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

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Abstract

I study the most severe banking crisis in British history (1866) to provide causal evidence that financial sector shocks can have long-lasting impact on the patterns of international trade. Banks' headquarter failures in London led to subsidiary closures in cities and countries around the world. Using archival loan records, I estimate that port cities with 10pp exposure to failed banks had 5.6 percent less exports shipping the following year. In the long-run, more exposed countries exported significantly less to their trade partners for four decades. Exporters with more exports competition and those with little access to alternative forms of credit experienced more persistent effects. Overall, more exposed countries had 1.6 percent lower annual total export growth from 1866–1914.

JEL classification: F14, G01, G21, N20.

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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 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 firm-level 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 arises 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 from London. 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 & Gurney. Its announcement of bankruptcy led to panic and severe bank runs on all London banks. Crucially, Overend & Gurney was not itself involved in trade finance or trade-related activities. However, 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 British banks that failed and were therefore differentially exposed to the crisis in London.

[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.

Several features of the historical setting make it well-suited for identifying the causal 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' similarities in funding and management structure also makes it likely that they affected exports through the same channels across locations. Third, outside of Britain, there was no post-crisis government or policy intervention in the macroeconomy, so the estimated effects are not conditional on the degree of the 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). Together, these features allow me to empirically isolate the effect of bank failures from other determinants of local economic development and to examine the process of recovery over many decades.

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 records from archival records comprising the universe of pre-crisis British bank lending relationships 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

[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 today. 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 different 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.

the daily *Lloyd's List* newspaper.[6] Third, I build a panel of exporting and financing activity at the country- and city-levels, 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 locations (cities and countries) with no exposure to British banks in 1866. I measure a location's exposure to bank failures as the fraction of its credit pre-crisis that came from the banks operating in that location that failed. This measure follows a Bartik/shift-share structure of exposure to bank-health shocks used in Greenstone, Mas and Nguyen (2014), Chodorow-Reich (2014), and Amiti and Weinstein (2018), among others, at the firm-level.[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 both its exports to decline and the banks operating there to fail. First, I show that bank failures are uncorrelated with observable characteristics of the banks themselves, which helps to address the key endogeneity concern that riskier banks sorted to locations that would have experienced exports declines anyways. Consistent with the environment of limited knowledge during the 1866 panic, worse banks (proxied by observable pre-crisis balance sheet characteristics) did not experience more severe runs and were not more likely to fail. Second, and more importantly, I verify that bank failures are mostly uncorrelated with observable characteristics of subsidiary locations, for example of their value of exports, specialization in particular commodities, or military conflicts. The lack of location-level correlations with bank failures helps to address the endogeneity concern that these characteristics were the proximate cause of both bank failures and exports declines. Finally, I control for potentially confounding observable factors and include a number of robustness checks to provide additional evidence for 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

[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.

[7]Several contributions to this literature also estimate the within-firm effects using connections to multiple borrowers (Amiti and Weinstein, 2018). However, the within-firm variation is only useful when outcomes are also at the bank-firm level (see Khwaja and Mian (2008)). In my analogous exercise using location-level effects, exports are not observed at the bank-location level.

[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.

long-run effects: if exporting activity primarily depended on short-term financing, recovery should follow. However, if the temporary financing shock severely disadvantaged exporters 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 immediate contractions on 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 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 both qualitatively more extreme than declines in bank health and is less prone to measurement error. In addition, I find extensive margin losses in the number of exports destinations 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. 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 in the aggregate and in terms of market share 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 15.6 percent increase in a country's distance to its trade partners. These initial differences

[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.

lead to a 1.6 percent difference in the average annual growth rate of exports from 1866 to 1914.[10]

In order to estimate the long-run market share effects, 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 amounts imported by a given country in a given year from exporters exposed to varying degrees of bank failure, controlling for bilateral measures of geographical and institutional distance.[11] 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 exports market share until 1900. I also show that the patterns of persistence and recovery are unlikely to be due to 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 persistent losses that I document are consistent with a framework of sunk costs of establishing relationships combined with 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 communication was slow and costly, and the vast majority of trade was in raw commodity goods. In such a setting, a sharp increase in prices (in this case due to the shock to financing costs) makes it profitable for buyers to establish new relationships. Having paid the sunk costs, they do not switch back, even after the financial shock subsides.

[10]Note that the partial equilibrium framework I have adopted can only estimate counterfactual declines in global trade volumes assuming that there is no across-country exports substitution. However, I provide evidence of high exports substitutability, leading to a shift in the *patterns* of global trade if not the global levels.

[11]The importer-year fixed effects control for all country-level shocks experienced by the importer, such as aggregate demand or income shocks.

Next, without ruling out the possibility of concomitant factors, I explore two predictions from this framework as the 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-run, 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-run global consequences from disruptions to the dominant financial market, and it is related to a number of literatures. 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 conditions in the dominant financial market affect real activity globally.

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). While the Global Financial Crisis has also shown that crises originating in the core are not just of historical interest, comparable data on the bank linkages in 2008 are not available, and it would only be possible to observe effects for one decade.

Finally, this paper's focus on exports speaks to the growing 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.[12] In contrast, 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 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 the firm 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

[12] 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.

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.[13] 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 in countries around the world through subsidiary offices, which allowed them to build long-term relationships and 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 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.[14] Discounts most resemble 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.[15]

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.[16] 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

[13] Antràs and Foley (2015) presents a symmetric case where the contractual friction could bind for either the importer or exporter. Empirically, they study a modern US-based exporter whose partners varied in their contractual quality. However, in the historical context, the financing friction did not bind for importers because lending to finance purchases was not the norm.

[14] The term "Discount Window" comes from the transaction of "discounting" bills of exchange that took place there.

[15] See Appendix E.1 for a diagram documenting the full life cycle of a bill of exchange.

[16] 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).

banks had to the Bank of England and the London money market 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).[17] Third, the safe and liquid features of their bills meant that banks could remit them back to their London headquarters which then resold them on the London money market.[18]

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 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.[19] To my knowledge, this paper is the first to study the international implications of the 1866 London banking crisis.

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.[20] 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 &

[17] 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."

[18] 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).

[19] 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, and Kisling (2017) documents that German banks began entering this market in the later part of the 19th century to compete with British dominance.

[20] 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).

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 earlier generations of partners such that by the mid-19th century, it was called the "Corner House" in London. 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).

However, 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.[21] *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:

> 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 immediate 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.[22] During the week, all London banks suffered runs, and ultimately 22 institutions were forced to close or suspend operations. See Appendix E for the full institutional details.

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

[21] After its failure, the shareholders sued the directors in criminal court for concealment in the prospectus. Appendix E.2 gives the full text of the original prospectus and more details from one of the court cases.

[22] Appendix Figure E21 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.

relationship between bank credit and economic outcomes by relating the log of exports EX_{lt} at location l in time t to the log of the amount of bank credit:

$$\ln(EX_{lt}) = \alpha + \gamma \ln(\text{Credit}_{lt}) + \Gamma' X_{lt} + \varepsilon_{lt} \tag{1}$$

Identifying γ from Equation 1 is challenging for two reasons. First, direct measures of bank credit are of an equilibrium outcome that conflate supply and demand for credit, so places that demand less bank credit are also likely to have less trade. Equation 1 will therefore not satisfy the orthogonality conditions that $\text{E}[\text{Credit}_{lt}\varepsilon_{lt}] = 0$ because ε_{lt} includes the unobserved local economic conditions that are positively correlated with bank credit, which biases γ 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 by using the multinational structure of British banking where subsidiary operations depended directly on their headquarter's health. Banks whose headquarters in London failed generates plausibly exogenous variation for their subsidiary cities' and countries' exposure to bank failures.

2.1 Measuring the shock to bank credit

In the rest of this section I describe how I measure location-level exposure to bank failures and discuss the evidence for the identifying framework. 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 location-level total can be rewritten as the sum of the shares of each bank in a location (city or country) 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 $z_{lb,pre}$ on each bank. I use the shock of bank failure in 1866, which is captured by the binary variable $\mathbb{I}(\text{Failure}_b)$ and takes the value of 1 if the bank failed and 0 otherwise. Each location's exposure to bank failure Fail_l is the average of failure rates across its banks, weighted by the pre-crisis importance of each bank to a location:

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

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

$$\Delta \ln(\text{Credit}_{lt}) = \alpha_1 + \beta_1 \text{Fail}_l + \Gamma_1' X_{lt} + \nu_{lt} \tag{4}$$

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) and Chodorow-Reich (2014). 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 A1.[23] 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 exports instead:

$$\Delta \ln(EX_{lt}) = \alpha_2 + \beta_2 \text{Fail}_{lt} + \Gamma_2' X_{lt} + \epsilon_{lt} \tag{5}$$

The reduced form coefficient β_2 in Equation 5 is straightforward to interpret as the semi-elasticity of the response of trade activity to bank failures in location l.[24]

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 an immediate correlation between the non-British bank response and British bank failures, it is unlikely that the measurement error in the endogenous variable drives the results. Appendix C provides the derivation.

[23] Of the 95 joint-stock banks with balance sheet data, only 31 are disaggregated enough to show the total lending in the form of trade credit annually. The pseudo-first stage is calculated using this subset of banks. Table A2 shows that this subsample of banks is representative of the complete sample of all banks on all other observable dimensions.

