Reshaping Global Trade: The Immediate and Long-Run Effects of Bank Failures

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Abstract

I provide evidence from the most severe banking crisis in British history that financial shocks can have a long-lasting impact on the patterns of international trade. The setting for my study is the unexpected failure in May 1866 of Overend and Gurney, London's largest interbank lender. Overend's failure led to widespread bank runs in London that caused 12 percent of British multinational banks to fail. These multinational banks played a dominant role in financing international trade during the 19th century. Using detailed archival records, I document that 10 percent exposure to these failed banks led to 5.6 percent fewer exports the following year. Strikingly, the impact on international trade patterns persisted for almost four decades despite a rapid recovery of the banking sector following the crisis. There was limited within-country substitution, leading to permanent divergence in exports levels across countries: those more exposed to bank failures had 1.8 percent lower annual export growth from 1866–1914. Countries that faced high export competition and those that had little access to alternative forms of credit experienced more persistent effects.

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Banking crises have occurred repeatedly in countries across the income spectrum throughout history, and a recent empirical literature has shown that they have severe consequences for short-term real economic activity.[1] Models of the macroeconomic response to financial sector disruptions typically imply that recovery in the health of the banking sector will lead to full recovery in the real economy (Bernanke and Gertler, 1989; Kiyotaki and Moore, 1997). However, the short-term adjustments triggered by banking crises appear to have longer lasting economic consequences (Cerra and Saxena, 2008). International trade is a sector that is both sensitive to the costs of external finance (Amiti and Weinstein (2011); Paravisini et al. (2014)) and could theoretically exhibit path dependence, where a one-time temporary shock leads to a persistent change in the composition of exporters (Baldwin, 1988; Baldwin and Krugman, 1989). Yet establishing the causal effect of bank failures on exports beyond the level of the firm is difficult because local conditions simultaneously impact economic activity and banking sector health. Even when it is possible to isolate an exogenous shock to the domestic banking sector, studies have been limited to examining short-term outcomes within one country.

This paper causally estimates the impact of bank failures on international trade in a unique historical setting that lends global coverage and makes it possible to study long-term effects. The laboratory is the natural experiment arising from the most severe financial crisis in British history, the 1866 London banking crisis, which occurred when London was the center of the global financial system and British multinational banks were the dominant providers of trade credit around the world. I show that the crisis disrupted the normal flow of credit, and using the bank-level shocks from the crisis, I find that this temporary shock had both immediate and long-lasting effects on international trade patterns.

The 1866 crisis was caused by the unexpected bankruptcy of the fraudulent financial market intermediary Overend and Gurney. Its announcement of bankruptcy led to panic and severe bank runs on all London banks. In the immediate aftermath, 12 percent of British multinational banks (weighted by size) failed.[2] These multinational banks borrowed funds in London and lent them abroad through subsidiary offices in cities around the world. Headquarter failures in London severed this funding structure and necessitated that all foreign operations stop as well. Port cities and countries around the world differed in their pre-crisis dependence on the failed British banks and were therefore differentially exposed to the crisis in London.

Several features of the historical setting make it well-suited for identifying the causal

[1] Recent work includes Chodorow-Reich (2014); Benmelech, Frydman and Papanikolaou (2016); Huber (2018) on employment, and Ashcraft (2005); Richardson and Troost (2009); Calomiris and Mason (2003); Frydman, Hilt and Zhou (2015) on investment and output.

[2] There were 128 multinational banks, of which 22 failed.

effect of exposure to bank failures on exporting activity. First, British multinational banks were dominant and had global reach: they provided over 90 percent of trade credit in cities around the world, and they operated in countries that accounted for 98 percent of world exports in 1865.[3] Their competitive advantage relative to other local, or even European alternatives, stemmed from their unique structure of lending abroad but drawing funding from the largest money market in the world. Subsidiary locations dependent on British banks paid a lower cost of capital on average but were exposed to fluctuations in the cost of credit from London. This structure of global operations meant that a single shock in the international financial center—the failure of London's largest financial market intermediary—impacted banking activity around the world.[4]

Second, these multinational banks were chartered to provide trade credit, which establishes a natural link between their operations and exporting activity (Baster, 1934). The banks' uniformity also makes it likely that they affected exports through the same channels across locations. Third, outside of Britain, there was no government or policy intervention in the macroeconomy, so the estimated effects are not conditional on the degree of the post-crisis response.[5] Finally, the 1866 crisis was followed by almost five decades of relative global peace, one of the longest in modern history, when both goods and capital flows faced few barriers, in what was known as the First Age of Globalization (O'Rourke and Williamson, 1999). These features allow me to empirically isolate the effect of bank failures from other determinants of local economic development and examine the process of recovery.

In order to conduct the empirical analysis, I construct several new datasets of historical trade and financing activity around the world, at the port city and country levels. First, I collect over 11,000 handwritten loan contracts from archival records comprising the universe of British bank lending relationships pre-crisis in cities around the world. To my knowledge, these are the only data with full global coverage of the dominant financial center's banking relationships in any time period, and they make it possible to causally link a single shock to outcomes around the world. Second, I quantify city-level exporting activity in the short-term using a dataset of comprehensive shipping activity in port cities around the world built from the daily *Lloyd's List* newspaper.[6] Third, I gather a panel of exporting

[3] Author's calculations based on the locations and operations of British banks and non-British banks, and the value of exports across countries in 1865.

[4] International capital reversals continue to cause cross-border contagion in the modern day. Peek and Rosengren (1997, 2000); Puri, Rocholl and Steffen (2011); Cetorelli and Goldberg (2011); Schnabl (2012); Iyer et al. (2013); Paravisini et al. (2014); Huber (2018) study their effects in a variety of national contexts.

[5] Romer and Romer (2018) document that in the post-Bretton Woods era, the output decline following financial crises is highly dependent on policymakers' ability to enact post-crisis countercyclical policies.

[6] Annual country-level shipping activity is highly correlated with annual values of exports, and I verify my short-term findings at the country-level using values of exports.

and financing activity at the country- and city-level, respectively, from 1850–1914.

To identify the causal relationship between bank failures and exporting activity, I use a difference-in-difference (DD) estimator with continuous treatment intensity, allowing for a control group of places with no exposure to British banks in 1866. I measure a location's exposure to bank failures as the pre-crisis fraction of its credit that came from the banks operating in that location that failed. This measure follows a Bartik/shift-share structure of firm-level exposure to bank-health shocks used in Greenstone, Mas and Nguyen (2014), Chodorow-Reich (2014), Amiti and Weinstein (2018) among others.[7] This strategy is based on the theoretical and empirical evidence that banks lend locally since contractual frictions between banks and their borrowers increase with distance (Sharpe, 1990; Petersen and Rajan, 2002; Mian, 2006).

Identification relies on there not being a simultaneous shock to a location that would cause its exports to decline and the banks operating there to fail. I show that bank failures are uncorrelated with observable characteristics of the banks themselves, which helps to address the key endogeneity concern that banks failed because of expected export declines in the locations they operated in. Consistent with the environment of limited knowledge during the 1866 panic, worse banks (proxied by observable pre-crisis balance sheet characteristics) were not more likely to fail. I also verify that bank failures are mostly uncorrelated with observable characteristics of subsidiary locations, for example their value of exports, specialization in particular commodities, or military conflicts. I control for potentially confounding observable factors and include a number of robustness checks for additional evidence supporting the identifying assumption.

My analysis proceeds in the following way. First, I examine whether this finance-driven shock to trade costs lowered exporting activity in the short-term. Second, I establish that the disruption to finance was temporary: cities more exposed to bank failures in 1866 had access to the same number of banks as less-exposed cities by 1871.[8] Third, I examine the long-run effects: if exporting activity primarily depended on short-term financing, recovery should follow. However, if the temporary financing shock held countries back from expanding into new markets during this period of massive growth in global trade, then the initial loss of market share abroad would lead to persistently lower levels of exports in the long-run.

I find that exposure to the failure of these multinational banks caused large and

[7] Several contributions to this literature also estimate the within-firm effects using connections to multiple borrowers (Amiti and Weinstein, 2018; Blattner, Farinha and Rebelo, 2018). However, it is only possible to use within-firm variation when outcomes are also at the bank-firm level (see Khwaja and Mian (2008)), which is not the case with exports.

[8] I measure access to banks by building a dataset of the universe of city-level multinational bank subsidiary operations around the world in five-year windows from 1850-1914. I count banks of all nationalities.

immediate contractions in both the intensive (the amount exported) and extensive (whether they exported at all) margins of exporting activity within and across countries. Ports exposed to a 10 pp increase in multinational bank failures shipped 5.6 percent less the year following the crisis compared with unexposed ports within the same country. The intensive margin findings are larger than Amiti and Weinstein (2011) and Paravisini et al. (2014)'s firm-level results in more recent settings. The difference is most likely because bank failure is more extreme than declines in bank health, and it is less prone to measurement error. In addition, I find extensive margin losses in the number of destinations that a given port traded with and the likelihood that a port traded at all. These results are consistent with findings in modern data documenting that credit constraints have a negative impact on firm entry into exporting (Berman and Héricourt, 2010).

At the country-level, I estimate an even larger loss in shipping activity from exposure to bank failures, suggesting that general equilibrium forces did not substantially reallocate exporting activity within the exporting country. I explicitly test for any short-term reallocation by estimating the response of port-level shipping to the average level of bank failure exposure in other ports within a country, controlling for each port's own exposure. The effect is not significantly different from zero, indicating that exporters in cities with high exposure did not relocate to other ports. Since ships are highly mobile across ports, this result suggests that the binding friction was the costly process of forming new lending relationships (Bernanke, 1983; Rajan, 1992).

Having established the short-term effect of this financing shock on exporting activity, I show that the losses across countries persisted for decades despite fast recovery in the banking sector. After 1866, there is an immediate and permanent divergence in the aggregate levels of exports between countries with above average exposure to bank failures compared to those with below average exposure. This divergence is driven by an increase in the growth rate of exports for less exposed countries right after the crisis.[9] Benchmarked against estimates of the elasticity of trade to physical distance, exposure to an above average bank failure shock after two years is equivalent to a 30.5 percent increase in a country's distance to its trade partners. These initial differences lead to a 1.8 percent difference in the average annual growth rate of exports from 1866 until 1914.

Next, I extend my short-term DD identification strategy and estimate the cross-sectional elasticity of country-level values of exports to bank failures in every year in a dynamic DD. This estimator compares the relative volumes imported by a given country in

[9]The main analysis stops in 1914 because of the economic and institutional upheavals of WWI. However, the divergence persists until 2014, indicating that countries more exposed to bank failures never experience a compensating positive growth shock.

a given year from exporters exposed to varying degrees of bank failure, controlling for demand shocks and bilateral measures of geographical and institutional distance. Incorporating the bilateral resistance measures means this estimator takes the form of a fixed effects estimation of a general structural gravity equation used to quantify the responsiveness of exports to trade costs (Head and Mayer, 2014). I find that there are no differential pre-trends from 1850–1866, a large negative effect beginning in 1867, and statistically significant differences in bilateral trade until 1900. I also show that the patterns of persistence and recovery cannot be explained by random divergence among countries over time and are robust to a large number of alternative explanations. While the estimated effects are not statistically significant after 1900, the point estimates are persistently negative, and the magnitude in 2014 is still 53 percent of the average magnitude from 1866–1900, indicating a very slow process of convergence.

The path dependence in exports patterns lends empirical evidence to the possibility of multiple equilibria in the geographic distribution of economic activity (Davis and Weinstein, 2002; Redding and Sturm, 2008; Bleakley and Lin, 2012; Kline and Moretti, 2014; Allen and Donaldson, 2018). While the literature has focused on the role of physical capital and geographic characteristics in determining initial conditions, to my knowledge this paper is the first to show that temporary shocks to financial capital can be the proximate source of divergence. The persistence is consistent with a framework of high substitutability across exporters, (a country-level analogue to the homogeneous firms in Baldwin and Krugman (1989)), which is plausible in this institutional setting in which the vast majority of trade was in raw commodity goods.

Next, I explore two mechanisms for the long-term losses: an exporter's lack of access to alternative sources of trade financing and an importer's ability to substitute to other exporters selling similar products. First, to proxy for the availability of alternate financing sources that could be accessed after the crisis, I use the number of non-British banks operating in each port city, and find that access to other banks alleviates one third of the baseline short-term reduction in exporting. In the long-term, exporters with access to alternative banking networks were almost completely shielded from the cost of the initial exposure to British bank failures. Second, I compare relative recovery rates within groups of countries exporting similar goods. Countries facing more competition in exports markets did not have any recovery in their bilateral trade relationships by 1914. As a placebo, countries within random groupings followed the same baseline patterns of recovery by the 1900s.

This paper shows that there are immediate and long-term global consequences from disruptions to the dominant financial market. In the modern economy, credit conditions in peripheral countries have been found to be disproportionately associated with capital

flows from the United States (Eichengreen and Rose, 2004; Gourinchas, Rey and Truempler, 2012). Rey (2015) shows that the ultimate source of these credit cycles may be monetary policy transmitted through global banks. Separately, there is a large literature on the Bank of England's policies during its pre-WWI hegemony that highlights its influence over the pound sterling (Bagehot, 1873; Schwartz, 1987; Flandreau and Ugolini, 2013). This paper empirically joins these two strands of literature to concretely illustrate how the conditions in the dominant financial market affect real activity around the world.

Methodologically, I use quasi-random variation in bank failure at the location-level, analogous to the firm-level measures of exposure used in recent studies (Gan, 2007; Frydman, Hilt and Zhou, 2015). In particular, my strategy is similar to studies in which the shocks to the domestic banking sector originated abroad (Peek and Rosengren, 2000; Puri, Rocholl and Steffen, 2011; Schnabl, 2012). While I find that real economic activity contracted even in the historical setting, I also estimate these effects in the macroeconomy, beyond the level of the firm, and in the long-term across all countries.

A separate literature has been able to correlate domestic banking crises with deep, persistent output declines across countries (Kaminsky and Reinhart, 1999; Cerra and Saxena, 2008; Reinhart and Rogoff, 2009*a*; Bordo and Haubrich, 2010; Schularick and Taylor, 2012; Krishnamurthy and Muir, 2017). My estimation establishes this relationship causally. In contrast to the multi-country studies, I focus on one crisis, which provides a single institutional context and a clear interpretation of the role of banks within it. Using one setting also avoids the difficulties of comparing very different shocks across countries and time (Romer and Romer, 2017). The Global Financial Crisis has shown that crises originating in the core are not just of historical interest, but comparable data on the bank linkages in 2008 are not available, and it is only possible to observe effects for one decade.

Finally, this paper's focus on exports speaks to the literature on the role of finance in trade. There has been revived interest in this topic following the Great Trade Collapse of 2008, but the existing literature has not reached a consensus. Most studies use the cross-industry variation in external finance dependence from Rajan and Zingales (1998) and measure a firm's access to finance from firm balance sheets (e.g. Iacovone and Zavacka (2009); Chor and Manova (2012)), while others adopt a structural approach (e.g. Alessandria, Kaboski and Midrigan (2010); Eaton et al. (2016)). Their findings vary from finding large to insignificant effects.[10] In contract, I directly observe the trade financing constraint from bank-level shocks as in Amiti and Weinstein (2011) and Paravisini et al. (2014), and I find

[10] Ahn, Amiti and Weinstein (2011) posits the range of conclusions could stem from inconsistent or incorrect measurement of trade credit, especially when proxied by standard measures of external finance dependence. In addition, Feenstra, Li and Yu (2014) notes that trade finance acts through different mechanisms from standard external financing.

strong support for the financing channel. In addition, I also find a much larger decline in trade relative to output, consistent with patterns in the modern data.

The paper is organized as follows. The next section discusses the role of banks in trade finance and the origins of the 1866 banking crisis. Section 2 describes the identification strategy, and section 3 discusses the historical data sources. Sections 4 and 5 report the immediate and long-run results and provide evidence on the mechanisms for persistence. Section 6 concludes.

1 London's banks: institutional & historical context

This section provides an overview of the institutional structure of British multinational banks and international trade finance in the 19th century. It describes the events leading up to the London banking crisis of 1866 and the consequences of Overend & Gurney's failure.

1.1 Trade finance & British banking dominance

Contractual frictions were a major barrier to establishing international trading relationships in the 19th century, just as they still often are today (Antràs and Foley, 2015; Auboin, 2012). Due to the long lag between the initial shipment by exporters, the receipt of goods by importers, and their final sale by importers, purchase and payment was staggered, and there was room for default on both sides. Importers were not willing to directly finance exporters (through cash-in-advance payment) when the exporter was risky and losses were unlikely to be recouped. These contractual frictions were particularly high for exporters in countries of low institutional quality or in new markets.[11] Exporters waiting for payments faced higher working capital costs, and contemporary 19th century accounts indicate that uncertainty over payments restricted many firms from expanding to new markets (Reber, 1979; Mackenzie, 2013).

Banks overcame these frictions by directly financing exporters during the period of shipment. British multinational banks operated locally through subsidiary offices, which gave them superior knowledge of an exporter's risk. These offices conducted the banks' business of lending via short-term, often collateralized, loans called "banker's acceptances." Banker's acceptances were a special form of a bill of exchange, which was a general debt obligation that could be written between any two parties. Bills of exchange had the feature of joint liability, meaning that in the case of default by the original debtor, the "acceptor" (in

[11] Antràs and Foley (2015) presents a symmetric case where the contractual friction binds for the importer instead. Empirically, they study a modern US-based exporter whose partners varied in their contractual quality. However, in the historical context, lending to finance purchases was not the norm.

this case the bank) was liable for the debt. This feature transformed the bills from bearing the idiosyncratic risk of the individual exporter into bearing the bank's credit risk instead.

In addition, British multinational banks had accounts at the Bank of England, which promised to lend against collateral guaranteed by its customers at the Bank's Discount Window. The term "Discount Window" comes from the transaction of "discounting" bills of exchange that took place there. Discounts most resembles a modern-day repurchase agreement: the seller received the face value of the bill minus the discount rate (haircut) at the initiation of the transaction, and he paid the full face value in return for the security at its maturity. At maturity, the bill was presented to the original borrower via his accepting bank for repayment, and the debt was terminated.[12]

The bills accepted by British multinational banks and implicitly guaranteed by the Bank of England were useful debt and investment instruments, analogous to short-term Treasury bills today.[13] Banker's acceptances were flexible and customizable, so in theory they could be accepted for any debt obligation. However, the British multinational banks at the center of this study used them to finance international trade. The relationship these banks had to the Bank of England and the London money markets allowed them to form the backbone of international trade finance in the 19th century.

Three institutional details are relevant for interpreting the effect of British multinational bank failures on trade. First, they were chartered to only fund trade and were not permitted to act as commercial banks and invest in long-term, illiquid assets (Chapman, 1984; Muirhead and Green, 2016). Second, contemporaries emphasized that British banks were not limited to funding trade with Britain, and in fact were integral for trade that had no British counterparties (Jenks, 1927; Baster, 1934).[14] Third, the safe and liquid features of their bills meant that banks could remit them back to their London headquarters who then resold them on the London money market.[15]

Access to London was integral to subsidiary office operations and provided British multinational banks with two advantages over local, and even other European, banks: remitting bills back to London freed up local capital for more acceptances, and the headquarters issued stock and deposits in London where the cost of capital was low to lend abroad. These

[12] Flandreau and Ugolini (2013) and Anson et al. (2018) study the rules governing the Bank of England's discounting activity during different 19th century banking crises.

[13] The modern Treasury bill was proposed by Walter Bagehot in 1877 and modeled after these commercial bills to allow the government to borrow at short maturities in a similar manner (BOE, 1964).

[14] Jenks (1927) writes on p. 69, "[American imports of] wines from France, coffee from Brazil, sugar from the West Indies, and silk from Hong Kong were paid alike with bills on London."

[15] In London, the short-term funds circulated among banks who bought/sold securities to generate their preferred maturity distribution, members of the London Stock Exchange who borrowed from banks to purchase bonds, and interbank lenders who facilitated the transactions (Nishimura et al., 2012, p.18).

two factors contributed to British banking dominance and global reach. In 1866 on the eve of the London banking crisis, the countries that British banks operated in accounted for 98 percent of the value of global exports. A conservative estimate is that these banks provided 91 percent of the trade credit in a given city.[16] See Appendix E.1 for the full historical details. Table A1 lists examples of these banks with their founding dates and geographic regions of specialization in 1866.

1.2 London banking crisis of 1866

The 1866 banking crisis was the largest ever shock to the London money market, when 22 out of 128 multinational banks headquartered in London (12% of banks by size) failed.[17] The closures of the headquarters in London necessitated that subsidiary operations abroad close as well, which constricted the supply of credit in subsidiary locations.

The 1866 crisis was caused by the unanticipated bankruptcy of the firm Overend and Gurney, the largest and most prestigious interbank lender in the City of London. Its business was buying and selling liquid, short-term bills of exchange from and to London banks. It did not lend long-term on illiquid assets, and it had no overseas operations. Crucially for the purposes of this study, it did not lend for the purposes of trade.

Overend's business had been built over decades by an earlier generation of partners, such that by the mid-19th century, it was called the "Corner House" in London, alluding to its foundational role. In the early 1860s, a younger generation of partners took over the firm and let it be run by "wily sycophants" who mismanaged the firm's assets with speculative and illiquid investments that quickly began to fail (King, 1936, p. 246).

The true state of affairs was not known to the public, and the firm successfully converted its ownership structure from a privately held company to a publicly-listed joint-stock firm in July 1865 as a gamble to recover its losses.[18] *Banker's Magazine*, a leading financial market publication, fully endorsed the firm as one of the best in the City of London when Overend & Gurney announced its share offering. Less than one year later, Overend announced its bankruptcy on the morning of May 11, 1866, and *The Times* reported the following:

[16] These two figures are the author's own calculations. The first is based on the bank-city lending relationships. The second assumes that non-British banks were the same size as British banks. Since British banks were almost certainly larger than non-British banks, this figure is a lower bound to the amount of trade credit they supplied. This circle of funding made the business of international banking potentially very profitable. Kisling (2017) documents that German banks began entering this market in the later part of the 19th century to compete with British dominance.

[17] This was also the last time there were bank runs in the United Kingdom until 2008. Anna Schwartz referred to the 1866 crisis as the "Last English Financial Crisis" (Schwartz, 1987).

[18] Appendix E.2 gives the full text of the original prospectus.

> It cannot be denied that about mid-day the tumult became a rout. The doors of the most respectable Banking Houses were besieged [...] and throngs heaving and tumbling about Lombard Street made that narrow thoroughfare impassable.

Overend's failure had two main effects on the London money market: the first was a negative supply shock for cash because a major intermediary could no longer fulfill the liquidity needs of banks in London. The second was an intense positive demand shock for bank funds as the news caused depositors to panic and run on the banks. In conjunction, the failure froze the short-term credit market in London for several days, and liquidity was unattainable except at the Bank of England Discount Window.[19] During the week, all London banks suffered runs, and those that did not hold adequate liquid reserves were forced to close or suspend operations. To my knowledge, this paper is the first to study the international implications of the 1866 London banking crisis.

2 Measuring exposure to London's crisis around the world

The goal of my empirical analysis is to estimate the causal relationship between a location's access to bank credit and exporting activity. I follow the literature and model the underlying relationship between bank credit and economic outcomes by relating the natural log of outcomes Y_{lt} at location l in time t to the natural log of the amount of bank credit:

$$\ln(Y_{lt}) = \alpha + \quad \ln(\text{Credit}_{lt}) + \quad {}'X_{lt} + \varepsilon_{lt} \tag{1}$$

Identifying from Equation 1 is challenging for two reasons. First, direct measures of bank credit are an equilibrium outcome that conflates supply and demand for credit, so places that demand less bank credit are also likely to be less productive. Equation 1 will not satisfy the orthogonality conditions that $\mathrm{E}[\text{Credit}_{lt}\varepsilon_{lt}] = 0$ because ε_{lt} includes the unobserved local economic conditions that are positively correlated with bank credit, which biases upward. Second, there might be reverse causality: firms in locations that are already less productive can weaken their banks' balance sheets through non-performing loans and cause those banks to contract their lending or even to fail.

I overcome these two challenges using the multinational structure of British banking where subsidiary operations depended directly on their headquarter's health. Banks whose headquarters in London faced the most severe runs failed, which generated plausibly exoge-

[19] Appendix Figure B1 plots the full time series of the daily lending at the Bank of England Discount Window. May 11 is marked by the red vertical line. There are no extant records of Overend & Gurney's day-to-day operations before the crisis, so it is not clear whether depositors were acting on information tying banks to the firm. I discuss the possible sources of information available in Appendix E.1.

nous variation in cities' and countries' exposure to bank failures. In the rest of this section I describe how I measure location-level exposure to bank failures and show that location-level characteristics did not cause the banks to fail.

2.1 Measuring the shock to bank credit

The total bank credit in Equation 1 is the sum of the credit extended by each bank b: $\text{Credit}_{lt} = \sum_b \text{Credit}_{lbt}$. This total can be rewritten as the sum of the shares of each bank in a location and the bank size: $\text{Credit}_{lt} = \sum_b z_{lbt} \times \text{Credit}_{bt}$ where

$$z_{lbt} = \frac{\text{Credit}_{lbt}}{\text{Credit}_{lt}} \tag{2}$$

I calculate location l's pre-crisis dependence (at $t = pre$) using the loans that were originated in the six months before May 1866 to avoid the endogeneity of post-crisis sorting among bad banks and bad locations. The shares $z_{lb,pre}$ sum to equal one in each location.

The crisis in London generates bank-level shocks that affect locations through their pre-crisis dependence shares $z_{lb,pre}$. I use the shock of bank failure in 1866, which is captured by the binary variable $\mathbb{I}(\text{Failure}_b)$ which takes the value of 1 if the bank failed and 0 otherwise. Each location's exposure to bank failure Fail_l is the weighted average of failure rates across banks:

$$\text{Fail}_l = \sum_b z_{lb,pre} \times \mathbb{I}(\text{Failure}_b) \tag{3}$$

Fail_l takes the form of a Bartik instrument with the following first stage relationship:

$$\ln(\text{Credit}_{lt}) = \alpha_1 + \ _1\text{Fail}_l + \ _1'X_{lt} + \nu_{lt} \tag{4}$$

Fail_l is a location-level analogue to the firm-level exposures to bank-level shocks used elsewhere in the literature, for instance in Paravisini et al. (2014); Chodorow-Reich (2014). As in other Bartik instruments, the intuition for identification is that each location is a small contributor to a bank's overall operations and is therefore unlikely to drive the bank-level outcomes. I discuss instrument validity in section 2.2.

Estimating the first stage relationship in Equation 4 requires location-level lending in both the pre- and post-crisis periods. Data limitations (discussed in more detail in section 3.1) prevent this, but there is a strong pseudo first-stage relationship between exposure to bank failures and credit contractions at the bank-level, shown in Table A2. Given the lack of a first stage, the empirical results will be presented in terms of the reduced form relationship

between exposure to bank failures and the change in log outcomes instead:

$$\ln(Y_{lt}) = \alpha_2 + \ {}_2\text{Fail}_{lt} + \ {}'_2 X_{lt} + \epsilon_{lt} \tag{5}$$

The reduced form coefficient $\ {}_2$ in Equation 5 is straightforward to interpret as the semi-elasticity of the response of trade activity to bank failures in location l.[20]

In all calculations of the total trade credit in a location, I only observe the amounts extended by British banks, which leads to measurement error in the endogenous variable Credit_{lt}. However, the instrument constructed from the shares and failure rates of British banks will still be valid for the change in all credit as long as either non-British banks do not provide trade credit, or the post-crisis credit supply of non-British bank credit is uncorrelated with the failure rates of British banks across locations. Since British banks conservatively provided over 90% of trade credit and I find no evidence of correlation between the non-British bank response and British bank failures, I do not believe the measurement error in the endogenous variable is a concern. Appendix C gives the proof and empirical evidence.

2.2 Validity of reduced form estimation

The reduced form relationship in Equation 5 will reflect the causal effect of contractions in bank credit on exports if Fail_l satisfies the standard exclusion restriction for an instrumental variable: $\text{E}[\text{Fail}_l \varepsilon_l] = \text{E}[\sum_b z_{lb} \mathbb{I}(\text{Failure}_b) \varepsilon_l] = 0$. It is apparent from the exclusion restriction that in a shift-share setting, the instrument is immediately satisfied if bank failures are randomly assigned, but it does not require it.

The instrument will be valid if the bank-level shocks are uncorrelated with the average location-level characteristics that determine exporting activity in the locations most exposed to each bank (Borusyak, Hull and Jaravel, 2018).[21] The identifying assumption is that banks did not sort to locations such that unobservable characteristics of the locations were correlated with both failures of the British multinational banks operating there and declines in exports activity. One example of problematic sorting would be banks that failed choosing to operate in locations that experienced a boom in the pre-period and a bust post-1866. Declines in exports and failures of the banks operating in those locations would coincide and be falsely attributed to the London crisis. To the extent that any boom and bust cycle is

[20] Estimating the reduced form relationship means it is not possible to distinguish between the many different roles of banking activity, such as credit provision or risk assessment, but given these banks' role as providers of trade credit, the credit channel is the most likely mechanism.

[21] In Goldsmith-Pinkham, Sorkin and Swift (2018), identification can come from exogeneity in the shares $z_{lb,pre}$ without any information from the shocks. This condition would be satisfied if there were no sorting between banks and locations in ways that matter for exports activity. However, it is likely that certain banks specialized in certain areas or commodities, and therefore those assumptions are not suited for this context.

observable, they can be included as controls in the reduced form estimation.

In the following subsections, I first show that most observable characteristics of bank activity from balance sheet measures and geographic concentration were not correlated with bank failure rates. This evidence supports the historical narrative of the 1866 crisis that the bank failures appeared to be random. I then show that bank failure rates were also mostly not correlated with observable characteristics of the locations where they were operating, which suggests it was unlikely there were substantial correlations in unobserved characteristics. To the extent that certain characteristics were correlated with bank failures, they are included as controls in all the specifications to residualize their effect on exports activity.

2.2.1 Correlation between bank characteristics and bank failure rates

Banks are balanced across almost all observable pre-crisis bank characteristics (Table 1). Panel A only has publicly-held—a.k.a. joint-stock—banks that published balance sheets, and Panel B has all banks including privately owned banks that did not publish balance sheets. Means of the characteristics are listed first and standard deviations in parentheses next to it.

