The Wealth of Nations Rediscovered

Integration and Expansion in American Financial Markets, 1780-1850

Robert E. Wright
University of Virginia

CAMBRIDGE
UNIVERSITY PRESS

Contents

List of Tables _ - *page* vii
Acknowledgments ix
List of Abbreviations " xi

1 Introduction: *The Wealth of Nations* and National Wealth 1

2 The International and Colonial Background of America's Financial Revolution 9
The First Financial Revolutions: Holland and Great Britain 10
Colonial America: Courts and Experiments 16
The First U.S. Information Revolution: From Periphery to Center 18

3 Banks, Securities Markets, and the Reduction of Asymmetric Information 26
Adverse Selection 28
Moral Hazard 32
The Principal-Agent Problem 37
Conclusions 42

4 The Financial Sector and the Reduction of Lending-Related Costs and Risks 43
Commercial Banking: Intermediation and Information Creation 45
The Emergence of Secondary Securities Markets 51
The National Bank and the Panic of 1792 75

5 Evidence of Capital Market Integration, 1800-1850 82
Brief Descriptions of the Major Securities Markets 82
Price Comparisons between Markets 91
Price Movements and the Theory of Portfolio Choice 94
Evidence of Efficiency: Bid-Ask Spreads 97
Geographical Distribution of Stockholders: Maine and Beyond 99
Conclusions 121

6 Expansion of the Securities Services Sector, 1790-1850 123
Brokers: Their Role and Numbers 124

Initial Public Offerings 130
Trading Volumes in the Secondary Securities Markets: The Case of Philadelphia 135
Nonlisted Securities 159
A Brief Sketch of the Expansion of the Securities Sector 166

7 The Freest of the Free: Regulation of the Financial Sector 167
Securities Market Regulations 167
Special Banking Regulations 173
General Banking Regulations in New York: The Revised Statutes, the Safety Fund, and Free Banking 175

8 Finance-Directed Economic Development ig3
Financing Trade 194
Financing Farming through Internal Improvements 201
Financing Manufacturing 204
Conclusions 210

g Conclusion 212

References 217
Index 227