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BOOK REVIEWS

Howard Bodenhorn, **A History of Banking in Antebellum America: Financial Markets and Development in an Era of Nation-Building** (Cambridge: Cambridge University Press, 2000. 282 pp. £15.95)

The early antebellum period in the United States has always been something of a 'dark age' for the financial historian. This is due not to a lack of primary data sources but, rather, because organising the volumes of individual bank and securities-market transactions dispersed throughout the country is a task beyond the capabilities of a single individual. In his recent book, Howard Bodenhorn offers a coherent view of the challenges ahead, and sounds a call to arms for economists and historians seeking to understand more completely the linkages between financial development and long-run growth in the United States. Given the recent rediscovery of the early American experience as, arguably, history's most successful emerging market, Professor Bodenhorn's analysis is a timely one.

The book's strength lies not so much in answering the broad questions that it poses, such as quantifying the macroeconomic impact of antebellum banks or the extent of their discounting and exchange operations, but in showing the reader how they will ultimately be answered. To this end, Bodenhorn surveys the traditional literature on the links between financial factors and economic growth. This body of theory, which derives largely from the development and macroeconomics literatures, describes formally how the financial sector can promote growth by reducing informational asymmetries between borrowers and lenders, facilitating risk-sharing arrangements, allocating capital to its most productive uses and helping to overcome indivisibilities in investments. The survey is a good introduction to the topic for historians less familiar with Ronald I. McKinnon's path-breaking paradigm of the 'fragmented' economy, and places the more descriptive case studies, which have always been the realm of economic historians, into a broader context. This is important because case studies, informed by theory, appear to be the area where our understanding of the finance-growth nexus is most likely to be advanced.

Following the earlier empirical analyses of Robert G. King, Ross Levine and others, Bodenhorn presents a preliminary analysis of the correlation between finance and growth across the antebellum states. The results, though less than conclusive, are consistent with the interpretation that finance played a leading role in American growth. The relative weakness of the findings compared to those obtained with more recent data in a cross-country setting may be a result of insufficient identifying variation and more error in the data for the states at this time. This would appear to underscore the potential of time-series analysis for establishing the direction of causation more convincingly, but this angle remains undeveloped.

The book presents several new facts about antebellum banks. One striking fact is that they did not appear to discriminate against industrial entrepreneurs in favour of merchants and agrarian interests, even in the South. Manufacturers received loans roughly in proportion with their share of the business population. Since the growth of the modern sector after 1815 is a strong contender for explaining the gradual 'take-off' of the American economy between then and 1840, this fact, even if derived from a sample of only four banks, suggests that banks may have played a more central role in promoting early growth than has been heretofore believed. It also lends some support to the view that it was the agricultural focus of entrepreneurs rather than banks that caused the development of the South to lag behind that of the more industrial North-East. Bodenhorn also assembles evidence that points to the existence of a large and active commercial paper market by the 1820s – a market that had already achieved a national scope. This contrasts sharply with the standard view that the commercial paper market emerged on a large scale only after the Civil War.

Professor Bodenhorn's sketch of an already financially developed economy in the antebellum United States is bolstered by a summary and extension of his earlier and influential work on capital market integration. Again, using a relatively small but substantial sample of banks and regions, he uncovers a pattern of convergence in regional interest rates prior to the Civil War. This suggests that the early part of the nineteenth century should not be viewed as a backward extrapolation of the convergence pattern that Lance Davis discovered nearly four decades ago for the post-bellum United States. In fact, one cannot dismiss the possibility that regional capital markets were more integrated in 1835 than they were in 1900! The broader implication is that the American capital market may have been 'sufficiently' integrated since the days that Alexander Hamilton served as the nation's first Secretary of the Treasury. The story also places the domestic exchange activities of Nicolas Biddle, President of the ill-fated Second Bank of the United States, at centre stage in the integrative process. At the same time, Bodenhorn stresses that the capital market would have developed less readily had it not been for changes in the legal environment between 1820 and 1840 that clearly established the rights and obligations of creditors and debtors. This view is consistent with recent studies in empirical macroeconomics that emphasise the importance of property rights as a precondition for financial development.

A History of Banking in Antebellum America is a provocative book which presents a hypothesis of capital market integration that, while possibly a bit hyperbolic, deserves further attention among economic historians. It shows how records of antebellum American banks can be obtained and usefully analysed by those energetic enough to make a contribution, and offers a taste of the high returns promised by this endeavour. As such, it is a 'must read' for students of the period that will fuel doctoral dissertations for decades to come.

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W. A. Thomas, **Western Capitalism in China: A History of the Shanghai Stock Exchange** (Aldershot: Ashgate, 2001. xii + 328 pp. $74.95) and *Grace Loh, Goh Chor Boon and Tan Teng Lang*, **Building Bridges, Carving Niches. An Enduring Legacy** (Oxford: Oxford University Press, 2001. 320 pp. $35.00)

The financial history of Asia raises the issue of the extent to which financial intermediation has primarily been driven by universal economic principles and the degree to which cultural and institutional features peculiar to specific regions have also come into play. This tension is evident in both of these volumes, which, respectively, address the cases of Shanghai and Singapore.

Thomas's study is a careful, quite detailed study of the development of the securities market in Shanghai from the mid-nineteenth century to the present. The more or less continuous narrative account provided allows Thomas to provide insight into the shifting balance of local and global forces at work on the Shanghai stock market. The underlying message is one of a market that has been in the process of emerging for a century and a half.

Thomas begins with a more general account of early British commercial activity in Shanghai and Hong Kong during the first half of the nineteenth century. He then proceeds to a detailed account of the establishment of international settlements in Shanghai and the legal/institutional basis for these settlements in particular. This provides a foundation for his examination of the nature of the securities issued from these settlements and traded on the Shanghai stock exchange when it developed. The option of setting up companies on a limited liability basis, especially via registration in Hong Kong, was pursued by only a few Shanghai enterprises at the mid-nineteenth century. This discussion also emphasises the importance of the comprador, the native Chinese agent, for providing the enterprises established at European initiative with both language skills and local contacts required.

Thomas then turns to a blow-by-blow account of the development of securities markets in Shanghai. He surveys the various types of enterprises issuing securities. During the 1860s, when securities trading became evident, banks and other commercial, insurance and shipping enterprises dominated. By the end of the nineteenth century, industrial enterprises had more of a presence and then in the early twentieth century plantations, especially rubber plantations, came to dominate securities listings on the Shanghai stock exchange. What emerges are some of the particular activities that receive funding and the mix of local, government and international enterprises involved. In fixed-interest securities, the presence of the Imperial government was evident. In many cases, trends in Shanghai moved differently from the world in general. While the Shanghai market was certainly influenced by