The balance sheet characteristics of the banks that failed are not statistically or economically different from the banks that did not fail (Panel A). These characteristics are proxies for measures of bank health and risk-taking. Banks had on average £1.48 million equity capital, of which almost half was already paid by investors, and their reserve funds, total size of the balance sheet, leverage ratio, and reserve ratio were also similar.

In Panel B, I include all other observable characteristics that are available for all the banks. Panel B shows that banks that survived were on average older. If older banks operated in locations that were less likely to experience declines in exports, then age is a potential confounder. First, the relationship is driven by private bank outliers such as Coutts which dates from the 16th century, and the difference disappears when those outliers are removed. Second, it is sufficient to control for the average weighted age of banks in each location, which leaves the residual relationship between bank credit and exports activity.

Geographical region of specialization also did not predict bank failure. For each bank, I calculate the total credit extended to each geographic region such as North America or the UK itself to test whether exposure to these regions are correlated with failure.[22] Banks that failed were not more exposed to individual regions than banks that did not fail. This balance helps to address the concern that bank failures and export contractions were simultaneously caused by a shock that was systematically correlated with their geography. Examples of such

[22]In Table A3, I calculate each bank's geographic exposure as the share of total assets to rescale by bank size. All measures are balanced there as well.

shocks include weather patterns that led to widespread crop failures and declines in output or regional boom-and-bust patterns. In addition, banks in the two groups were similarly geographically diversified, operating in an average of almost 14 cities and 8 cities.

2.2.2 Correlation between location characteristics and bank failure rates

Banks are exposed to shocks in London, but these shocks could be correlated with the characteristics of the banks' subsidiary locations. Correlations between location-level characteristics and a location's exposure to bank failures are problematic if those characteristics are the ultimate drivers of exports activity. For example, if the banks that failed were primarily operating in countries focused on cotton production, and those countries were also the ones with the largest declines in exports, then characteristics of the cotton industry could simultaneously be causing both the bank failures and exports outcomes.

One way to test the exogeneity of bank-level failure rates to location-level characteristics is to calculate each bank's exposure to those characteristics and correlate them with the bank failure rates (Borusyak, Hull and Jaravel, 2018). The advantage of testing the bank-level relationship rather than the location-level relationship, the latter of which is standard in the literature, is that it produces the corrected standard errors of Adão, Kolesár and Morales (2018).[23]

I examine the observable pre-crisis location-level characteristics at both the port-level and the country-level. At the port-level, the observable characteristics come from the *Lloyd's List* and include the volume of exports (proxied by the number of ships), the importance of the United Kingdom as a destination, the distance to London, the number of destinations, the availability of non-British banks, and whether the port is a capital city. At the country-level, observable characteristics include the total value of exports, the value of exports within industries, and the share of commodities in the composition of exports. Each bank's share-weighted average exposure $\bar{X}_b$ to these pre-crisis characteristic X_l is calculated as $\bar{X}_b = \frac{\sum_l z_{lb} \times X_l}{\sum_l z_{lb}}$ where larger weights are given to locations more dependent on bank b. The transformed location-level characteristics $\bar{X}_b$ are normalized and individually regressed

[23] Adão, Kolesár and Morales (2018) show that when the source of identification from a shift-share instrument are the shocks, the standard errors of regressions of the instrument on location characteristics tend to over-reject the null hypothesis. Intuitively, the location-level tests target randomness in the shares, but when the location shares themselves are not suitable instruments, the covariance between the shocks and the shares may be relevant. Borusyak, Hull and Jaravel (2018) show that implementing the Adão, Kolesár and Morales (2018) standard error correction is equivalent to translating the location-level characteristics into bank-level exposure rates.

on bank failure rates:[24]

$$\bar{X}_b = \alpha + \quad \mathbb{I}(\text{Failure}_b) + \varepsilon_b \psi \tag{6}$$

There is balance on almost all characteristics. It is worth noting that given the number of hypothesis tests being run, it would not be surprising for some of them to reject the null. Table 3 reports the coefficients and standard errors with location-level attributes. The fact that most observable characteristics are uncorrelated with failure rates makes it more likely that there are not other unobservables that are correlated.

In terms of port-level characteristics, Panel A shows that two factors are unbalanced: banks linked to ports with a higher fraction of exports going to the UK were more likely to fail, and those linked to ports that were also the capital cities within countries were less likely to fail. Panel B reports country-level analogues of the port-level characteristics, and shows that the number of non-British banks pre-crisis is significantly correlated with bank failure rates.[25] These characteristics will all be included as controls in the baseline specifications.

In order to address the possibility of commodity booms and busts, I categorize each country's exports by two-digit SITC categories and test balance across the top eight categories. The full distribution of exports by SITC categories is plotted in Figure B2. Raw cotton and cotton manufactured goods are the largest components of textile fibers (category 26) and textiles (category 65), respectively, but I isolate these from their two-digit categories because of their historical significance. In particular, in 1866 after the American Civil War ended, there was a large disruption in global cotton markets as the US South began producing cotton again (Beckert, 2015). Banks exposed to the post-war cotton shock, either because they specialized in the cotton trade or because they operated in cotton-exporting countries, could have failed because of disruptions to the cotton market, and exports from those places could have fallen for the same reasons, leading to a spurious correlation between bank failures and declines in exports.

Table 3 Panel C shows that banks that failed were not differentially exposed to either raw cotton exports or cotton manufactured goods. There is also balance across the other major commodities, including bullion, grains, coffee, alcohol, and tobacco. However, banks

[24]The regressions are weighted by $\hat{z}_b$, which is the average location exposure to bank b: $\hat{z}_b = \frac{1}{L}\sum_{l=1}^{L} z_{lb}$. The weighting is necessary to translate location-level relationships to bank-level relationships. The full derivation for the equivalence is given in Borusyak, Hull and Jaravel (2018).

[25]As discussed in Borusyak, Hull and Jaravel (2018), the advantage of transforming all the specifications into shock-level (bank-level) regressions is that it makes it clear which shocks (banks) are the most relevant for the results. At the port-level, port cities are matched to the closest geographic city of financing, which makes it possible that some cities are not linked to any ports. If certain banks operated in only unmatched cities, they would be irrelevant in the port-level relationship between exposure to financing and declines in exports. The smaller number of observations in Panel A reflects exactly this fact: at the port-level, six banks operated in cities that were not matched to any ports. These are smaller banks, and excluding them entirely makes no difference at the country-level.

operating in countries that exported more sugar were more likely to fail. Table 3 Panel D shows that there is no correlation between exposure to different currency standards (gold, silver, or bimetallic) and bank failure rates. Panel D also checks for balance in exposure to conflicts with interstate conflicts separated from all other types (intrastate and extrastate). There is a strong correlation between exposure to non-interstate conflicts and bank failures, but these effects are driven by the small number of those types of conflicts. The location-level characteristics that are correlated with bank failure rates are included as controls in the main empirical specifications to address their potentially confounding effects.

3 Data

This paper combines several newly collected and digitized historical datasets. In this section, I give an overview of the most important datasets and variables that I constructed. I provide more details, discussion, and documentation in Appendix F.

3.1 Exposure to bank failures

I use the Bank of England's handwritten records of city-level lending by banks pre-crisis to calculate the importance of banks to locations, $z_{lb,pre}$. The Bank of England kept detailed records of every transaction that occurred at its Discount Window. Banks facing their depositors' demands during the banking crisis discounted bills of exchange at the Bank of England because it was the only source of liquidity during the crisis. I interpret the bills that these banks brought in for discount as an unbiased representation of the universe of loans extended by British banks in locations around the world. One concern is that the bills discounted by the Bank of England suffer from selection bias because worse banks may have held worse collateral, and the bills they held are underrepresented in the data. However, the relevant selection is at the bank-location level, not just at the bank-level. In order for this type of selection to be driving the results, it would need to be the case that locations with export growth are attributed with falsely low measures of exposure to bank failures, and vice versa for locations with export contractions. All contemporary and modern evidence on the London money market indicate that by the mid-19th century, the only relevant attributes of bills were the banks that accepted them and their maturity. Several additional institutional details provide evidence that selection is unlikely to be an issue. I discuss these in detail in Appendix E.1.3.

I use the ledgers from 1865-1866 to build a dataset of over 11,000 individual loans from the 128 banks that had international operations in the year before the crisis. An example of

a ledger page is shown in Figure 1a. For each handwritten loan record, I document the bank that originated and guaranteed the loan, the city the loan was extended in, the amount of the loan, and the date it was brought to the Bank of England to be discounted.Deciphering the hand-writing was not trivial. When there was uncertainty about the city of origination, I looked for other loans extended to the same borrower to compare entries. I was able to identify the location and geocode 99.7% of the value of loans. These banks operated in a total of 180 cities outside of the United Kingdom, and they lent over £11.2 million in the year before the crisis. The general lack of data on lending via bills of exchange has been well-documented, and to my knowledge, there are no other comprehensive empirical studies of British bank-intermediated finance during this period despite their role in global financial markets.[26]

Figure 2 maps the geographic distribution of exposure to bank failures, Fail_l. The size of the points measures the pre-crisis amount of British lending in the city, and the color portrays the bank failure share. This map shows within and across-country variation in failure rates. Figure B4 plots the full distribution of exposure across ports and countries.

3.2 Immediate outcomes

I build a port-level panel of bilateral shipping activity for ports outside the United Kingdom using the daily publications of the *Lloyd's List* newspaper for the years 1865-1867.[27] An example of this source from September 5, 1866 is shown in Figure 1b. I digitized the daily newspapers for all shipping events and geocoded 99.8% of the origination ports to 377 unique ports. Over 8,000 unique destinations were geo-coded and assigned to 60 countries.[28] One drawback of the *Lloyd's List* data is that it does not report values of the goods onboard. However, there is a strong positive correlation between the number of ships leaving a country in a year and the total value of the country's exports, shown in Figure B3.

I also capture and calculate port-level pre-crisis characteristics which I use in the

[26]Scholars have attempted to estimate the aggregate size of the trade bills market with the "stamp revenue" (taxes), but these are poor estimates and contain no geographic detail (Nishimura, 1971). Nishimura (1971) notes that the other source of records would be the surviving balance sheets from a few of the largest banks during the period, but they similarly have no geographic detail. Jones (1995) estimates the geographical distribution of total assets of British multinational banks for certain benchmark years between 1860-1970, but he does so by defining broad regions (such as Asia, North America, Europe without the UK) and attributing all of a bank's assets to that region. These data are informative of broad patterns, but they are too limited for empirical studies. Reber (1979) discusses the general lack of records that survive from the international subsidiaries of British banks.

[27]In the short-term analysis, I omit the United Kingdom to provide a more conservative estimate of the effect of exposure to bank failures.

[28]Destinations are inconsistently listed as countries or cities, so they are aggregated to a larger unit of observation. This also minimizes sparcity in the dataset while remaining an effective way to control for demand-side shocks.

empirical analysis. Table 2 reports the descriptive statistics for ports. The average port saw 130 ships leaving in the pre-crisis period and had 9 percent exposure to failed banks. One standard deviation of exposure to failure at the port level was 20 percent. Figure 3 maps the distribution of pre-crisis activity levels for the ports around the world where the size of the dots denotes the log number of ships.

3.3 Long-term outcomes

For the long-term outcomes, I measure exports and access to bank-intermediated finance for the period 1850-1914. The country-level panel of bilateral trade are constructed from publicly available datasets of historical trade statistics along with my own contributions to create a meta-dataset that is, to my knowledge, the most comprehensive available. These datasets cover a variety of time periods and territorial border changes, so I standardize country definitions to pre-WWI borders that are consistent over all the years. For the industry composition of exports at the country-level, I digitized product level export data in 1865 and assigned them to two-digit SITC codes.

I measured access to bank-intermediated finance at the city-level in five-year intervals by digitizing the annual editions of the *Banking Almanac*. I assigned the banks nationalities according to the *Banking Alamanac* when available and other primary sources. Table 2 reports the descriptive statistics for countries in 1865. The average country-level exposure to bank failures was 11 percent with a standard deviation of 17 percent.

4 Immediate impact on trade

This section contains my results on the immediate effect of bank failures on exporting activity on both the intensive and extensive margins. There would be a contraction in exports if bank failures raised the cost of financing sufficiently for trade to be unprofitable. I first use within-country variation from port-level shipping activity before turning to across-country variation using country-level shipping activity and values of exports.

4.1 Intensive margin effect: baseline specification

I examine the immediate impact of bank failures on exports using the two-period panel of port-level shipping activity. Each port in the port-level panel is matched to the closest city of financing by geodesic distance, and its exposure to bank failures Fail_{po} is assumed to come from that city. For example, the port of Piraeus in Greece is designated as receiving its funding from Athens. This empirical strategy is based on the theoretical and empirical

evidence that banks operate locally.[29] Ports more than 500 km from the nearest city of financing are given an exposure of 0, and I include a time-varying intercept for these ports so that there is a control group of completely unexposed ports.[30]

In the raw data, there is a strong negative correlation between exposure to bank failures and the difference in the log number of ships sailed in the post-period relative to the pre-period. Figure 4a plots the binscatter and linear fit within-country at the port-level, and Figure 4b shows a similarly negative relationship across countries. I formally estimate the effect of bank failure exposure on exports in a difference-in-difference regression:

$$\ln(S_{pot}) = \quad \text{Fail}_{po} \times \text{Post}_t + \alpha_p + \quad _{ot} + \varepsilon_{pot} \tag{7}$$

where S is the number of ships leaving from port p in origin country o in period t. Following the trade literature, the dependent variable is in logs to reduce the effect of outliers. As in Paravisini et al. (2014), I separate the intensive and extensive margin effects rather than transforming the zeros. The intensive margin sample is constructed from shipping activity five quarters pre- and post- May 1866 and limited to ports active in both periods.[31]

is the coefficient of interest, which we would expect to be negative if increases in the cost of financing from bank failures reduced exports. Post_t is an indicator for the post-crisis period that control for macroeconomic shocks affecting the exports trend over time. Port fixed effects α_p absorb all time-invariant port-specific differences in levels of shipping, including differences correlated with their exposure to bank failures. Origin-country-period fixed effects $_{ot}$ flexibly control for all observed and unobserved characteristics at the country-level that affect shipping. Insofar as ports within countries exported a similar composition of goods pre-crisis, these serve as proxies for any country-level industry specialization shocks such as factor endowment and factor price movements. Including these fixed effects means is identified off within origin-country variation in exposure to bank failures.[32] Regressions are weighted by the pre-crisis size of ports, measured by shipping activity in the pre-crisis year, to estimate the economically meaningful average effect and to avoid confounding the estimation with an endogenous post-crisis response. Standard errors are clustered by the

[29] Sharpe (1990) presents a theoretical framework for why contracting frictions between banks and borrowers are higher at greater distances. Petersen and Rajan (1994, 2002) present empirical evidence on the importance of geographical proximity to lending activity.

[30] The results are not sensitive to the 500 kilometer boundary and the main coefficients are robust for a range of distances. The results are also robust to not including the time-varying intercept for distant ports. See Figure B5 for the coefficient plot.

[31] I choose 5 quarters to estimate roughly 1 year pre- and post-crisis, allowing for lags in the response time.

[32] Countries with only one port are effectively dropped from this estimation. These account for 16 of the 578 observations (2.8 percent). These come from 8 ports, which reduces the effective number of countries in the estimation from 54 to 46.

country of origin to allow for heteroskedasticity and within-country spatial correlations.[33]

The estimation strategy compares outcomes in port cities that received a large financing cost shock to those that received a small shock before and after the London banking crisis. Unlike a standard DD, the treatment intensity is continuous. The distribution of treatment is well-represented across the entire range of exposure (Figure B4a). I use the geographic distance between ports and the nearest city of financing to infer that more distant ports (500 km in the baseline) are not affected at all by the crisis.[34] This control group allows for ports that are still connected to London but experienced no bank failures to react differently from ports that were not connected to London at all.

Identification requires that there are no shocks correlated with the bank failures that occurred simultaneously. First, I address these concerns by controlling for all location-level characteristics that are correlated with bank failures. Second, I use another characteristic of the historical context—the nascent international telegraph system—to show that the timing of the effect is consistent with when the news from London would have reached the ports.

4.1.1 Baseline results

Table 4 presents the baseline results with controls added individually. The point estimate in column 1, estimated across all ports without the country fixed effects, means that ports exposed to complete British bank failure shipped 68.7 percent less than unexposed ports in the post-crisis year. The within-country comparison in column 2 gives a similar magnitude. The similarity in the estimates implies that differences in origin-country characteristics are not driving the main results. In Table 5 Column 2, the estimated coefficient after including all controls is -.56. This effect is economically and statistically significant. However, complete failure is an extreme event, and the average port was exposed to 8 percent failure, which scales to a 4.5 percent decline in shipping relative to unexposed ports the post-crisis year.

These magnitudes are larger than those estimated by Amiti and Weinstein (2011) and Paravisini et al. (2014), who estimate the effect of bank-level shocks on Japanese and Peruvian firms, respectively.[35] There are two likely reasons for the difference: first, complete bank failure is a qualitatively more extreme outcome than declines in bank health; second,

[33] Clustering at the country-level is reasonable because exporting activity is likely to be more correlated within countries that across them. Standard errors could also be clustered by the city of financing to account for serial correlation. Results are robust to clustering by this lower level of aggregation.

[34] Figure B5 shows robustness to other distance cutoffs.

[35] Amiti and Weinstein (2011) proxy bank health with a decline in its market-to-book value. Scaling their main coefficient in Table 3 to a 100 percent decline in market-to-book would imply that a firm's annual exports values declined by 9 percent. Paravisini et al. (2014) instrument for bank credit supply with the bank's dependence on foreign funding. Scaling their baseline IV coefficient in Table 5 to a 100 percent contraction in bank credit supply would imply a 19.5 percent contraction in the volume of exports.

financing frictions in the 19th century are most likely larger than in the modern-day because information frictions were much higher.

Although there is a large amount of heterogeneity in the treatment, the binscatter in Figure 4a might raise concerns that the results are driven by a few outliers. I show that this is not the case. Results are robust to trimming or winsorizing the top and bottom 10 percent of the observations.

4.1.2 Robustness to controls

I address the concern that the bank failures are correlated with other factors that are responsible for the decline in exports by including observable location-level characteristics as controls in the baseline regression. These controls are based on the port-level characteristics that were not balanced between banks that failed and did not fail in Table 3 and deal with any confounding effect they may have in driving the results. They include the number of non-British banks, the average age of the banks, whether the port is the capital city, and the fraction of ships going to the UK in the pre-crisis year.[36]

The coefficients in Table 4 columns 3-6 after including these controls remain stable and statistically significant. Implementing the recommended bounds in Oster (2017) shows that selection on location-level unobservable characteristics is minimal. These bounds are calculated using movements in the magnitude of the coefficient and the R^2 after adding observable characteristics. * is the inferred true coefficient if the unobserved bias is as large as the observed bias, and is the inferred bias that could induce the estimated to be zero. I report these as * and in the last two rows. These calculations show that * is almost identical to the estimated , and that the degree of unobservables bias would have to be at least 35 times larger than the degree of observables bias.

The baseline effects are also not due to demand shocks. Since the United Kingdom accounted for 30% of global trade during this period, a particular concern is that unobserved declines in UK demand are driving the results. I modify Equation 7 so that the dependent variable is $\ln(S_{podt})$ where S_{podt} is the number of ships sailing from port p in country o to destination country d in period t, and I include destination time-trends $_{dt}$.[37] $_{dt}$ will accommodate all import demand shocks that might be confounding the effects, especially those from the United Kingdom. In this specification, is estimated off the variation across ports shipping to the same destination-country.[38] As before, I limit the sample to origin-

[36] Bank-level characteristics are aggregated to the port-level using the pre-crisis shares $z_{lb,pre}$ of the importance of each bank to each location.

[37] $\sum_p S_{podt} = S_{pot}$: the sum of shipping to all destinations is equal to the dependent variable in the baseline specification.

[38] Destinations that only ship from single ports within origin countries are effectively dropped from the

destination pairs that ship in both periods to isolate the intensive margin effect. Table 4 column 7 reports a coefficient of -0.39, which is smaller than the baseline coefficient, but statistically significant at the 1 percent level as before.

4.1.3 Allowing for news lags

So far, I have assigned a single treatment date for all ports in the DD estimation. However, in reality there were long communication lags in the mid-19th century because the global telegraph network was not fully connected. Basing the post-crisis event date on May 11 for all ports around the world falsely attributes pre-crisis shipping events to the post-crisis period for ports far away from London, which can bias the difference-in-difference estimates. An alternative method bases the event date of the crisis for each port on the date that news from London would have reached the port. For all ports, I calculate the average news lag between when shipping events occurred and when it was reported in the *Lloyd's List*.[39] For major cities, I validate these calculations with the first local newspaper reporting of the banking crisis.

Communication times are highly correlated with the geodesic distance, although there are outliers due to the burgeoning telegraph network. Figure B6 shows the relationship between (geodesic) distance to London and the average news lag in days. The last cities to receive the news were those in the interior of China and New Zealand. To allow for some flexibility in the effective arrival date, I mark the month of the news date as spanning two weeks on either side of the calculated news arrival date. I build a balanced panel of shipping activity around the news arrival date to that port. I validate the port-level results using the port-specific news arrival dates to mark the post-period and report the estimates in the appendix.

4.1.4 Intensive margin effects: values of trade

Shipping S is a proxy for the volume of exports which may overstate the true effect if there was an increase in the capacity utilized on ships post-crisis; conversely, it will understate the true effect if ships were filled to lower capacity post-crisis. In addition, overland trade will not be captured by ship movements. I overcome the limitations in the shipping data by using the annual country-level bilateral values of trade dataset to estimate the effects of the bank failures over calendar years.

estimations. These singleton observations account for 5 of the 2,532 observations.

[39] Juhász and Steinwender (2017) similarly use lags in the *Lloyd's List* reports to measure communication times to London before and after the global telegraph network was established. Juhász (2018) uses the *Lloyd's List* data to track port activity during the Napoleonic blockade and document its reliability as a source for trade flows.

I estimate the short-term losses in a dynamic difference-in-differences specification for the years 1865-1870:

$$\ln(\text{EX}_{odt}) = \ _t\text{Fail}_o + \ \ ' X_{ot} + \ \ _o + \ \ _{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt} \tag{8}$$

This specification includes leads and lags to the shock interacted with treatment Fail_o which makes it possible to visualize any pretrends and the evolution of the effect over time. The dependent variable is the log value of exports EX_{odt} (in nominal pounds sterling) from origin country o to destination country d in year t. $_t$ is the coefficient of interest, which is estimated every year and captures the semi-elasticity of exports values from country o to country d to bank failure exposure.

As in the port-level estimation, I control for the effect of the origin country not having any British banks at all in 1866, which separates the effect of any exposure from the degree of exposure to failed banks.[40] X_{ot} includes pre-crisis country characteristics that are interacted with a post-crisis dummy. Destination-country year fixed effects $_{dt}$ control for demand shocks to address the concern that countries exposed to bank failures were exporting to destinations that contracted their demand for other reasons.[41] I omit the covariate for the first year at $t = 1865$ in the estimation and normalize it to zero. Standard errors are clustered at the unit of treatment, exporter country, following (Abadie et al., 2017).[42]

Equation 8 is the fixed effects estimation of a structural gravity model standard in the international trade literature (Head and Mayer, 2014). Gravity models relate the volume of trade flows to the sizes of the importing and exporting countries and the inverse of the distance (geographic and institutional) between them.[43] I control for the distance between countries dist_{od} as a standard measure of bilateral resistance. Allowing θ_t to vary by year flexibly controls for shocks to the effective distance between countries due to technological advances. The one departure from the standard fixed effects estimation using panel data is the absence of origin-country year fixed effects because those are collinear with the treatment. However, to the extent that Fail_o affects other economic conditions (such as GDP) that also affect exports, origin-country year characteristics are an endogenous outcome and not a suitable control.[44]

[40] These countries accounted for 2% of the value of exports in 1866, and results are robust to not controlling for the non-exposed group.

[41] Including $_{dt}$ as a control variable restricts the estimation to destination countries that import from more than one country.

[42] Other work has concluded that it is important to account for the dyadic nature of trade data (Cameron and Miller, 2014). I show that results are robust to different ways of clustering in Table A5.

[43] Gravity can be micro-founded from most international trade models, including ones featuring perfect competition, monopolistic competition, and monopolistic competition with fixed costs of entry.

[44] Most applications of gravity study the effect of bilateral trade shocks, such as a regional trade agreement

Table 6 presents the results for the coefficient on Fail_o estimated annually. The coefficient $_{1865}$ is statistically indistinguishable from 0 across all specifications, which confirms that there were no pre-trends in the outcomes, and that the decline in trade was concurrent with the banking crisis. In column 2, $_{1867}$ is interpreted as the log-point decline in exports in 1867 relative to 1866 in countries exposed to bank failures relative to countries not exposed, all exporting to the same destination country. The magnitude is around -1 in all specifications meaning that the average country (exposed to 11 percent bank failures) exported 9.1 percent less in the year after the crisis. This coefficient is larger than the baseline from Table 4, which suggests that ships were likely filled to lower capacity post-crisis. Using the longer panel of outcomes also shows that the contractions in 1867 worsen in 1868 and are economically and statistically lower every year until 1870. In section 5.1, I explore the long-term effects until the end of the First Age of Globalization in 1914.

4.2 Extensive margin effects

Many models of international trade have firms paying a fixed cost in order to export their products (Melitz, 2003; Chaney, 2016). In these models, shocks to the cost of capital will impact the extensive margin of exporting activity if exporters use external finance to pay fixed costs of entry. Empirically, the extensive margin of entry and exit into exporting activity has been shown to explain a large share of the variation in trade flows.

I categorize the extensive margin of exporting activity in two ways: the first is the number of unique destinations that a port trades with conditional on trading at all, and the second is the likelihood that a port engages in any international trade. I estimate extensive margin losses to the number of destinations using the specification in Equation 7 with the log of the number of unique destinations as the dependent variable. I report the within-country results in Table 7 column 2: ports completely exposed to bank failures exported to 29.5 percent fewer destinations than unexposed ports. The effects are even stronger at the country-level. These results provide suggestive evidence that there were negative spillovers from highly exposed ports to the rest of the country rather than redistribution.[45]

The second test of extensive margin effects categorizes ports as "Entering" into international trade if there is no exporting activity in the pre-crisis period and positive exports in the post-crisis period, and "Exiting" if the reverse is true. I estimate a linear probability model on a one-period cross-section of all ports where E_{po} is an indicator for either Entry or

or a currency union, which allows for the shock to be at the bilateral country level.

[45]These results are analogous to the findings in Huber (2018) that firms within a county that did not directly experience a financing shock still performed worse post-crisis from declines in aggregate demand.

Exit and standard errors are clustered by the origin-country:

$$\Pr(\mathrm{E}_{po}) = \alpha + \quad \mathrm{Fail}_{po} + \quad _o + \quad ' X_{po} + \varepsilon \not{p} \not{o} \tag{9}$$

The full sample of 377 ports active in either period is 30 percent larger than the baseline sample of intensive margin ports (those active in both periods). 52 of the ports were entries and 36 were exits, which implies a high degree of turnover in this window.[46] Table 7, columns 4 and 6 present the within-country likelihood of Entry_{po} and of Exit_{po}, respectively. The point estimates are economically and statistically significant for Entry and no effect for Exit. A port exposed to the average level of bank failures was 2.4 percent less likely to begin exporting at all.[47]

4.3 Limited within-country substitution

Having established that exposure to bank failures caused large intensive and extensive margin declines in shipping at the port-level, I next address whether the contractions in the local economy had aggregate implications at the country-level. To what extent could exporters relocate their business elsewhere? I first estimate the relationship between country-level exposure and shipping, and then I directly estimate the degree of substitution between ports.

I aggregate shipping activity across ports within a country and estimate the country-level analogue of the baseline DD in Equation 7. The dependent variable is $\ln(S_{ot})$ where S_{ot} is the total number of ships departing a country per period ($S_{ot} = \sum_p S_{pot}$). Fail_o is calculated according to Equation 3 from country-level shares of pre-crisis dependence on individual banks. $_o$ controls for time-invariant country-level characteristics. is identified off across-country variation in the exposure to bank failures, so it is not possible to control for origin-country time trends. I also control for pre-crisis country-level characteristics that are correlated with the degree of bank failure. Table 5 presents the baseline estimation with the full set of controls and directly compares the port and country-level outcomes. The baseline coefficient in column 2 at the port-level is -0.558, which is almost identical to the coefficient in column 4 at the country-level of -0.595. These estimations confirm the patterns shown in Figure 4b. The full table of control variables is shown in Table A4.

Next, I directly estimate the degree of substitution among ports in a country by asking whether more exposure to bank failures in the rest of the country benefits a port,

[46] Ports were not created or demolished, and they likely remained active in domestic, coastal trade. However, the *Lloyd's List* did not track nor report on these types of ship movements.

[47] Berman and Héricourt (2010) find that access to finance influences the firm entry decision, but that it has no effect on the exit decision.

controlling for its own exposure. I construct a measure of the average exposure to bank failures in the cities in the rest of the country, leaving out the port's own city of financing.[48] Since it is a city-level measure, it is not collinear with the origin-country trends.[49] I include this measure as an additional control to Equation 7:

$$\ln(S_{pot}) = \quad \text{Fail}_{po} \times \text{Post}_t + \quad \overline{\text{Fail}}_{other,o} \times \text{Post}_t + \alpha_p + \quad _{ot} + \quad ' X_{pot} + \varepsilon_{pot} \tag{10}$$

is the main coefficient of interest. It controls for a port's own exposure to bank failures and measures the semi-elasticity of its own exports to the rest-of-country exposure to bank failures. > 0 indicates that a higher degree of exposure in the rest of the country benefits a port, and it implies that exporters from the rest of the country can find alternative financing in the port. > 0 would suggest that this channel of within-country substitution could reduce the country-level losses. In Table 5 column 6, I report a negative coefficient of 0.311. This estimate is not statistically significant, but it contributes further evidence that exporters were not able to relocate within-country. It provides suggestive evidence that city-level shocks had negative spillovers to the rest of the country.

5 Long-term impact on trade

The previous section showed that British bank failures negatively impacted exports immediately after the crisis. In this section, I examine the long-run effects of the temporary financing shock using the full panel of country-level values of exports from 1850-1914. First, I use the across-country variation in exposure to document the persistent effects then on the total values of exports and on bilateral trade relationships. Second, I explore two channels that lengthened the recovery process.

