# PRESIDENTIAL ADDRESS

## Banks and Brokers

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One nice feature of these presidential addresses is that they follow no set pattern. Some speakers talk about past accomplishments in the field or where they think the profession may be headed. Others discard the serious stuff altogether, and just show old photographs of their Hungarian grandparents. Listeners never know exactly what is going to happen in these after-dinner adventures. For once in a long career, the speaker has a captive audience of peers and, within reasonable limits, you can talk about any damned thing that pops into your mind. And there are no great audience expectations to worry about either; few dessert eaters really anticipate that the speaker is going to say anything genuinely profound or memorable--or at least I hope not. My approach tonight will be to present a smorgasbord of remarks on a series of topics; if you have no interest in one subject, perhaps the next will catch your ear.

What I actually remember most clearly from previous presidential addresses--excluding, of course, those sensational photos of Lou Galambos's ancestors--are the life stories that illuminate how our friends and colleagues first got interested in business history as an academic discipline. Like many of us, I entered the business history field through a serendipitous route. After earning a bachelors degree in political science at William & Mary in the early 1960s, I moved on to the MBA program at the University of Virginia. The Darden School at Virginia unapologetically copied its curriculum and methodology from the Harvard Business School--meaning that it relied almost exclusively on the case method of instruction. That learning system, which emphasizes the identification of an underlying problem, or two or three overlapping problems, from a morass of seemingly unconnected and often purposely irrelevant facts, proved remarkably sound training for my later shift into a history curriculum. I often tell students, undergraduates and graduates alike, that all history--social, political, economic, or whatever--is just one immense and unending case study, and that our task is to sift through the mountains of evidence and figure out what is really important within a given context or in response to certain questions.

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From Charlottesville, I went to work in the Big Apple for the Chase Manhattan Bank--a disastrous work experience by the way. I was totally unprepared because never in the MBA program had we discussed how to react when, in your mid-twenties, you find yourself working for a large corporate enterprise where everyone immediately above you in the managerial hierarchy was mediocre at best and incompetent at worst. The only rational response was to run for the exits, and to make a long story somewhat shorter, I left New York a year and one half later and, after a few more years in Norfolk, Virginia, at a much smaller bank, I ended up in Blacksburg, Virginia, as an instructor in the accounting department at Virginia Tech. I decided almost immediately that academic life was well suited to my talents and personality; but I still had to make a choice about which discipline to choose in pursing a doctoral degree. Accounting and business administration just seemed way too boring for a lifetime of scholarly work, and I doubted that I had the math skills to succeed in an economics curriculum.

One very positive aspect of life at Virginia Tech was that in casually walking around the campus and town (population 15,000), I met various faculty from a wide array of academic departments, including history. When I expressed some interest in the history field during my first year on campus, most faculty were mildly discouraging, citing my general lack of a respectable background in the discipline--just two upper-division courses at the college level. There was, however, one major exception to this chorus of negativity. Gus Williamson, a former Johns Hopkins graduate, explained one day during a visit to his office that there was a small niche in the history discipline called business history and, given my previous training, I might have sufficient credentials to pursue a doctoral degree. To test my level of interest, he suggested that I stroll over to the university library and check out a single book; let me see if I can recall its title; oh, yes, I think it was something like *Strategy and Structure*, and the author was someone named Alfred D. Chandler, who, to me, was totally unfamiliar. Let me assure you that I knew within an hour of checking out that singular book that I would likely be able to do this kind of history--and maybe even do it fairly well one day. From that day in 1966, I set out to become a business historian.

The next step was to gain admittance to a doctoral program. Since Al Chandler was then at Johns Hopkins, that university seemed the logical starting point. It just so happened that I was driving through Baltimore on the way to New York City during the spring break, and I wrote Chandler in advance to request what I thought would be brief introductory interview. After a half hour or so of cheerful conversation in his office, interrupted by telephone calls from department chairs elsewhere trying to hire new faculty--remember this was the mid-1960s--Al announced in a rather matter-of-fact manner that he was prepared to admit me to the Hopkins graduate program. Puzzled and surprised, I protested: but, Professor Chandler, I haven't even filled out an application form, or sent along my college transcripts, or taken the GREs. Those technicalities didn't matter, Al assured me; I was unofficially admitted and could come to work with him the next year. When I walked back to the waiting car to announce to my traveling companions that I had unexpectantly been granted admittance to the Hopkins doctoral program, everyone was equally incredulous that a casual interview could have produced such a magical outcome; but, as I later learned, that's how they conducted academic affairs at Johns Hopkins in the mid-1960s--strictly off-the-cuff and spontaneously. Maybe they still do. At any rate, from that date forward--a period covering about 3 decades--it has been clear sailing for me in the economic and business history field. Al Chandler, plus Lou Galambos, who came along later, were both just wonderful mentors.

