

The Equity Culture: The Story of the Global Stock Market. By B. Mark Smith. New York: Farrar, Straus, and Giroux, 2003. 344 pp. Notes, index. Cloth, \$25.00. ISBN: 0-374-28175-0.

Reviewed by Wyatt Wells

The Equity Culture by Mark Smith seeks to recount the history of the world's stock markets over the last three hundred years. Smith, an erudite stockbroker, has produced an entertaining and often illuminating volume, but it is not clear that he meets the high goal he set for himself.

The Equity Culture covers a lot of ground. It provides entertaining accounts of many notorious incidents in the history of financial markets: the South Sea Bubble of 1720, the Latin American mining boom of the 1820s, the Erie War of the 1860s, market manipulations on Wall Street in the 1920s, and the rise and fall of the Japanese stock market in the 1980s and 1990s. But the account ventures beyond the spectacular into everyday matters as well. Smith lucidly discusses the development of economic theory about stock markets, outlining how, during the twentieth century, this evolved from simplistic assumptions about booms and busts to sophisticated models of behavior. The author also examines the more prosaic ways in which investors value stock, observing how during the second half of the twentieth century the traditional emphasis on current dividends gave way to approaches based on estimates of future earnings.

Two themes dominate the narrative. First, the author contends that, before 1914, an international equity culture centered in London had developed, and that this system collapsed during World War I and the Great Depression. But a new equity culture developed after World War II, eventually surpassing its predecessor in size and scope. Second, Smith argues that the volatility many ascribe to stocks—the cycle of boom and bust—often reflected misguided government policy. Both the South Sea Bubble of 1720 and the Japanese stock-market boom of the 1980s occurred, in large part, because political authorities tried to rig the market, driving prices to unsustainable levels. Absent such manipulation, Smith argues, equities are fairly stable, and growing popular

recognition of this accounts for rising stock prices (measured in price-to-earnings ratios) in most markets since World War II.

Although interesting, this account contains several large holes. First, the author never defines “equity culture.” Is it the culture of the stock markets themselves? Does “equity culture” connote public willingness to invest in stocks, or does widespread stockholding actually change the workings—culture—of an economy? At different points, the author uses each definition.

Second, the author’s discussion of financial history often conflates stocks and bonds, distorting the issues. During the Latin American boom of the 1820s, for instance, far more British capital went into the bonds of regional governments than into the shares of mining companies organized to exploit prospects in South America. The latter are the focus of Smith’s discussion, but the craze for mining stocks would seem to have been only a part of a larger boom. Before 1914, bonds were at the center of the world financial system, constituting by far the greatest part of investment across borders. Was this, as Smith claims, really an “equity culture”? Indeed, the author concedes that, before the second half of the twentieth century, only the United States and Britain had stock markets large and flexible enough to qualify as “equity cultures.” Not only is the nature of an “equity culture” unclear, but its age and extent remain so as well.

Finally, Smith’s argument for the relative stability of stock prices rests largely on anecdotal evidence. The author contends effectively that, in some famous cases like the South Sea Bubble, governments bore heavy responsibility for stock-market booms and subsequent busts. But was this always true? The conglomerate boom of the 1960s, which ultimately cost investors dearly, apparently had no government component, nor did the Internet boom of the late 1990s. The author can make his point decisively only by identifying and examining all major stock-market bubbles—a huge task he does not attempt. We cannot judge the records of institutions like the London and New York stock exchanges, which have two to three hundred years of history, on the basis of a handful of incidents, no matter how colorful. Nor does the author discuss extensively the positive impact of government regulation on stock markets. For instance, by policing and stabilizing the channels of information about equities, the Securities and Exchange

Commission contributed mightily to the long bull market that the United States enjoyed after the Second World War.

The Equity Culture is an entertaining volume that contains many valuable pieces of information, such as its discussion of the evolving economic theory about stocks. But it does not add up to a comprehensive history of the world stock market—the book’s architecture simply has too many gaps. The result is a volume that is less than the sum of its parts.

Wyatt Wells is professor of history at Auburn University, Montgomery and the author of several books and articles, including Economist in an Uncertain World: Arthur F. Burns and the Federal Reserve, 1970–1978 (1994) and “Counterpoint to Reform: Gilbert H. Montague and the Business of Regulation,” which appeared in the Business History Review (Autumn 2004).