5.1 Baseline results across countries

5.1.1 Total exports

First, I show the patterns of divergence in the raw data. In Figure 5a, I plot the annual aggregate values of exports for countries binned into above and below-average exposure to bank failure, where the average exposure is defined in the cross-section of countries, and levels

[48] This measure is calculated by removing each city's contribution from the country-level exposure measure. A measure calculated by port would double-count cities that financed more than one port and generate variation based on the number of ports rather than variation from the differences among cities.

[49] I also estimate specifications without $_{ot}$ where $\overline{\text{Fail}}_{other,o} \times \text{Post}_t$ proxies for origin-country trends.

for each group are indexed to equal 1 in 1866.[50] This figure shows that before 1866, exports were expanding at the same rate between the two countries so there are no differential pre-trends between the groups, but after 1866 there is an immediate divergence in levels that does not recover.[51] Figure 5b graphs the difference between the two groups, which corresponds to the DD estimate with binary treatment.

The permanent divergence arises from a temporary jump in the annual exports growth rates of unaffected countries in the four years after the crisis. In Figure B8, I plot the annual growth rate of exports and show that they are very similar pre-crisis, diverge after the crisis in 1867, and then converge again to the same pattern by 1880. In the pre-crisis period, the average annual growth rates are 12 and 11 percent for the less exposed (solid line) and more exposed groups (dashed line), respectively. This difference is not significant; the p-value for difference in means is 0.77.[52] In 1867 the less exposed group (solid line) grew 31 percent while the more exposed group (dashed line) grew 6 percent, and in 1868 the growth rates were 21 and 12 percent respectively. The cumulative difference in the annual growth rates between the two groups after the first two years is 33.6 percent. This initial difference in export growth rates is the main driver of the average annual difference in growth rates of 1.8 percent per year between groups from 1867–1914.[53]

Next, I benchmark these findings against estimates of the elasticity of trade with respect to geographic distance. Using my dataset, I estimate a trade elasticity of -1.1 to geodesic distance.[54] Relative to this elasticity, increasing an exporter's exposure to bank failures from below to above average is equivalent to increasing its geographic distance to its trading partners by 30.6 percent after the first two years. As a concrete example of the magnitudes, if Spain only exported to the United States, then above average exposure to the shock is equivalent to moving Spain over 1,400 miles to modern-day Turkey.[55]

The impact on exports is much larger than the impact on GDP, although there also

[50] The patterns are almost identical using medians. Binning the countries into two groups is equivalent to using a standard DD estimator with a treatment and control group.

[51] The country-level divergence shown here is another piece of evidence that there was little within-country reallocation of exporting activity.

[52] In the immediate pre-crisis period from 1860–1865, the average annual growth rates were 6.4 and 6.0 percent, respectively, and the p-value for the difference in means is 0.92.

[53] The average annual growth rates from 1867–1914 are 4.5 and 2.7 percent for the less exposed and more exposed groups of countries, respectively. This is calculated using the 1914 values of exports, which were 8.47 and 3.59 times the values in 1866 for the two groups, respectively.

[54] In other words, a 1 percent increase in physical distance between two countries reduces the trade flows between them by 1.1 percent. This elasticity is, coincidentally, exactly the average elasticity found in the literature based on the survey of structural gravity by Head and Mayer (2014). It is slightly larger than the average estimate of -0.93 found in all gravity papers. Table A6 reports the estimates and robustness to controlling for gravity measurements of bilateral resistance.

[55] These distances are the shortest route between the geodesic centers of each country. The distance between the US and Spain is 4,715 miles, and between the US and Turkey is 6,327 miles.

appears to be a permanent effect on GDP levels. In Figure B9, I plot aggregate GDP for the same two groups of countries, binned by above and below average exposure to bank failures. The difference in the average annual growth rates in output is only 0.6 percent, which is one third of the difference for exports. As in the Great Trade Collapse of 2008, the difference in exports is much larger than the difference in GDP, so the trade-specific losses cannot be driven by productivity declines that affect output as well.

5.1.2 Bilateral exports

I formally estimate the effect of exposure to bank failures on bilateral exports with Equation 8, which allows for demand shocks in the form of destination-country-year fixed effects. I allow $_t$ to vary annually and at five-year intervals ($[1850, 1855], ..., [1911, 1914]$). $_t$ should be interpreted as the semi-elasticity of the response to exposure to bank failures in the exporting country by a given importer in a given year. For example, how much less is France predicted to import from Chile (20 percent exposure) than Brazil (2 percent exposure) in the year 1900?

Figures 6a and 6b plot the estimated $_t$ coefficients annually and at five-year intervals, where $_{1866}$ and $_{1861\ 5}$ are the omitted categories in each specification, respectively. $_t$ reflects the relative exports in the cross-section with a continuous measure of exposure and therefore does not necessarily imply a drop in the aggregate levels of world trade. The estimated coefficients support the patterns in the raw data that exposure to the crisis had no effect on exports pre-crisis, but that it immediately lowered trade flows between countries afterward. I report the point estimates in Table A7 (Column 2).

The persistence is striking: destination countries imported less from exporters that had been exposed to bank failures for almost 40 years. The average estimated annual coefficient from 1867–1900 is -1.71 log points. $_{1901\ 05}$ is the first period when the effect is not statistically different from zero. However, the average magnitude of the coefficients after 1900 is -1.11, which is still 65 percent of the average effect until 1900. The average estimated coefficient from 1867–1914 is -1.53 log points, and given the average exposure of 11 percent, implies that the (partial equilibrium) reduction in world exports during this period was 17 percent per year.

I expand the bilateral estimation to encompass all years from 1850–2014 and plot the estimated coefficients and 95 percent confidence intervals in Figure B10 (coefficients reported in Table A8 Column 2), marking the years corresponding mostly closely to the two world wars. The full time horizon shows that there is a very slow pattern of convergence, with coefficients mostly not statistically different from zero after 1930. However, the estimated coefficient in the final period, $_{2011\ 14}$ is -0.81, which is 53 percent of the estimated effect

from 1867–1914.[56]

The burden of the losses falls on new trade relationships that had not existed before 1866. In Figure B13, I categorize bilateral relationships by whether they are new or pre-existing, and I show that the same exporters had larger losses in their new relationships. This result is consistent with the institutional context in which banks provided the financing that overcame initial contracting frictions between importers and exporters. It also suggests the persistent effects can be driven by the early loss in market share, and that country characteristics that would protect them from those losses would also generate faster recovery.

5.1.3 Robustness

I test the robustness of the long-term results by controlling for observable characteristics that could be confounding factors, and by implementing the Fisher exact test.

In Table A7 Columns 3–8, I show robustness to a variety of origin-country controls, including the pre-crisis characteristics that are correlated with bank failures. In Table A9 I report the estimates after including standard gravity covariates, such as shared language, shared land border, and being in the same European empire. Additional robustness includes controlling for pre-crisis and contemporary military conflicts (Table A10); exchange rate regimes pre-crisis (Table A10); industry composition of exports pre-crisis (Table A11); financial crises like sovereign debt, domestic debt, stock market crashes both contemporaneous and in 1865 (Table A12 and A13); and ability to issue long-term debt or equity in London (Table A14).[57] The static and the time-varying versions of all of these controls do not affect the statistical significance or the qualitative patterns of the results.

I also test the robustness of the long-term results by implementing the Fisher exact test for randomization inference. This test is conducted by reassigning treatment randomly without replacement to compare the estimated treatment effect against hundreds or thousands of placebos. This test is one way to check for the possibility that at longer time horizons, countries diverge for other reasons, and the bank exposures are correlated with those long-term changes. Assigning the treatment randomly will show whether the long-term negative effects could arise naturally from the data for reasons unrelated to the banking shock. If that is the case, the distribution of estimated coefficients will become more negative left with each subsequent group of years. If there is no such drift, the distribution should remain

[56]Table A8 Column 3 shows that among the original group of countries that were active in international trade in 1866, the magnitudes of the effects are as large and statistically significant in 2014 as in the pre-WWI period.

[57]It is only necessary to control for characteristics in the origin-country or between country-pairs because the baseline specification includes destination-country year fixed effects, which will absorb conflicts occurring in the destination country.

around zero, as is the case in randomization tests in the cross-section.

In this test, I redistribute the shocks randomly and simulate the data 1,000 times, then estimate the long-term effects in Equation 8 using the simulated data. I plot the distribution of the coefficients for each group of five years in Figure B14. These plots show that the coefficients are centered around zero in all periods. The lack of drift suggests that the long-term effects are not likely to have been generated by unobserved processes of divergence.

5.1.4 Banking sector recovery

A natural explanation for the persistent effects is that the banking sector does not recover. Given British banking dominance, the shock in London could have caused a permanent retrenchment in multinational banking, especially in the locations most affected by bank failures. I test this hypothesis explicitly using the city-level panel of banks. I find that multinational banking did not retrench: Figure B11 shows that the global distribution of banks became consistently more widespread and denser with time. I plot the total number of banks and the composition of banks by nationality at the city-level by above and below average exposure to banks that failed in figure B12. Figure B12a shows that cities that were more exposed to bank failures had access to the same number of banks as cities that were less exposed. This figure shows that the persistent effects across countries could not be explained by the size of the banking sector, measured by the number of banks.[58]

While there is no difference in the total number of banks, there is a change in the composition of nationalities among banks. Figure B12b shows that British banks did not tend to return to the locations that had experienced a higher degree of failures, but that domestic and other European banks filled the gap, likely responding to the credit supply gap left by British banks (Figures B12c and B12d). These patterns are consistent with the historical consensus that after 1870, France and Germany actively sought to expand their financial presence around the world to compete with Britain (Einzig, 1931; Kisling, 2017). However, I formally control for the number of banks of different nationalities and show that these do not alter the persistent effects in the baseline results (Table A15).

5.2 Channels for persistence

Having established that exposure to bank failure affects economic activity in the long-run, I explore two channels for the persistent effects: exporters' lack of access to alternative forms

[58] A full time-series for the balance-sheet characteristics of all the banks is not available. The balance-sheets for a subset of banks are available in 1901, which I use to verify that banks are of similar average size across nationalities.

of financing and importers' ability to substitute to less credit-constrained exporters. These two channels are trade-specific mechanisms that would address the relative decline in exports relative to output.

5.2.1 Access to alternative financing

Exporters who had more than one banking relationship would have been able to source some credit from these other relationships. The presence of non-British banks could have provided an alternative source of financing that may mitigate the main effects of bank failures. In appendix D, I present additional evidence that exports were less affected in trade relationships that can substitute away from British financing.

Immediate effects within countries

I use the port-level panel to test this hypothesis in the short-term using within-country variation. I do not observe non-British financing relationships directly so I proxy for them using the number of non-British banks pre-crisis. I re-estimate Equation 7 with an interaction term between exposure to failure and the number of non-British banks:

$$\ln(S_{pot}) = \quad \text{Fail}_{po} \times \text{Post}_t + \quad \text{Fail}_{po} \times \text{non-Brit}_{po} \times \text{Post}_t + \alpha_p + \quad _{ot} + \quad ' X_{pot} + \varepsilon_{pot} \qquad (11)$$

is the main coefficient of interest: > 0 means that conditional on exposure to bank failures, exports were higher in ports that had access to non-British banks. Table 8 (Column 2) confirms that having access to more non-British banks pre-crisis mitigated the main losses. At the port-level, there is no correlation between the number of non-British banks and the likelihood of bank failure, so this result is not driven by any trends correlated to non-British banks. The magnitude of (non-Brit banks $\times$ Fail_{po} $\times$ post) is 34 percent of the baseline effect. The estimated coefficient is statistically significant at the 1 percent level, but the economic magnitude depends on assumptions about the size and effectiveness of non-British banks relative to British banks in providing trade credit. Assuming the same size and effectiveness, the average port had access to 0.6 non-British banks, which means that access to other bank-intermediated finance mitigated the main effect of exposure to bank failures by 20 percent.

Long-term effects across countries

I estimate the long-term effects of gaining access to alternative banking networks by using the nationalities and identities of the multinational banks within each city in the five year windows from 1850-1914. French and German banks are the most important alternatives because they accessed the second and third largest money markets in the world after London,

and were created to compete with British banks (Einzig, 1931; Kisling, 2017).

I construct a binary variable called "European bank" ($\mathbb{I}(\text{EB}_o)$) that takes the value of 1 when the exporting country has access to either a French or German bank, and 0 otherwise. This variable proxies for access to the most likely alternative to the London money market. I estimate the following:

$$\begin{aligned}\ln(\text{EX}_{odt}) = \theta_t \text{Fail}_o \times \mathbb{I}(\text{EB}_{od}) + \ _t\text{Fail}_o + \ _t\mathbb{I}(\text{EB}_{od}) \\ + \ \ ' X_{od} + \ _o + \ _{dt} + \varepsilon_{odt}\end{aligned} \tag{12}$$

$_t$ absorbs the time-varying effect of access to common banks across all countries. X_{od} are standard gravity variables of bilateral resistance.[59] Figure 7 plots $_t$ in orange and θ_t in blue. Interacting $\mathbb{I}(\text{EB}_o)$ with the exposure to failure each year estimates the additional effect of access to alternative financing for exposed places. The full effect for exposed places is $\theta_t + \ _t$, which is close to 0 for most years, indicating that countries without access to other financing networks are the ones driving the main losses seen in Figure 6.

5.2.2 Exports substitutability

In this section, I depart from financial frictions and discuss frictions arising from competition in exports markets. A trade cost shock between parties can lead importers to source from new relationships or to increase the amount they buy from pre-existing relationships. In the 19th century, most countries exported commodities that were produced by multiple other countries, leading to a high degree of substitutability across countries. As an example, a country importing sugar could choose among a number of producers in the Caribbean and South America. Countries exporting the same goods can therefore be modeled as homogeneous firms with different variable trading costs. A large shock to the cost of exporting from one country can lead competing exporters to enter into that country's markets.

First, I use the industry composition of a country's exports pre-crisis, categorized by two-digit SITC codes, to test for importer substitution among similar countries. The global value of exports by SITC is shown in Figure B2. I calculate the top SITC group by geographic region and include these as time-varying controls. This estimation is restricted to the 44 countries with the exports composition, so the results are noisy, but they indicate no recovery.

Next, I proxy for similarity in exports products using each country's geographic region to include countries where product-level exports data are not available. I validate that geographic region is a reasonable proxy for the goods exported by evaluating the proxy on

[59] The results are robust to not including them and to allowing them to vary over time.

the subset of 44 countries with observable industry composition in 1865. For each region, I identify the top three exports categories by SITC codes and calculate the fraction of the total value of exports from the region that fall into those categories.[60] This fraction is equivalent to an exports-weighted average of the cross-country exports concentration within the top three categories. Figure B15 shows that this fraction is above 0.5 for all regions and averages 0.73 across regions, indicating that exports are very similar within region.

I compare the countries within regions to each other by including origin-country region-year fixed effects in the baseline specification in Equation 8. The additional controls restrict the variation such that $_t$ is estimated off comparisons of countries in the same geographic area exporting to the same destination in the same year. Figure 8 (Table A7 Column 8) shows that there is no recovery in this setting. The qualitative interpretation is that within regions, countries that are more exposed to bank failures experience exports losses for longer than the other countries in the group. I also re-estimate the baseline with region-year fixed effects using the subsample of countries that have SITC information and verify that the patterns are similar. The coefficients are plotted in Figure B18, and the point estimates are reported in Table A7.

Second, I test for positive spillovers within region by estimating the effect of other countries' average exposure on a given country's exports, controlling for that country's own exposure. The prediction is that there should be positive spillovers because a trade cost shock to certain countries will benefit their competitors with similar exports. I find evidence of positive spillovers (Figure B17), but the estimates are noisy.

The sustained persistence of the effects within regions are not driven by the smaller sample comparisons. In a robustness check, I conduct a Fisher exact test for the country groups by simulating 1,000 random group assignments and re-estimating the coefficients. I plot the distribution of the five-year coefficients in Figure B16. This figure shows that the true estimates are very similar to the simulated estimates for the years until 1900. At that point, the true coefficients are larger in magnitude than the average simulated coefficient. These results suggest that substitution in real goods markets, where importers sourced from less exposed countries that could provide similar goods, can explain the persistent effects.

6 Conclusion

Standard macro-finance and trade models imply that financial crises only affect the real economy as long as the financial sector has not recovered, yet crises lasting just a few years

[60] Each region has at least two countries, and the primary exports for all countries outside of Northwest Europe are raw commodity goods.

have been correlated with declines in GDP and trade lasting at least a decade. This paper uses a salient historical setting and novel archival data to provide new causal evidence on the real economic effects of bank failures in the long-term. The most severe banking crisis in British history serves as a laboratory where London's role as the global financial center meant that bank failures in London were exported abroad to cities and countries around the world. Exposure to bank failures caused large immediate declines in exporting activity on both the intensive and extensive margins within and across countries, and that the country-level losses persisted for almost four decades.

The main contribution is to document that even a short-lived financing shock can lead to persistent divergence in the geographic distribution of economic activity. The persistent effects are driven by countries without access to alternative bank networks and by those in more competitive exports markets. First, having access to non-British banks mitigates one third of the losses in the short-term and almost all of them in the long-term. Second, the countries whose competitor in major exports markets were highly exposed to the bank failures benefited. Within groups of countries exporting similar goods, more exposed exporters had no recovery by 1914. This hysteresis empirically documents the theoretical argument that one-time trade cost shocks can permanently affect the distribution of trade activity (Baldwin and Krugman, 1989).

The results in this paper contributes to our understanding of the real costs of financial crises, especially in the long-run. The slow post-crisis recovery among advanced countries in recent decades suggests that the historical record is more relevant than ever. It also provides further evidence that international trade is a sector particularly sensitive to the costs of external finance, but it highlights how short-term changes to trade costs affect long-term trade relationships. While this paper focuses on the impact of losing banks that intermediated trade, it also showed that having access to other forms of finance mitigated the long-term losses. Gaining an understanding of how access to finance expanded trade networks in both the current and First Ages of Globalization would be a fruitful avenue for future research.

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Tables

Table 1: Pre-crisis comparison of bank characteristics

Panel A: Bank balance sheet characteristics (joint-stock banks)

	All		Not Failed		Failed		Diff	
Capital, authorized (£m)	1.48	(1.06)	1.44	(1.06)	1.67	(1.07)	-0.23	(0.29)
Capital, paid up (£m)	0.59	(0.38)	0.61	(0.38)	0.47	(0.39)	0.15	(0.10)
Reserve fund (£m)	0.13	(0.12)	0.13	(0.11)	0.15	(0.16)	-0.02	(0.04)
Balance sheet (£m)	4.81	(6.11)	5.08	(6.46)	3.73	(4.48)	1.35	(1.83)
Leverage ratio	0.24	(0.14)	0.25	(0.14)	0.23	(0.11)	0.02	(0.05)
Reserve ratio	0.17	(0.16)	0.16	(0.14)	0.22	(0.26)	-0.06	(0.07)
N	95		76		19		95	

Panel B: Bank characteristics (all banks)

	All		Not Failed		Failed		Diff	
Trade credit (£k)	105.79	(246.77)	112.57	(264.53)	73.16	(130.51)	39.41	(57.9)
Age (years)	35.91	(53.62)	40.88	(57.16)	11.33	(15.37)	29.54	(12.6)**
Cities (#)	13.75	(22.83)	14.90	(24.56)	8.23	(9.80)	6.67	(5.3)
Countries (#)	7.62	(8.89)	7.90	(9.26)	6.32	(6.84)	1.58	(2.1)
Asia (£k)	46.04	(170.08)	49.42	(184.96)	29.74	(59.65)	19.68	(40.0)
Africa (£k)	8.17	(25.08)	7.13	(21.95)	13.20	(36.90)	-6.07	(5.9)
N. America (£k)	13.59	(44.91)	15.65	(48.79)	3.68	(13.07)	11.97	(10.5)
S. America (£k)	6.99	(34.12)	7.79	(37.25)	3.13	(9.21)	4.66	(8.0)
Australia (£k)	6.41	(17.25)	7.00	(18.58)	3.58	(7.87)	3.42	(4.0)
Europe (£k)	12.21	(27.39)	10.87	(25.41)	18.70	(35.41)	-7.83	(6.4)
Brit. Emp. (£k)	48.25	(149.40)	53.47	(162.52)	23.13	(46.02)	30.34	(35.0)
UK (£k)	12.37	(39.96)	14.70	(43.56)	1.14	(2.67)	13.57	(9.3)
N	128		106		22		128	

Notes: Table 1 Panels A and B shows bank-level balance across characteristics for banks that failed and did not fail. All variables are measured at the end of 1865 before the crisis. Balance sheet variables were only published for publicly traded banks; these are reported separately in Panel A. "Not Failed" and "Failed" refers to whether a bank suspended or closed during the crisis. Means are reported first, and standard deviations are given in parentheses. "Diff" refers to the difference in means between groups. Standard errors are reported in parentheses for the "Diff" column. £k denotes units of thousands of pounds sterling. £m denotes units of millions of pounds sterling. Significance is marked by $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$. *Sources:* Bank of England Archives C24/1, *Banker's Magazine*, *The Economist*.

Table 2: Summary statistics: Ports and Countries

	Ports			Countries		
	mean	median	sd	mean	median	sd
Exposure to failed British banks	0.07	0.00	(0.19)	0.11	0.03	(0.17)
Exposure in British Empire	0.03	0.00	(0.05)	0.08	0.06	(0.10)
Exposure outside British Empire	0.10	0.00	(0.22)	0.12	0.02	(0.20)
Exports	127.99	32.00	(231.05)	12.49	2.15	(32.96)
Fraction exports to UK	0.39	0.30	(0.34)	0.62	0.69	(0.37)
Destinations (# countries)	7.60	5.00	(7.28)	3.95	2.00	(8.32)
Distance to destination (km k)	5.31	5.12	(3.48)	6.12	5.26	(3.51)
Banks	6.03	3.00	(7.54)	5.27	1.00	(9.96)
Non-British banks	0.60	0.00	(1.06)	2.97	0.00	(8.74)
Fraction in British Empire	0.34	0.00	(0.47)	0.33	0.00	(0.47)
N	289			55		

Notes: Table 2 shows summary statistics from the port-level panel of shipping activity and the country-level panel of values of exports. All variables are measured at the end of 1865, before the crisis. "Exports" is measured by the number of ships departing for ports, and by the value of exports in millions of pounds sterling for countries.

Table 3: Correlation between bank failures and pre-crisis location characteristics

$$\bar{X}_b = \alpha + \quad \mathbb{I}(\text{Failure}_b) + \varepsilon_b \psi$$

Panel A: Port characteristics

	Ships	Ships stm	Frac to UK	Non-Brit banks	Destinations	Capital city	Dist to London
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I(Failure)	0.198	0.129	1.030***	-0.436	-0.393	-0.668***	-0.159
	[0.228]	[0.246]	[0.213]	[0.314]	[0.245]	[0.202]	[0.165]
N	122	122	122	122	122	122	122

Panel B: Country characteristics

	Exports values	Ships	Ships stm	Frac to UK	Non-Brit banks	Destinations	Frac commodities
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I(Failure)	0.239	-0.117	0.221	-0.0782	0.467***	0.100	-0.221
	[0.130]	[0.188]	[0.210]	[0.232]	[0.118]	[0.0940]	[0.261]
N	128	128	128	128	128	128	128

Panel C: Country characteristics: exports composition

	Cotton, raw	Cotton, manu	Grains	Bullion	Sugar	Coffee	Alcohol	Tobacco
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
I(Failure)	-0.0375	-0.0925	0.106	-0.0457	0.384**	-0.0622	-0.146	-0.0608
	[0.109]	[0.0672]	[0.0727]	[0.0730]	[0.167]	[0.197]	[0.216]	[0.0623]
N	128	128	128	128	128	128	128	128

Panel D: Country characteristics: currency standard & conflict

	Gold	Silver	Bimetallic	Conflict: any	Conflict: interstate	Conflict: other
	(1)	(2)	(3)	(4)	(5)	(6)
I(Failure)	-0.404	-0.00674	0.344	0.208	-0.0530	0.346***
	[0.216]	[0.192]	[0.215]	[0.178]	[0.201]	[0.0894]
N	128	128	128	128	128	128

Notes: Table 3 reports estimates from the bank-level regression of bank exposure to location characteristics pre-crisis on bank failure rates. The dependent variable is $\bar{X}_b$, the share-weighted exposure of banks to location characteristics, normalized to have zero mean and unit variance. The coefficients are interpreted as the standard deviation increase in the average bank exposure to a particular characteristic if the bank failed. Panel A includes location characteristics from the port panel. There are 122 observations instead of the full 128 because 6 banks operated in cities which were not the closest city for any port. Panels B, C, and D include location characteristics from the port panel aggregated to country-level observations, the industry composition of exports in 1865, and the monetary standard and presence of conflict in the exporting country in 1865/1866, respectively. Regressions are weighted by each the average location's exposure to bank b. Standard errors are not clustered. $^*p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table 4: Immediate effect of bank failures on port-level shipping

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Fail_{po} × post	-0.687***	-0.655***	-0.670***	-0.659***	-0.596***	-0.557***	-0.394***	-0.327**
	[0.247]	[0.124]	[0.123]	[0.203]	[0.129]	[0.122]	[0.131]	[0.133]
Capital city × post			Y					
Age of banks × post				Y				
# non-Brit banks × post					Y			
Fraction to UK × post						Y		
$\text{Destination}_{\text{d}}$ × post FE							Y	Y
$\ln(\text{distance}_{\text{od}})$								Y
$\text{Country}_{\text{o}}$ × post FE		Y	Y	Y	Y	Y	Y	Y
Port_{p} FE	Y	Y	Y	Y	Y	Y	Y	Y
N	578	578	578	578	578	578	2532	2532
Ports	289	289	289	289	289	289	262	262
Destinations							54	54
Clusters	54	54	54	54	54	54	51	51
*	-.693	-.66	-.675	-.665	-.598	-.557		
	60.98	45.46	47.68	34.96	39.17	41.11		

Notes: Table 4 reports estimates from the difference-in-difference regressions from the two-period panel of port-level shipping activity in the year before and after the crisis. The dependent variable in columns 1 to 6 is the ln of the total number of ships departing in each period. The dependent variable in columns 7 and 8 is the ln of the number of ships departing for each destination in each period. Fail_{po} is the share of the port's banks that failed during the crisis. The mean of Fail_{po} is 0.07, and the standard deviation is 0.2. post is a dummy for the post-crisis year that takes the value of 1 after May 1866 and 0 otherwise. The time-invariant control variables are measured in 1865 and interacted with the post dummy. They include an indicator for the port being a capital city within the country, the average ln age of banks, the number of non-British banks, and the fraction of shipping to the UK. Column 8 controls for the ln geodesic distance between the origin and destination countries. The sample is restricted to ports ship in both the pre- and post-period. Results from implementing the Oster (2017) test of selection on unobservable characteristics are reported in the last two rows. * is a bound on Fail_{po} × post if selection on unobservable is as large as selection on unobservables (= 1). is the degree of selection on unobservables necessary for the estimated coefficient to be 0. Standard errors in brackets are clustered by country of origin. *$p < 0.1$, **$p < 0.05$, ***$p < 0.01$

Table 5: Immediate effect of bank failures on port- and country-level shipping

	Port		Country		Port		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
$\text{Fail}_{\text{po}} \times$ post	-0.713***	-0.558***			-0.711***	-0.722***	-0.568***
	[0.274]	[0.189]			[0.248]	[0.153]	[0.187]
$\text{Fail}_{\text{o}} \times$ post			-0.505**	-0.595**			
			[0.223]	[0.251]			
$\text{Fail}_{\text{other p,o}} \times$ post					0.0912	-0.421	-0.311
					[0.0715]	[0.426]	[0.401]
ln(sugar) × post				Y			
non-Brit banks × post	Y	Y		Y			Y
Port controls × post	Y	Y					Y
Port_{p} FE	Y	Y			Y	Y	Y
$\text{Country}_{\text{o}} \times$ post FE		Y				Y	Y
$\text{Country}_{\text{o}}$ FE			Y	Y			
post FE			Y	Y			
N	578	578	108	108	578	578	578
Ports	289	289			289	289	289
Clusters	54	54	54	54	54	54	54

Notes: Table 5 reports estimates from the difference-in-difference regressions from the two-period panel of port-level shipping activity and country-level shipping activity in the year before and after the crisis. In Columns 1–2 and 5–7, the dependent variable is the ln of the total number of ships departing each port in each period; in Columns 3–4 it is the total number of ships departing each country in each period. Fail_{po} is the share of the port's banks that failed during the crisis, Fail_{o} is the share of the country's banks that failed, and $\text{Fail}_{other,po}$ is the country-level share of bank failures outside of port p. post is a dummy for the post-crisis year. The port controls consist of an indicator for the port being a capital city within the country, the average ln age of banks, the number of non-British banks, and the fraction of shipping to the UK. The country controls consist of the ln of the value of sugar exports in 1865, and the number of non-British banks. Countries that did not export sugar are given a given a ln value of 0. All controls are interacted with the post dummy. The sample is restricted to ports ship in both the pre- and post-period. Standard errors in brackets are clustered by country of origin. $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table 6: Immediate effect of bank failures on country-level values of exports

$$\ln(\text{EX}_{odt}) = \ _t\text{Fail}_o + \ \ 'X_{ot} + \ \ _o + \ \ _{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$

	(1)	(2)	(3)	(4)	(5)	(6)
1865	-0.208	-0.240	0.0690	-0.183	-0.260	-0.236
	[0.198]	[0.214]	[0.155]	[0.229]	[0.314]	[0.216]
1867	-0.842*	-0.921	-1.038	-0.920	-0.921	-0.999
	[0.446]	[0.603]	[0.647]	[0.603]	[0.603]	[0.643]
1868	-1.835***	-1.611***	-1.732**	-1.611***	-1.612***	-1.599***
	[0.410]	[0.551]	[0.769]	[0.551]	[0.551]	[0.568]
1869	-1.883***	-1.872***	-1.844***	-1.871***	-1.872***	-1.931***
	[0.338]	[0.410]	[0.447]	[0.409]	[0.409]	[0.418]
1870	-1.669***	-1.633***	-1.389***	-1.632***	-1.633***	-1.607***
	[0.349]	[0.434]	[0.434]	[0.434]	[0.433]	[0.443]
Controls	Y	Y	Y	Y	Y	Y
Country_o FE	Y	Y	Y	Y	Y	Y
Region_{ot} FE			Y			
$\ln(\text{cotton}_o) \times$ Post				Y		
$\ln(\text{cotton manu}_o) \times$ Post					Y	
$\ln(\text{population}_o) \times$ Post						Y
$\text{I(Brit bank}_{ot})$	Y	Y	Y	Y	Y	Y
Country_d	Y					
Country_{dt}		Y	Y	Y	Y	Y
N	2952	2952	2952	2952	2952	2571
Clusters	83	83	83	83	83	67
Adj. R^2	0.573	0.551	0.543	0.551	0.551	0.546

