

Origins of Commercial Banking in America, 1750–1800. *By Robert E. Wright.* Lanham, Md.: Rowman & Littlefield, 2001. 224 pp. Cloth, \$65.00; paper, \$24.95. ISBN: cloth 0-7425-2086-2; paper 0-7425-2087-0.

Reviewed by A. Glenn Crothers

Economic historians of colonial and early national America have come far since 1985, when John J. McCusker and Russell R. Menard lamented in *The Economy of Early America* that “we know little about the mechanisms or the extent of public and private finance” in eighteenth-century America (p. 334). Since then, historians have worked hard to fill the gaps in our knowledge. Robert E. Wright’s *Origins of Commercial Banking in America* is a welcome addition to this ongoing research effort. His extensive archival and secondary research enables Wright to paint a penetrating portrait of the development of one aspect of the nation’s early financial history—commercial banks—and demonstrate that their appearance played a central role in the economic and social changes that swept Revolutionary America.

Drawn from his 1996 dissertation, Wright’s study is at once a handbook of early American banking terms and practices, a study of the dramatic impact of the American Revolution on the U.S. financial sector, and an overview of the economic and social functions and consequences of commercial banks in the early Republic. At the core of Wright’s study is the contention that the economy of early America suffered from an ongoing “crisis of liquidity.” Lacking commercial banks and short on specie, colonial commerce was dependent on relatively illiquid government sources of credit (bills of credit and land banks) and private and individual funds (such as bills of exchange). This situation prevailed until merchants faced economic adversity during the French and Indian War, the imperial crisis of the 1760s, and the Revolution, forcing them to adopt innovative financial techniques and institutions. During the 1760s, for example, imperial legislation exacerbated the colonies’ liquidity crisis by limiting the ability of colonial governments to issue bills of credit (the Currency Act of 1764) and sharply raising taxes (the Sugar and Stamp Acts of 1764 and 1765). In response, Philadelphia merchants attempted to create a commercial bank in 1766 and 1767. The effort failed, according to

Wright, only because some Pennsylvanians feared that issuing private bank notes would depreciate the paper currency of the province.

The Revolution and its immediate aftermath, however, led to additional support for commercial banks and the liquidity they promised. During the war American merchants found themselves cut off from British credit sources and remittances. At the same time, the increased consumption, depreciated currency, and inflation sparked by the Revolutionary War drew more people into a cash economy, giving them “a taste of . . . intoxicating liquidity” (p. 64). At war’s end demands for a new financial infrastructure increased. The British goods that flooded the American markets in 1783 and 1784 resulted in a large trade imbalance and the exit of specie. In response to this “crisis of liquidity” American merchants created the first commercial banks. Focusing on New York, Wright argues that the Bank of New York’s specie-based plan succeeded over two competing land-based schemes because it promised (and delivered) the greatest liquidity and reliability. In short, “the quest for liquidity” during the Revolutionary era was the “single most important cause of American commercial banking” (p. 95). According to Wright, however, it was not the only cause. For New York’s rising merchants, banks also promised an effective mechanism of social and political control over the democratic “rabble” that dominated New York and Pennsylvania politics in the immediate postwar era. When the Revolution effectively destroyed deference, the basis of colonial social control, bank promoters (an amorphous group in Wright’s work) used their new institutions “to create an impersonal form of social control based on contractual obligations” and standardized business practices (p. 189). They also made sure their banks possessed the legal and financial wherewithal to exercise control effectively. In short, commercial banks were part of a larger process of economic “modernization” associated with the American Revolution. That banks also promised profits for their investors and the merchants who used them only increased their attractiveness.

Wright argues, however, that these mechanisms of social control quickly found widespread support among a broad constituency, largely because of the economic and social benefits they yielded. First, banks provided a reliable circulating medium—cash—for the economy. Second, banks increased liquidity and provided long-term loans (or “accommodations”) to businessmen, who were thus given the opportunity to diversify

their operations and develop the managerial skills necessary to oversee the economic development of the antebellum economy. Finally, bank stock provided a dependable and profitable investment opportunity for many Americans. These wide-ranging benefits encouraged a diverse group of customers to rely on early American commercial banks. Wright's study of the Bank of Utica reveals that merchants, artisans, farmers, manufacturers, women, and African Americans were all bank customers, receiving discounts and accommodations, investing in bank stock, and using bank notes. Thus, if banks began as a mechanism of social control, they soon became a means of ensuring "equality of opportunity" by fueling antebellum economic growth and regularizing economic relations (p. 189).

At the heart of Wright's work, then, lies a contradiction that is never fully explicated: Banks were at once a means of social control *and* democratization and economic development. But who, exactly, was exercising social control? And to what end? Did bank directors and those who invested in bank stock really see themselves as agents of equal opportunity, or was this simply an unintended consequence of banks? A fuller evaluation of these issues would have strengthened the book considerably. The transition of Wright's work from dissertation to monograph has also produced some evidentiary problems—particularly in the conclusion. Wright claims, for example, that "new bank customers' gross business receipts jumped about 50% within two or three years" (p. 191), without providing documentation. He also notes that women represented 9 percent of the Bank of North America's customer base in 1800 and 11 percent of the Bank of Germantown's in the late-1820s (pp. 189–90), again without citation. Wright advises readers to consult his dissertation, but arguments of this significance—revealing the centrality of banks in early American economic development and cultural life—should have been documented fully. Despite these shortcomings, the *Origins of Commercial Banking* is an impressive work that deserves a wide audience among historians of early America's economic and social life.

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BUSINESS HISTORY REVIEW
AUTUMN 2002

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of shipping and marine insurance in the early South and a book-length study of antebellum Virginia Quakers.