[24] Note that 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. Given these banks' role as providers of trade credit, I focus on the credit channel, but any form of banking activity that matters for exporters would also be affected by the bank failures.

2.2 Validity of reduced form estimation

The reduced form relationship in Equation 5 will causally identify the 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 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).[25] The identifying assumption is that banks did not sort to locations such that 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 if banks that failed had chosen 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 indicators of a boom and bust cycle are observable, it is possible to test for systematic sorting and to include them as controls in the reduced form estimation.

In the following subsections, I first show that bank failure rates themselves were not correlated with observable characteristics of bank activity gleaned from balance sheets nor with geographic concentration. Randomness in bank failures is sufficient to meet the requirements for identification, but I do not rely solely on it. Next, I test the identifying assumption directly and show that bank failure rates were also mostly not correlated with observable characteristics of the locations in which they were operating. 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. Using the Oster (2019) bounds, I argue that it is unlikely that there were correlations in unobserved characteristics that would affect the results.

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 them.

[25] In Goldsmith-Pinkham, Sorkin and Swift (2018), identification can come from exogeneity in the shares $z_{lb,pre}$ without using information from the shocks. This condition would be satisfied if banks chose their locations randomly. However, it is likely that certain banks specialized in certain areas or commodities, and therefore those assumptions are less suitable for this context.

The balance sheet characteristics of the banks that failed are proxies for bank health and risk-taking, and those of the banks that failed are not statistically or economically different from those of the banks that did not fail (Panel A). Banks had on average £1.48 million equity capital, of which almost half was already paid by investors, and their reserve funds, deposit liabilities, 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. Age would be a potential confounder if older banks operated in locations that were less likely to experience declines in exports. 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.

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.[26] 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 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

The identification is threatened if the London headquarter failures were caused by characteristics or events in the banks' subsidiary locations (to the extent that those characteristics could affect exports). Systematic correlations between location-level characteristics and a location's exposure to bank failures points to this possibility. 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 shocks to the cotton industry could simultaneously be causing both the bank failures and exports outcomes.

I follow Borusyak, Hull and Jaravel (2018) and test the exogeneity of bank-level failure rates to location-level characteristics by calculating each bank's exposure to those characteristics and correlating 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 performs the standard

[26] In Table A3, I calculate each bank's geographic exposure as the share of its total size. All measures are balanced there as well.

error correction that Adão, Kolesár and Morales (2018) show would be necessary for the location-level test in a Bartik setting.[27]

I examine the observable pre-crisis location-level characteristics at both the port-level and the country-level, since those are the two units of observation in the analysis. At the port-level, the observable characteristics include the volume of exports (proxied by the number of ships from the *Lloyd's List*), the importance of the United Kingdom as a destination, the geodesic distance to London, the latitude, the number of destinations, the availability of non-British banks, and whether the port is a capital city.[28] At the country-level, observable characteristics include the total value of exports, the value of exports by industry, the share of commodities in the composition of exports, the monetary system, and whether the country was engaged in conflict. These characteristics help to capture heterogeneity in size and trade patterns. 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 on bank failure rates:[29]

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

Table 2 reports the results and shows that there is balance on almost all characteristics.[30] While most observable characteristics are uncorrelated with failure rates, it is still possible that other unobservable characteristics are correlated. In the main empirical analysis, I rely on the Oster (2019) bounds to argue that the degree of unobserved heterogeneity would have to be unreasonably large to explain the main results.

In terms of port-level characteristics, Panel A shows that two factors are unbalanced: banks operating in ports with a higher fraction of exports going to the UK were more likely to fail, and those operating in ports that were also the capital cities within countries were

[27] Adão, Kolesár and Morales (2018) show that when the source of identification from a Bartik 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.

[28] Results are similar using sailing distance (without access to the Suez Canal) instead of geodesic distance to London. Figure B1 plots the relationship between the two types of distances.

[29] 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).

[30] 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.

less likely to fail. These characteristics are included as controls in the baseline specifications to residualize any direct effect that they have on exports.

Table 2 Panel B shows that banks that failed did not systematically operate in countries with lower exports values or a heavier reliance on commodities. There is also no correlation between exposure to different currency standards (gold, silver, or bimetallic) and bank failures. This balance helps to address the concern that exchange rate movements are the proximate cause for the observed relationship. Panel B also checks for balance in exposure to conflicts with interstate conflicts separated from all other types (intrastate and extrastate), and finds balance there too.

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 while exports from those places fell for the same reasons, leading to a spurious correlation between bank failures and declines in exports. Table 2 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, with the exception of sugar. 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 full 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. I discuss the basis for this assumption in more detail in Appendix E.3.2.

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.[31] 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 or any other period despite their role in global financial markets.[32] The modern analog to these data for US banks is also unavailable, so these uniquely capture the lending relationships of the dominant financial market during one of the major eras of globalization in world history.

Figure 2a maps the geographic distribution of exposure to bank failures, Fail_l at the city level. The size of the points measures the pre-crisis amount of British lending in the city, and the color the bank failure share. This map shows within and across-country variation in failure rates. Figure B3 plots the distribution of exposure across ports and countries.

[31] For the entries from 1866, I only include bills that originated before the crisis.

[32] 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. Reber (1979) also discusses the general lack of records that survive from the international subsidiaries of British banks. 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.

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. 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.[33] Figure 2b maps the distribution of pre-crisis exporting activity for the ports using the log number of ships. 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 B4.

3.3 Long-run outcomes

For the long-run outcomes, I measure exports and access to bank-intermediated finance from 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 the smallest landmass unit that is consistently reported over all the years.[34]

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 Almanac* when available and other primary sources. Table 3 reports the descriptive statistics for ports and countries in 1865. The average port saw 128 ships leaving in the pre-crisis period and had 7 pp exposure to failed banks. The average country exported £12.5 million and was exposed to 11 pp bank failures.

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 identify the effects using within-country variation from port-level shipping activity before turning to across-country variation with country-level shipping activity and values of exports.

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

[34] These units most closely resemble pre-WWI borders.

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.[35] 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.[36] 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.

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 3a plots the binscatter and linear fit within-country at the port-level, and Figure 3b shows a similarly negative relationship across countries. There is a large amount of treatment heterogeneity in both. I formally estimate the effect of bank failure exposure on exports in a difference-in-difference regression with continuous treatment intensity:

$$\ln(S_{pot}) = \beta \text{Fail}_{po} \times \text{Post}_t + \Gamma' X_{po} \times \text{Post}_t + \alpha_p + \gamma_{ot} + \varepsilon_{pot} \tag{7}$$

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.

β 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. For example, changes due to the overall level of interest rates following the crisis would be absorbed this way. X_{po} are pre-crisis port characteristics that can be included as additional controls. Port fixed effects α_p absorb all time-invariant port-specific differences in levels

[35] 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.

[36] 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 for the baseline specification estimated using different distance cutoffs.

of shipping, including differences correlated with their exposure to bank failures. Origin-country-period fixed effects γ_{ot} flexibly control for all observed and unobserved characteristics at the country-level that affected 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 β is identified off within origin-country variation in exposure to bank failures.[37] 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 country of origin to allow for heteroskedasticity and within-country spatial correlations.[38]

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, within the same country. The distribution of treatment is well-represented across the entire range of exposure (Figure B3a).

First, I present the baseline results without controls, and then I address the identification concern that other shocks correlated with bank failures occurred simultaneously by controlling for all observable location-level characteristics that were 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. Third, I verify the estimated effects using a different dataset of the annual values of exports.

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, indicates 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.

These magnitudes are larger than those estimated by Amiti and Weinstein (2011)

[37] 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.

[38] Clustering at the country-level is reasonable because exporting activity is likely to be more correlated within countries than 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.

and Paravisini et al. (2014), which estimate the effect of bank-level shocks on Japanese and Peruvian firms, respectively.[39] There are two likely reasons for the difference: first, complete bank failure is a qualitatively more extreme outcome than declines in bank health; second, financing frictions in the 19th century are most likely larger than in the modern-day because information frictions were much higher.

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 2 and deal with any confounding effect they may have in driving the results. They include 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.[40]

The coefficients in Table 4 columns 3-6 after including these controls remain stable and statistically significant. Column 6 reports the coefficients after including all controls. Implementing the recommended bounds in Oster (2019) shows that selection on location-level unobservable characteristics is minimal. These bounds are calculated using changes in the magnitude of the coefficient and the R^2 after controlling for observable characteristics. β^* is the inferred true coefficient if the unobserved bias is as large as the observed bias, and δ is the inferred bias that could induce the estimated β to be zero. I report these as β^* and δ in the last two rows. These calculations show that β^* is almost identical to the estimated β, and that the degree of unobservables bias would have to be at least 31 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. First, I separately calculate the number of ships departing from ports with the UK as the destination and the number of ships going anywhere but the UK. Table 5 columns 3 and 4 show that shipping to non-UK destinations also significantly decreased, which is less likely to be due to a direct demand effect coming

[39] 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.