Notes: Table 6 reports estimates from the annual dynamic difference-in-difference regressions from the panel of country-level values of trade. The dependent variable is the ln value of exports from origin country o to destination country d. There are 83 exporting countries from 1865-1870. Fail_o is the share of the country's banks that failed. post is a dummy for the post-crisis years 1867-1870. Baseline controls are the log distance between country o and country d. Cotton, cotton manufactured goods, and population are calculated in 1865 and interacted with the post dummy. Countries that did not export cotton are given ln values of zero. Controls for the log of population reduces the sample size due to data limitations. Standard errors in brackets are clustered by the origin country. $^*p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table 7: Extensive margin effect of exposure to bank failures

	Port destinations		Country destinations	I(Port Entry)		I(Port Exit)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
$Fail_{po}$ × post	-0.225**	-0.295***					
	[0.112]	[0.113]					
$Fail_{o}$ × post			-0.484***				
			[0.163]				
$Fail_{po}$				-0.161***	-0.193**	0.143	0.137
				[0.0499]	[0.0806]	[0.123]	[0.159]
Port controls × post	Y	Y					
Port controls				Y	Y	Y	Y
$Port_{p}$ FE	Y	Y					
$Country_{o}$ × post FE		Y					
Country controls × post			Y				
$Country_{o}$ FE			Y		Y		Y
N	574	574	108	377	377	377	377
Ports	286	286		377	377	377	377
Clusters	54	54	54	55	55	55	55

Notes: Table 7 reports estimates of the effect of the exposure to bank failures on the extensive margin of shipping activity. The dependent variable in columns 1 and 2 is the ln number of unique destinations accessed by ports. The dependent variable in column 3 is the ln number of unique destinations accessed by countries. The sample in columns 1 to 3 is restricted to ports that were active in both the pre-shock and the post-shock periods. The dependent variable in columns 4 and 5, "I(Port Entry)" is a binary variable that takes the value of 1 for a port that was not active in the pre-shock period and became active in the post-shock period, and 0 otherwise. The dependent variable in columns 6 and 7, "(Port Exit)" is a binary variable for a port that was active in the pre-shock period and became inactive in the post-shock period. The sample in columns 4–7 includes all ports that were ever active in the year around the crisis.
All variables are defined the same way as in Table 5. Standard errors in brackets are clustered by country of origin. $*p < 0.1$, $**p < 0.05$, $***p < 0.01$

Table 8: Port access to alternative sources of financing

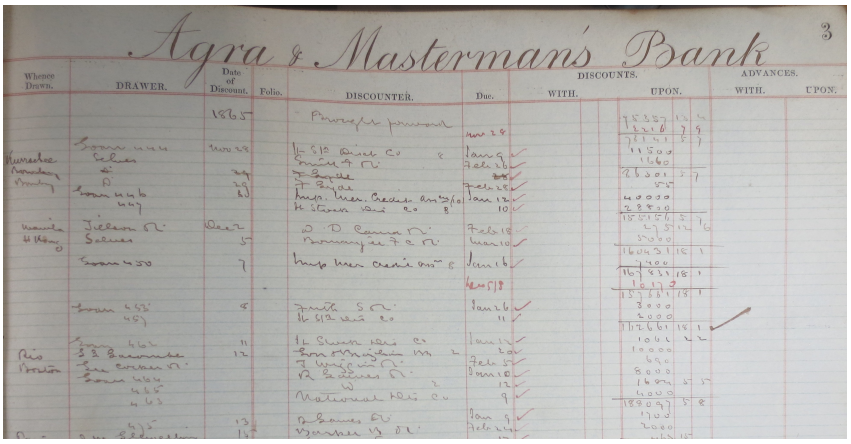
	(1)	(2)
$\text{Fail}_{\text{po}} \times$ post	-0.936***	-0.805***
	[0.227]	[0.240]
non-Brit banks $\times \text{Fail}_{\text{po}} \times$ post	0.290***	0.270**
	[0.111]	[0.106]
non-Brit banks $\times$ post	Y	Y
Port controls $\times$ post		Y
$\text{Country}_{\text{o}} \times$ post FE	Y	Y
Port_{p} FE	Y	Y
N	578	578
Ports	289	289
Destinations		
Clusters	54	54

Notes: Table 8 reports estimates of the effect of access to alternative forms of financing on shipping activity. The dependent variable is the ln of the number of ships sailed. non-Brit banks is the number of non-British banks in the port's city of financing in the pre-crisis year. All other variables are defined the same way as in Table 5. Standard errors in brackets are clustered by the origin-country. $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

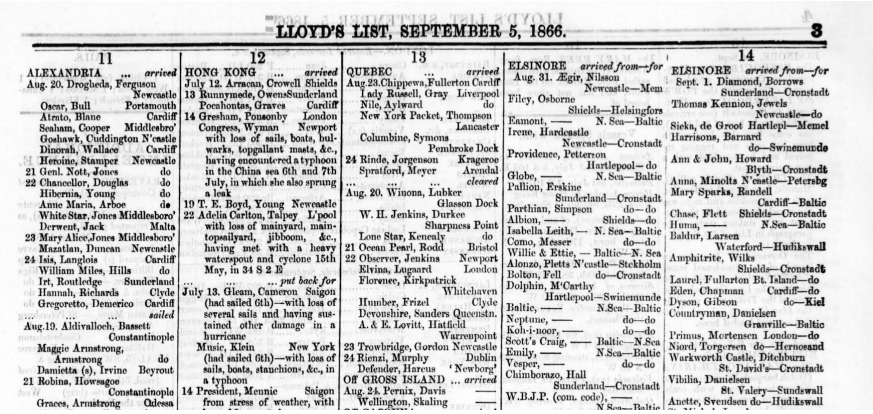
Figures

Figure 1: Data sources

(a) Excerpt of the Bank of England Discount Office ledgers



(b) Excerpt of the *Lloyd's List*



LLOYD'S LIST, SEPTEMBER 5, 1866. 3

11

ALEXANDRIA ... *arrived*
Aug. 20. Drogheda, Ferguson Newcastle
Oscar, Bull Portsmouth
Atrato, Blane Cardiff
Sealam, Cooper Middlesbro'
Goshawk, Cuddington N'castle
Dinorah, Wallace Cardiff
Heroine, Stamper Newcastle
21 Genl. Nott, Jones do
22 Chancellor, Douglas do
Hibernia, Young do
Anne Maria, Arbee do
White Star, Jones Middlesboro'
Derwent, Jack Malta
23 Mary Alice, Jones Middlesboro'
Mazatlan, Duncan Newcastle
24 Isis, Langlois Cardiff
William Miles, Hills do
Irt, Routledge Sunderland
Hannah, Richards Clyde
Gregoretto, Demerico Cardiff
... ... *sailed*
Aug. 19. Aldivalloch, Bassett Constantinople
Maggie Armstrong, Armstrong do
Damietta (s), Irvine Beyrout
21 Robina, Howsagoe Constantinople
Graces, Armstrong Odessa

12

HONG KONG ... *arrived*
July 12. Arracan, Crowell Shields
13 Runnymede, Owens Sunderland
Pocahontas, Graves Cardiff
14 Gresham, Ponsonby London
Congress, Wyman Newport
with loss of sails, boats, bulwarks, topgallant masts, &c., having encountered a typhoon in the China sea 6th and 7th July, in which she also sprung a leak
19 T. E. Boyd, Young Newcastle
22 Adelia Carlton, Talpey L'pool
with loss of mainyard, maintopsailyard, jibboom, &c., having met with a heavy waterspout and cyclone 16th May, in 34 S 2 E
... ... *put back for*
July 13. Gleam, Cameron Saigon
(had sailed 6th)—with loss of several sails and having sustained other damage in a hurricane
Music, Klein New York
(had sailed 6th)—with loss of sails, boats, stanchions, &c., in a typhoon
14 President, Mennie Saigon
from stress of weather, with

13

QUEBEC ... *arrived*
Aug 23. Chippewa, Fullerton Cardiff
Lady Russell, Gray Liverpool
Nile, Aylward do
New York Packet, Thompson Lancaster
Columbine, Symons Pembroke Dock
24 Rinde, Jorgenson Kragerce
Spratford, Meyer Arendal
... ... *cleared*
Aug. 20. Winona, Lubker Glasson Dock
W. H. Jenkins, Durkee Sharpness Point
Lone Star, Kenealy do
21 Ocean Pearl, Rodd Bristol
22 Observer, Jenkins Newport
Elvina, Lugsard London
Florence, Kirkpatrick Whitehaven
Humber, Frizel Clyde
Devonshire, Sanders Queenstn.
A. & E. Lovitt, Hatfield Warrenpoint
23 Trowbridge, Gordon Newcastle
24 Rienzi, Murphy Dublin
Defender, Harcus 'Newborg'
Off GROSS ISLAND ... *arrived*
Aug. 24. Pernix, Davis ——
Wellington, Skaling ——

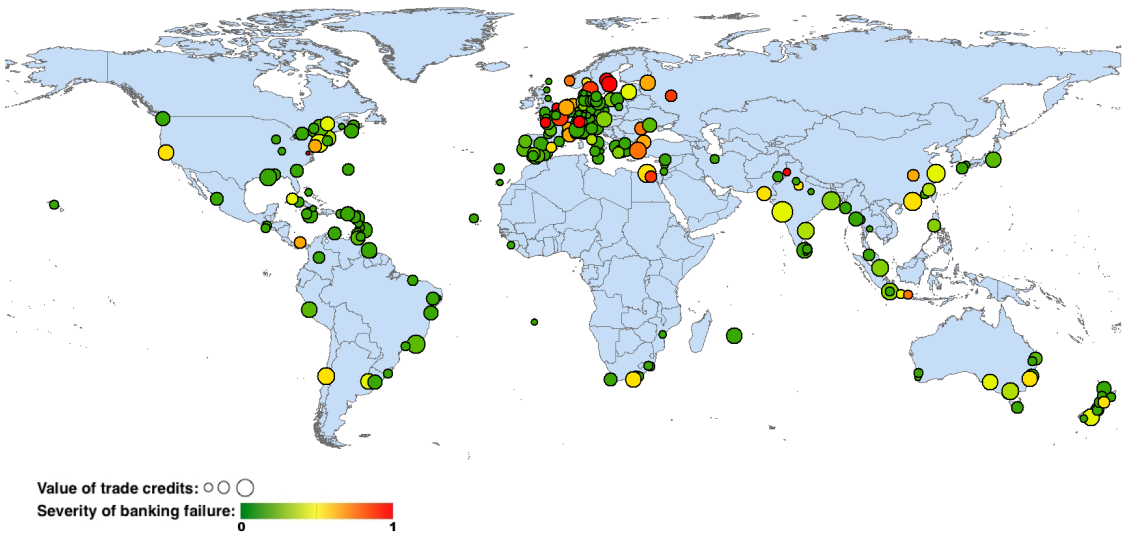
14

ELSINORE *arrived from—for*
Aug. 31. Ægir, Wilson Newcastle—Mem
Filey, Osborne Shields—Helsingfors
Eamont, —— N. Sea—Baltic
Irene, Hardcastle Newcastle—Cronstadt
Providence, Petterson Hartlepool—do
Globe, —— N. Sea—Baltic
Pallion, Erskine Sunderland—Cronstadt
Parthian, Simpson do—do
Albion, —— Shields—do
Isabella Leith, — N. Sea—Baltic
Como, Messer do—do
Willie & Ettie, — Baltic—N. Sea
Alonzo, Fletts N'castle—Stekholm
Bolton, Fell do—Cronstadt
Dolphin, M'Carthy Hartlepool—Swinemunde
Baltic, —— N.Sea—Baltic
Neptune, —— do—do
Kobi-i-noor, —— do—do
Scott's Craig, —— Baltic—N.Sea
Emily, —— N.Sea—Baltic
Vesper, —— do—do
Chimborazo, Hall Sunderland—Cronstadt
W.B.J.P. (com. code), —— N.Sea—Baltic

ELSINORE *arrived from—for*
Sept. 1. Diamond, Borrows Sunderland—Cronstadt
Thomas Kennion, Jewels Newcastle—do
Sieka, de Groot Hartlepl—Memel
Harrisons, Barnard do—Swinemunde
Ann & John, Howard Blyth—Cronstadt
Anna, Minolts N'castle—Petersbg
Mary Sparks, Randell Cardiff—Baltic
Chase, Flett Shields—Cronstadt
Huma, —— N.Sea—Baltic
Baldur, Larsen Waterford—Hudikswall
Amphitrite, Wilks Shields—Cronstadt
Laurel, Fullarton Bt. Island—do
Eden, Chapman Cardiff—do
Dyson, Gibson do—Kiel
Countryman, Danielsen Granville—Baltic
Primus, Mortensen London—do
Niord, Torgersen do—Hernosand
Warkworth Castle, Ditchburn St. David's—Cronstadt
Vibilia, Danielsen St. Valery—Sundswall
Anette, Svendsen do—Hudikswall

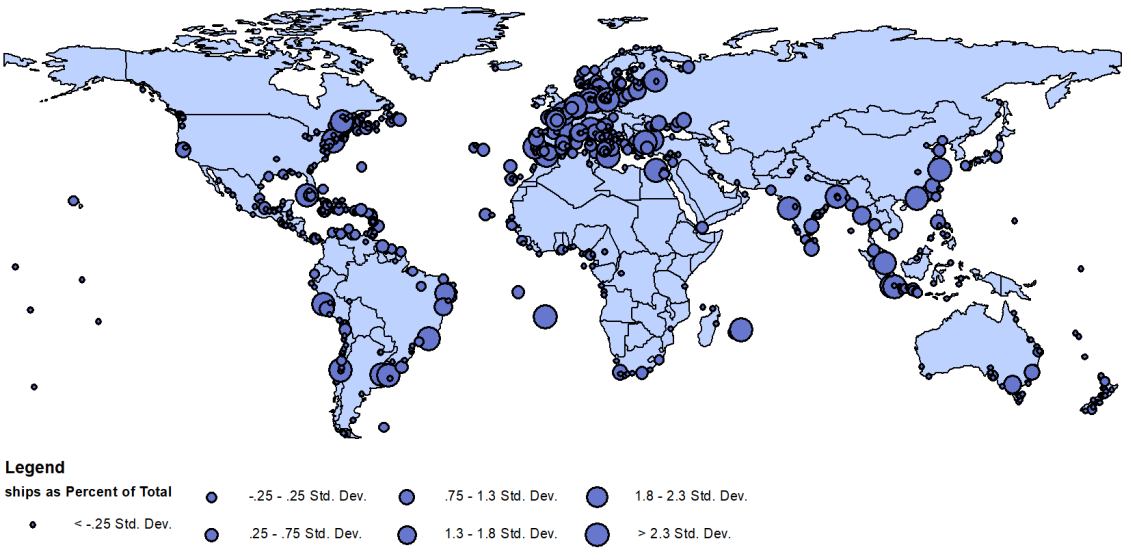
Notes: Data for Figure 1a come from Bank of England Archives C24/1. This is an example of the original records used to construct the financing data. The name of the bank, Agra and Masterman's, is written at the top. The column on the far left, "Whence Drawn," give the city where the credit was originally issued. The column on the far right, "Upon," gives the values of the loans.
Data for Figure 1b come from the British Library. This excerpt from the *Lloyd's List* of September 5, 1866 show the organization of the records and the typical information available. Under each port, ships are listed individually with their name, their captain's name, type of ship, whether they arrived to the port or sailed from it, the destination of their movements, and the date of the event. Coastal (i.e. domestic) trade was omitted from the records for non-British ports.

Figure 2: Geography of British multinational bank lending and failures



Notes: Figure 2 maps the distribution of the city-level exposure to bank failures Fail_l. The size of the points denote the log value of total credit at each city and the color gradient denotes the exposure to failure, ranging from 0 to 1.

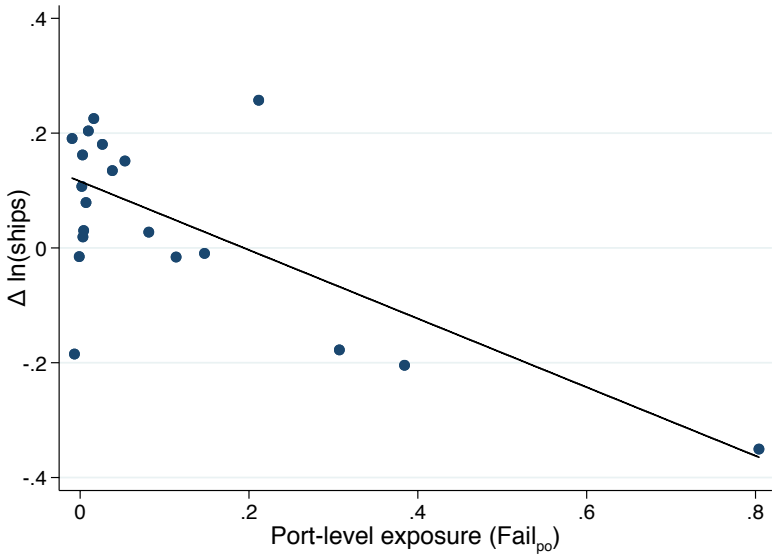
Figure 3: Port-level trade activity



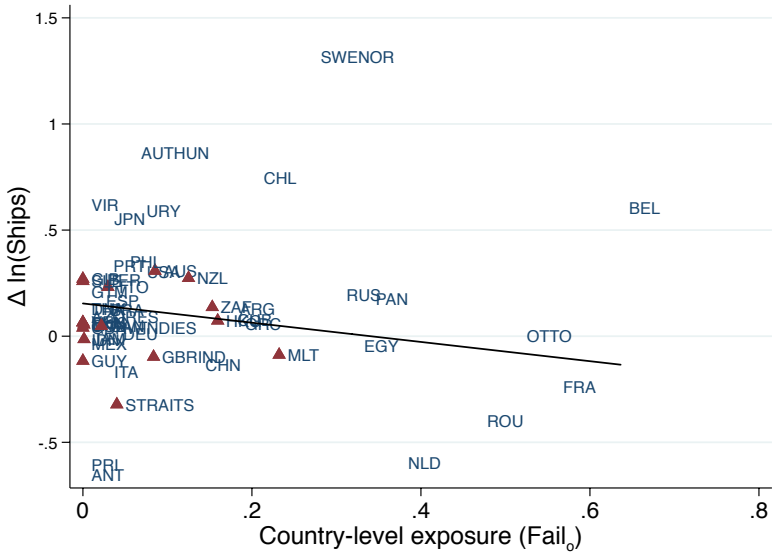
Notes: Figure 3 maps the distribution of shipping activity at ports in the pre-crisis year. The size of the points denote the ln number of ships leaving. Ports in the United Kingdom are not included. Source: *Lloyd's List*.

Figure 4: Correlation between exposure to bank failures and shipping in 1 year window pre- and post-crisis

(a) Port-level relationship



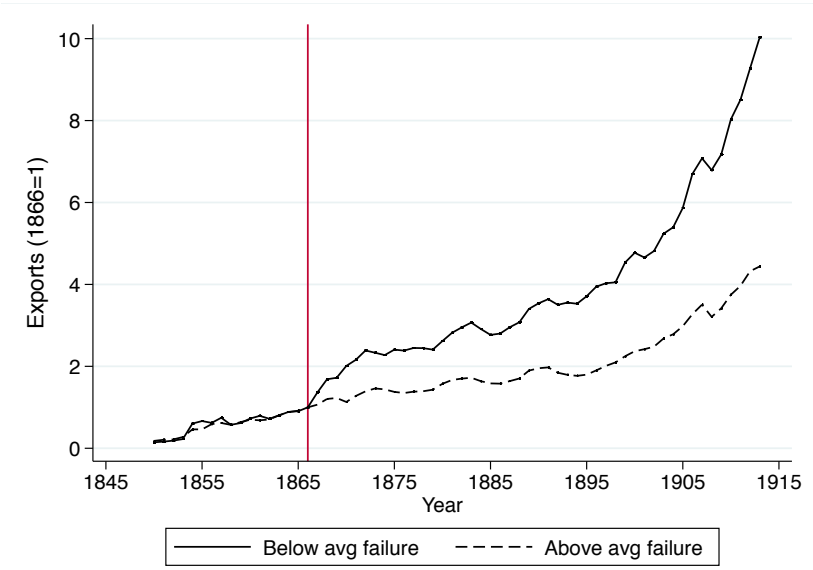
(b) Country-level relationship



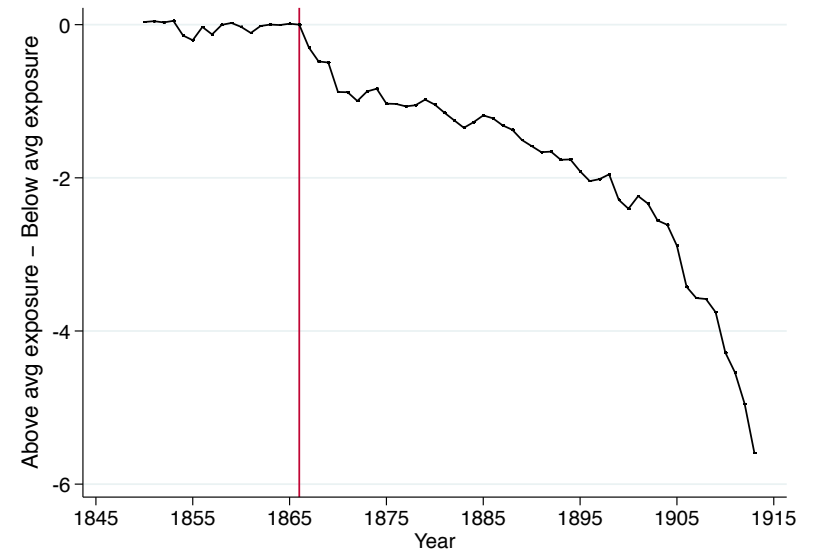
Notes: Figure 4a is a binscatter plot of the correlation between the change in the ln number of ships from the post-crisis period to the pre-crisis period (for the crisis occuring on May 11, 1866) and the port-level exposure to bank failures. This plot is residualized on country-level shipping so it plots the within-country relationship. Figure 4b is a scatterplot of the correlation between the change in the ln number of ships and country-level bank failures. Countries within the British empire are marked with a red triangle. The full list of country abbreviations (some of which are non-standard to account for colonies) is given in Appendix E.4.

Figure 5: Aggregate exports, grouping countries by above and below average exposure to bank failures

(a) Exports by group



(b) Difference between groups

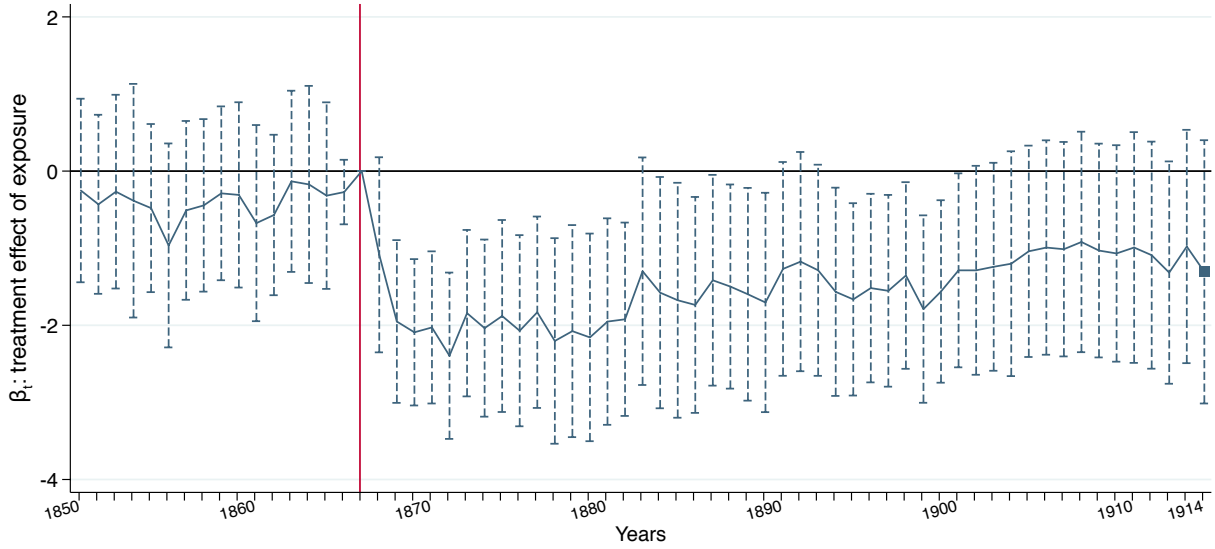


Notes: Figure 5a plots the raw data for the total value of exports by groups of countries from 1850–1914. Countries are binned into two categories: "Below avg failure" refers to countries that experienced below average exposure to bank failures in London, where the average rate was calculated in the cross-section of exporting countries in 1866. "Above avg failure" refers to countries that experienced above average exposure to bank failures. Exports values are normalized to equal 1 in 1866. Figure 5b plots the difference between the values for the two groups. The vertical line marks 1866. Figure B7 plots the coefficients and standard errors from the equivalent regression.

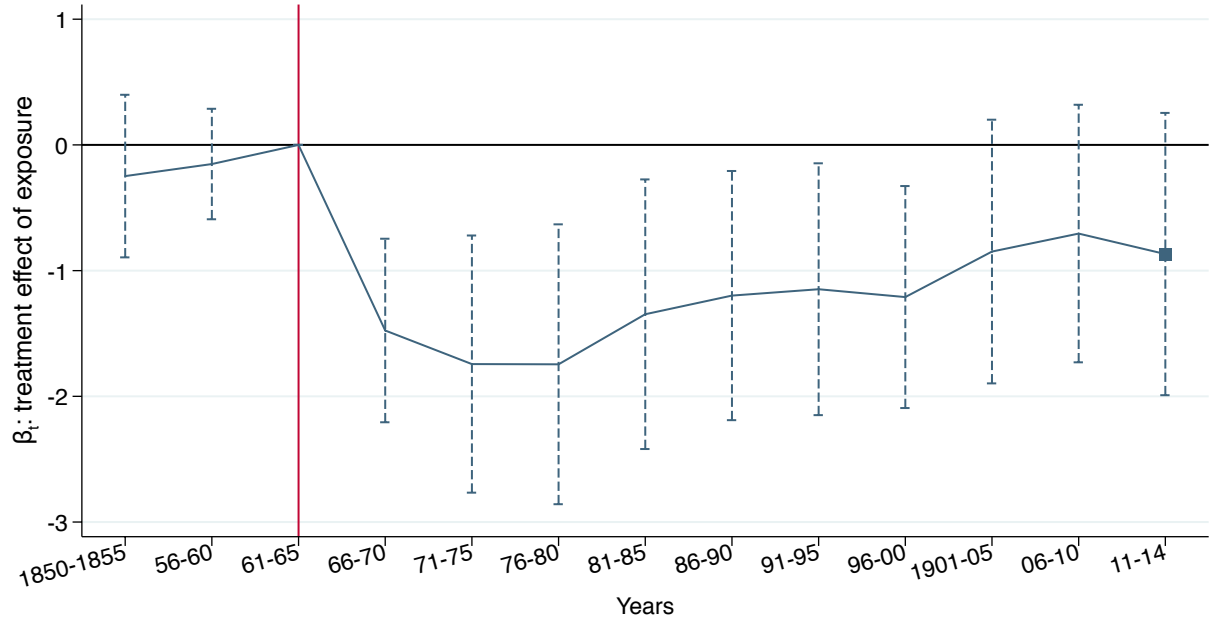
Figure 6: Financing shock has long-term effects on exports

$$\ln(\mathrm{EX}_{odt}) = \ _t\mathrm{Fail}_o + \ 'X_{ot} + \ _o + \ _{dt} + \theta_t \ln(\mathrm{dist})_{od} + \varepsilon_{odt}$$

(a) $\ _t$ estimated annually



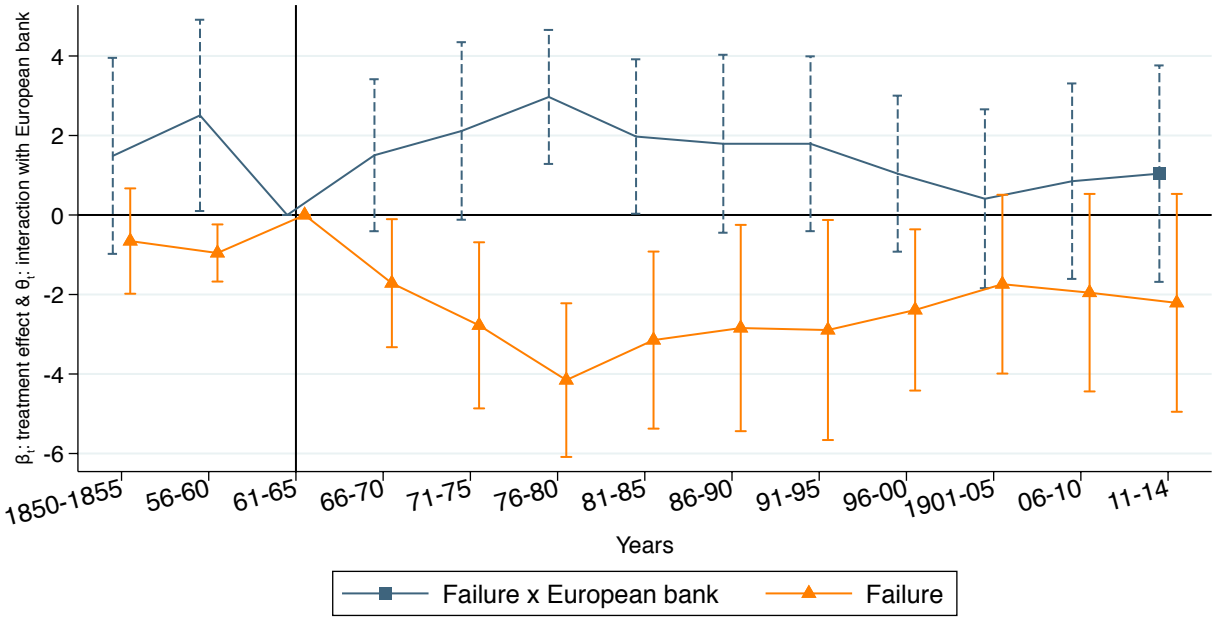
(b) $\ _t$ estimated every 5 years



Notes: Figure 6 plots the $\ _t$ point estimates and 95 percent confidence intervals for the specification given in equation 8 estimated on the country-level panel of trade. The dependent variable is the ln value of exports. The specification includes origin country o FE, destination country-year dt FE, and time-varying controls for the bilateral distance between countries. $\ _t$ is the treatment coefficient on the effect of exposure to failed banks on exports in each group of years. Standard errors are clustered by the origin country. See Table A7 column 1 for the point estimates. N = 67,378.

