

State Banking in Early America: A New Economic History. *By Howard Bodenhorn.* New York: Oxford University Press, 2003. ix + 355 pp. Index, notes, bibliography, figures, tables. Cloth, \$45.00. ISBN 0-195-14776-6.

Reviewed by Benjamin J. Klebaner

Howard Bodenhorn of Lafayette College argued in his earlier book, *A History of Banking in Antebellum America* (2000), that early American banks were “a fundamental element in the process of growth and development” (p. 27), that they were indeed “a necessary precondition for economic growth” (p. 217). The present volume reiterates that banks played “a pivotal role in the process of economic development” (p. 4). Banking arrangements reflected what Bodenhorn discerns as an American penchant for risk-taking and experimentation. He analyzes in detail New England’s Suffolk System, New York’s Safety Fund System, the rise and spread of free banking, branch banking in the South and the West, and long-term credit institutions for farmers and planters. The mixed record of all these arrangements leads him to conclude that “there was no one best banking system” (p. 6).

Since little long-term credit was needed by merchants and manufacturers, Bodenhorn argues, American banks cannot be accused of inhibiting the growth of the U.S. economy by refusing to offer such credit. In support of this thesis, he quotes Sidney Pollard on the need for short-term credit—but Pollard was writing about Britain, not the United States.

The paucity of historical evidence leads Bodenhorn not infrequently to generalize on the basis of recent theoretical developments in finance and economics. Thus, on page 19, he resorts to equivocal phrases like “may have been” (line 1), “it is possible that” (line 24), and “many, perhaps even most” (line 28). We encounter “most likely” (p. 33), “available evidence suggests” (p. 43), “equally plausible” (p. 59), and “must have been” (p. 63). Elsewhere, he reports evidence that “suggests that banks were valuable sources of credit to incipient industrialists” (p. 71). Risk-inducing incentives under the Safety Fund are gauged by “a number of potentially suggestive measures” (p. 176).

He calls for “additional research” to generate “more evidence” to ascertain the profitability of free banking (p. 201). “More research” is required to determine whether dividends paid by free banks were substantially below those of chartered banks (pp. 215–16). The use of small-denomination bank notes by Indiana banks is a matter for “further research” (p. 267). “Firm conclusions” cannot be drawn regarding the failure of seventeen of thirty-nine Pennsylvania banks organized under the Omnibus Banking Act of 1814 because of “the lack of extant data” (p. 144). Nor do “extant records” enable us to know how much the state borrowed from the Bank of Pennsylvania when it was rechartered in 1830 (p. 148). Bodenhorn’s bibliography lists only fifteen separate archival source materials, seven of which he also consulted for his previous monograph.

Bodenhorn cites an extensive bibliography of printed sources. However, neither this volume nor his earlier one mentions a number of important books: missing antebellum sources include Stephen Colwell’s *The Ways and Means of Payment* (1859), and Condy Raguet’s *Treatise on Currency and Banking* (second edition, 1840). Nor does he list George Dowrie’s *Development of Banking in Illinois*, the two-volume *Growth of Chicago Banks* by F. Cyril James, or Howard Preston’s *History of Banking in Iowa*. The omission of Lloyd Mints’s *History of Banking Theory in Great Britain and the United States* is puzzling in view of Bodenhorn’s frequent allusions to real bills. Moreover, also deserving of mention are several substantial single-bank histories published more recently: Harold Cleveland and Thomas Huertas’s *Citibank 1812–1970*, Asa Knowles’s *Shawmut*, and Ben Ames Williams’s *Bank of Boston 200*.

We are told of Thomas Budd’s proposal for an incorporated bank in Pennsylvania “as early as 1685” (p. 125). However, the first scheme that appeared in print was that of the Reverend John Woodbridge in 1682, according to Joseph Dorfman (*The Economic Mind in American Civilization*, vol.1, pp. 93–4).

Bodenhorn attributes to Harvard professor Charles Dunbar a statement that appears in Oliver M. W. Sprague’s 1929 edition of Dunbar’s widely used *Theory and History of Banking*, published twenty-nine years after Dunbar’s death (p. 46). When earlier legislatures refused to incorporate the Bank of New York, its subscribers did not lose “the legal right to issue notes” (p. 129). Indeed, the bank had over \$180,000 outstanding in 1791, when the state finally acceded to the charter.

BUSINESS HISTORY REVIEW

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BOOK REVIEWS

The correct name of the first clearinghouse in the nation was the New York Clearing House Association, not the New York City Bank Clearinghouse Association (p. 96). Bodenhorn overlooks Boston, which opened the second one in 1856. He suggests that Watertown, New York was near the Erie Canal (p. 59); actually it was some seventy miles distant.

Despite these oversights, Professor Bodenhorn has provided students of American business history with a thoughtful, well-written account of the role of state-chartered commercial banks in furthering the material progress of antebellum America.

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