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Finance and urbanization in early nineteenth-century New York

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Abstract: Using information on the location of commercial banks in early nineteenth-century New York State we show that the opening of a bank had a significant positive effect on town population growth after the bank opened. Our results are robust to different samples of cities, control groups, time spans, as well as omitting New York City or small towns. To identify this relationship we exploit the legislative granting of corporate bank charters and argue that lobbying introduced enough exogenous variation in bank location choices that the location of banks in this period was different from what it would have been under a system of free entry based on entrepreneurial expectations of a towns' future population. Using a generalized difference-in-difference approach, we show that towns that petition for and received a bank between 1821 and 1835 saw their population increase more rapidly than those that petitioned for and did not receive a bank. Because urbanization and modernization were correlated in the nineteenth century, these results are broadly consistent with the finance-growth nexus identified elsewhere in the economics and economic history literatures.

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