Now comes one of the very best parts in any presidential address: I get to tell you what you ought to be emphasizing henceforth in teaching about the expansion of the American economy over the last three or four centuries, and you have to just sit there and take it all in. First, historians ought to pay more attention to the colonial and early national eras. Just over the last quarter century, that is, since I have been a member of the profession, scholars have made enormous strides in terms of getting a handle on this formerly "terra incognito." What they have found is that there was substantial economic growth long before industrialization. High population growth alone kept the North American GDP rising at about 3 percent per annum, and accumulating evidence suggests that per capita increases were on the order of 5 percent per decade. Only Holland and England were enjoying sustained per capita growth in this same period--and at lower rates. English North America was already well along the road to becoming a rich nation in comparison with its contemporaries in the mid-eighteenth century--a phenomenon prominently mentioned by Adam Smith in the *Wealth of Nations*, published in 1776. Most American farm households produced substantial surpluses and disposed of them in active markets at home and abroad. Indeed, one of the key reasons why this nation reached such heights in the nineteenth century was not only the impact of canals, railroads, and industrial technologies, but because U.S. citizens started from a very high material base. Indeed, in certain respects, British North America was never an undeveloped country in the modern sense of the term; rather it was always a developing economy with high savings rates and a strong entrepreneurial spirit--an argument that I advanced in an article published several years ago in *Business History Review* -- so I won't bore you with a rehash of it now.

I mentioned earlier that I had worked at the Chase Manhattan Bank immediately after graduation from the MBA program, and that experience explains in large part why financial history became my special niche within the field. I can tell you with a great deal more certainty now than I could have done a decade ago that economic and business historians also ought to pay more attention to the financial services sector in explaining the growth of the American economy. The U.S., and UK as well by the way, have been blessed by such an array of efficient financial services over the last three centuries that it is just too easy for historians to take these blessings for granted--to pass over casually the routine facts on banks and capital markets without realizing their vital importance in providing the environment for economic success. When Paul Uselding, a former president of this organization and a former assistant professor of economics at Johns Hopkins, asked me at my dissertation defense in 1972 how important this financial stuff was to the growth of the American economy, I must confess that I had no idea where it ranked on a scale of 1 to 10.

What I learned in the course of researching and writing a recently published book on the evolution of financial services from the colonial period through the War of 1812 was, I must confess, a gratifying revelation. I did not set out to argue the importance of financial services when I started that project, but what I delightfully discovered was the following: that even prior to the rise of superior transportation systems and industrial technologies in the 1820s, the United States already had a rapidly maturing financial sector. Commercial banks and insurance companies had outstanding issues of common stock that totaled in the millions of dollars. They were the big businesses of the early national era. (I better include the post office too, just in case Richard John is out there in the audience taking notes.) Active too in the early nineteenth century, but on a lesser scale, were brokers of all varieties who dealt in stocks and bonds, foreign exchange, and lottery tickets. Although American capital markets in the first decade of the nineteenth century were small compared to Great Britain, many of the securities traded, government bonds and common stocks, were so well regarded that investors, residing here and abroad, bid the prices up to such heights that the yields were surprisingly low--often only 4 to 6 percent. Overall, the institutional infrastructure associated with the U.S. financial services sector was largely in place and functioning exceptionally well by 1815. In short, the financial revolution preceded and moved forward in advance of the new technologies applied to manufacturing and transportation.

Banks were important later in economic development as well , of course, and I want to recommend Naomi Lamoreaux's new book on the changing role of financial institutions in the New England region over the course of the nineteenth century. My review is forthcoming in the *American Historical Review* and it's a very positive assessment too, just in case anyone was wondering. Let's give a tip of the hat to Larry Neal as well, for his outstanding book on the rise of capital markets in London and Amsterdam in the seventeenth and eighteenth century, and to Geoff Jones for his brilliant work on the international reach of British banking over the last two centuries. We can also look forward to new books by Dick Sylla and George Smith and by Paul Miranti on American financial markets.

Having done most of my previous work on the eighteenth and nineteenth centuries, I have now moved forward into the twentieth. My current project, just about complete by the way, is the career biography of stockbroker Charles Merrill, the founder of Merrill Lynch & Co. My biography will be the first in print on this important figure in twentieth century finance. Merrill was, I will argue, as critical to the development of the capital markets in the twentieth century as J. P. Morgan was in the nineteenth. Merrill had a broader vision than Morgan, and the firm that bears his name eventually rose to become the market leader, first, in the secondary markets--trading shares on the exchanges--and, second, in investment banking--the issuance of new securities to finance new plant and equipment.