[40] 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. All country-level differences in Table 2 are absorbed by the country fixed effects.

from the crisis in the UK. Second, 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 γ_{dt}. γ_{dt} will accommodate all aggregate demand shocks that might be confounding the effects, including those from the United Kingdom. In this specification, β is estimated off the variation across ports shipping to the same destination-country.[41] As before, I limit the sample to origin-destination pairs that ship in both periods to isolate the intensive margin effect. Table 5 column 5 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 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 could bias the difference-in-difference estimates.[42] 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*.[43] 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 for the "Post" period and report the estimates in Table A5.

[41] Destinations that only ship from single ports within origin countries are effectively dropped from the estimations. These singleton observations account for 5 of the 2,532 observations.

[42] However, note that there is no significant correlation between a bank's failure rate and the distance of its operations from London so this bias is unlikely to be large.

[43] Juhász and Steinwender (2017) use lags in the *Lloyd's List* reports to measure communication times to London before and after the global telegraph network was established.

4.1.4 Intensive margin effects: values of exports

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 *Lloyd's List* shipping data by using the annual country-level bilateral values of trade dataset to estimate the effects of the bank failures over calendar years.

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

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

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. β_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.[44] X_{ot} includes pre-crisis country characteristics that are interacted with a post-crisis dummy. Destination-country year fixed effects γ_{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.[45] I omit the covariate for the first year at $t = 1866$ in the estimation and normalize it to zero. Standard errors are clustered at the unit of treatment, the exporter country, following Abadie et al. (2017).[46]

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.[47] I control for the distance between

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

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

[46] 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 A6.

[47] 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.

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.

Table 6 presents the results for the coefficient on Fail_o estimated annually. The coefficient β_{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, β_{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 than unexposed countries to a given destination in the year after the crisis. This coefficient is larger than the baseline from Table 4, which suggests that ships were 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.[48]

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 (Helpman, Melitz and Rubinstein, 2008).

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 larger at the country-level. These results provide suggestive evidence that there were negative spillovers

[48] While it is possible to use the *Lloyd's List* data to assess the long-term effects within country, the scale of data digitization required is beyond the scope of this paper.

from highly exposed ports to the rest of the country rather than redistribution.[49]

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

$$\Pr(\text{E}_{po}) = \alpha + \beta \text{Fail}_{po} + \gamma_o + \Gamma' X_{po} + \varepsilon_{po} \tag{9}$$

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 new ports were entries and 36 were exits, which implies a high degree of turnover in this window.[50] 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 not significant for Exit. A port exposed to the average level of bank failures was 2.4 percent less likely to begin exporting at all.[51]

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 establish a new line of credit and ship from a neighboring port? I first estimate the relationship between country-level exposure and shipping, and then I directly estimate the degree of substitution between ports.

To estimate the country-level effects, I aggregate shipping activity across ports within a country and apply the country-level analogue of Equation 7.[52] 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. γ_o controls for time-invariant country-level characteristics. β is identified off across-country variation in the exposure to bank failures, so it is not possible to control for origin-country time trends. However, I do control for pre-crisis country-level

[49] 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.

[50] Ports likely remained active in domestic, coastal trade. However, the *Lloyd's List* did not track nor report on these types of ship movements.

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

[52] $\ln(S_{ot}) = \beta \left(\text{Fail}_o \times \text{Post}_t\right) + \gamma_o + \Gamma' X_{ot} + \varepsilon_{ot}$

characteristics that are correlated with the degree of bank failure. Table 8 (column 2) presents the country-level results with the full set of controls.[53] This coefficient of -0.595 is almost identical to the port-level coefficient (Table 4 column 6) of -0.558. The similarities in these magnitudes suggest that within-country substitution of exporting across ports was low: contractions in one port were not compensated in another port, likely due to the difficulty of establishing new credit relationships.

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, 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.[54] I include this measure as an additional control to Equation 7:

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

ψ 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. $\psi > 0$ 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 effectively divert their activity to another port. $\psi > 0$ would suggest that this channel of within-country substitution could reduce the country-level losses. In Table 8 (column 6), I report a non-significant coefficient of -0.266. This estimate rules out within-country substitution, and it provides suggestive evidence that city-level shocks may have had negative spillovers to the rest of the country.

5 Long-run 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 on the total values of exports and then on bilateral trade relationships. Second, I explore two channels for the persistent effects.

[53] Table A7 reports robustness to controlling for all the observable country-level characteristics from Table 2, including the ones that are systematically correlated with bank failure.

[54] This measure is calculated by removing each city's contribution from the country-level exposure measure.

5.1 Baseline results across countries

5.1.1 Total exports

First, I show the patterns of country-level divergence in total exports in the raw data. In Figure 4a, 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 for each group are indexed to 1 in 1866. The blue line shows the total value of world exports. The overall pattern is of tremendous growth: total global trade increased five-fold over this period. Before 1866, exports were expanding at the same rate between the two groups of 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.[55] The extensive margin effects in the previous section support these patterns: the group of more exposed countries do not lose markets, but their exports stagnate while the less exposed countries have the opportunity to expand during this explosive period in world trade. For both groups, the positive time trend dominates.[56] Figure 4b 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 from 1850–1865, the average annual growth rates are 11.6 percent for both the less exposed (solid line) and more exposed groups (dashed line).[57] In 1867 the less exposed group (solid line) grew 14 percent while the more exposed group (dashed line) grew 9 percent, and in 1868 the growth rates were 22 and 10 percent respectively. The cumulative difference in the annual growth rates between the two groups after the first two years is 17.2 percent. This initial difference in export growth rates is the main driver of the average annual difference in growth rates of 1.6 percent per year between groups from 1867–1914.[58]

I benchmark these findings against estimates of the elasticity of trade with respect to geographic distance for scale. Using my dataset, I estimate a trade elasticity of -1.1 to

[55]The country-level divergence shown here is consistent with the short-term result of little within-country reallocation of exporting activity.

[56]The port-level results in the previous section also document a strong positive time-trend in the "Post" time period of 12 percent exports growth in the post-crisis year. In these data of the values of exports, aggregate exports grew 11 percent from 1866–1867.

[57]In the immediate pre-crisis period from 1860–1865, the average annual growth rates were 6.7 and 6.5 percent, respectively, and the p-value for the difference in means is 0.97.

[58]The average annual growth rates from 1867–1913 are 4.5 and 2.9 percent for the less exposed and more exposed groups of countries, respectively. This is calculated using the 1913 values of exports, which were 8.11 and 3.86 times the values in 1866 for the two groups, respectively.

geodesic distance.[59] 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 15.6 percent after the first two years.

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

In my preferred specification, 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 β_t to vary annually and at five-year intervals ($[1850, 1855], ...,$ $[1911, 1914]$). β_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 5a and 5b plot the estimated β_t coefficients annually and at five-year intervals, where β_{1866} and β_{1861-5} are the omitted years in each specification, respectively. β_t reflects the relative exports in the cross-section with a continuous measure of exposure and is a partial equilibrium estimate that 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 A9 (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. $\beta_{1901-05}$ 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,

[59] 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 A8 reports the estimates and robustness to controlling for gravity measurements of bilateral resistance.

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 A10 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, $\beta_{2011-14}$ is -0.81, which is 53 percent of the estimated effect from 1867–1914.[60]

The burden of the losses falls on new trade relationships that had not existed before 1866. In Figure B11, 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 and with the extensive margin effects in the previous section. 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 first by controlling for observable characteristics that act as confounding factors, and second by implementing the Fisher exact test.

In Table A9 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 A11 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 A12); exchange rate regimes pre-crisis (Table A12); industry composition of exports pre-crisis (Table A13); excluding the cotton-exporting countries (Table A14); financial crises like sovereign debt, domestic debt, stock market crashes both contemporaneous and in 1865 (Table A15 and A16); and ability to issue long-term debt or equity in London (Table A17).[61] The static and the time-varying versions of all of these controls do not affect the statistical significance

[60] Table A10 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.

[61] 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.

or the qualitative patterns of the results. These controls rule out the possibility that these other events, like military conflicts or sovereign debt crises, were the actual drivers of the persistent collapse in exports market share.

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 and without replacement to countries to compare the estimated treatment effect against hundreds or thousands of placebos. At longer time horizons, countries' exports could be affected by a number of reasons, and 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 with each subsequent group of years.

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 B12. 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 B13 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 B14. Figure B14a 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.[62]

While there is no difference in the total number of banks, there is a change in the composition of nationalities among banks. Figure B14b 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 investment opportunities left by British banks (Figures B14c and B14d). These patterns are consistent with the

[62] A full time-series for the balance-sheet characteristics of all the banks is not available.

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). Controlling for the number of banks of different nationalities does not alter the persistent effects in the baseline results (Table A18).

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 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 that had more than one banking relationship would have been more likely to be able to source some credit from these other relationships. The presence of non-British banks as an alternative source of financing may therefore mitigate the main effects of bank failures.

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:

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

ϕ is the main coefficient of interest: $\phi > 0$ means that conditional on exposure to bank failures, exports were higher in ports that had access to non-British banks. Table 8 (columns 5 & 6) 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 pre-crisis number of non-British banks and bank failure, so this result is not driven by any trends correlated to non-British banks. The magnitude of ϕ (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. The average port had access to 0.6 non-British banks, so assuming the same size and effectiveness, 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.