Figure 7: Recovery is better with access to other banks

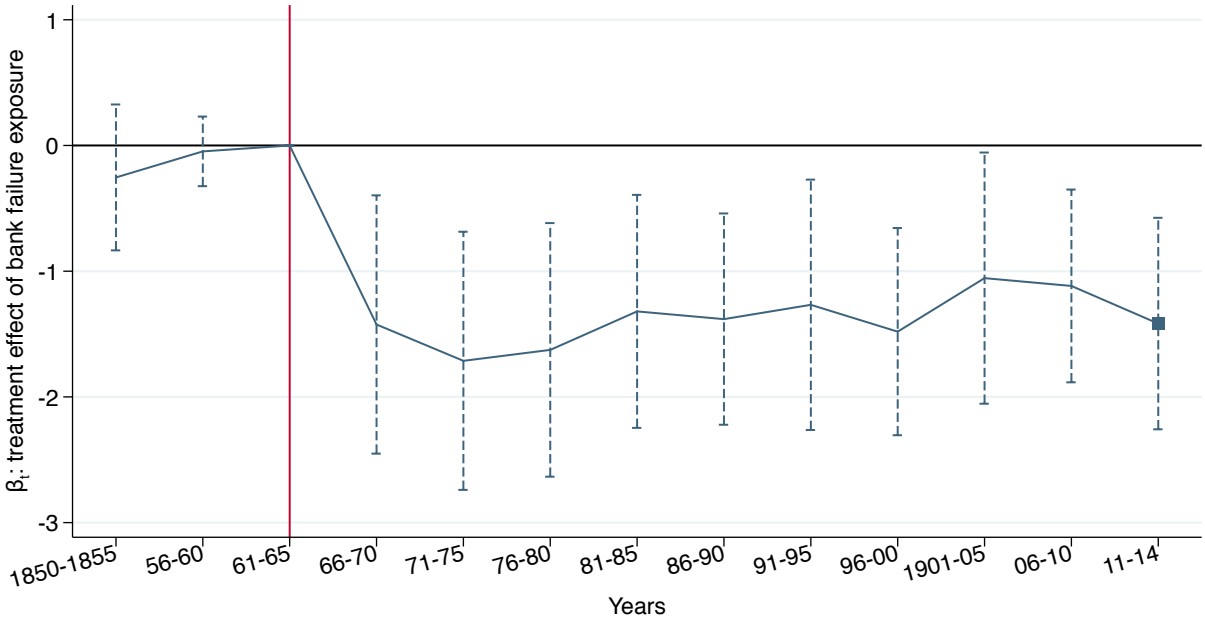
$$\ln(\mathrm{EX}_{odt}) = \theta_t \mathrm{Fail}_o \times \mathbb{I}(\mathrm{EB}_{od}) + \ _t\mathrm{Fail}_o + \ _t\mathbb{I}(\mathrm{EB}_{od}) + \ ' X_{od} + \ _o + \ _{dt} + \varepsilon_{odt}$$



Notes: Figure 7 plots the $_t$ and θ_t point estimates and 95 percent confidence intervals for the specification given in equation 12 estimated on the country-level panel of trade. The dependent variable is the ln value of exports. The specification includes origin country o FE, destination country-year dt FE, time-varying controls for the bilateral distance between countries, and time-varying indicators for common land border, common European colony, and common language. "Failure × European banks" is the interaction effect of exposure to failed banks on exports in countries with access to other European banks. "Failure" is the treatment effect of exposure to bank failures for all countries. Standard errors are clustered by the origin country. N = 67,378.

Figure 8: Recovery is worse within groups of countries with similar exports

$$\ln(\text{EX}_{odt}) = {}_t\text{Fail}_o + {}'X_{ot} + {}_o + {}_{dt} + \text{Region}_{ot} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$



Notes: Figure 8 plots the point estimates and 95 percent confidence intervals for the specification given above estimated on the country-level panel of trade. The dependent variable is the ln value of exports. The specification includes origin-country region-year FE, origin country o FE, destination country-year dt FE, and time-varying controls for the bilateral distance between countries. ${}_t$ is the treatment coefficient on the effect of exposure to failed banks on exports in each group of years. Standard errors are clustered by the origin country. See Table A7 column 8 for the point estimates. N = 67,378.

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Appendices

A Additional Tables

Table A1: Examples of Banks and Operating Regions

Bank	**Founding Year**	**Operational Region**
Anglo-Egyptian Bank	1864	Egypt, Mediterranean
Anglo-Italian Bank	1864	Italy, France
Bank of Australasia	1835	Australia, New Zealand
Bank of British North America	1836	Canada, USA
Chartered Mercantile Bank of India, London & China	1853	India, China, Canada, Australia, Indonesia, USA
Colonial Bank	1837	Caribbean
Imperial Bank	1862	Europe, Egypt, North America
Ionian Bank	1839	Greece
London Bank of Mexico & South America	1864	Mexico, Peru
Union Bank of London	1839	Australia, New Zealand, South America, Asia, North America

Notes: This is a sample of the banks providing trade credit. The operational region is given as countries although city-level variation is used in all the empirics. Sources: Bank of England Archives C24/1, *Banker's Magazine*, select bank histories.

Table A2: Bank-level relationship between failure and credit supply

	% Credit_b			
	(1)	(2)	(3)	(4)
Failure_b	-0.782***	-0.869***	-0.971***	-0.946***
	[0.109]	[0.126]	[0.166]	[0.157]
Weighting	none	Capital, 1865	Liabilities, 1865	Size, 1865
N	31	31	31	31
Adj. R^2	0.398	0.413	0.511	0.488

Notes: Table A2 shows the regression results for the pseudo first stage relationship between bank failure and the credit supplied. The dependent variable is the percent change in the trade credit supply of individual banks. Banks that failed are given a trade credit supply of 0 in the post-crisis period. There are 31 banks that report the composition of their balance sheet. Column 1 reports the baseline, unweighted regression. In columns 2-4, the regressions are weighted by different proxies for firm size. Robust standard errors in brackets. $*p < 0.1$, $**p < 0.05$, $***p < 0.01$

Table A3: Bank balance on geographic exposure calculated as percent of assets

	All		Not Failed		Failed		Diff	
UK %	0.09	(0.21)	0.10	(0.22)	0.06	(0.17)	0.04	(0.0)
Brit. Emp. %	0.39	(0.41)	0.42	(0.41)	0.28	(0.38)	0.14	(0.1)
Europe %	0.32	(0.39)	0.30	(0.38)	0.44	(0.39)	-0.15	(0.1)
Asia %	0.26	(0.34)	0.25	(0.34)	0.26	(0.35)	-0.01	(0.1)
Africa %	0.09	(0.21)	0.09	(0.21)	0.10	(0.21)	-0.01	(0.0)
N. America %	0.16	(0.31)	0.18	(0.33)	0.08	(0.22)	0.10	(0.1)
S. America %	0.05	(0.16)	0.06	(0.17)	0.04	(0.10)	0.02	(0.0)
Australia %	0.12	(0.29)	0.13	(0.30)	0.08	(0.24)	0.05	(0.1)
N	128		106		22		128	

Notes: Table A3 presents an alternative calculation to the geographic exposure shown in Table 1 Panel B. Each variable is the bank's percentage exposure to a geographic exposure, calculated as the credit extended to each geography over the bank's total lending. "Not Failed" and "Failed" refers to whether a bank suspended or closed during the crisis. Means are reported first, and standard deviations are given in parentheses. "Diff" refers to the difference in means between groups. Standard errors are reported in parentheses for the "Diff" column. Significance is marked by $*p < 0.1$, $**p < 0.05$, $***p < 0.01$.

Table A4: Robustness to controls: immediate effect of exposure to bank failures on country-level shipping

Panel A: Industry composition of exports

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
$\text{Fail}_o \times$ post	-0.498**	-0.584**	-0.523**	-0.505**	-0.519**	-0.555**	-0.582**
	[0.224]	[0.240]	[0.220]	[0.234]	[0.224]	[0.221]	[0.242]
non-Brit banks × post	Y						
ln(sugar) × post		Y					
ln(cotton raw) × post			Y				
ln(cotton manu) × post				Y			
ln(grains) × post					Y		
ln(tobacco) × post						Y	
ln(coffee) × post							Y
Country FE	Y	Y	Y	Y	Y	Y	Y
N	108	108	108	108	108	108	108
Clusters	54	54	54	54	54	54	54

Panel B: Monetary standard and conflict

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
$\text{Fail}_o \times$ post	-0.507**	-0.501**	-0.581**	-0.595**	-0.512**	-0.501**	-0.464**
	[0.227]	[0.231]	[0.248]	[0.249]	[0.208]	[0.238]	[0.228]
Size × post	Y						
Gold × post		Y					
Silver × post			Y				
Bimetallic × post				Y			
Conflict, any × post					Y		
Conflict, interstate × post						Y	
Conflict, other × post							Y
Country FE	Y	Y	Y	Y	Y	Y	Y
N	108	106	106	106	108	108	108
Clusters	54	53	53	53	54	54	54

Notes: Table A4 reports estimates from the difference-in-difference regressions from the two-period panel of port-level shipping activity in the year before and after the crisis. The dependent variable is the ln of the number of ships departing from each country. Fail_o is the share of the country's banks that failed during the crisis. The mean of Fail_o is 0.11, and the standard deviation is 0.17. post is a dummy for the post-crisis year that takes the value of 1 after May 1866 and 0 otherwise. The time-invariant control variables are measured in 1865 and interacted with the post dummy. In Panel A, they include the ln values of sugar, raw cotton, cotton manufactured goods, grains, tobacco, and coffee exports. The ln values of industry exports are replaced with 0 if the country does not export those products. In Panel B, they include the size of the country proxied by the total value of exports, the monetary standard of the country, and engagement in conflict. Controls are added sequentially and the coefficients are stable. Standard errors in brackets are clustered by country of origin. $^*p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table A5: Robustness to different clustering: immediate effect of exposure to bank failures on country-level exports

$$\ln(\text{EX}_{odt}) = {}_t\text{Fail}_o + {}' X_{ot} + {}_o + {}_{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$

	(1)	(2)	(3)	(4)	(5)
1865	-0.240	-0.240	-0.240	-0.240	-0.240
	[0.214]	[0.151]	[0.192]	[0.176]	[0.318]
1867	-0.921	-0.921	-0.921	-0.921	-0.921***
	[0.603]	[0.643]	[0.575]	[0.661]	[0.0689]
1868	-1.611***	-1.611***	-1.611***	-1.611**	-1.611***
	[0.551]	[0.585]	[0.506]	[0.616]	[0.393]
1869	-1.872***	-1.872***	-1.872***	-1.872***	-1.872***
	[0.410]	[0.584]	[0.493]	[0.519]	[0.263]
1870	-1.633***	-1.633**	-1.633***	-1.633***	-1.633***
	[0.434]	[0.621]	[0.536]	[0.540]	[0.293]
Controls	Y	Y	Y	Y	Y
Country_o FE	Y	Y	Y	Y	Y
I(Brit bank_{ot})	Y	Y	Y	Y	Y
Country_{dt}	Y	Y	Y	Y	Y
N	2952	2952	2952	2952	2952
Clustering	Orig country	Dest country	Orig-Dest pair	Multi: Orig, Dest	Multi: Orig, Dest, year
Adj. R^2	0.551	0.550	0.551	0.550	0.550

Notes: Table A5 reports estimates from the annual dynamic difference-in-difference regressions from the panel of country-level values of trade. The dependent variable is the ln value of exports from origin country o to destination country d. There are 83 exporting countries from 1865-1870. Fail_o is the share of the country's banks that failed. post is a dummy for the post-crisis years 1867-1870. Baseline controls are the log distance between country o and country d. Standard errors in brackets are clustered according to the row labeled "Clustering." $^*p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table A6: Elasticity of trade to physical distance

$$\ln(\mathrm{EX}_{odt}) = \theta \ln(\text{distance})_{od} + \quad_{ot} + \quad_{dt} + \quad' X_{odt} + \varepsilon \not{\psi}_{odt}$$

	(1)	(2)	(3)	(4)	(5)
log distance $_{od}$	-1.116***	-1.021***	-0.982***	-1.194***	-1.037***
	[0.0851]	[0.0910]	[0.101]	[0.0856]	[0.101]
Country_{ot} FE	Y	Y	Y	Y	Y
Country_{dt} FE	Y	Y	Y	Y	Y
Common language × t		Y			Y
Common border × t			Y		Y
Common empire × t				Y	Y
N	67378	67378	67378	67378	67378
Clusters	119	119	119	119	119
Adj. R^2	0.530	0.548	0.534	0.559	0.564

Notes: Table A6 reports estimates for θ, the elasticity of trade to physical distance, from the above estimation. All specifications are estimated using the full panel of bilateral trade data from 1850–1914. The baseline specification is given in Column 1. Columns 2–5 control for standard gravity measurements of bilateral resistance. The dependent variable is the ln value of exports from origin country o to destination country d. The origin country-year fixed effects effectively drop the countries that only appear in the trade data for one year. There are 10 such countries and therefore only 119 clusters. Standard errors in brackets are clustered by origin country. $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$.

Table A7: Long-term effects of financing shock on country-level exports

$$\ln(\text{Ex}_{odt}) = {}_t\text{F}_o + {}'X_{ot} + {}_o + {}_{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1850-1855	0.0309	-0.248	-0.217	-0.171	-0.180	0.311	-0.284	-0.254
	[0.217]	[0.330]	[0.413]	[0.343]	[0.344]	[0.486]	[0.306]	[0.296]
1856-1860	-0.0624	-0.152	-0.324	0.0465	-0.0696	-0.155	-0.0873	-0.0469
	[0.145]	[0.224]	[0.316]	[0.192]	[0.229]	[0.350]	[0.160]	[0.141]
1866-1870	-1.528***	-1.476***	-1.513***	-1.543***	-1.433***	-2.160***	-1.569***	-1.424***
	[0.322]	[0.372]	[0.407]	[0.415]	[0.410]	[0.579]	[0.577]	[0.524]
1871-1875	-1.772***	-1.743***	-1.841***	-1.618***	-1.651***	-2.206**	-1.587**	-1.713***
	[0.462]	[0.522]	[0.575]	[0.556]	[0.526]	[0.851]	[0.598]	[0.524]
1876-1880	-1.902***	-1.745***	-1.963***	-1.538***	-1.623***	-2.320**	-1.445**	-1.626***
	[0.521]	[0.568]	[0.651]	[0.564]	[0.557]	[0.891]	[0.568]	[0.515]
1881-1885	-1.483***	-1.347**	-1.475**	-1.221**	-1.221**	-2.160**	-1.200**	-1.320***
	[0.449]	[0.547]	[0.653]	[0.553]	[0.542]	[0.906]	[0.520]	[0.473]
1886-1890	-1.394***	-1.199**	-1.437**	-1.095**	-1.117**	-1.895**	-1.249***	-1.381***
	[0.390]	[0.506]	[0.621]	[0.523]	[0.526]	[0.858]	[0.453]	[0.429]
1891-1895	-1.319***	-1.148**	-1.457**	-0.979*	-1.008*	-1.887**	-1.346**	-1.267**
	[0.383]	[0.511]	[0.645]	[0.527]	[0.505]	[0.736]	[0.519]	[0.508]
1896-1900	-1.391***	-1.210***	-1.489**	-1.041**	-1.188**	-1.956***	-1.468***	-1.481***
	[0.325]	[0.451]	[0.611]	[0.481]	[0.459]	[0.648]	[0.415]	[0.420]
1901-1905	-1.046**	-0.848	-1.256*	-0.530	-0.993*	-1.523**	-1.090**	-1.055**
	[0.403]	[0.535]	[0.723]	[0.514]	[0.523]	[0.699]	[0.489]	[0.510]
1906-1910	-0.877**	-0.705	-1.104	-0.412	-0.846	-1.249	-0.891**	-1.117***
	[0.424]	[0.523]	[0.687]	[0.504]	[0.558]	[0.810]	[0.377]	[0.391]
1911-1914	-1.009*	-0.868	-1.234*	-0.583	-0.972	-1.093	-0.815*	-1.417***
	[0.521]	[0.573]	[0.731]	[0.551]	[0.624]	[0.846]	[0.452]	[0.429]
Controls	Y	Y	Y	Y	Y	Y	Y	Y
Country_o FE	Y	Y	Y	Y	Y	Y	Y	Y
$\ln(\text{cotton}_o) \times$ t			Y					
$\ln(\text{cotton manu}_o) \times$ t				Y				
$\ln(\text{population}_o) \times$					Y			
$\text{SITC industry}_o \times$ t						Y		
$\text{Region}_o \times$ t							Y	Y
$\text{I(Brit bank}_o) \times$ t	Y	Y	Y	Y	Y	Y	Y	Y
Country_d	Y							
Country_{dt}		Y	Y	Y	Y	Y	Y	Y
N	67378	67378	67378	67378	55391	49006	49006	67378
Clusters	129	129	129	129	54	48	48	129
Adj. R^2	0.530	0.530	0.531	0.531	0.545	0.559	0.558	0.532

Notes: Table A7 reports the point estimates for the long-term effects of the credit shock on the value of country-level exports. The dependent variable is the log value of exports from origin country o to destination country d. Baseline controls are the log distance between country o and country d. Cotton, cotton manufactured goods, and population are calculated in 1865 and interacted with the 5-year dummies. Countries that did not export cotton are given ln values of zero. Controlling for pre-crisis population and the SITC industry of exports reduces the sample size to countries that were exporting pre-crisis. Column 7 artificially restricts the sample to countries with SITC codes available. Standard errors in brackets are clustered by the origin country. $^*p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table A8: Effect of bank failures from 1850–2014

$$\ln(\text{EX}_{odt}) = \ {}_t\text{Fail}_o + \ {}'X_{ot} + \ {}_o + \ {}_{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$

	(1)		(2)		(3)	
1850-1855	0.202	[0.306]	-0.256	[0.356]	-0.117	[0.357]
1856-1860	-0.184	[0.192]	-0.317	[0.302]	-0.199	[0.299]
1866-1870	-2.430***	[0.837]	-1.985***	[0.595]	-1.752***	[0.598]
1871-1875	-2.793***	[0.984]	-2.386***	[0.847]	-2.090**	[0.838]
1876-1880	-2.779***	[0.993]	-2.248**	[0.869]	-1.928**	[0.853]
1881-1885	-2.429***	[0.828]	-1.789**	[0.771]	-1.480*	[0.756]
1886-1890	-2.367***	[0.662]	-1.689**	[0.678]	-1.428**	[0.678]
1891-1895	-2.369***	[0.688]	-1.694**	[0.700]	-1.376**	[0.671]
1896-1900	-2.432***	[0.558]	-1.800***	[0.607]	-1.579***	[0.585]
1901-1905	-2.163***	[0.600]	-1.451**	[0.700]	-1.367*	[0.690]
1906-1910	-1.982***	[0.533]	-1.270*	[0.645]	-1.196*	[0.665]
1911-1915	-2.276***	[0.531]	-1.519**	[0.634]	-1.447**	[0.669]
1916-1920	-3.666***	[1.009]	-2.859***	[1.088]	-2.720**	[1.121]
1921-1925	-2.487***	[0.637]	-1.755**	[0.739]	-1.833**	[0.793]
1926-1930	-2.010***	[0.601]	-1.433**	[0.700]	-1.530**	[0.741]
1931-1935	-1.598**	[0.628]	-1.031	[0.747]	-1.281	[0.786]
1936-1940	-1.725**	[0.688]	-1.061	[0.784]	-1.323	[0.829]
1941-1945	-2.925*	[1.588]	-2.291	[1.386]	-2.798**	[1.145]
1946-1950	-1.752**	[0.752]	-1.288	[0.803]	-1.625**	[0.776]
1951-1955	-1.934***	[0.669]	-1.404*	[0.739]	-1.643**	[0.764]
1956-1960	-2.010***	[0.654]	-1.488**	[0.719]	-1.727**	[0.748]
1961-1965	-2.102***	[0.624]	-1.558**	[0.705]	-1.774**	[0.749]
1966-1970	-1.799***	[0.632]	-1.240*	[0.735]	-1.568*	[0.782]
1971-1975	-1.461**	[0.680]	-0.848	[0.806]	-1.246	[0.858]
1976-1980	-1.402**	[0.669]	-0.762	[0.803]	-1.167	[0.843]
1981-1985	-1.512**	[0.688]	-0.891	[0.818]	-1.344	[0.865]
1986-1990	-1.353*	[0.694]	-0.735	[0.832]	-1.306	[0.875]
1991-1995	-1.756**	[0.691]	-1.145	[0.832]	-1.724*	[0.881]
1996-2000	-1.755**	[0.686]	-1.134	[0.817]	-1.882**	[0.835]
2001-2005	-1.630**	[0.720]	-1.020	[0.841]	-1.866**	[0.835]
2006-2010	-1.537**	[0.750]	-0.933	[0.858]	-1.878**	[0.809]
2011-2014	-1.413*	[0.773]	-0.806	[0.869]	-1.700**	[0.816]
Controls	Y		Y		Y	
Country_o FE	Y		Y		Y	
I(Brit bank_o) × t	Y		Y		Y	
ln(population_o) × t					Y	
Country_d	Y					
Country_{dt}			Y		Y	
N	665866		665866		414777	
Clusters	137		137		54	
Adj. R^2	0.654		0.680		0.748	

Notes: Table A8 reports the coefficients every five years. The control variables are the same as defined in Table A7. Standard errors in brackets are clustered by the origin country. $^*p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table A9: Long-term effects: robustness to gravity measures of commonality

$$\ln(\text{Ex}_{odt}) = \ _t\text{F}_o + \ '\text{X}_{odt} + \ _o + \ _{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$

	(1)	(2)	(3)	(4)	(5)	(6)
1850-1855	-0.340	-0.259	-0.227	-0.324	-0.264	-0.273
	[0.322]	[0.306]	[0.315]	[0.334]	[0.324]	[0.316]
1856-1860	-0.203	-0.139	-0.186	-0.157	-0.139	-0.235
	[0.234]	[0.221]	[0.239]	[0.228]	[0.226]	[0.239]
1866-1870	-1.452***	-1.537***	-1.163***	-1.491***	-1.535***	-1.221***
	[0.329]	[0.342]	[0.391]	[0.306]	[0.347]	[0.379]
1871-1875	-1.732***	-1.797***	-1.383**	-1.754***	-1.797***	-1.446**
	[0.502]	[0.522]	[0.604]	[0.460]	[0.522]	[0.595]
1876-1880	-1.709***	-1.803***	-1.407**	-1.740***	-1.802***	-1.479**
	[0.558]	[0.571]	[0.656]	[0.536]	[0.570]	[0.653]
1881-1885	-1.290**	-1.393**	-1.033*	-1.317**	-1.391**	-1.102*
	[0.547]	[0.556]	[0.602]	[0.544]	[0.556]	[0.595]
1886-1890	-1.113**	-1.236**	-0.869	-1.172**	-1.236**	-0.933*
	[0.496]	[0.499]	[0.526]	[0.500]	[0.499]	[0.527]
1891-1895	-1.079**	-1.203**	-0.847	-1.107**	-1.203**	-0.906*
	[0.490]	[0.503]	[0.538]	[0.491]	[0.504]	[0.535]
1896-1900	-1.154***	-1.269***	-0.905*	-1.223***	-1.269***	-0.961**
	[0.423]	[0.429]	[0.468]	[0.425]	[0.432]	[0.466]
1901-1905	-0.789	-0.888*	-0.587	-0.859*	-0.885*	-0.645
	[0.505]	[0.509]	[0.569]	[0.498]	[0.512]	[0.566]
1906-1910	-0.640	-0.735	-0.437	-0.724	-0.738	-0.493
	[0.505]	[0.503]	[0.549]	[0.503]	[0.504]	[0.551]
1911-1914	-0.842	-0.893	-0.610	-0.939	-0.900	-0.669
	[0.568]	[0.554]	[0.597]	[0.572]	[0.553]	[0.601]
Common language	1.102***					
	[0.157]					
Common border		0.854***				
		[0.212]				
Common empire			1.741***			
			[0.162]			
Controls	Y	Y	Y	Y	Y	Y
Country_o FE	Y	Y	Y	Y	Y	Y
Common language × t				Y		
Common border × t					Y	
Common empire × t						Y
I(Brit bank_o) × t	Y	Y	Y	Y	Y	Y
Country_{dt}	Y	Y	Y	Y	Y	Y
N	67378	67378	67378	67378	67378	67378
Clusters	129	129	129	129	129	129
Adj. R^2	0.547	0.534	0.557	0.547	0.533	0.557

Notes: Table A9 reports the coefficients every five years. The control variables are time-invariant and time-varying measures of distance standard to gravity estimations, such as common language. Standard errors in brackets are clustered by the origin country. $^*p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table A10: Long-term effects: robustness to monetary standard and conflict

$$\ln(\text{Ex}_{odt}) = {}_t\text{F}_o + {}' X_{ot} + {}_o + {}_{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1850-1855	-0.114	-0.280	-0.249	-0.260	-0.261	-0.243	-0.245
	[0.430]	[0.321]	[0.377]	[0.432]	[0.336]	[0.331]	[0.342]
1856-1860	-0.308	-0.177	-0.110	0.0321	-0.0357	-0.141	-0.139
	[0.280]	[0.228]	[0.267]	[0.283]	[0.197]	[0.232]	[0.219]
1866-1870	-1.527***	-1.581***	-1.693***	-1.488***	-1.368***	-1.472***	-1.460***
	[0.426]	[0.382]	[0.384]	[0.410]	[0.427]	[0.369]	[0.373]
1871-1875	-1.865***	-1.887***	-1.992***	-1.745***	-1.553***	-1.735***	-1.726***
	[0.626]	[0.510]	[0.486]	[0.535]	[0.579]	[0.523]	[0.524]
1876-1880	-1.966***	-1.875***	-1.992***	-1.739***	-1.550**	-1.738***	-1.727***
	[0.690]	[0.562]	[0.555]	[0.615]	[0.594]	[0.572]	[0.569]
1881-1885	-1.520**	-1.472***	-1.595***	-1.341**	-1.152**	-1.344**	-1.330**
	[0.680]	[0.548]	[0.608]	[0.651]	[0.556]	[0.551]	[0.547]
1886-1890	-1.337**	-1.226**	-1.444**	-1.190*	-1.005*	-1.193**	-1.182**
	[0.663]	[0.538]	[0.592]	[0.614]	[0.514]	[0.511]	[0.503]
1891-1895	-1.342*	-1.142**	-1.407**	-1.164*	-0.956*	-1.141**	-1.130**
	[0.684]	[0.545]	[0.582]	[0.625]	[0.534]	[0.521]	[0.512]
1896-1900	-1.386**	-1.196**	-1.448***	-1.200**	-1.019**	-1.202**	-1.193***
	[0.629]	[0.466]	[0.530]	[0.558]	[0.483]	[0.461]	[0.453]
1901-1905	-0.998	-0.789	-1.048*	-0.839	-0.683	-0.842	-0.831
	[0.736]	[0.549]	[0.590]	[0.637]	[0.531]	[0.545]	[0.537]
1906-1910	-0.840	-0.651	-0.924	-0.671	-0.521	-0.701	-0.686
	[0.717]	[0.541]	[0.615]	[0.622]	[0.525]	[0.528]	[0.523]
1911-1914	-0.958	-0.795	-1.126*	-0.875	-0.668	-0.863	-0.853
	[0.741]	[0.596]	[0.658]	[0.665]	[0.564]	[0.577]	[0.573]
Controls	Y	Y	Y	Y	Y	Y	Y
Country_o FE	Y	Y	Y	Y	Y	Y	Y
$\text{Gold standard}_o \times t$	Y						
$\text{Silver standard}_o \times t$		Y					
$\text{Conflict (any)}_o \times t$			Y				
$\text{Conflict (interstate)}_o \times t$				Y			
$\text{Conflict (other)}_o \times t$					Y		
Country_{ot} war						Y	
$\text{Country-pair}_{odt}$ war							Y
$\text{I(Brit bank}_o) \times t$	Y	Y	Y	Y	Y	Y	Y
Country_{dt}	Y	Y	Y	Y	Y	Y	Y
N	56937	56937	67378	67378	67378	67378	67378
Clusters	55	55	129	129	129	129	129
Adj. R^2	0.543	0.543	0.530	0.530	0.530	0.530	0.530

Notes: Table A10 reports the coefficients every five years. The monetary and conflict variables are binary variables taking a value of 1 if the exporting country had that characteristic in 1865 or 1866 and are interacted with year dummies. Column 6 controls for war in the origin country (including civil war) in any year, and Column 7 controls for war between dyadic pairs of countries in any year. Standard errors in brackets are clustered by the origin country. $^*p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table A11: Long-term effects: robustness to industry composition of exports

$$\ln(\text{Ex}_{odt}) = {}_t\text{F}_o + {}'X_{ot} + {}_o + {}_{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$

