

SS 129 Banks

Some background.

Banks and economic growth before 1820 (or before industrialization)

Banks and industrial development

What is a bank?

Firm whose business is finance.

Among things that law and regulation decides

What can be in its liabilities, (what kinds of deposits it can have) can it issue money

What can be its assets (what kinds of loans it can make)

Commercial banks, were often defined as firms that take on deposits and make short term loans to manufacturing and service firms.

Two key ideas in the literature:

- (1) banks are important because they have a technical advantage: they transform short term deposits into long term loans
- (2) Banks are good at allocating loanable funds because they are not close to their customers (so they can punish those who are not making money and give more money to more profitable businesses)

US Banking history. A state level issue.

States decide: capital requirements (how much you need to open, how much you have to have in reserve). What kinds of loans you can make.

US states want to control entry into banking largely for tax reasons. So banks have to be corporations, and to get a charter need state approval.

Early on the states take the view that banks are rare (charter very few or one per county); also they do not allow branching.

But by the 1820s New England states have massively relaxed their bank rules and there are many banks. And they are small.

Mid Atlantic banks are more restricted early on (one per county model persists longer) but they are bigger.

Banks in the south are rare, credit extended by merchants.

In the 1820s not so related to per capita income; more so to changing economic structure; but the issue of low levels of banking infrastructure become more of an issue after the Civil War

So what is the story in New England

Who starts banks

Where do they get their capital

Who gets loans.

Why does this work?

So on to Haber: US Mexico and Brazil

Mexico

Banks Formation

Consequences on textiles

Brazil

Like Mexico early (before 1889

Then more like the US

But does the test with the cotton textile industry really work?