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:

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

λ_t absorbs the time-varying effect of access to common banks across all countries. X_{od} are standard gravity variables of bilateral resistance.[63] Figure 6 plots β_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 $\theta_t + \beta_t$, 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 5.[64]

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. A large shock to the cost of exporting from one country can give competing exporters a competitive edge to enter into that country's markets and capture market share. With fixed and sunk costs of establishing relationships, once importers switch to buying from another source, they will not switch bank even after the trade cost shock recedes (Baldwin, 1988).[65]

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

[64] In Appendix D, I present additional evidence that exports were less affected in trade relationships that had lower reliance on British financing.

[65] Baldwin (1988) models how temporary real exchange rate shocks can have lasting real effects and provides suggestive empirical evidence from the 1980s US dollar overvaluation. The key assumptions in the model are homogeneous goods and fixed and sunk costs of market entry.

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 for each country and include these as time-varying controls in the baseline specification in Equation 8. The SITC industry controls mean that β_t should be interpreted as the loss of market share into a given destination in a given year by an exporting country *relative* to other countries also focused on the same industry. This estimation is restricted to the 44 countries that reported the composition of their exports in 1865, and they indicate larger losses (coefficients reported in Table A9 column 6 and plotted in Figure B15a).

A drawback to using the SITC industry controls is that it loses 30% of the sample. As an alternative, 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 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.[66] This fraction is equivalent to an exports-weighted average of the cross-country exports concentration within the top three categories. Figure B16 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 β_t is estimated off comparisons of countries in the same geographic area exporting to the same destination in the same year. Figure 7 (Table A9 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 (Table A9 column 7 and plotted in Figure B15b).

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 a given country will benefit its competitors with similar exports. I find evidence of positive spillovers (Figure B17), but the estimates are noisy, most likely because the

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

outcomes measured at total exports rather than industry-specific exports.[67]

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 B18. 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 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 both immediately and in the long-run. 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 in market share 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. These 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

[67] Bilateral industry-level exports is systematically unavailable in the historical trade data.

provides further evidence that international trade is a sector particularly sensitive to the costs of external finance, and 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 shows 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: 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)
Deposits (£m)	2.22	(2.73)	2.29	(2.82)	1.85	(2.37)	0.44	(1.14)
Reserve fund (£m)	0.13	(0.12)	0.13	(0.11)	0.15	(0.16)	-0.02	(0.04)
Total size (£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	0.06	(0.07)	0.06	(0.07)	0.06	(0.06)	0.01	(0.03)
N	95		76		19		95	

Panel B: Other 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. Leverage ratio is defined as capital (paid and reserves) divided by total assets. Reserve ratio is defined as reserve assets divided by deposit liabilities. 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: Correlation between bank failures and pre-crisis location characteristics

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

Panel A: Port characteristics

	Ships	Ships stm	Frac to UK	Dist to London	Latitude	Non-Brit banks	Destinations	Capital city
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
I(Failure)	0.197	0.127	1.032***	-0.161	0.362	-0.433	-0.399	-0.666***
	[0.227]	[0.246]	[0.213]	[0.164]	[0.212]	[0.313]	[0.250]	[0.201]
N	122	122	122	122	122	122	122	122

Panel B: Country characteristics

	Exports values	Frac commodities	Gold	Silver	Bimetallic	Conflict: any	Conflict: interstate
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
I(Failure)	0.239	-0.221	-0.404	-0.00674	0.344	0.208	-0.0530
	[0.130]	[0.261]	[0.216]	[0.192]	[0.215]	[0.178]	[0.201]
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

Notes: Table 2 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. Panels B and C includes country-level characteristics like the monetary standard and presence of conflict in the exporting country in 1865/1866, and the industry composition of exports in 1865. Regressions are weighted by each the average location's exposure to bank b. $^*p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$
As discussed in Borusyak, Hull and Jaravel (2018), another advantage of transforming the balance tests into shock-level (bank-level) regressions is that it makes it clear which shocks (banks) are the most relevant for the results. In Panel A, there are 122 observations instead of the full 128 because 6 banks operated in cities which were not the closest city for any port, so they do not contribute to the port-level exposure measures. These are smaller banks, and excluding them entirely makes no difference for the country-level results either.

Table 3: 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)
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 3 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. Fraction of exports to the UK is similarly calculated using the number of ships and values of exports.

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

$$\ln(S_{pot}) = \beta \text{Fail}_{po} \times \text{Post}_t + \Gamma' X_{po} \times \text{Post}_t + \alpha_p + \gamma_{ot} + \varepsilon_{pot}$$

	(1)	(2)	(3)	(4)	(5)	(6)
Fail_{po} × post	-0.687***	-0.707***	-0.722***	-0.673***	-0.618***	-0.558***
	[0.246]	[0.154]	[0.157]	[0.205]	[0.163]	[0.178]
Capital city × post			Y			Y
Age of banks × post				Y		Y
Fraction to UK × post					Y	Y
$\text{Country}_{\text{o}}$ × post FE		Y	Y	Y	Y	Y
Port_{p} FE	Y	Y	Y	Y	Y	Y
N	578	578	578	578	578	578
Ports	289	289	289	289	289	289
Clusters	54	54	54	54	54	54
β*	-.693	-.714	-.729	-.68	-.557	-.559
δ	60.98	50.67	53.14	35.67	47.64	30.78

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 is the log of the total number of ships departing 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 age of banks, and the fraction of shipping to the UK. The sample is restricted to ports active in both the pre- and post-period. Results from implementing the Oster (2019) test of selection on unobservable characteristics are reported in the last two rows. β* is a bound on $\text{Fail}_{po} \times$ post if selection on unobservable is as large as selection on unobservables ($\delta = 1$). δ 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 destination-specific shipping

$$\ln(S_{podt}) = \beta \text{Fail}_{po} \times \text{Post}_t + \Gamma' X_{po} \times \text{Post}_t + \alpha_p + \gamma_{ot} + \gamma_{dt} + \varepsilon_{pot}$$

	Ships to UK		Ships not to UK		All ships	
	(1)	(2)	(3)	(4)	(5)	(6)
Fail_{po} × post	-0.656*	-0.759**	-0.769***	-0.646**	-0.394***	-0.327**
	[0.352]	[0.378]	[0.237]	[0.255]	[0.131]	[0.133]
$\text{Destination}_{\text{d}}$ × post FE					Y	Y
$\ln(\text{distance}_{\text{od}})$						Y
$\text{Country}_{\text{o}}$ × post FE	Y	Y	Y	Y	Y	Y
Port_{p} FE	Y	Y	Y	Y	Y	Y
Port controls × post		Y		Y		
N	452	452	506	506	2532	2532
Ports	226	226	253	253	262	262
Clusters	53	53	54	54	51	51

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. The dependent variable in columns 1 and 2 is the log number of ships departing for the UK in each period; in columns 3 and 4 it is the log number of ships departing for all destinations except the UK in each period; in columns 5 and 6 it is the log 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, and 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 age of banks, and the fraction of shipping to the UK interacted with the post dummy. The sample is restricted to ports active in both the pre- and post-period. The log distance between origin and destination is calculated using the geodesic distance. 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

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

	(1)	(2)	(3)	(4)	(5)	(6)
β_{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]
β_{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]
β_{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]
β_{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]
β_{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			
$\ln(\text{cotton}_\text{o}) \times$ Post				Y		
$\ln(\text{cotton manu}_\text{o}) \times$ Post					Y	
$\ln(\text{population}_\text{o}) \times$ Post						Y
$\text{I(Brit bank}_\text{ot})$	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)
$\text{Fail}_{po} \times$ post	-0.225**	-0.295***					
	[0.112]	[0.113]					
$\text{Fail}_{o} \times$ 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 log 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 4. Standard errors in brackets are clustered by country of origin. $^{*}p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

Table 8: Testing for within-country substitution and effect of port access to alternative sources of financing

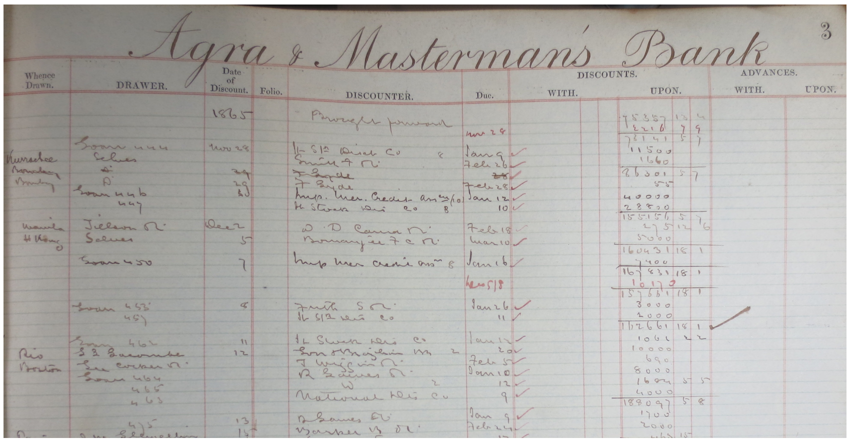
	Country		Port			
	(1)	(2)	(3)	(4)	(5)	(6)
$\text{Fail}_{\text{o}} \times \text{post}$	-0.505**	-0.595**				
	[0.223]	[0.251]				
$\text{Fail}_{\text{po}} \times \text{post}$			-0.722***	-0.566***	-0.936***	-0.805***
			[0.153]	[0.176]	[0.227]	[0.240]
$\text{Fail}_{\text{other, po}} \times \text{post}$			-0.421	-0.266		
			[0.426]	[0.405]		
non-Brit banks $\times \text{Fail}_{\text{po}} \times \text{post}$					0.290***	0.270**
					[0.111]	[0.106]
Country controls $\times$ post		Y				
$\text{Country}_{\text{o}}$ FE	Y	Y				
Port controls $\times$ post				Y		Y
non-Brit banks $\times$ post		Y			Y	Y
Port_{p} FE			Y	Y	Y	Y
$\text{Country}_{\text{o}} \times$ post FE			Y	Y	Y	Y
N	108	108	578	578	578	578
Ports			289	289	289	289
Clusters	54	54	54	54	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. *$p < 0.1$, **$p < 0.05$, ***$p < 0.01$