	(1)	(2)	(3)	(4)	(5)	(6)
1850-1855	-0.292	-0.341	-0.231	-0.327	-0.379	-0.349
	[0.314]	[0.402]	[0.344]	[0.398]	[0.386]	[0.319]
1856-1860	-0.141	-0.362	-0.103	-0.335	-0.207	-0.256
	[0.226]	[0.249]	[0.233]	[0.250]	[0.233]	[0.229]
1866-1870	-1.381***	-1.632***	-1.620***	-1.501***	-1.736***	-1.469***
	[0.360]	[0.441]	[0.388]	[0.478]	[0.426]	[0.445]
1871-1875	-1.518***	-2.030***	-1.789***	-1.752***	-2.024***	-1.814***
	[0.476]	[0.604]	[0.515]	[0.642]	[0.557]	[0.511]
1876-1880	-1.551***	-2.155***	-1.760***	-1.751**	-2.038***	-1.800***
	[0.531]	[0.667]	[0.536]	[0.701]	[0.589]	[0.547]
1881-1885	-1.185**	-1.798***	-1.393**	-1.390**	-1.676***	-1.421***
	[0.529]	[0.684]	[0.557]	[0.678]	[0.602]	[0.525]
1886-1890	-1.097**	-1.688**	-1.306***	-1.314**	-1.561***	-1.212**
	[0.518]	[0.673]	[0.499]	[0.620]	[0.573]	[0.479]
1891-1895	-1.066**	-1.639**	-1.210**	-1.239*	-1.444**	-1.184**
	[0.519]	[0.683]	[0.479]	[0.630]	[0.578]	[0.495]
1896-1900	-1.168**	-1.696***	-1.146***	-1.207**	-1.480***	-1.294***
	[0.453]	[0.620]	[0.438]	[0.562]	[0.526]	[0.420]
1901-1905	-0.841	-1.422**	-0.702	-0.706	-1.011*	-0.880
	[0.524]	[0.695]	[0.486]	[0.615]	[0.546]	[0.544]
1906-1910	-0.820	-1.292*	-0.537	-0.545	-0.871	-0.835
	[0.508]	[0.673]	[0.499]	[0.633]	[0.600]	[0.515]
1911-1914	-0.964*	-1.442**	-0.670	-0.665	-1.051	-0.937
	[0.532]	[0.698]	[0.558]	[0.700]	[0.679]	[0.587]
Controls	Y	Y	Y	Y	Y	Y
Country_o FE	Y	Y	Y	Y	Y	Y
$\ln(\text{coffee}_o) \times t$	Y					
$\ln(\text{grains}_o) \times t$		Y				
$\ln(\text{bullion}_o) \times t$			Y			
$\ln(\text{alcohol}_o) \times t$				Y		
$\ln(\text{tobacco}_o) \times t$					Y	
$\text{Commodities share}_o \times t$						Y
$\text{I(Brit bank}_o) \times t$	Y	Y	Y	Y	Y	Y
Country_{dt}	Y	Y	Y	Y	Y	Y
N	67378	67378	67378	67378	67378	62109
Clusters	129	129	129	129	129	81
Adj. R^2	0.531	0.531	0.531	0.531	0.532	0.538

Notes: Table A11 reports the coefficients every five years. The industry-level exports are calculated in 1865 and interacted with the 5-year dummies. Countries that did not export a commodity are given ln values of zero. The Commodities share of exports is the fraction of goods exported in 1865 that are categorized as raw or primary products. Standard errors in brackets are clustered by the origin country. $^*p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table A12: Long-term effects: robustness to contemporaneous financial crises

$$\ln(\text{Ex}_{odt}) = {}_t\text{F}_o + {}'X_{ot} + {}_o + {}_{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1850-1855	-0.298	-0.288	-0.247	-0.297	-0.288	-0.291	-0.288	-0.270
	[0.333]	[0.342]	[0.324]	[0.336]	[0.335]	[0.336]	[0.332]	[0.327]
1856-1860	-0.152	-0.134	-0.118	-0.153	-0.140	-0.140	-0.115	-0.103
	[0.228]	[0.219]	[0.212]	[0.228]	[0.227]	[0.227]	[0.227]	[0.226]
1866-1870	-1.410***	-1.397***	-1.437***	-1.411***	-1.428***	-1.422***	-1.419***	-1.443***
	[0.401]	[0.405]	[0.397]	[0.401]	[0.404]	[0.404]	[0.407]	[0.397]
1871-1875	-1.724***	-1.701***	-1.757***	-1.741***	-1.761***	-1.725***	-1.724***	-1.707***
	[0.538]	[0.537]	[0.545]	[0.540]	[0.546]	[0.541]	[0.542]	[0.549]
1876-1880	-1.713***	-1.697***	-1.717***	-1.739***	-1.732***	-1.685***	-1.712***	-1.683***
	[0.581]	[0.574]	[0.574]	[0.587]	[0.595]	[0.580]	[0.583]	[0.589]
1881-1885	-1.242**	-1.217**	-1.278**	-1.256**	-1.260**	-1.231**	-1.260**	-1.262**
	[0.553]	[0.548]	[0.542]	[0.553]	[0.554]	[0.549]	[0.553]	[0.551]
1886-1890	-1.126**	-1.102**	-1.188**	-1.129**	-1.161**	-1.147**	-1.127**	-1.127**
	[0.521]	[0.515]	[0.507]	[0.520]	[0.515]	[0.516]	[0.521]	[0.518]
1891-1895	-1.084**	-1.058**	-1.140**	-1.086**	-1.109**	-1.097**	-1.060**	-1.044*
	[0.534]	[0.525]	[0.530]	[0.531]	[0.524]	[0.526]	[0.529]	[0.533]
1896-1900	-1.229**	-1.210**	-1.248***	-1.232**	-1.243***	-1.234**	-1.234**	-1.229**
	[0.469]	[0.464]	[0.462]	[0.468]	[0.462]	[0.464]	[0.471]	[0.474]
1901-1905	-1.038*	-1.014*	-0.971*	-1.042*	-1.057*	-1.046*	-1.033*	-1.031*
	[0.549]	[0.540]	[0.549]	[0.548]	[0.538]	[0.540]	[0.550]	[0.552]
1906-1910	-0.832	-0.806	-0.748	-0.836	-0.868	-0.853	-0.836	-0.825
	[0.552]	[0.542]	[0.527]	[0.551]	[0.538]	[0.539]	[0.553]	[0.551]
1911-1914	-0.920	-0.898	-0.839	-0.923	-0.956	-0.941	-0.926	-0.915
	[0.594]	[0.585]	[0.560]	[0.593]	[0.578]	[0.580]	[0.591]	[0.589]
Controls	Y	Y	Y	Y	Y	Y	Y	Y
Country_o FE	Y	Y	Y	Y	Y	Y	Y	Y
$\text{Currency crisis}_{ot}$	Y							
$\text{Inflation crisis}_{ot}$		Y						
$\text{Stock mkt crisis}_{ot}$			Y					
$\text{Sovereign debt (domestic)}_{ot}$				Y				
$\text{Sovereign debt (external)}_{ot}$					Y			
$\text{Sovereign debt (any)}_{ot}$						Y		
$\text{Banking crisis}_{ot}$							Y	
Any crisis_{ot}								Y
$\text{I(Brit bank}_o) \times \text{t}$	Y	Y	Y	Y	Y	Y	Y	Y
Country_{dt}	Y	Y	Y	Y	Y	Y	Y	Y
N	57305	57305	52480	57305	57305	57305	57305	57305
Clusters	62	62	44	62	62	62	62	62
Adj. R^2	0.543	0.544	0.545	0.543	0.544	0.544	0.544	0.544

Notes: Table A12 reports the coefficients every five years. Different types of financial crises are binary variables, which take the value of 1 if the exporting country is experiencing it in any given year. These are contemporaneous measures taken from Reinhart and Rogoff (2009*b*). Data limitations reduce the number of observations. Standard errors in brackets are clustered by the origin country. $^*p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table A13: Long-term effects: robustness to financial crises in 1865

$$\ln(\text{Ex}_{odt}) = {}_t\text{F}_o + {}'X_{ot} + {}_o + {}_{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$

	(1)	(2)	(3)	(4)	(5)
1850-1855	-0.202	-0.314	-0.264	-0.306	-0.187
	[0.325]	[0.359]	[0.330]	[0.342]	[0.356]
1856-1860	-0.0976	-0.203	-0.226	-0.234	-0.257
	[0.214]	[0.264]	[0.240]	[0.229]	[0.245]
1866-1870	-1.352***	-1.541***	-1.248***	-1.419***	-1.340***
	[0.431]	[0.399]	[0.417]	[0.406]	[0.399]
1871-1875	-1.621***	-1.941***	-1.634***	-1.769***	-1.657***
	[0.538]	[0.432]	[0.548]	[0.524]	[0.504]
1876-1880	-1.608***	-1.958***	-1.701***	-1.754***	-1.642***
	[0.566]	[0.446]	[0.588]	[0.572]	[0.535]
1881-1885	-1.179**	-1.465***	-1.260**	-1.253**	-1.178**
	[0.546]	[0.522]	[0.551]	[0.553]	[0.547]
1886-1890	-1.063**	-1.320**	-1.111**	-1.120**	-1.074*
	[0.526]	[0.505]	[0.531]	[0.523]	[0.538]
1891-1895	-0.958*	-1.281**	-1.125**	-1.069*	-1.024*
	[0.527]	[0.502]	[0.524]	[0.535]	[0.535]
1896-1900	-1.110**	-1.386***	-1.247**	-1.229**	-1.178**
	[0.473]	[0.436]	[0.474]	[0.471]	[0.482]
1901-1905	-0.883	-1.129**	-1.140**	-1.030*	-0.969*
	[0.542]	[0.522]	[0.544]	[0.549]	[0.537]
1906-1910	-0.640	-0.909*	-0.933	-0.827	-0.756
	[0.540]	[0.526]	[0.565]	[0.553]	[0.557]
1911-1914	-0.726	-0.987*	-0.990	-0.922	-0.852
	[0.583]	[0.582]	[0.607]	[0.592]	[0.604]
Controls	Y	Y	Y	Y	Y
Country_o FE	Y	Y	Y	Y	Y
$\text{Inflation crisis}_o \times t$	Y				
$\text{Stock mkt crisis}_o \times t$		Y			
$\text{Sovereign debt crisis}_o \times t$			Y		
$\text{Banking crisis}_o \times t$				Y	
$\text{Any crisis}_o \times t$					Y
$\text{I(Brit bank}_o) \times t$	Y	Y	Y	Y	Y
Country_{dt}	Y	Y	Y	Y	Y
N	57305	52483	57305	57305	57305
Clusters	62	44	62	62	62
Adj. R^2	0.544	0.545	0.544	0.543	0.543

Notes: Table A13 reports the coefficients every five years. Different types of financial crises are binary variables, which take the value of 1 if the exporting country is experiencing it in 1865, taken from Reinhart and Rogoff (2009*b*), and interacted with year dummies. No country experienced a currency crisis or domestic sovereign debt crisis in 1865 so these are not reported. Standard errors in brackets are clustered by the origin country. $^*p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table A14: Long-term effects: robustness to borrowing from London Stock Exchange

$$\ln(\text{Ex}_{odt}) = {}_t\text{F}_o + {}'X_{ot} + {}_o + {}_{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$

	(1)	(2)	(3)	(4)	(5)	(6)
1850-1855	-0.249	-0.251	-0.251	-0.247	-0.248	-0.255
	[0.329]	[0.330]	[0.331]	[0.330]	[0.331]	[0.331]
1856-1860	-0.152	-0.150	-0.155	-0.152	-0.150	-0.151
	[0.225]	[0.224]	[0.225]	[0.224]	[0.220]	[0.224]
1866-1870	-1.495***	-1.470***	-1.415***	-1.385***	-1.433***	-1.457***
	[0.391]	[0.384]	[0.382]	[0.395]	[0.374]	[0.372]
1871-1875	-1.775***	-1.785***	-1.712***	-1.671***	-1.751***	-1.723***
	[0.548]	[0.546]	[0.538]	[0.541]	[0.532]	[0.526]
1876-1880	-1.808***	-1.817***	-1.752***	-1.715***	-1.744***	-1.792***
	[0.586]	[0.583]	[0.567]	[0.577]	[0.573]	[0.571]
1881-1885	-1.376**	-1.469***	-1.334**	-1.373**	-1.321**	-1.375**
	[0.547]	[0.549]	[0.532]	[0.538]	[0.564]	[0.545]
1886-1890	-1.231**	-1.229**	-1.168**	-1.193**	-1.192**	-1.220**
	[0.503]	[0.508]	[0.500]	[0.506]	[0.512]	[0.503]
1891-1895	-1.180**	-1.117**	-1.133**	-1.138**	-1.135**	-1.161**
	[0.510]	[0.509]	[0.510]	[0.513]	[0.511]	[0.508]
1896-1900	-1.119**	-1.127**	-1.172***	-1.219***	-1.206***	-1.257***
	[0.465]	[0.445]	[0.439]	[0.439]	[0.451]	[0.447]
1901-1905	-0.596	-0.714	-0.839	-0.934*	-0.846	-0.914*
	[0.536]	[0.513]	[0.537]	[0.552]	[0.558]	[0.532]
1906-1910	-0.564	-0.789	-0.718	-0.727	-0.722	-0.748
	[0.569]	[0.524]	[0.516]	[0.532]	[0.549]	[0.520]
1911-1914	-0.811	-1.000*	-0.921*	-0.904	-0.915	-0.916
	[0.616]	[0.573]	[0.547]	[0.569]	[0.578]	[0.569]
Controls	Y	Y	Y	Y	Y	Y
Country_o FE	Y	Y	Y	Y	Y	Y
$\text{Sovereign debt}_{ot}$	Y					
Any equity_{ot}		Y				
$\text{Corporate debt}_{ot}$			Y			
$\text{Railway issuance}_{ot}$				Y		
$\text{Bank issuance}_{ot}$					Y	
$\text{Any industry issuance}_{ot}$						Y
$\text{I(Brit bank}_o) \times \text{t}$	Y	Y	Y	Y	Y	Y
Country_{dt}	Y	Y	Y	Y	Y	Y
N	67378	67378	67378	67378	67378	67378
Clusters	129	129	129	129	129	129
Adj. R^2	0.531	0.531	0.530	0.530	0.530	0.530

Notes: Table A14 reports the coefficients every five years. Variables denoting borrowing on the London Stock Exchange are binary variables which take the value of 1 if the exporting country issued a given type of debt or equity each year. These data are taken from the Investor's Manual Monthly, discussed in Appendix 3. Standard errors in brackets are clustered by the origin country. $^*p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table A15: Long-term effects: robustness to composition of banks

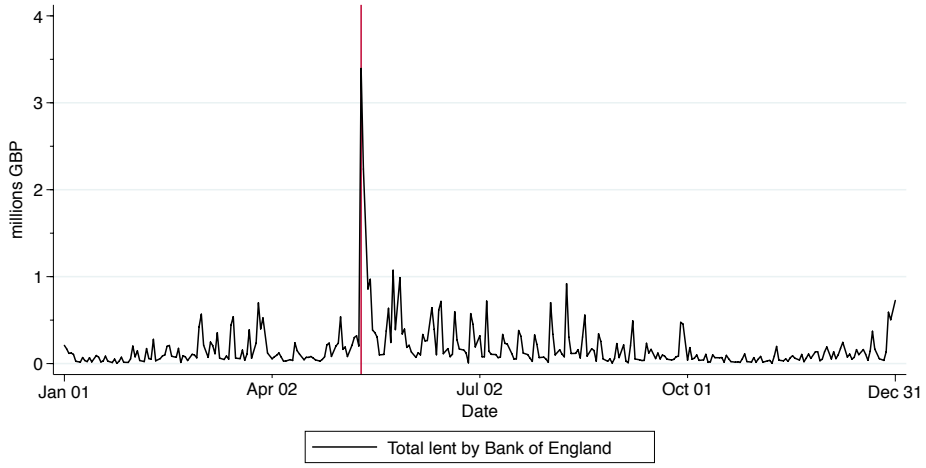
$$\ln(\text{Ex}_{odt}) = {}_t\text{F}_o + {}'X_{ot} + {}_o + {}_{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1850-1855	-0.141	-0.271	-0.173	-0.258	-0.159	-0.129	-0.215
	[0.350]	[0.335]	[0.341]	[0.327]	[0.349]	[0.321]	[0.322]
1856-1860	-0.0169	-0.0179	-0.0488	-0.136	-0.0133	0.0231	0.121
	[0.250]	[0.259]	[0.221]	[0.220]	[0.261]	[0.209]	[0.234]
1866-1870	-1.361***	-1.739***	-1.575***	-1.604***	-1.448***	-1.669***	-1.762***
	[0.421]	[0.435]	[0.403]	[0.414]	[0.398]	[0.421]	[0.437]
1871-1875	-1.554**	-2.026***	-1.851***	-1.900***	-1.544***	-1.962***	-2.005***
	[0.636]	[0.541]	[0.550]	[0.570]	[0.573]	[0.567]	[0.549]
1876-1880	-1.641***	-2.159***	-1.963***	-2.018***	-1.530***	-2.105***	-2.169***
	[0.582]	[0.602]	[0.631]	[0.594]	[0.555]	[0.600]	[0.593]
1881-1885	-1.253**	-1.722***	-1.616**	-1.640***	-1.191**	-1.763***	-1.790***
	[0.558]	[0.627]	[0.632]	[0.587]	[0.534]	[0.614]	[0.629]
1886-1890	-1.154**	-1.589***	-1.491**	-1.482**	-0.995**	-1.632***	-1.686***
	[0.497]	[0.602]	[0.618]	[0.574]	[0.493]	[0.609]	[0.606]
1891-1895	-1.091**	-1.501**	-1.450**	-1.370**	-0.934*	-1.561**	-1.565***
	[0.506]	[0.588]	[0.641]	[0.553]	[0.504]	[0.603]	[0.596]
1896-1900	-1.155***	-1.540***	-1.510**	-1.392***	-0.942**	-1.568***	-1.635***
	[0.440]	[0.527]	[0.583]	[0.483]	[0.460]	[0.536]	[0.537]
1901-1905	-0.783	-1.308**	-1.166*	-1.055*	-0.644	-1.252**	-1.406**
	[0.514]	[0.548]	[0.675]	[0.537]	[0.494]	[0.600]	[0.555]
1906-1910	-0.634	-1.190**	-1.028	-0.904	-0.519	-1.072*	-1.278**
	[0.503]	[0.563]	[0.661]	[0.550]	[0.512]	[0.599]	[0.572]
1911-1914	-0.788	-1.348**	-1.207*	-1.070*	-0.690	-1.261*	-1.448**
	[0.554]	[0.620]	[0.716]	[0.605]	[0.543]	[0.657]	[0.637]
Controls	Y	Y	Y	Y	Y	Y	Y
Country_o FE	Y	Y	Y	Y	Y	Y	Y
$\text{British banks}_{ot}$	Y						
Local banks_{ot}		Y					
French banks_{ot}			Y				
German banks_{ot}				Y			
US banks_{ot}					Y		
European (non-Brit) banks_{ot}						Y	
Total banks_{ot}							Y
I(Brit bank_o) × t	Y	Y	Y	Y	Y	Y	Y
Country_{dt}	Y	Y	Y	Y	Y	Y	Y
N	67378	67378	67378	67378	67378	67378	67378
Clusters	129	129	129	129	129	129	129
Adj. R^2	0.530	0.532	0.530	0.530	0.531	0.531	0.531

Notes: Table A15 reports the coefficients every five years. The composition of banks is given by the log of the total number of each type of bank, calculated every 5 years. Countries that did not have any of a type of bank are given ln values of zero. Standard errors in brackets are clustered by the origin country. *$p <$ 0.1, **$p < 0.05$, ***$p < 0.01$

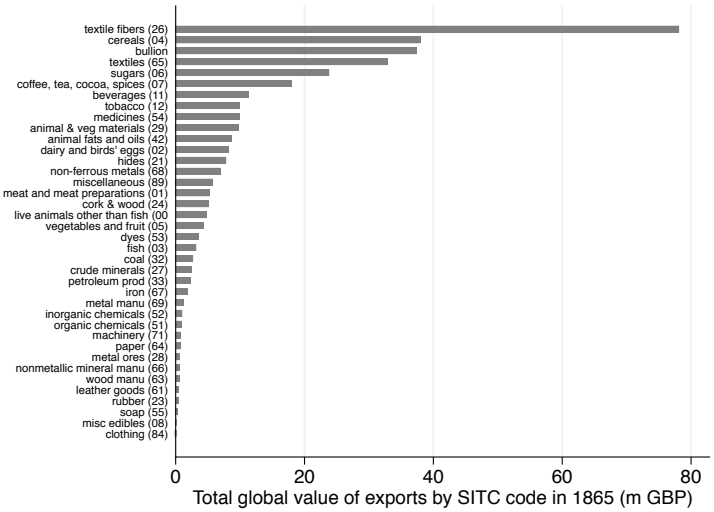
B Additional Figures

Figure B1: Bank of England Discount Window lending in 1866



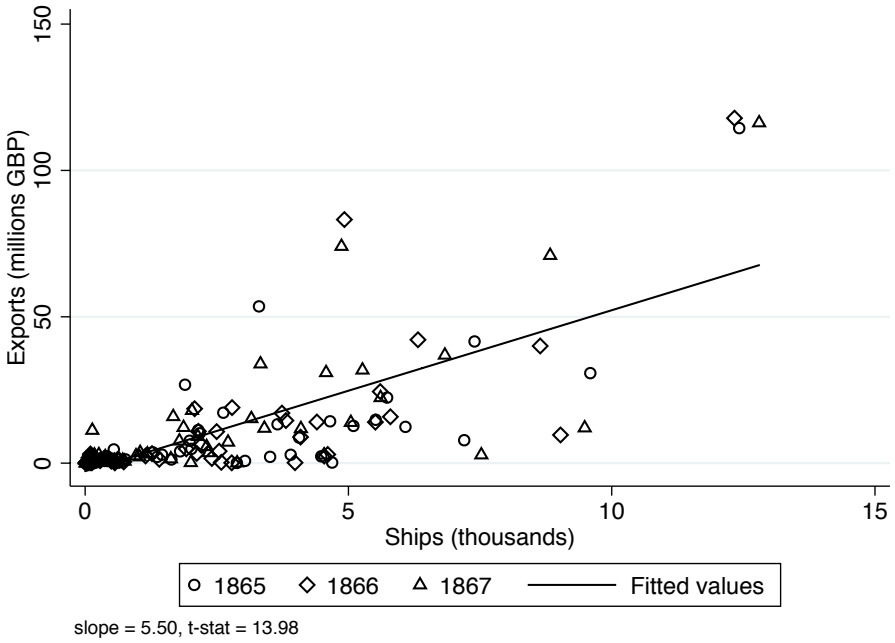
Notes: Figure B1 shows the total amount of lending by the Bank of England at its Discount Window. The red vertical line marks May 11, 1866. Sources: Bank of England Archives C24/1

Figure B2: Industry composition of global exports in 1865



Notes: Figure B2 shows the total value of world exports across all countries by two-digit SITC categorization. The SITC code is given in parentheses next to the category name. Units are millions of pounds sterling in 1865. Sources: *Statistical Tables relating to Foreign Countries* and *Statistical Tables relating to the Colonial and Other Possessions of the United Kingdom* published in 1866.

Figure B3: Positive correlation between country-level number of ships and exports values

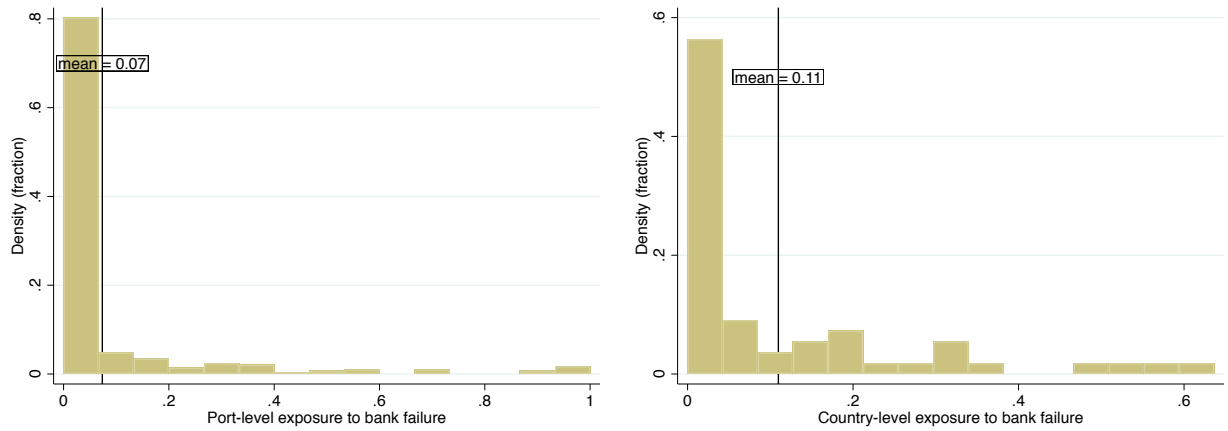


Notes: Figure B3 shows the positive linear relationship between the number of ships leaving a country in a given calendar year (from the *Lloyd's List* and the values of exports from that country. Three years around the crisis year are plotted. The line is fitted to the pooled sample of all years.

Figure B4: Distribution of exposure to bank failure

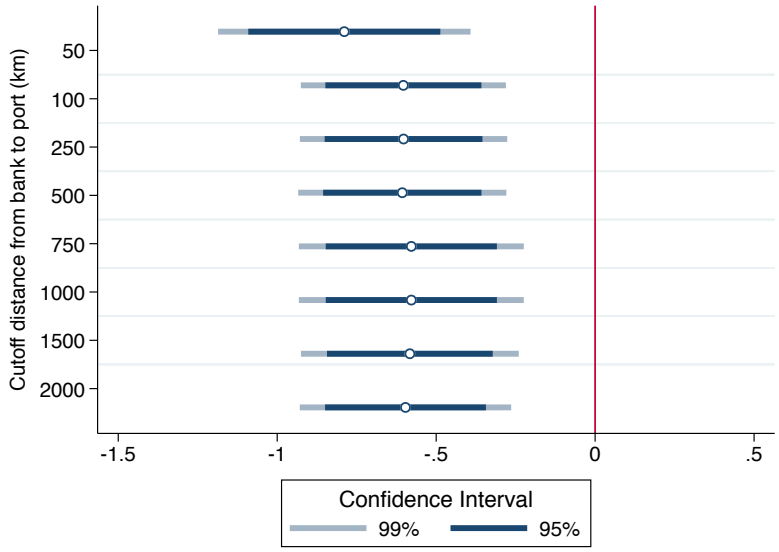
(a) Ports

(b) Countries



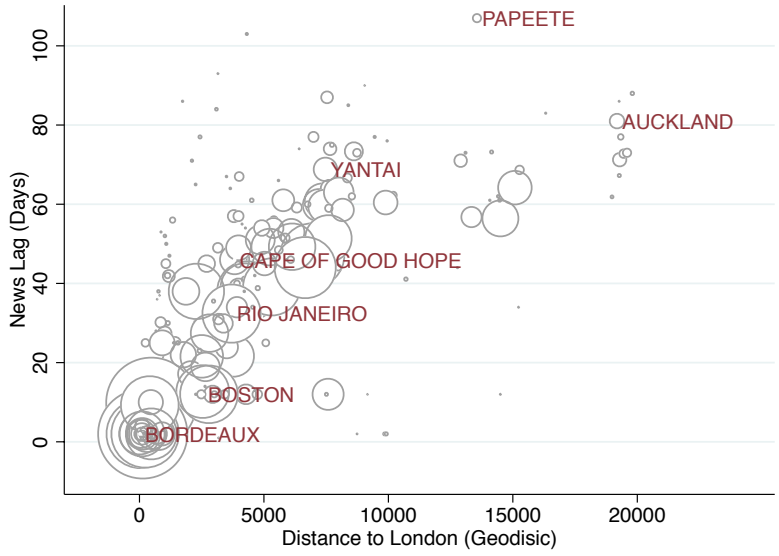
Notes: Figure B4 plots the histogram of port (n = 289) and country (n = 55) exposure to bank failures for the sample of ports and countries that were active in the pre-crisis year.

Figure B5: Port-level effect of bank failures on exports: robustness to distance cutoffs



Notes: Figure B5 plots the estimated coefficients for for the specification below, where the control group of completely unexposed ports is based on the distance between the port and the nearest city of financing. The baseline specification in the paper uses a cut-off of 500 km. $\ln(S_{pot}) = \text{Fail}_{po} \times \text{Post}_t + \alpha_p + {}_{ot} + \varepsilon_{pot}$

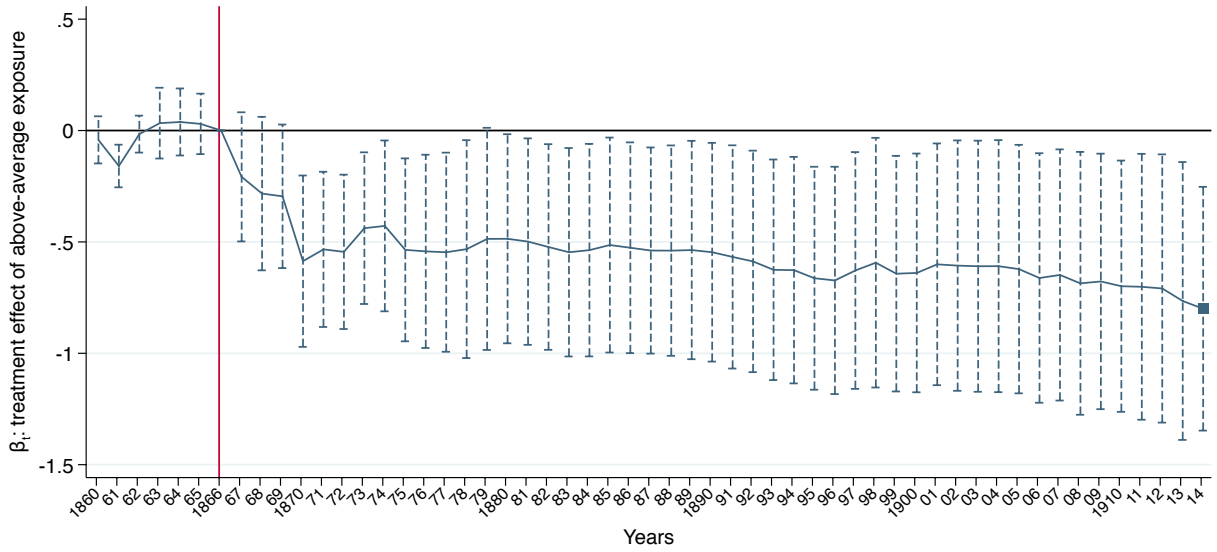
Figure B6: Positive correlation between news lag and geodesic distance to London



Notes: Figure B6 plots the relationship between the ports' physical distance to London (measured geodesically in kilometers) and the news lag in days that the ports received news of the banking crisis. The circles convey the pre-crisis size of the port. Select ports from each continent are named.

