Historical Perspectives on Financial Development and Economic Growth

Peter L. Rousseau

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This paper uses standard tools of empirical macro economics to examine how well the existing historical time series support a role for financial factors in real sector activity in four economies that experienced what are widely considered to be 'financial revolutions' over the past 400 years. The evidence presented for the Dutch Republic (1600-1794), England (1700-1850), the United States (1790-1850), and Japan (1880-1913) suggests that the emergence of financial instruments, institutions, and markets played a central role in promoting trade, commerce, and industrialization. Cross- section regressions with a wider set of countries for the post-1850 period offer additional support for the Schumpeterian view of finance in growth. Though limitations of the available data argue for a cautious interpretation, the findings are consistent with the traditional and more descriptive analyses of these events in the economic history literature, and with results obtained for the post-1960 period by modern macro economists.

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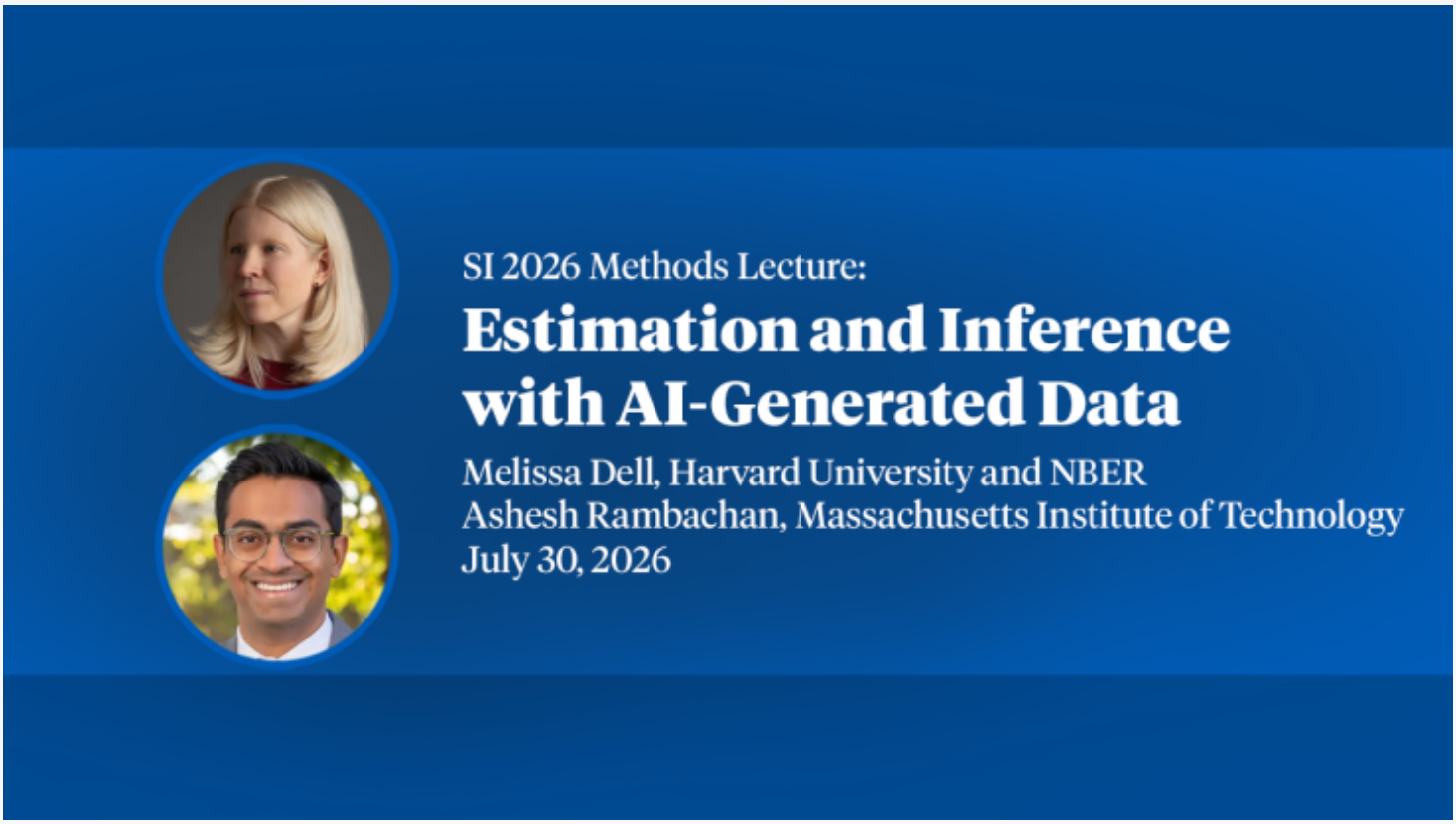

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Contact Us
1050 Massachusetts Avenue
Cambridge, MA 02138

617-868-3900
info@nber.org
webaccessibility@nber.org

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