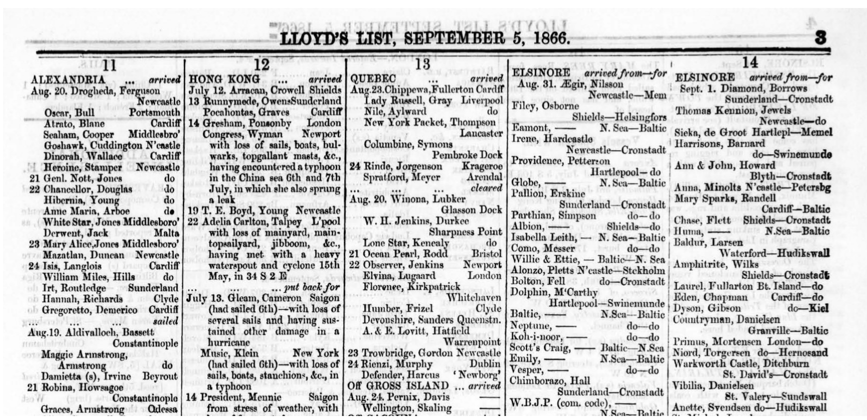
Figures

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
Seaham, 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, Arboe 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 15th 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 Cardff
Lady Russell, Gray Liverpool
Nile, Aylward do
New York Packet, Thompson Lancaster
Columbine, Symons Pembroke Dock
24 Rinde, Jorgenson Krageroe
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, Lugaard 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 ——

ELSINORE *arrived from—for*
Aug. 31. Ægir, Nilsson 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, Pletts N'castle—Stckholm
Bolton, Fell do—Cronstadt
Dolphin, M'Carthy Hartlepool—Swinemunde
Baltic, —— N.Sea—Baltic
Neptune, —— do—do
Koh-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

14

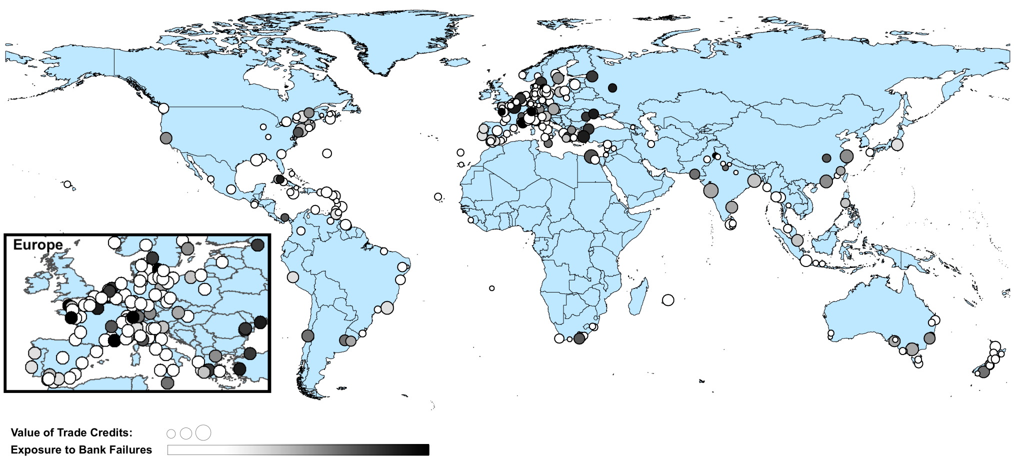
ELSINORE *arrived from—for*
Sept. 1. Diamond, Borrows Sunderland—Cronstadt
Thomas Kennion, Jewels Newcastle—do
Sieka, de Groot Hartlepl—Memel
Harrisons, Barnard do—Swinemunde
Ann & John, Howard Blyth—Cronstadt
Anna, Minolts N'castle—Petersbg
Mary Sparks, Randell Cardiff—Baltic
Chase, Flett Shields—Cronstadt
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.

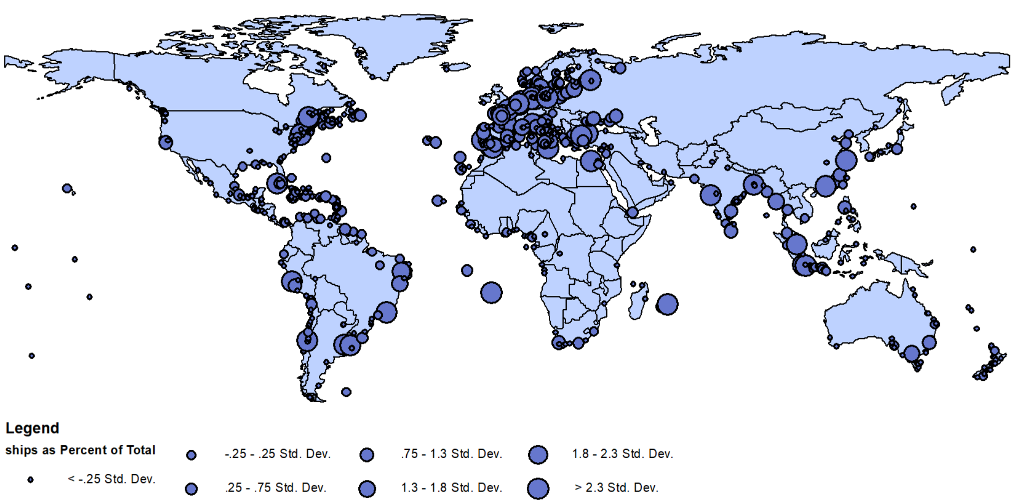
Data for Figure 1b come from the British Library. This excerpt from the *Lloyd's List* of September 5, 1866 show the organization of the records and the typical information available. Under each port, ships are listed individually with their name, their captain's name, type of ship, whether they arrived 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 banking and trade

(a) British multinational bank lending and failures



(b) Port-level trade activity

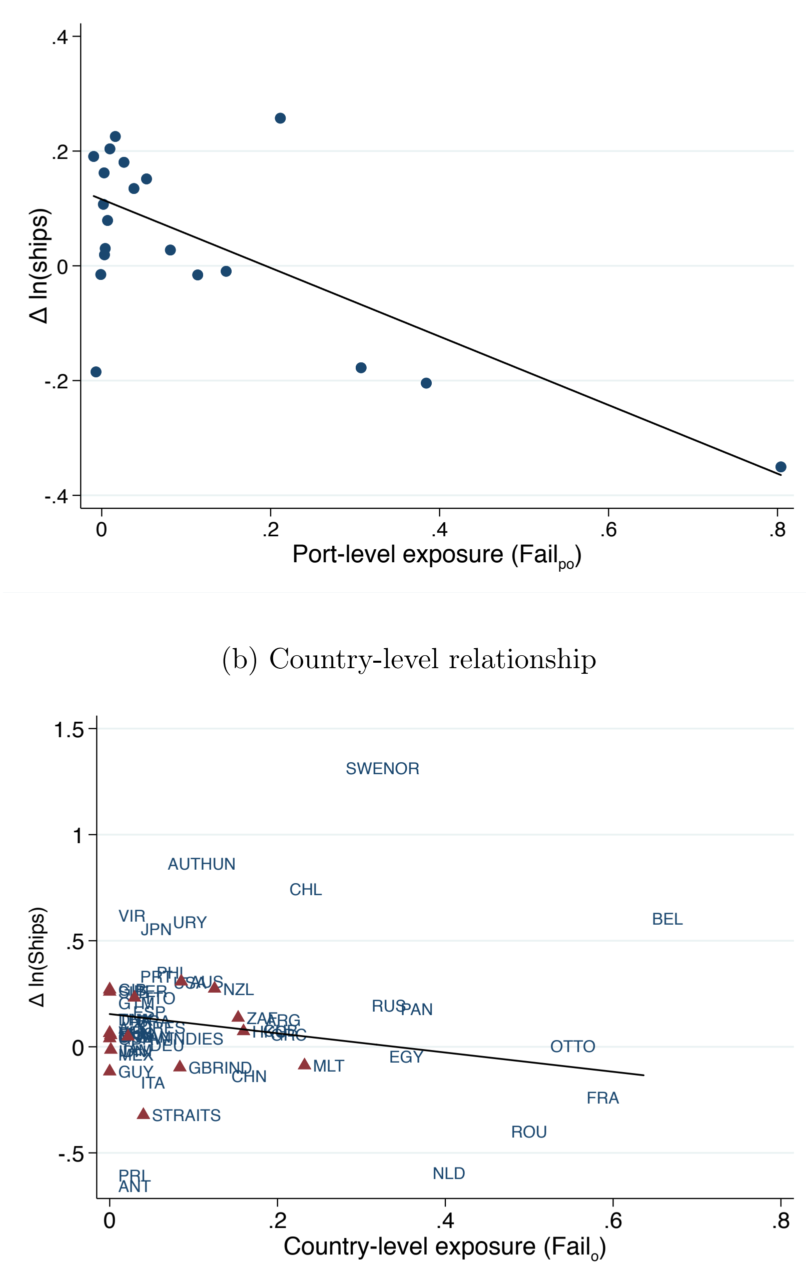


Notes: Figure 2a maps the distribution of the city-level exposure to bank failures Fail_l. The size of the points denote the log value of total credit at each city and the color gradient denotes the exposure to failure, ranging from 0 to 1. Figure 2b maps the distribution of shipping activity at ports in the pre-crisis year. The size of the points denote the log number of ships leaving. Ports in the United Kingdom are not included. Source: *Lloyd's List*.