Much of how modern brokerage firms operate can be traced back to the innovations that Charles Merrill introduced in the early 1940s. New Deal reforms paved the way, of course, but Merrill went much further to open up the whole process to public scrutiny. He launched an aggressive advertising campaign; he hired researchers to produce a steady flow of reliable information on hundreds of firms that had outstanding securities; and in an unprecedented departure from Wall Street tradition, he issued voluntarily, in 1940, the first annual report by any Wall Street firm that revealed the income statement and balance sheet of his new partnership. All in all, Merrill rightfully deserves most of the credit for bringing Wall Street to Main Street and for drawing the upper middle classes, people like most of us, into the capital markets--and especially into the common stocks of growing companies. With over 100 offices nationwide, Merrill, in conjunction with his partners and employees, showed millions of often reluctant investors how, over a lifetime of moderate saving, they could build a sizable nest egg for retirement.

Many of us in academia are major beneficiaries of Merrill's initiatives. Through investments in the common stock portfolios of CREF/TIAA, and at my university in any of Fidelity's mutual funds, people with incomes that may never rise above $75,000 can over a 25 to 30 year period accumulate a pool of money that might approach $1 million. When I tell my skeptical middle-aged colleagues at USC that great riches are in store for them one day, they often look at me with jaundiced eye, because after all, they exclaim, it has taken 15 years just to creep up to $150,000. But I keep assuring them that, over the next 15 years, their accumulation, if it compounds at the 12 percent rate historically true for stocks on the New York Exchange, will generate an additional $700,000 and carry them near the one million dollar mark by retirement.

While we are on the topic of money and retirement funds, let me grab the attention of everyone in the room over 55, an age I just reached last May. In updating your final wills and testaments, I want you to remember this splendid organization. Whatever monies we decide to leave to our alma mater will likely be only a drop in a very large bucket. So consider channeling your charitable instincts in the direction where it is most likely to do the most good--where it will provide more bang for the buck. Will Hausman didn't prod me to insert this plug, but the Williamson fund, which provides the income for our biannual award, is always in need of strengthening. Over the past four or five years, Bill Lazonick has also been able to come up with funds from outside sources to finance the travel of promising graduate students to our annual meetings. In the future we need to raise more internal funding for this purpose. So think about BHC the next time you sit down with your lawyer to divide up your estate. I promise you that Harvard and Stanford, with endowments already of over $1 billion, don't really need your money all that much. But we do. In this organization, a few thousand dollars will make a huge impact.

To get back to Charles Merrill; he was alive from 1885 to 1956. He was born, no one would ever guess, right here in Florida. The town was Green Cove Springs, up north near Jacksonville, where his father was a physician who served the local community and, more importantly in terms of income, the wealthy visitors who flocked to the tourist hotels in the winter months. When I began this project, I was almost totally ignorant of the development of the Florida economy. Before the turn of the century the population of the whole state was not much over 100,000, and settlement did not extend much beyond 100 miles south of the Georgia border. Even more, perhaps, than California, Florida was a frontier region in the twentieth century. Starting even before the Civil War, when steamboats carried passengers from New York and Philadelphia to Jacksonville, this state's economy has always relied heavily on tourism. Hollywood is only one part of the California economy; in Florida entertainment and leisure are the life blood of the economy and always have been. Younger scholars who are seeking subjects different from the old standbys--like basic industries and transportation--might take a closer look at what's been happening here in Florida over the last century. Florida is, I suspect, the premier service sector economy in the United States.

I also want to spend some of my time this evening talking about where business history fits into the broader history curriculum. Bill Lazonick focused on the role of history in the economics curriculum several years ago in his presidential address in Toronto, and I will attempt to do some of the same for historians. My guess is that I have been involved in the broader field of American history over the last 15 years about as much anyone in this room because, as a result of my reputation as a keen editor of my colleagues' first drafts, I was called upon in the late 1970s to serve as managing editor and later as an associate co-editor of the respected historical journal, *Pacific Historical Review*. I escaped those duties temporarily in 1991, but Norris Hundley's decision to retire this past summer brought me back again as *de facto* managing editor in an essentially caretaker role. The *PHR* has been around since the 1930s and receives a small annual subsidy from the American Historical Association. It publishes scholarship in two categories: first, articles that focus on U.S. interaction with the Pacific Ocean region, and, second, articles that focus on events in the states located west of the Mississippi River in the 20th century. Over the years, I have read at least 500 article manuscripts for this journal. What they reveal, and I am sure it will come as no surprise to anyone here, is that business history has become increasingly marginalized in the broader scheme of things. Gender, class, and ethnicity are all the rage. With few exceptions, most historians' attitudes toward our capitalist system and the majority of its business leaders are hostile and suspicious. Perhaps equally disturbing, economic factors are often simply ignored or dismissed as unimportant by other historians in other fields. The collapse of the Berlin Wall may have opened up eastern European economies to the capitalist onslaught but a similar event has not occurred within the history profession. Some claim that leftist historians, cornered and on the defensive, have become even more negative about capitalism and even more strongly attached to pure Marxism --that is, Marxism without the Leninist dictatorial element.

