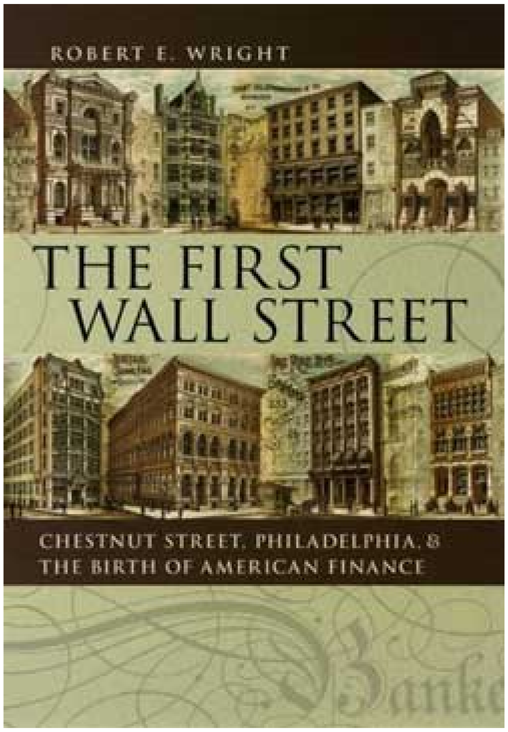
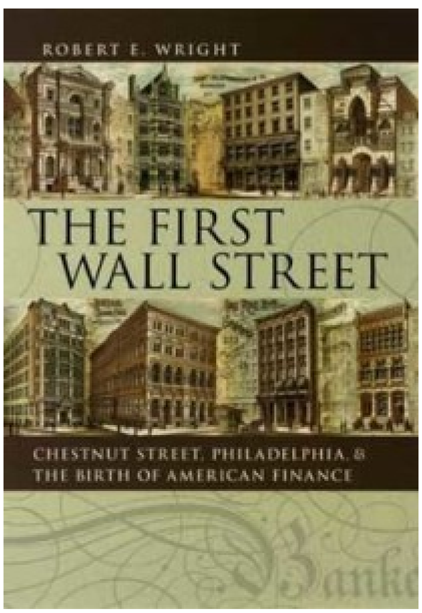
Before the Apple Ripened





Robert E. Wright, The First Wall Street: Chestnut Street, Philadelphia, and the Birth of American Finance. Chicago and London: The University of Chicago Press, 2006. 210 pp., cloth, $25.00.

When, in the mid-twentieth century, Marshall McLuhan observed that “the medium is the message,” he was speaking of airplanes, telephones, and televisions—technological innovations that collapsed distance and enabled “extensions of man” into places and spaces faraway and foreign. For the financial historian Robert Wright, “the IOU”—a “promise to pay”—answered the same purpose in the late eighteenth century (2). Capaciously defined to encompass promissory notes, bank notes, shares of stock, insurance policies, interest-bearing bonds, mortgages, rental agreements, contracts, and loans, IOUs were debtors' promises to pay lenders. And because they were just promises recorded on nothing more precious than paper, offering or accepting IOUs involved risks. Yet once the risks and rewards of IOUs could be assessed and brokers had the ability to deal with clients not just on the opposite side of their desks but across cities, states, and even nations, the financial sector unleashed the energy and sharpened the maximizing instincts of an ever-widening cohort of interdependent economic actors. In an era of limited state capacities and great distances, the exchange of IOUs gave rise to a far-flung "web of self-interest" (67).

"Financial history," Wright believes, "is the story of the competition between different means of linking the savings of investors to the spending of entrepreneurs" (4). In the United States, he contends, this story began at a specific place and with an identifiable cast of characters: the financial community gathered on Chestnut Street in Philadelphia. From there, between the late 1770s and early 1820s, there emerged an efficient market to exchange IOUs, mitigate risk, and steer funds toward promising projects. This development, in turn, facilitated the country's commercial consolidation and prosperity by "ensuring that good wealth-creating ideas [did] not die of neglect" (7).

The First Wall Street posits four reasons that Philadelphia "led [a] change to modernity" in the eras of the Revolution and early republic: the city was the national capital, and as such was the country's commercial capital, a "focal point of mercantile information" (11). The city's financiers, including Clement Biddle, Stephen Girard, Robert Morris, and Thomas Willing, were innovative market-makers and institution-builders. And lastly, the city was the home to the nation's central banks, the Bank of North America and the first and second banks of the United States thereafter. Bundled together, the city's markets and institutions for a time were its most valuable asset because, in the intimate setting of a recognized financial district, Chestnut Street offered market participants greater transparency, flexibility, and information, empowering people to make more informed decisions and reducing what economists call "transaction costs."

