ramseyer effectively outline the differences between the early financial development experienced by the United States and Japan. And though these differences may not be as fundamental as they appear at first glance, they demonstrate the potential pitfalls of using a "one-size-fits-all" approach to studying any social or economic phenomenon, including financial revolutions. It is our hope that their contribution, as well as the others included in this symposium, will stimulate further efforts to explore the financial-revolution paradigm in other contexts, at the same time avoiding the temptation to apply a new label to situations where it is only marginally appropriate. After all, there is a big difference between financial "innovation" and a financial "revolution." A revolution implies a fundamental change in the way that the business of life is conducted, and as such must go hand-in-hand with effects on real activity. Indeed, is this not what financial development is all about?

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