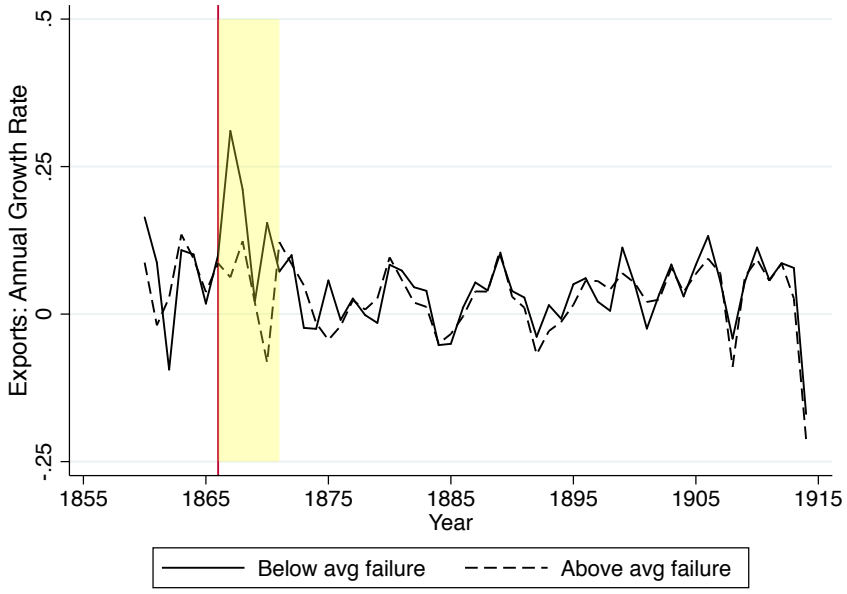
Figure B7: Effect of above average exposure to bank failure on total exports

$$\ln(\text{EX}_{ot}) = \ _t\mathbb{I}(\text{Above avg exposure}_o) + \ _o + \ _t + \varepsilon_{ot}$$



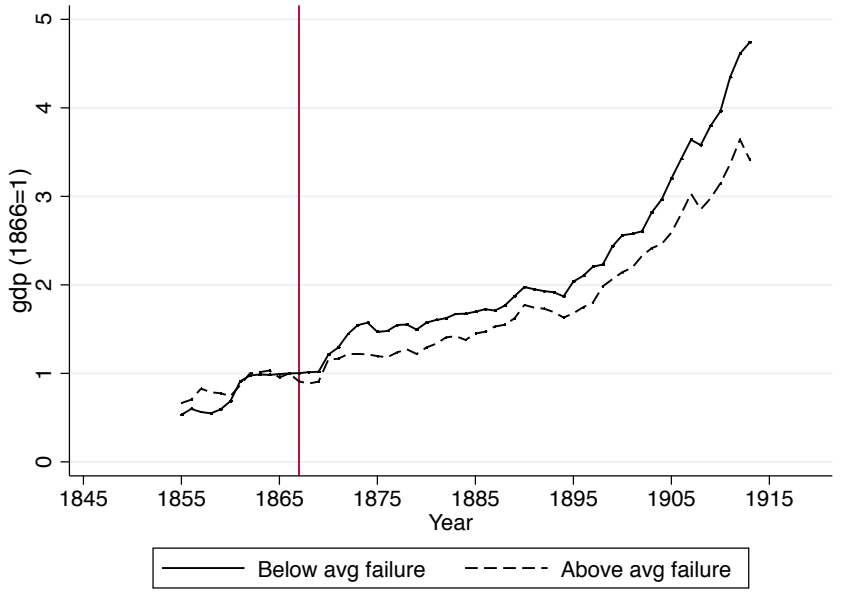
Notes: Figure B7 plots $_t$ from 1860–1914 for the specification above. The dependent variable is the ln of the total value of exports for origin country o in year t. $_o$ and $_t$ are country and year fixed effects, respectively. The regressions are weighted by the total value of exports in order to most closely mirror Figure 5. N = 5,799.

Figure B8: Annual country-level growth rates of total exports



Notes: Figure B8 plots the annual growth rates for the two groups of countries for the years before and after the crisis. Calculated from the aggregate data presented in Figure 5. The vertical line marks 1866.

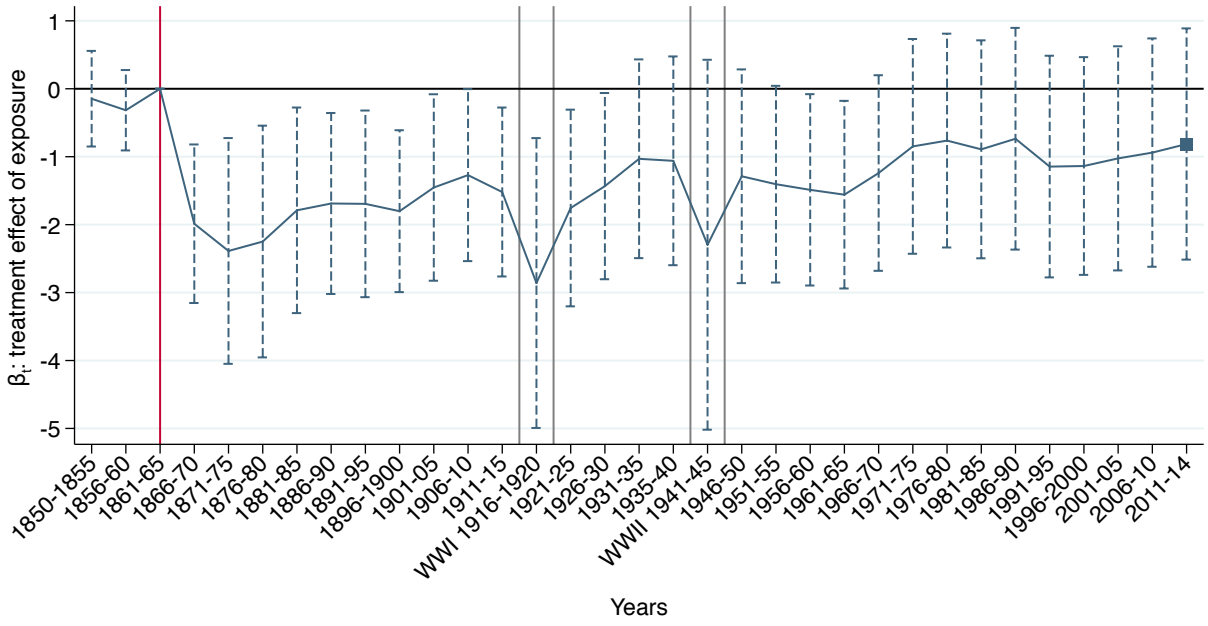
Figure B9: Aggregate GDP, grouped by above and below average exposure to bank failures



Notes: Figure B9 plots the raw data for the total value of GDP by groups of countries, binned by above and below average exposure to failure. GDP is normalized to equal 1 in 1866. The vertical line marks 1866.

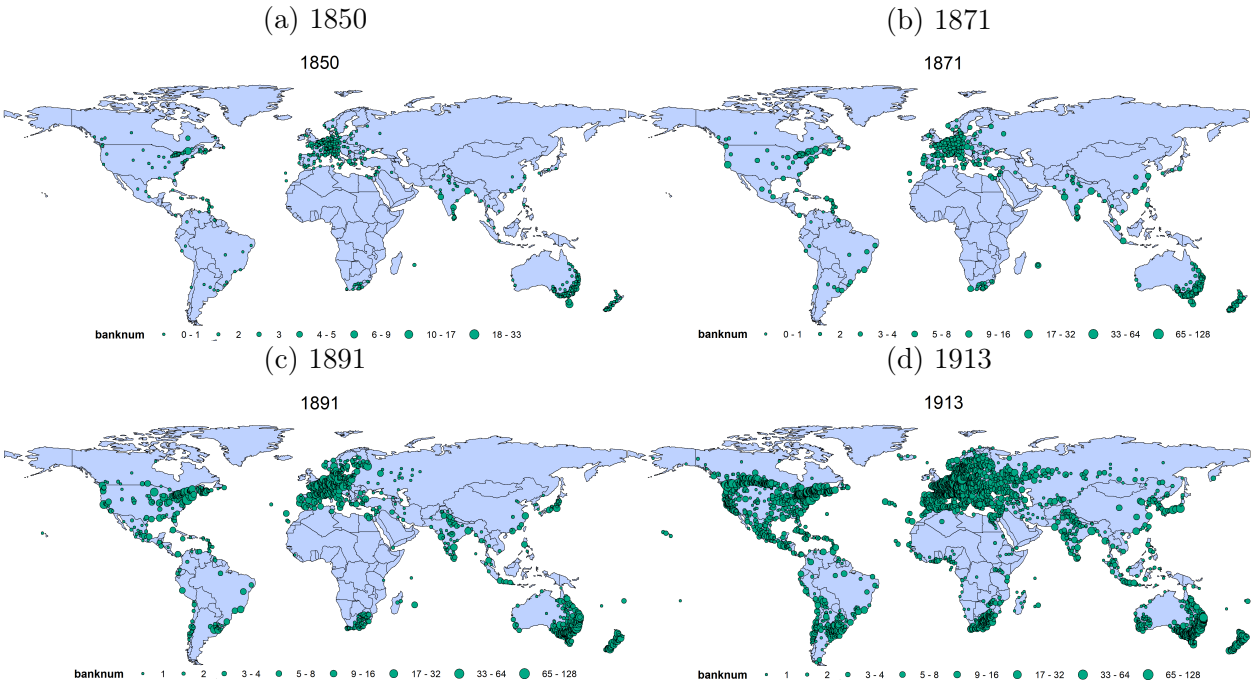
Figure B10: Effect of bank failures from 1850–2014

$$\ln(\text{EX}_{odt}) = \ _t\text{Fail}_o + \ \ 'X_{ot} + \ \ _o + \ \ _{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$



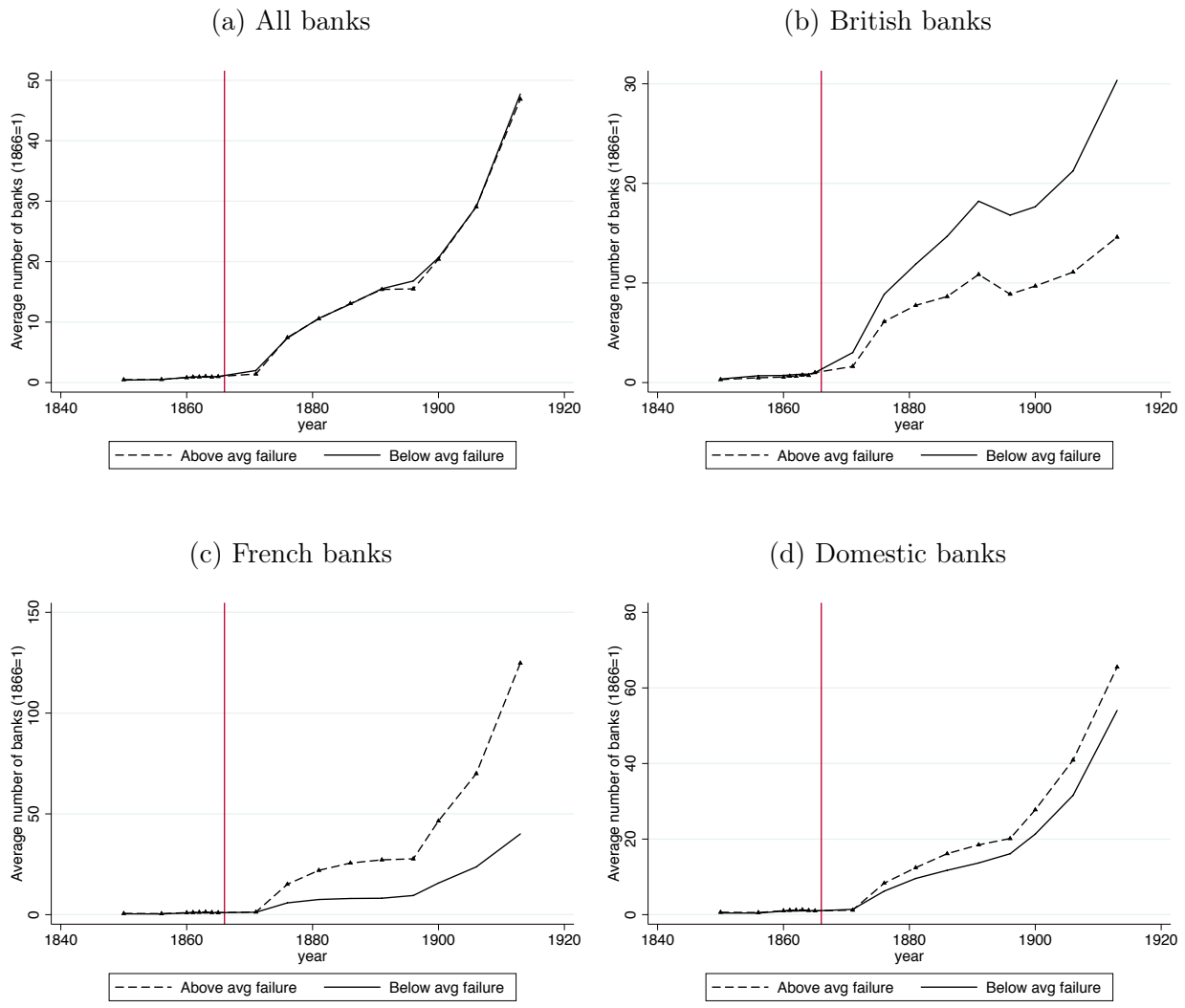
Notes: Figure B10 plots the point estimates and 95 percent confidence intervals for the specification given above estimated on the country-level panel of trade from 1850–2014. The dependent variable is the ln value of exports. The specification includes origin country o FE, destination country-year dt FE, and time-varying controls for the bilateral distance between countries. $_t$ is the treatment coefficient on the effect of exposure to failed banks on exports in each group of years. The coefficients most closely corresponding to WWI and WWII are marked separately. Standard errors are clustered by the origin country. N = 665,866. Table A8 reports the coefficients.

Figure B11: Growth of multinational banks, 1850-1913



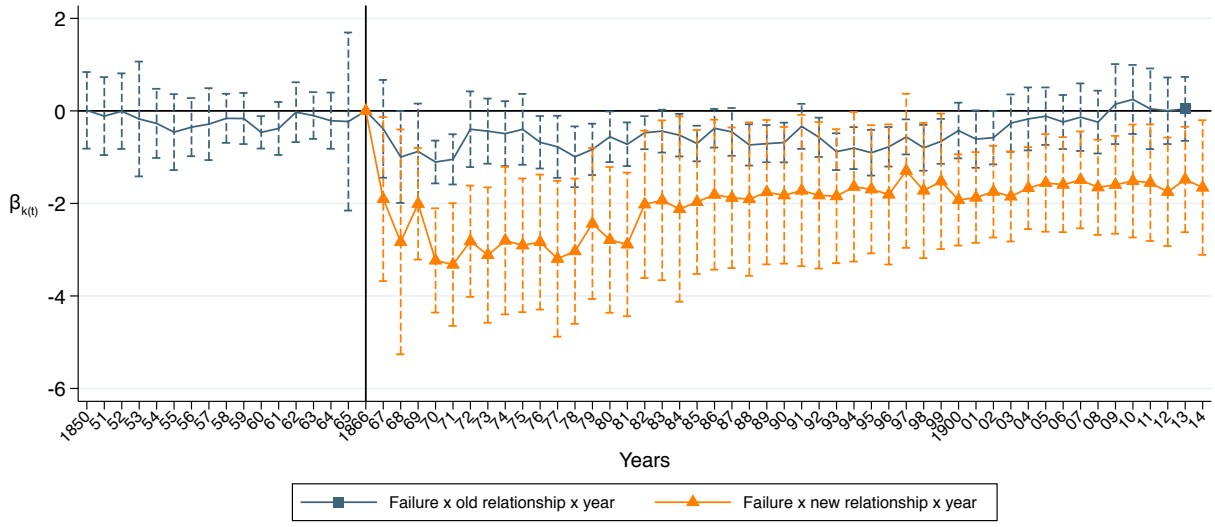
Notes: Figure B11 maps the total number of multinational banks (of all nationalities) from the *Banking Almanac* for various years.

Figure B12: Banking sector recovery



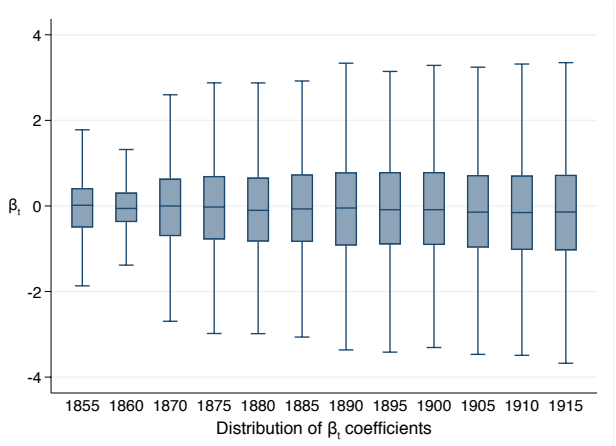
Notes: Figure B12 plots the raw data of the average number of banks in cities exposed to above and below average British bank failure. The data come from 5 year intervals of the *Banking Almanac*. Subfigure (a) plots all the average for all banks. Subfigures (b), (c), and (d) split the total by nationalities. "Local banks" refers to banks of the same nationality as the country it is located in. Each series is normalized to equal 1 in 1866. The vertical line marks 1866.

Figure B13: Effect of exposure to bank failure on new vs pre-existing trade relationships



Notes: Figure B13 plots the point estimates and 95 percent confidence intervals from the country-level panel of trade in the specification given below. "Failure × old relationships x year" is the treatment coefficient on the effect of exposure to failed banks on exports for bilateral trade relationships that existed prior to 1866. "Failure × new relationships x year" is the treatment coefficient on the effect of exposure to failed banks on exports for bilateral trade relationships that were newly formed after 1866. The dependent variable is the ln value of exports. The specification includes origin country o FE, destination country-year dt FE, time-varying controls for the bilateral distance between countries. Standard errors are clustered by the origin country: $\ln(\text{EX}_{odt}) = \ _{t,old}\text{Fail}_o \times \mathbb{I}(\text{Old}_{od}) + \ _{t,new}\text{Fail}_o \times \mathbb{I}(\text{New}_{od}) + \ _o + \ _{dt} + \varepsilon_{odt}$

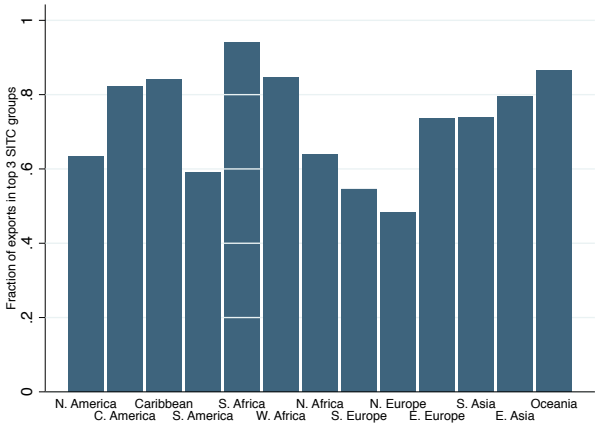
Figure B14: Treatment placebo



$$\ln(\mathrm{EX}_{odt}) = \ {}_t\mathrm{Fail}_o + \Gamma' X_{ot} + \ {}_o + \ {}_{dt} + \theta_t \ln(\mathrm{dist})_{od} + \varepsilon_{odt}$$

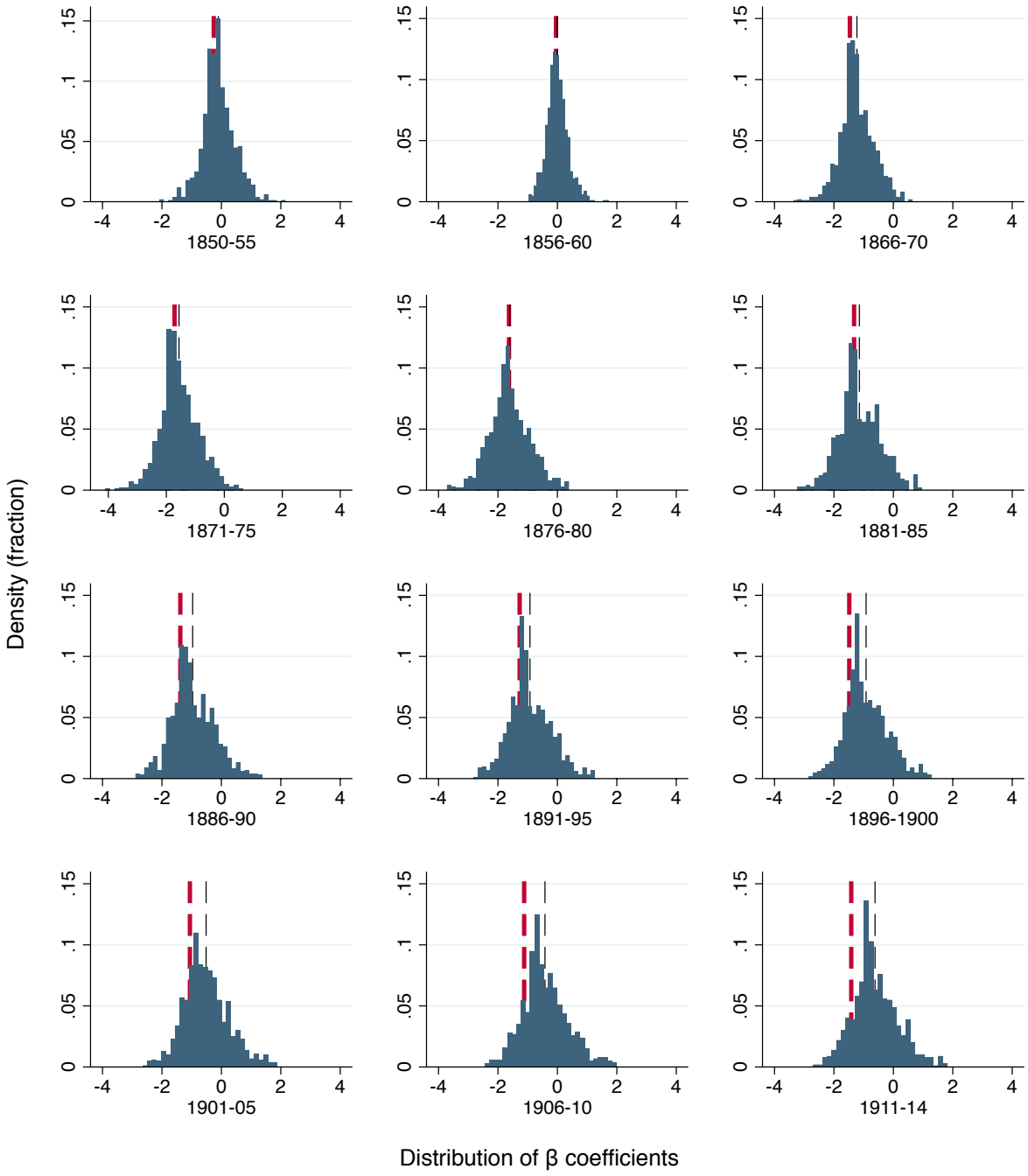
Notes: Figure B14 plots the median, 25th and 75th percentile (edges of the box), and lower and upper adjacent values for the frequency distribution of estimates of $\ {}_t$ from running 1,000 regressions on simulated data corresponding to equation 8 (above). The simulated data are generated from randomly replacing the the country-level exposure to failure Fail_o with the exposure from another country. The end year for each $\ $'s range of year is given on the x-axis (for instance, 1855 refers to $\ {}_{1850} \ {}_{1855}$).

Figure B15: Exports correlation within country regions



Notes: Figure B15 plots the fraction of exports in the top 3 SITC groups for each region. Exports values are calculated from 1865. The full list of countries and their geographic regions are given in appendix E.4. Regions are listed by geographic proximity, beginning in North America and traveling south and east.

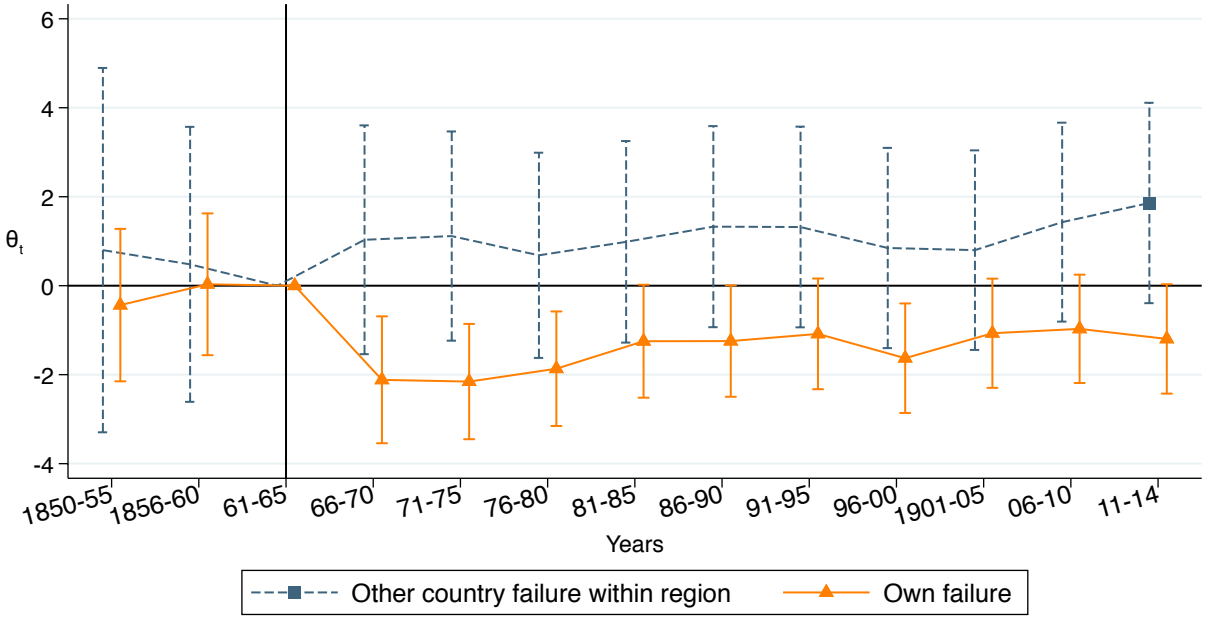
Figure B16: Country region placebo



$$\ln(\text{EX}_{odt}) = \ _t\text{Fail}_o + \Gamma'\text{Region}_{ot} + \ _o + \ _{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$

Notes: Figure B16 plots the frequency distribution of estimates of $\ _t$ from running 1,000 regressions corresponding to equation 8 (above) including origin-country region-year fixed effects, where the origin-country is randomly assigned to a geographic region. The x-axis of each subfigure plots the magnitude of the estimates for each group of years. The baseline impact of exposure to bank failures on exports, estimated in column (8) of Appendix Table A7, is plotted as the thicker red dashed line, while the mean placebo estimate (averaging across the 1,000 estimates) is plotted as the thin black dashed line.

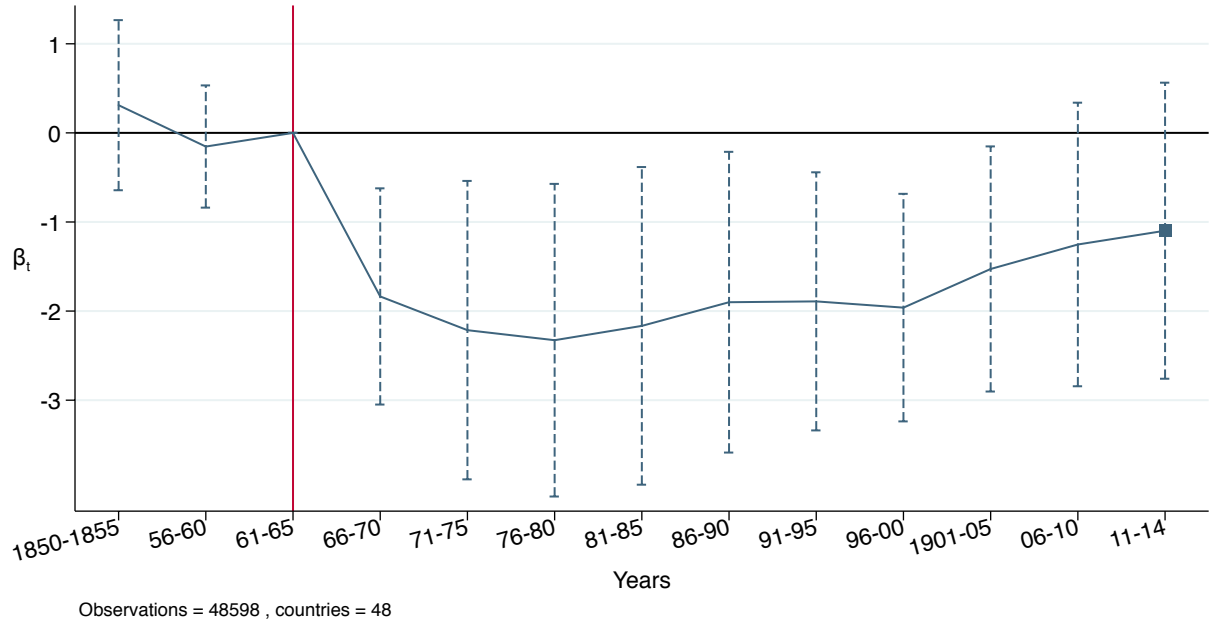
Figure B17: Effect of other-country exposure within region on own country



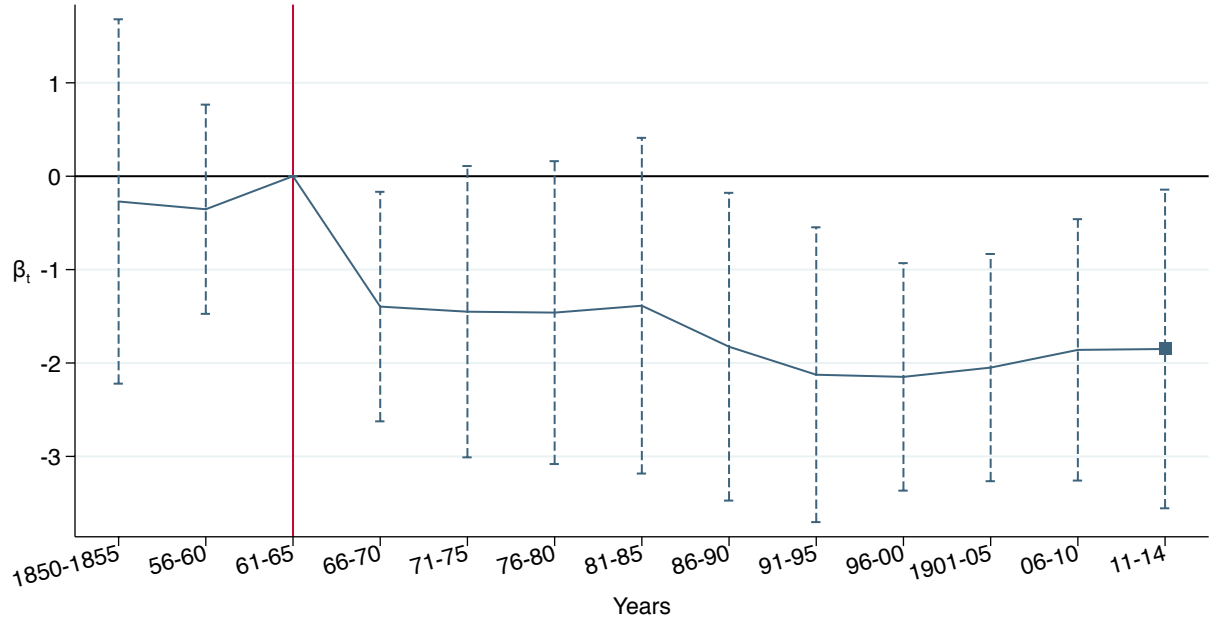
Notes: Figure B17 plots the estimated coefficients from the regression specification below. "Own failure" refers to the country-level exposure to failure Fail_o. "Other country failure within region" is the average exposure to bank failure experienced by all other countries in the same geographic region. The dependent variable is the ln value of exports. The specification includes origin country o FE, destination country-year dt FE, time-varying controls for the bilateral distance between countries. Standard errors are clustered by origin country: $\ln(\text{EX}_{odt}) = \theta_t \text{Fail}_o \times \text{Fail}_{o,other} + \ _t\text{Fail}_o + \ _o + \ _{dt} + \varepsilon_{odt}$

Figure B18: Recovery within country groups

(a) Within SITC groups



(b) Within regions using the same countries



Notes: Figure B18 plots the estimated coefficients from the regression specification below, which is the main specification in equation 8 including SITC-year fixed effects (Figure B18a) and region-year fixed effects (Figure B18b). Figure B18b is estimated on the same sample of countries as in Figure B18a, the countries for which data on exports composition in 1865 is available.