Canvassing a variety of institutions—commercial and savings banks, the U.S. Mint, and marine, life, and property insurance companies—Wright uses often colorful vignettes to illustrate the degree to which Philadelphia brokers and financiers developed risk assessment criteria to offer credit and financial services to cash-poor artisans and merchants, matching them with people who were flush with capital but reluctant to see their money vanish in a bursting bubble. Along the way, he provides a cogent financial history of the early United States. Readers see Alexander Hamilton promote a national unit of currency with the U.S. Mint and bind the federal union through the assumption of state Revolutionary War debts funded by the Bank of the United States. They learn how the U.S. Mint functioned and how the city's fire codes were enacted at the urging of its subscription fire insurance company. They witness canal plans falter in the face of Erie Canal competition and more promising railroad opportunities. They are shown how savings banks like the Philadelphia Savings Fund Society began mirroring the kind of local credit network that Quaker meetings had long provided. Less renowned men—like Moses Lancaster and Michael Hillegas—share space with the titans of early American business to illuminate the impact institutional changes and macroeconomic forces had on microeconomic households, a connection long neglected by economic historians, with notable exceptions such as Naomi Lamoreaux's work on firms or David Hancock's study of mercantile networks.

Robert Wright here draws heavily on his own work and that of fellow banking historians David Cowen and Howard Bodenhorn. His language is accessible, tethered to mortal terrain by a voice sometimes conversational, even mischievously so. His immodest aspiration for this brief work is that it "change the public's perception of finance" (12). That goal is a worthy one. Today nearly half of all Americans own market-traded securities and anyone can gorge themselves on high-interest credit-card debt, yet Wall Street's idea of deep history is a five-year moving-average price graph. Few investors or debtors have developed a sense of history beyond what is found at a Bloomberg terminal.

Wright dates the marriage of America to the financial industry to the 1780s, a decade when a financial revolution followed a political revolution, which itself was caused in part by, of all things, inflation. In Wright's view, that is, there is no partitioning political revolution from commercial revolution. Banks, corporations, and even the heroic Alexander Hamilton were as much democratizing forces, Wright insists, as were the events of the American Revolution. Yet cannot commercial banks have been both useful and exclusive? Cannot they have helped secure the stability of the new United States while perpetuating the inequalities of wealthy that maintained a pre-Revolutionary social order? Wright's own evidence shows that savings banks were founded expressly because their forebearers were too picky to lend to lesser sorts.

Economic historians sometimes isolate themselves from both the public and their colleagues in other disciplines by relying on abstract theory and the comfortable distance of observational macroeconomics. Wright, in contrast, gets close to his sources, and his efforts pay dividends. This book shows how the early American economy and its component institutions worked. But in charting the decline of Chestnut Street and the political reasons for various institutions' shuttering, Wright's narrative is less persuasive because it lacks nuance. Martin Van Buren's hostility toward the Second Bank of the United States was not the prevailing reason for Andrew Jackson's veto, and a "lack of vision" or "lack of investor interest" does not fully explain the failure of the Philadelphians to dig a canal to rival the Erie (129, 122). Like saying that Aaron Burr "murdered" Hamilton, causality seems substituted by caricature (150).

Wright should have stuck to his original promise to change the public perception of finance. If IOUs became more liquid, portable, and transparent over time, then Chestnut Street's slide was nobody's fault. Decades before the first scoop of Erie Canal dirt was moved and years before the national political pole shifted to Washington, D.C., the deep waters and coastal connections of New York Harbor began attracting business once destined for Philadelphia. As a medium of exchange, the commercial IOU's message was mobility; Manhattan's port never froze, and by the mid-1790s it had a rough institutional parity with Philadelphia. Capital floes drifted there because the city had lower transaction costs. The subsequent failures of the central banks were political decisions that reflected microeconomic realities: Chestnut Street lacked the efficiencies offered by New York's advantageous locale. And once the national capital moved to Washington, it lost the political clout of a capital. The toppling of Philadelphia was never personal. It was just business.

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