Figure 3: Correlation between exposure to bank failures and shipping immediately after crisis

(a) Port-level relationship

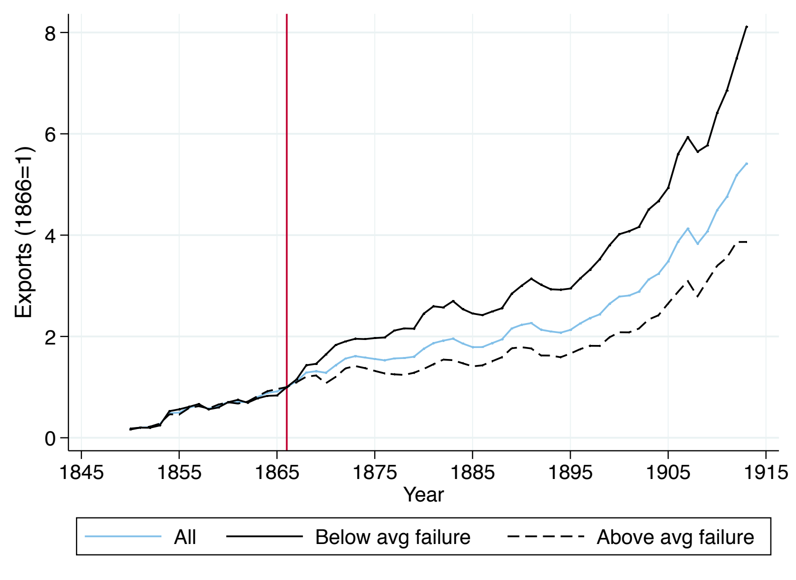
(b) Country-level relationship



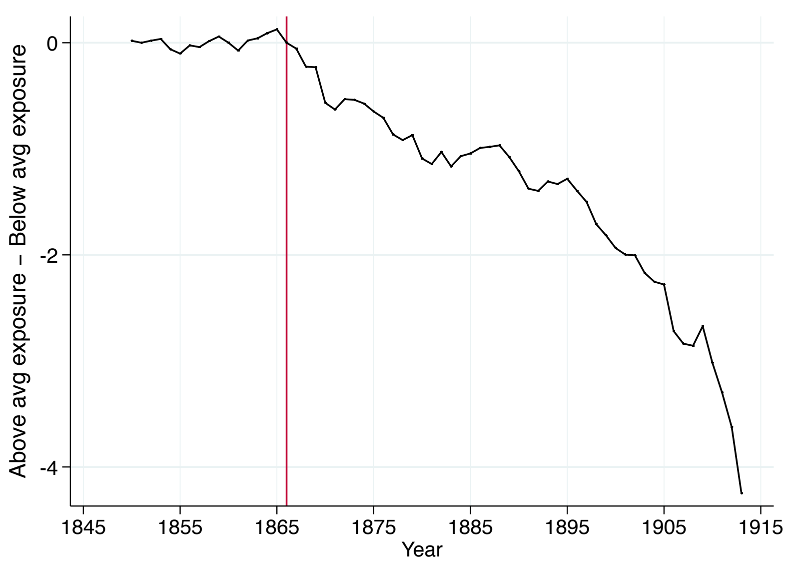
Notes: Figure 3a is a binscatter plot of the correlation between the change in the log number of ships from the post-crisis period to the pre-crisis period (for the crisis occuring on May 11, 1866) and the port-level exposure to bank failures. This plot is residualized on country-level shipping so it plots the within-country relationship. Figure 3b is a scatterplot of the correlation between the change in the log 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 4: Aggregate exports, grouping countries by above and below average exposure to bank failures

(a) Exports by group



(b) Difference between groups

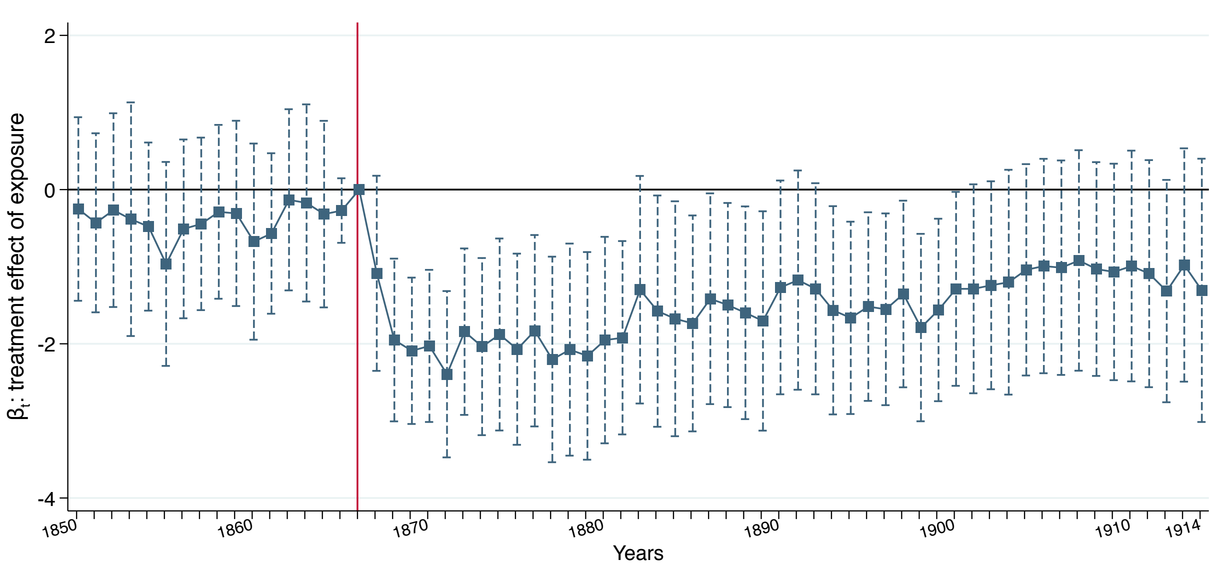


Notes: Figure 4a plots the raw data for the total value of exports by groups of countries from 1850–1914. Countries are binned into two categories: "Below avg failure" refers to countries that experienced below average exposure to bank failures in London, where the average rate was calculated in the 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 4b 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.

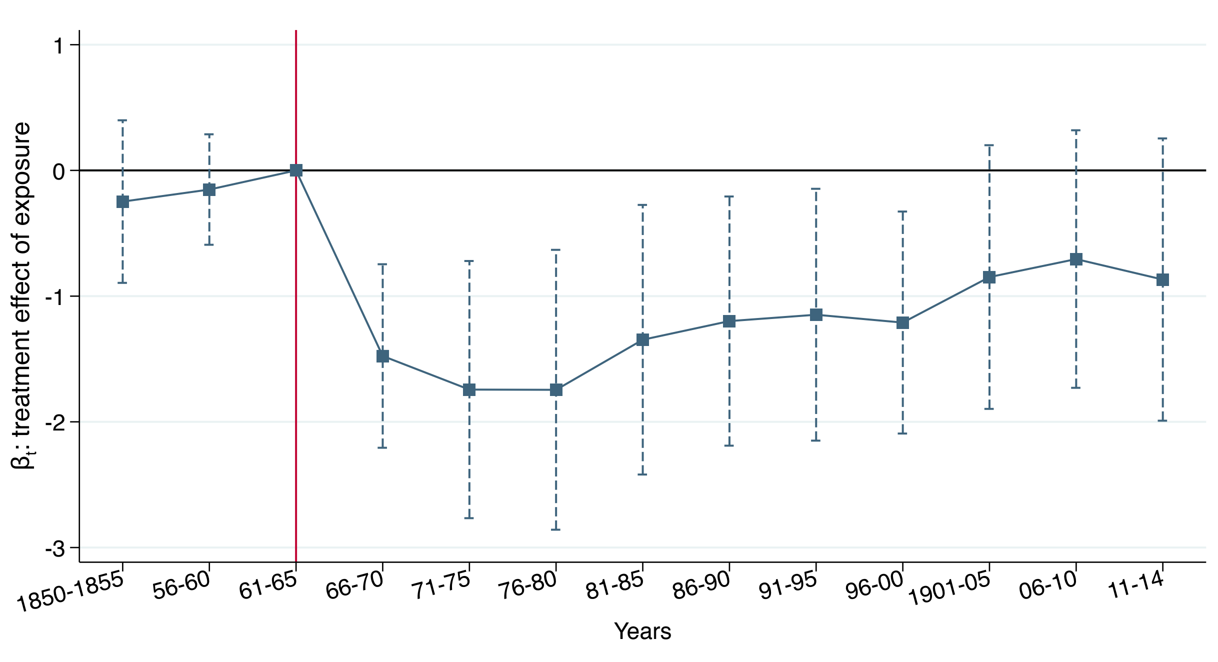
Figure 5: Financing shock has long-term effects on exports