C Instrument validity

The empirical setting focuses on the effect of British credit contractions without observing the share of British credit in total credit. This section shows that under certain assumptions, the instrument for British bank failures will recover the effects on credit contractions from all banks.

Assume that the true model of the world is the following where Credit_l^{total} denotes the total change in credit available in location l:

$$\ln(Y_l) = \ _0 + \ _1(\ \text{Credit}_l^{total}) + \varepsilon_l \tag{13}$$

Credit_l^{total} can be rewritten in terms of the share of total credit from British banks α_b and the share from non-British banks $1 \ \ \alpha_b$:

$$\text{Credit}_l^{total} = \alpha_b \ \ \text{Credit}_l^{Brit} + (1 \ \ \ \alpha_b) \ \ \text{Credit}_l^{non \ \ Brit}$$

This allows us to rewrite Equation 13 in the following way where $\ _1 = \alpha_b * \ _1$ and $\ _2 = (1 \ \ \alpha_b) * \ _1$:

$$\ln(Y_l) = \ _0 + \ _1 \ \ \text{Credit}_l^{Brit} + \ _2 \ \ \text{Credit}_l^{non \ \ Brit} + \varepsilon_l \tag{14}$$

Instrumenting for total credit loss using British bank failures:

$$\text{Credit}_l^{total} = \ _0 + \ _B \text{Fail}_{l,B} + \nu_l$$
$$\varepsilon_l \perp 1, \text{Fail}_{l,B} \text{ and } \nu_l \perp 1, \text{Fail}_{l,B}$$

The 2SLS estimator is:

$$\hat{\ }_1^{IV} \longrightarrow \frac{\text{Cov}[\ \ln(Y_l), \text{Fail}_{l,B}]}{\text{Cov}[\ \ \text{Credit}_l^{total}, \text{Fail}_{l,B}]} = \frac{\ _1\text{Cov}[\ \ \text{Credit}_l^{Brit}, \text{Fail}_{l,B}] + \ _2\text{Cov}[\ \ \text{Credit}_l^{non \ \ Brit}, \text{Fail}_{l,B}]}{\alpha_b\text{Cov}[\ \ \text{Credit}_l^{Brit}, \text{Fail}_{l,B}] + (1 \ \ \ \alpha_b)\text{Cov}[\ \ \text{Credit}_l^{non \ \ Brit}, \text{Fail}_{l,B}]}$$

I use $\ \text{Credit}_l^{Brit}$ to proxy for $\ \ \text{Credit}_l^{total}$.

1. $\ _1 = \ _1$ when $\alpha_b = 1$, so $\ _2 = 0$: non-British credit does not matter for trade
2. $\hat{\ }_1^{IV} \longrightarrow \ _1$ when: $\text{Cov}[\ \ \text{Credit}_l^{non \ \ Brit}, \text{Fail}_{l,B}] = 0$: the failure rates of British banks in ports is not related to the change in non-British credit

D Additional evidence on long-term effects

D.1 Lower-cost financing for shorter routes

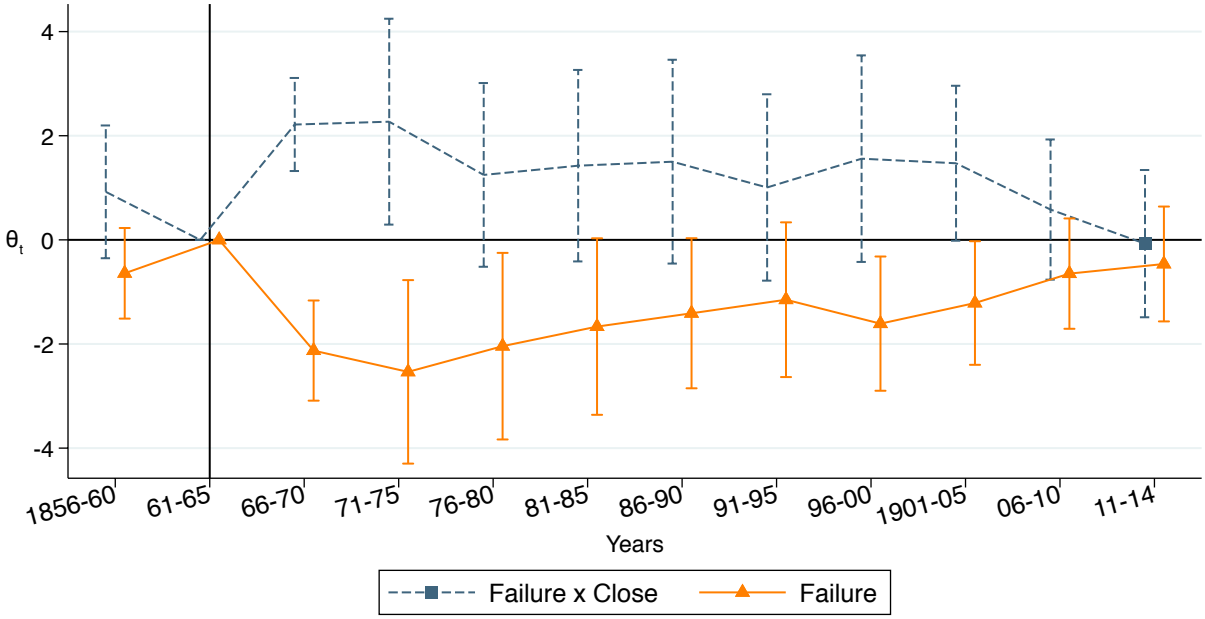
Shorter routes are less expensive to finance because goods spend less time in transit. An externally financed loan has shorter maturity, and it is easier for exporters to internally finance out of working capital. Since financing costs increase with the distance between trading partners, the key prediction is that trade between more distant partners will decline after the bank failures.

I test this prediction using the panel of country-level values of trade by allowing for the exposure to failure to differentially affect trading partners that are physically closer. I construct a binary variable "Close" to indicate country-pairs that are less than the average distance between countries trading in 1865. The results are robust to constructing the variable over all years or at the end of the sample in 1914. Formally, I estimate the following:

$$\begin{aligned}\ln(\text{EX}_{odt}) = \theta_{t,close}\text{Fail}_o \times \mathbb{1}(\text{Close}_{od}) + \ _t\text{Fail}_o + \ _t\mathbb{1}(\text{Close}_{od}) \\ + \ ' X_{od} + \ _o + \ _{dt} + \varepsilon_{odt}\end{aligned} \tag{15}$$

Figure D19 plots $\theta_{t,close}$ in blue and $\ _t$ in orange. $\ _t$, the effect of exposure to bank failure, is very similar to the baseline effect in previous estimations. $\theta_{t,close} > 0$ indicates that conditional on exposure to bank failures, exports to closer destinations are positively affected. The main effect for exports to close destinations is given by $\theta_{t,close} + \ _t$, which is close to zero. The qualitative interpretation is that a country's exports losses are borne by more distant trading partners, and that exporters are diverting their goods to destinations with lower trade costs.

Figure D19: Exports are not affected for closer destinations



Notes: Figure D19 plots the plots the θ_t and $_t$ point estimates and 95% confidence intervals from the country-level panel of trade in the specification given in equation 15. The dependent variable is the ln value of exports. The specification includes origin country o FE, destination country-year dt FE, and time-varying indicators for common land border, common European colony, and common language. "Failure × Close" is the treatment coefficient on the effect of exposure to failed banks on exports to countries that are less than the average distance away from the destination country, where the average is measured by 1865 bilateral trade flows. Standard errors are clustered by the origin country. N = 66,791.

E Historical context

E.1 Institutional detail

E.1.1 Trade finance

The mechanics of trade finance in the 19th century were conducted through bills of exchange traded among the networks of banks and interbank lenders centered on London. Bills were short-term loans that became contractual obligations when the creditor "accepted" it by signing across it. In their simplest form, bills of exchange allowed for debts between two parties. They were orders written by the "drawer" (lender) that the "drawee" (borrower) would pay the face value of the bill (to the drawer, someone else, or the bearer) at some point in the future. A check is simply a bill of exchange in the case when the drawee is the drawer's bank. A promissory note is a promise to pay between the drawer and payee, where there is no drawee responsible for making the payment. Bills usually had a maturity of 3-6 months (Cassis, 2016, p.93). The Treasury Bill was proposed by Walter Bagehot in 1877 and modeled after the commercial bill of exchange to allow the government to borrow at short maturities just as commercial interests were able to.

British banks lent to their customers by "accepting" the customer's bills of exchange. British commercial law stipulated that the acceptor in turn became liable for the bill, such that if the original borrower defaulted, the acceptor was responsible for payment. This liability meant that acceptors transformed the idiosyncratic risk of individual borrowers into their own credit risk. Bankers' acceptances therefore bore the credit risk of the bank, with the banks absorbing their customers' credit risk. This guarantee made it easier to re-sell the bills because the credit risk was easily observable. The acceptor would then re-sell the bill to another individual or financial institution by "discounting" it on the money market in London (Jones, 2000, p.23). The London money market's liquidity came from the size of the foreign bills market, and banks almost never held their own bills until maturity (King, 1936). Discounts most resemble a modern-day repurchase agreement: the seller received the face value minus the discount rate (haircut) at the initiation of the transaction, and he paid the full face value in return for the security at its maturity. At maturity, the bill was presented to the original borrower via his accepting bank for repayment, and the debt terminated.

The term Discount Window in reference to the central bank comes from the fact that bills of exchange were "discounted" there. Banks obtained emergency liquidity by entering into a repurchase agreement with the Bank fo England on the short-term liquid assets that it held. These assets were predominantly the bills of exchange that had been extended by other banks abroad, reflecting the lending activity of those banks.

British multinational banks had accounts at the Bank of England, which in practice meant that any security originated by one of these multinational banks was considered high enough quality to be discounted at the Bank of England. The features of repo agreements and joint liability protected the London money market from issues stemming from asymmetric information where acceptors knowingly passed on bad bills. Those features made their quality easily ascertainable, and bills were flexible and customizable, so they became useful debt and investment instruments around the world, analogous to commercial paper today. Although bills could be used for any purpose, those that originated outside of the United Kingdom primarily financed trade and were collateralized by shipments.[61]

British multinational banks began being established in the 1830s both within and beyond the British Empire to facilitate international capital flows, with the specific purpose of increasing trade abroad. These banks were headquartered and raised capital in London by issuing deposits and shares, but they operated outside of Britain through subsidiaries in cities around the world. The fact that they raised shares, issued deposits, and invested abroad signaled a new movement in banking. These were the first "universal banks" which then spread to Continental Europe in the subsequent decades (Cassis, 2016, p.96). They most often funded the British merchants already established in foreign ports. The lack of infrastructure in most countries was such that those merchants had to arrange for their own financing and insurance if they wanted it. Their local knowledge was invaluable to business, and the multinational bank subsidiary offices maintained close contact with these exporters (Jones, 2000, p.27).

E.1.2 Contemporary documentation of the London banking crisis

Banker's Magazine wrote the following about Overend & Gurney's share issuance:

> The transformation of Overend, Gurney and Co.'s far famed discount establishment into a joint stock company, marks another era in the history of limited liability...we may confidently anticipate that the position of the new company will be relatively as high as the standing of the house to whose business it succeeds.

Walter Bagehot's account of Overend and Gurney's demise in *Lombard Street* blames the entirety of the failure on the directors:

[61] Cassis (2016) writes: "Finance required by the growth of international trade was supplied by private bankers, increasingly by a small group of largely London-based merchant bankers who specialized in trade credit by accepting bills of exchange and thus guaranteeing by their undoubted standing the payment of the bills involved. The merchant banks' backing was made clear by their acceptance on presentation of the international trade bills with which they were individually connected. These providers of commercial finance became known in the City as 'acceptance houses', and the paper involved as 'acceptances'. The bills were readily traded on the London market and so were liquid over the period, normally 60-90 days, between their acceptance and maturity." (p. 93)

> In six years [from 1860-1866], the immensely rich partners lost all their own wealth, sold the business to the company, and then lost a large part of the company's capital. And these losses were made in a manner so reckless and so foolish that one would think a child who had lent money in the City of London would have lent it better. (p. 19)

Anna Schwartz writes the following:

> Overend, Gurney in earlier years had been a solid conservative partnership, one of the pillars of the City. About 1860, a younger generation then in charge of the business became less circumspect in its lending operations, accepting equity interests for unrepayable loans extended to ironworks and shipping companies. Losses led to a decision to incorporate with the possibility of turning over a new leaf. The new company was launched in 1865 just after the conclusion of the US Civil War, when there was every reason to anticipate a strong revival of demand for British exports, but the new company did not live long enough to benefit from it.[...] when on 10 May Overend, Gurney shut down, the market was shaken. The next day panic broke loose. (p.273)

E.1.3 Bank of England response

In order to calm the London market, the Governor of the Bank of England appealed to the Chancellor of the Exchequer to suspend the Banking Act of 1844. The Banking Act of 1844 was the foundation of the gold standard in Britain and required that the Bank of England's currency supply was tied to the gold supply. This would allow the Bank of England to accommodate the demands for liquidity by issuing currency beyond the gold reserve at the Bank of England and effectively suspend the gold standard. The government gave its permission, and this was sufficient to calm the markets so that the gold standard remained in place. £5.6 million was lent to banks in just the first two days of the crisis, collateralized on the short-term securities that reflected London's lending relationships. Although £5.6 million almost drained the Bank of England of its gold reserves, it was small compared to the size of the banking sector, whose balance sheets were almost £5 million each. Although the Bank of England was praised for averting a deeper crisis, the size of the intervention was small relative to the size of the market, and 12% of banks failed.

The Overend & Gurney failure has been written about extensively by historians and has been credited as the one that cemented the Bank of England's role as Lender of Last Resort. It was the event which led Walter Bagehot, the editor of *The Economist* at the time, to argue that the monetary authority should, in times of crisis, discount bills of good quality in the amount demanded to creditable borrowers (Bagehot, 1873). Domestically, the 1866 banking crisis is attributed with causing the failure of over 200 firms. The shock on manufacturing led to protests and riots that ultimately contributed to the passing of the

Reform Act of 1867, which greatly expanded the franchise. This was also known as the Second Reform Act (the first was in 1832) and roughly doubled the franchise among adult males in England and Wales.

First, worse quality banks could still approach the Bank of England Discount Window for funds as long as they held bills that they could post as collateral. A bill's riskiness was determined by the bank that underwrote the debt, not the bank that brought in the bill for discount. It is apparent from the ledgers that banks discounted the bills originally accepted by other institutions, not themselves. This pattern is consistent with the historical accounts that banks did not usually hold their own bills to maturity but rather immediately discounted them on the London money market. Second, it is unlikely that worse banks held lower quality bills because all banker's acceptances of the same maturity were discounted at the same market rate in normal times. Third, the average rejection rate at the Bank of England did not change during the crisis, indicating the Bank did not appear to change its policy during the crisis. These characteristics help to address the main concern that worse banks would not have been able to obtain liquidity from the Bank of England.

Transcript of the Minutes of the Bank of England Court of Directors, Saturday May 12, 1866:

A Court of Directors at the Bank on Saturday, the 12 May 1866

Present: Henry Lancelot Holland, Esquire Governor; Thomas Newman Hunt, Esquire Deputy Governor [...]

The Governor laid before the Court the following correspondence:

> Bank of England, 11 May 1866.
>
> To: The Right Honourable, The Chancellor of the Exchequer, M. P.
>
> Sir,
>
> We consider it to be our duty to lay before the Government the facts relating to the extraordinary demands for assistance which have been made upon the Bank of England today in consequence to the failure of Messrs Overend Gurney & Co. We have advanced to the Bankers, Bill Brokers and Merchants in London during the day upwards of four million Sterling upon the Security of the Government Stock and Bills of Exchange – an unprecedented sum to lend in one day, and which,therefore, we suppose, would be sufficient to meet all their requirements; although the proportion of this sum which may have been sent to the Country must materially affect the question.

We commenced this morning with a Reserve of £5,727,000—which has been drawn upon so largely that we cannot calculate upon having so much as £3,000,000 —this evening, making a fair allowance for what may be remaining at the Branches.

We have not refused any legitimate application for assistance, and, unless the money taken from the Bank is entirely withdrawn from circulation, there is no reason to suppose that this Reserve is insufficient.

We have honor to be, Sir, your obedient servants.

H.L. Holland, Governor and T.M. Newman Hunt, Deputy Governor.

The Chancellor of the Exchequer's response:

Downing Street, 11 May 1866.
To: The Governor and the Deputy Governor of the Bank of England

Gentlemen,

We have the honour to acknowledge the receipt of your letter of this day to the Chancellor of the Exchequer, in which you state the course of action at the Bank of England under the circumstances of sudden anxiety which have arisen since the stoppages of Messrs Overend Gurney & Company (Limited) yesterday.

We learn with regret that the Bank reserve, which stood, so recently as last night, at a sum of about five millions and three quarters, has been reduced in a single day, by the liberal answer of the Bank to the demands of commerce during the hours of business, and by its just anxiety to avert disaster, to little more than one half of that amount, or sum (actual for London and estimated for Branches) not greatly exceeding three millions.

The accounts and representations, which have reached Her Majesty's Government during the day, exhibit the state of things in the City as one of extraordinary distress and apprehension. Indeed deputations composed of persons of the greatest weight and influence, and representing alike the private and the Joint Stock Banks of London, have presented themselves in Downing Street, and have urged with unanimity and with earnestness the necessity of some intervention on the part of the State, to allay the anxiety which prevails, and which appears to have amounted through great part of the day to absolute panic.

There are some important points in which the present crisis differs from those of 1847 and 1857. Those periods were periods of mercantile distress, but the vital

consideration of banking credit does not appear to have been involved in them, as it is in the present crisis. Again, the course of affairs was then comparatively slow and measured, whereas the shock has in this instance arrived with intense rapidity and the opportunity for deliberation is narrowed in proportion. Lastly, the Reserve of the Bank of England has suffered a diminution without precedent relatively to the time in which it has been brought about, and, in view especially of this circumstance, Her Majesty's Government cannot doubt that it is their duty to adopt without delay the measures which seem to them best calculated to compose the public mind, and to avert the calamities which may threaten trade and industry.

Of them, the Directors of the Bank of England, proceeding upon the prudent rules of action by which their administration is usually governed, shall find that, in order to meet the wants of legitimate commerce, it is requisite to extend their discounts and advances upon approved securities so as to require issues of Notes beyond the limit fixed by law, Her Majesty's Government recommend that this necessity should be met immediately upon its occurrence, and in that event they will not fail to make application to Parliament for its sanction.

No such discount or advance, however, should be granted at a rate of interest less than ten per cent, and Her Majesty's Government reserve it to themselves to recommend, if they should see fit, the imposition of a higher rate. After deduction by the Bank of whatever it may consider to be fair charge for its risk, influences and trouble, the profits of these advances will accrue to the public.

We have the honor to be, Gentlemen, your obedient servants.

Russell Gladstone, Chancellor of the Exchequer

Resolved that the Governors be requested to inform the First Lord of the Treasury, and the Chancellor of the Exchequer that the Court is prepared to act in conformity with the letter addressed to them yesterday.

Resolved that the minimum rate of discount on Bills not having more than 95 days to run, be raised from 9 to 10%.

The archived minutes are available at:
http://www.bankofengland.co.uk/archive/Documents/archivedocs/codm/18111911/codm041866111866b1

E.2 Overend & Gurney

E.2.1 Transcript of the prospectus published on July 13, 1865

THE COMPANY is formed for the purpose of carrying into effect an arrangement which has been made for the purchase from Messrs. Overend Gurney and Co., of their long established business as bill brokers and money dealers, and of the premises in which the business is conducted, the consideration for the goodwill being £500,000, one half being paid in cash and the remainder in shares of the company with £15 per share credited thereon – terms which, in the opinion of the directors, cannot fail to ensure a highly remunerative return to the shareholders.

The business will be handed over to the new company on the 1st of August next, the vendors guaranteeing the company against any loss on the assets and liabilities transferred.

Three of the members of the present firm have consented to join the board of the new company, in which they will also retain a large pecuniary interest. Two of them (Mr. Henry Edmund Gurney and Mr. Robert Birkbeck) will also occupy the position of managing directors and undertake the general conduct of the business.

The ordinary business of the company will, under this arrangement, be carried on as heretofore, with the advantage of the co-operation of the board of directors, who also propose to retain the valuable services of the existing staff of the present establishment.

The directors will give their zealous attention to the cultivation of business of a first-class character only, it being their conviction that they will thus most effectually promote the prosperity of the company and the permanent interests of the shareholders. Copies of the company's Memorandum and Articles of Association, as well as the Deed of Covenant in relation to the transfer of the business, can be inspected at the offices of the solicitors of the company.

LONDON, July 12, 1865.

E.2.2 Public information during the London banking crisis

E.3 Bank characteristics

E.4 Country characteristics

Country	ISO code	Region	British Empire
Australia	AUS	OCEA	1
Austria-Hungary	AUTHUN	ESTEUR	0

Azores	AZORES	STHEUR	0
Belgium	BEL	NWEUR	0
Brazil	BRA	STHAM	0
British Guiana	GUY	STHAM	1
British West Indies	GBRWINDIES	CARIB	1
Canada	CAN	NORAM	1
Cape of Good Hope	ZAF	STHAFR	1
Ceylon	LKA	STHASI	1
Chile	CHL	STHAM	0
China	CHN	ESTASI	0
Colombia	COL	STHAM	0
Cuba	CUB	CARIB	0
Curacao	ANT	CARIB	0
Danish West Indies	VIR	CARIB	0
Denmark	DNK	SCANDI	0
Egypt	EGY	NORAFR	0
France	FRA	NWEUR	0
Germany	DEU	NWEUR	0
Gibraltar	GIB	STHEUR	1
Greece	GRC	STHEUR	0
Guatemala	GTM	CTRAM	0
Hong Kong	HKG	ESTASI	1
India - British Possessions	GBRIND	STHASI	1
Italy	ITA	STHEUR	0
Jamaica	JAM	CARIB	1
Japan	JPN	ESTASI	0
Java	IDN	STHASI	0
Malta	MLT	STHEUR	1
Mauritius	MUS	STHAFR	1
Mexico	MEX	CTRAM	0
Netherlands	NLD	NWEUR	0
New Zealand	NZL	OCEA	1
Norway Sweden	SWENOR	SCANDI	0
Panama	PAN	CTRAM	0
Persia	IRN	MIDEST	0
Peru	PER	STHAM	0

Philippines	PHL	STHASI	0
Poland	POL	ESTEUR	0
Portugal	PRT	STHEUR	0
Puerto Rico	PRI	CARIB	0
Romania	ROU	ESTEUR	0
Russia	RUS	ESTEUR	0
Siam	THA	STHASI	0
Sierra Leone	SLE	WSTAFR	1
Spain	ESP	STHEUR	0
St Helena	SHN	STHAFR	1
Straits Settlements	STRAITS	STHASI	1
Trinidad and Tobago	TTO	CARIB	1
Turkey	OTTO	MIDEST	0
USA	USA	NORAM	0
Uruguay	URY	STHAM	0
Venezuela	VEN	STHAM	0

F Historical data

Bank characteristics

I gathered the banks' 1865 and 1866 balance sheets and histories from annual reports published in *Banker's Magazine*, *Banking Almanac and Directory*, and *The Economist*. These data include their age, capital (equity financing), leverage ratio, and reserve ratio. Publicly traded banks did not consistently publish balance sheets until 1890, and even then only half the private banks did so (Michie, 2016). Prior to that legislation, banks had complete freedom over whether they publicly disseminated their balance sheets, so this information is not available for all banks.

Port-level panel of trade

The source for the port-level is the daily publications of the *Lloyd's List* newspaper. *Lloyd's* employed agents in ports around the world to gather information on international shipping activity to send back to London. The primary consumers of this newspaper were insurance agents, merchants, and family members of ship crews. The reporting in *Lloyd's List* is organized by port, based on the distance to London spiraling outwards. Under each port, ships are listed individually with their name, their captain's name, type of ship, whether they arrived to the port or sailed from it, the destination of their movements, and the date of the event. Coastal (i.e. domestic) trade was omitted from the records for non-British

ports. *Lloyd's* also usually listed the date the intelligence was sent, as there was often a lag between then and when it would have been received for publication.

Processing the scans of the original prints required a labor-intensive combination of OCR (Optical Character Recognition), python word processing, and manual data entry. Almost 420,000 unique shipping events were processed. *Lloyd's List* is very geographically precise, so ports located within 10 kilometers of each other are aggregated into one port unit. An example is that Cape of Good Hope is distinguished from Cape of Good Hope Point, which are in the same bay. Ports that were aggregated into the same geographic unit are matched to the same city for banking services.

Country-level panel of trade

The country-level panel of bilateral trade includes over 68,000 observations for 130 countries from 1850-1914. The sources are Pascali (2017), Dedinger and Girard (2017), Fouquin and Hugot (2016), and Mitchener and Weidenmier (2008), along with the *Statistical Tables* published by the United Kingdom and United States. Measures of bilateral resistance between countries, such as common language, land border, and common colonial background were taken from Fouquin and Hugot (2016). I recalculate geodesic distance based on the center of the standardized pre-WWI country borders. Measures of GDP and population from Fouquin and Hugot (2016) were also recalculated to reflect those borders.

Industry composition of exports

I collected the composition of exports by country pre-crisis from the *Statistical Tables relating to Foreign Countries* and *Statistical Tables relating to the Colonial and Other Possessions of the United Kingdom* published in 1866. Values of exports by types of goods were converted from various currencies into nominal pounds sterling as necessary. The types of goods were standardized according to Standard International Trade Classification (SITC) codes version 4. Appendix figure B2 lists the value of exports by SITC category.

City-level panel of banks

I gathered the names and city-level locations of all banks operating around the world from 1850-1913 using the annual editions of the *Banking Almanac*. The data from 1861-1867 are annual; for the rest of the period I digitized almanacs at 5-year intervals. These records make it possible to observe the operations of non-British banks throughout the entire period. Nationalities are not given in the original source, so I assign bank nationalities based on the locations of their headquarter offices (when known), the source of their capital (usually given in their individual histories), and their names and areas of operation. This dataset contains

over 55,000 unique bank-location observations.

Conflicts

I use Sarkees and Wayman (2010) from the Correlates of War project for data on inter-state, intra-state, and extra-state conflicts from 1850–2014 to document conflicts within the exporter-country and between country-pairs. For inter-state wars, I standardize country borders to coincide with pre-WWI borders, the same way as in the panel of trade data. Wars that occurred within one country's borders (for instance, the Second Italian War of Independence in which regions of Italy fought each other) are included as a conflict for the exporting country, but is not included in the dyadic war variable because the outcomes do not include own-country trade. Intra-state conflicts are recorded as a war within the state where it is occurring (for instance the United States for the US Civil War). Extra-state conflicts are recorded as a war for the official state and are not included in the dyadic calculations of conflict.

In the pre-period balance checks in Table 3, I include all conflicts that occurred or were ongoing in 1865 and 1866. There are 11 countries involved in inter-state conflicts, 3 in intra-state conflicts, and 2 in extra-state conflicts. These include the Paraguayan War (Paraguay, Argentina, Brazil, Uruguay), Austro-Prussian War (Austria-Hungary, Germany), Chincha Islands War (Spain, Peru, Chile), Second French intervention in Mexico (France, Mexico), Third Italian War of Independence (Italy, Austria-Hungary), Taiping Rebellion (China), Cretan Revolt (Ottoman Empire), United States Civil War (USA), Polish Rebellion in Siberia (Russia), Bhutan War (United Kingdom).

Monetary standard

I gathered the data on the monetary standard of each country in 1866 using published monetary histories or the wikipedia article for each country's historical currency. In cases, like in the British West Indies, when the official currency (pegged to the pound in gold) circulated alongside unofficial currencies (like the Spanish pieces of eight in silver), I categorized the country as being "bimetallic." The results are not sensitive to being categorized by the official currency (gold in this case).