Given these trends within the historical profession over the last quarter century, I know that some of you are quite disturbed about where business history might be headed in the first half of the next century. That future I cannot predict, although I do not worry about it so very much, because I suspect that the current generation of undergraduates are not likely to find the socialist agenda very pertinent in discussing the evolution of global society. So rather than musing about the outcome of future trends, I propose instead to look at the brighter side of what has occurred within our field over the last two decades. Rather than wringing our hands about being shut out of the panels at the annual meeting of the American Historical Association or the Organization of American Historians, like many political historians--who, incidentally, have a legitimate beef--we economic and business historians have been busy creating and strengthening our own alternative professional environment. We are fortunate to have three organizations to serve scholars in our field, and all three hold annual meetings and publish regularly most of the papers presented. I suspect that I have been simultaneously involved in the parallel activities of Business History Conference, the Economic and Business Historical Society, and the Economic History Association more than anyone in the profession. I'm also a member of the organization of British business historians, which was formed within the last decade, and I recently joined another new group of business historians serving both UK and the European continent. BHC has been meeting for about four decades now, and its membership has mushroomed from not more than about 150 as recently as 20 years ago to a figure somewhere in the vicinity of 500. The number of foreign scholars on the membership rolls continues to grow, and in response to the more international character of our membership, we are planning an annual meeting somewhere across the Atlantic in 1997.

Thus by rejecting us and forcing us to stick to our knitting, the broader historical profession has prompted economic and business historians to make enormous strides over the last quarter century in virtually every topic area. And frankly, I like it better this way. Meetings of 100 to 200 specialists are far more rewarding both intellectually and socially than mass meetings of thousands of historians milling aimlessly around the lobbies of giant hotels in the nation's largest cities. I'd rather travel to Williamsburg, Ft. Lauderdale, or Columbus, Ohio, than to New York or Chicago, hands down. In short, our isolation within the broader history profession has had a number of very positive benefits -- and in my view, at least, many more positives than negatives. It goes without saying--but I will say it anyway--that the quantity and quality of scholarship produced by economic and business historians--by many of you out there in the audience--has been absolutely outstanding during this period. If the social historians believe our type of history is out of fashion, that's their problem not ours; we can get along very well on our own, thank you very much.

In the same breath, I want to add that I believe there is something that most of you can do, however, to reach out to at least one other group in the historical profession. I have in mind more interaction with the practitioners of labor history. I know from personal experience that it is possible to obtain some very positive results from this sort of interaction, because my colleague Steve Ross and I have been cooperating successfully for nearly 15 years at the University of Southern California. For example, we alternate in teaching a lower division course entitled American Business and Labor History that qualifies for our university's general education program. If you want more information on how we go about it, pull out the 1986 proceedings volume for this organization when you get back home and read "Integrating Business and Labor History" --a paper that Steve and I jointly delivered at the Columbus meeting in 1985. We have also had success in training graduate students at USC; we routinely recommend each other's fields to the graduate students studying under us. To date there have been no major problems or conflicts arising from this system of dual training in business and labor history. We believe our program is truly unique within the borders of the United States. Among the recent USC graduates who have benefited from this comprehensive program are Jim Kraft and Clark Davis, both of whom have participated in recent BHC conferences; and we have more graduate students in the pipeline with similar training. Steve and I have been proselytizing colleagues in other departments around the country for a long time about the benefits to students and faculty alike from integrating more closely the fields of labor and business history, and I wanted, therefore, to take advantage of this opportunity to let everyone know that we have continued to practice what we have preached, and that I continue to recommend that business historians make the effort to provide their students, especially graduate students, with greater exposure to the labor historians in their respective departments.

In closing, I want to wrap things up on a more personal note. I want to state forthrightly and sincerely how much the intellectual and social atmosphere of this organization has added to the enjoyment and satisfaction of my career choice over the last quarter century. For me, the annual conventions are like a happy family reunion. I always relish seeing again those of you who have been good friends for many years, and equally as much, I enjoy meeting the newcomers to our discipline. Whenever I talk with prospective graduate students who might be considering a career in business history, I always tell them that one of the most positive aspects is that there are many marvelously friendly and supportive people in the field. I have published numerous books and articles over the last quarter century, but serving as your president has been, without question, the highlight of my professional career. Thanks so much to you, my treasured colleagues in economic and business history, for honoring me with this office and giving me the opportunity to share these thoughts and my sentiments with you tonight.