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

(a) β_t estimated annually



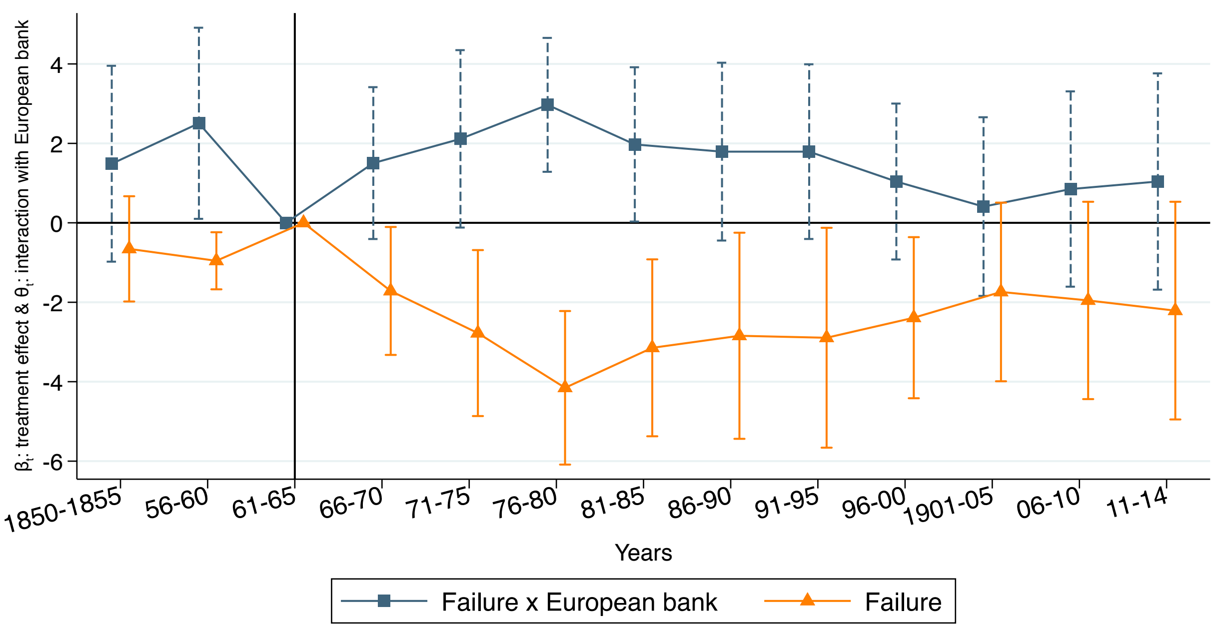
(b) β_t estimated every 5 years



Notes: Figure 5 plots the β_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. β_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 A9 column 1 for the point estimates. N = 67,378.

Figure 6: Recovery is better with access to other banks

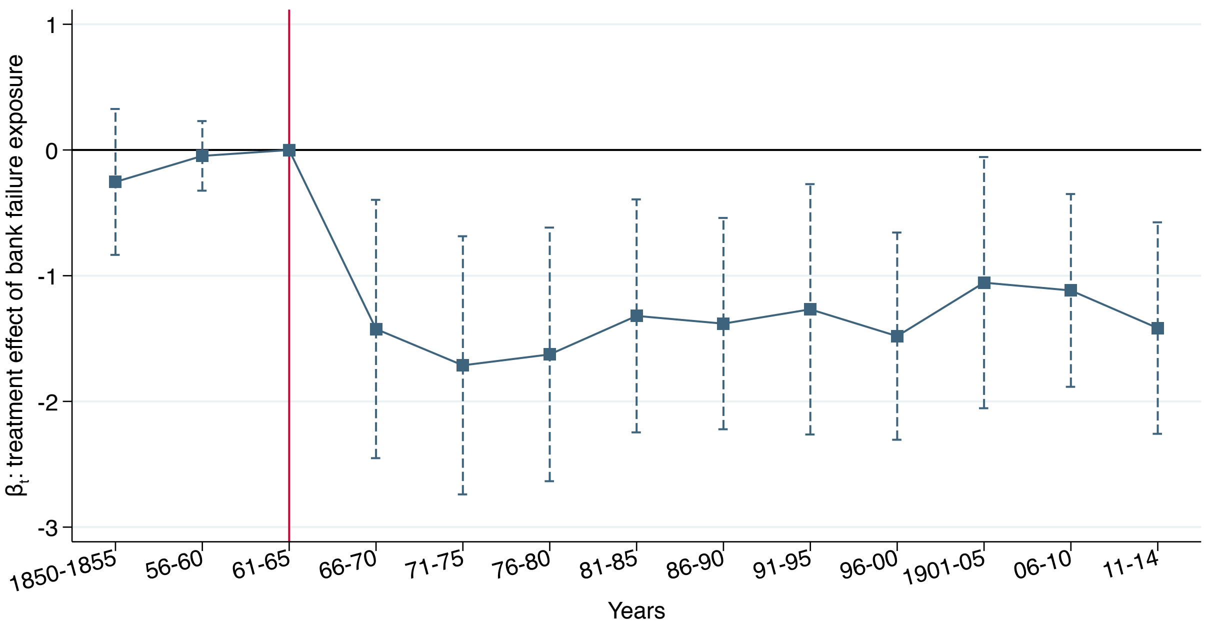
$$\ln(\mathrm{EX}_{odt}) = \theta_t \mathrm{Fail}_o \times \mathbb{I}(\mathrm{EB}_{od}) + \beta_t \mathrm{Fail}_o + \lambda_t \mathbb{I}(\mathrm{EB}_{od}) + \Psi' X_{od} + \gamma_o + \gamma_{dt} + \varepsilon_{odt}$$



Notes: Figure 6 plots the β_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 7: Recovery is worse within groups of countries with similar exports

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



Notes: Figure 7 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. β_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 A9 column 8 for the point estimates. N = 67,378.

Appendix for Online Publication

Reshaping Global Trade:

The Immediate and Long-Run Effects of Bank Failures

Table of Contents

A Additional Tables

Table A1: Bank-level relationship between failure and credit supply

	Δ Credit$_b$			
	(1)	(2)	(3)	(4)
Failure$_b$	-0.782***	-0.869***	-0.961***	-0.946***
	[0.109]	[0.126]	[0.141]	[0.157]
Weighting	none	Capital, 1865	Trade credit, 1865	Size, 1865
N	31	31	31	31
Adj. R^2	0.398	0.413	0.638	0.488

Notes: Table A1 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 reported in bi-annual balance sheets. 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 with this information. Column 1 reports the baseline, unweighted regression. In columns 2–4, the regressions are weighted by different proxies for bank size. Robust standard errors in brackets. *$p < 0.1$, **$p < 0.05$, ***$p < 0.01$

Table A2: Bank balance on geographic exposure calculated as percent of assets

	All		In first stage		Not in first stage		Diff	
Capital, authorized (£m)	1.48	(1.06)	1.62	(1.01)	1.42	(1.09)	0.20	(0.24)
Capital, paid up (£m)	0.59	(0.38)	0.61	(0.40)	0.57	(0.38)	0.04	(0.09)
Deposits (£m)	2.22	(2.73)	2.17	(2.81)	2.29	(2.66)	-0.12	(0.88)
Reserve fund (£m)	0.13	(0.12)	0.13	(0.13)	0.13	(0.11)	-0.01	(0.03)
Total size (£m)	4.81	(6.11)	4.06	(4.59)	5.41	(7.09)	-1.36	(1.47)
Leverage ratio	0.24	(0.14)	0.27	(0.15)	0.22	(0.11)	0.05	(0.03)
Reserve ratio	0.06	(0.07)	0.07	(0.08)	0.05	(0.04)	0.02	(0.02)
N	95		31		64		95	

Notes: Table A2 presents balance sheet characteristics of the joint stock banks for those in the first stage sample and those outside of it. "In first stage" refers to the banks that are part of the sample in Table A1 while "Not in first stage" refers to the remaining banks. Means are reported first, and standard deviations are given in parentheses. "Diff" refers to the difference 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 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 removing cotton exporting countries: immediate effect of exposure to bank failures on port-level shipping

	All (1)	excl USA (2)	excl Brazil (3)	excl Egypt (4)	excl all cotton (5)
Fail_{po} × post	-0.527***	-0.520***	-0.539***	-0.485***	-0.490***
	[0.158]	[0.163]	[0.168]	[0.154]	[0.172]
Capital city × post	Y	Y	Y	Y	Y
Age of banks × post	Y	Y	Y	Y	Y
Fraction to UK × post	Y	Y	Y	Y	Y
$\text{Country}_{\text{o}}$ × post FE	Y	Y	Y	Y	Y
Port_{p} FE	Y	Y	Y	Y	Y
N	578	560	556	564	524
Ports	289	280	278	282	262
Clusters	54	53	53	53	51

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 log of the number of ships departing from each port. Fail_{po} is the share of the port's British banks that failed during the crisis. 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 columns 2–4, ports from the United States, Brazil, and Egypt are excluded respectively. In column 5, ports from all three cotton exporting countries are excluded. Standard errors in brackets are clustered by country of origin. $*p < 0.1$, $**p < 0.05$, $***p < 0.01$

Table A5: Robustness to allowing for news lags: immediate effect of exposure to bank failures on port-level exports

$$\ln(S_{pot}) = \beta \text{Fail}_{po} \times \text{Post}_{pot} + \Gamma' X_{po} \times \text{Post}_{pot} + \alpha_p + \gamma_{ot} + \varepsilon_{pot}$$

	(1)	(2)	(3)	(4)	(5)	(6)
Fail_{po} × post	-0.613**	-0.688***	-0.700***	-0.635***	-0.598***	-0.519***
	[0.244]	[0.159]	[0.160]	[0.215]	[0.159]	[0.176]
Capital city × post			Y			Y
Age of banks × post				Y		Y
Fraction to UK × post					Y	Y
$\text{Country}_{\text{o}}$ × post FE		Y	Y	Y	Y	Y
Port_{p} FE	Y	Y	Y	Y	Y	Y
N	570	570	570	570	570	570
Ports	285	285	285	285	285	285
Clusters	54	54	54	54	54	54

Notes: Table A5 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 log of the total number of ships departing in each period. Fail_{po} is the share of the port's banks that failed during the crisis. Post_{pot} is a port-specific dummy variatble for the post-crisis year that takes the value of 1 after news of the crisis reached the port 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 age of banks, and the fraction of shipping to the UK. The sample is restricted to ports active 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 A6: Robustness to different clustering: immediate effect of exposure to bank failures on country-level exports

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

	(1)	(2)	(3)	(4)	(5)
β_{1865}	-0.240	-0.240	-0.240	-0.240	-0.240
	[0.214]	[0.151]	[0.192]	[0.176]	[0.318]
β_{1867}	-0.921	-0.921	-0.921	-0.921	-0.921***
	[0.603]	[0.643]	[0.575]	[0.661]	[0.0689]
β_{1868}	-1.611***	-1.611***	-1.611***	-1.611**	-1.611***
	[0.551]	[0.585]	[0.506]	[0.616]	[0.393]
β_{1869}	-1.872***	-1.872***	-1.872***	-1.872***	-1.872***
	[0.410]	[0.584]	[0.493]	[0.519]	[0.263]
β_{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 A6 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 A7: 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 A7 reports estimates from the difference-in-difference regressions from the two-period panel of country-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 A8: Elasticity of trade to physical distance

$$\ln(\text{EX}_{odt}) = \theta \ln(\text{distance})_{od} + \gamma_{ot} + \gamma_{dt} + \Gamma' X_{odt} + \varepsilon_{odt}$$

	(1)	(2)	(3)	(4)	(5)
log distance $_{\text{od}}$	-1.116***	-1.021***	-0.982***	-1.194***	-1.037***
	[0.0851]	[0.0910]	[0.101]	[0.0856]	[0.101]
$\text{Country}_{\text{ot}}$ FE	Y	Y	Y	Y	Y
$\text{Country}_{\text{dt}}$ 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 A8 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 A9: Long-term effects of financing shock on country-level exports

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

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
$\beta_{1850\text{-}1855}$	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]
$\beta_{1856\text{-}1860}$	-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]
$\beta_{1866\text{-}1870}$	-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]
$\beta_{1871\text{-}1875}$	-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]
$\beta_{1876\text{-}1880}$	-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]
$\beta_{1881\text{-}1885}$	-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]
$\beta_{1886\text{-}1890}$	-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]
$\beta_{1891\text{-}1895}$	-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]
$\beta_{1896\text{-}1900}$	-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]
$\beta_{1901\text{-}1905}$	-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]
$\beta_{1906\text{-}1910}$	-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]
$\beta_{1911\text{-}1914}$	-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
$\ln(\text{cotton}_\text{o}) \times$ t			Y					
$\ln(\text{cotton manu}_\text{o}) \times$ t				Y				
$\ln(\text{population}_\text{o}) \times$					Y			
SITC $\text{industry}_\text{o} \times$ t						Y		
$\text{Region}_\text{o} \times$ t							Y	Y
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 A9 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 A10: Effect of bank failures from 1850–2014

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

	(1)		(2)		(3)	
$\beta_{1850\text{-}1855}$	0.202	[0.306]	-0.256	[0.356]	-0.117	[0.357]
$\beta_{1856\text{-}1860}$	-0.184	[0.192]	-0.317	[0.302]	-0.199	[0.299]
$\beta_{1866\text{-}1870}$	-2.430***	[0.837]	-1.985***	[0.595]	-1.752***	[0.598]
$\beta_{1871\text{-}1875}$	-2.793***	[0.984]	-2.386***	[0.847]	-2.090**	[0.838]
$\beta_{1876\text{-}1880}$	-2.779***	[0.993]	-2.248**	[0.869]	-1.928**	[0.853]
$\beta_{1881\text{-}1885}$	-2.429***	[0.828]	-1.789**	[0.771]	-1.480*	[0.756]
$\beta_{1886\text{-}1890}$	-2.367***	[0.662]	-1.689**	[0.678]	-1.428**	[0.678]
$\beta_{1891\text{-}1895}$	-2.369***	[0.688]	-1.694**	[0.700]	-1.376**	[0.671]
$\beta_{1896\text{-}1900}$	-2.432***	[0.558]	-1.800***	[0.607]	-1.579***	[0.585]
$\beta_{1901\text{-}1905}$	-2.163***	[0.600]	-1.451**	[0.700]	-1.367*	[0.690]
$\beta_{1906\text{-}1910}$	-1.982***	[0.533]	-1.270*	[0.645]	-1.196*	[0.665]
$\beta_{1911\text{-}1915}$	-2.276***	[0.531]	-1.519**	[0.634]	-1.447**	[0.669]
$\beta_{1916\text{-}1920}$	-3.666***	[1.009]	-2.859***	[1.088]	-2.720**	[1.121]
$\beta_{1921\text{-}1925}$	-2.487***	[0.637]	-1.755**	[0.739]	-1.833**	[0.793]
$\beta_{1926\text{-}1930}$	-2.010***	[0.601]	-1.433**	[0.700]	-1.530**	[0.741]
$\beta_{1931\text{-}1935}$	-1.598**	[0.628]	-1.031	[0.747]	-1.281	[0.786]
$\beta_{1936\text{-}1940}$	-1.725**	[0.688]	-1.061	[0.784]	-1.323	[0.829]
$\beta_{1941\text{-}1945}$	-2.925*	[1.588]	-2.291	[1.386]	-2.798**	[1.145]
$\beta_{1946\text{-}1950}$	-1.752**	[0.752]	-1.288	[0.803]	-1.625**	[0.776]
$\beta_{1951\text{-}1955}$	-1.934***	[0.669]	-1.404*	[0.739]	-1.643**	[0.764]
$\beta_{1956\text{-}1960}$	-2.010***	[0.654]	-1.488**	[0.719]	-1.727**	[0.748]
$\beta_{1961\text{-}1965}$	-2.102***	[0.624]	-1.558**	[0.705]	-1.774**	[0.749]
$\beta_{1966\text{-}1970}$	-1.799***	[0.632]	-1.240*	[0.735]	-1.568*	[0.782]
$\beta_{1971\text{-}1975}$	-1.461**	[0.680]	-0.848	[0.806]	-1.246	[0.858]
$\beta_{1976\text{-}1980}$	-1.402**	[0.669]	-0.762	[0.803]	-1.167	[0.843]
$\beta_{1981\text{-}1985}$	-1.512**	[0.688]	-0.891	[0.818]	-1.344	[0.865]
$\beta_{1986\text{-}1990}$	-1.353*	[0.694]	-0.735	[0.832]	-1.306	[0.875]
$\beta_{1991\text{-}1995}$	-1.756**	[0.691]	-1.145	[0.832]	-1.724*	[0.881]
$\beta_{1996\text{-}2000}$	-1.755**	[0.686]	-1.134	[0.817]	-1.882**	[0.835]
$\beta_{2001\text{-}2005}$	-1.630**	[0.720]	-1.020	[0.841]	-1.866**	[0.835]
$\beta_{2006\text{-}2010}$	-1.537**	[0.750]	-0.933	[0.858]	-1.878**	[0.809]
$\beta_{2011\text{-}2014}$	-1.413*	[0.773]	-0.806	[0.869]	-1.700**	[0.816]
Controls	Y		Y		Y	
Country_o FE	Y		Y		Y	
$\text{I(Brit bank}_\text{o}) \times \text{t}$	Y		Y		Y	
$\ln(\text{population}_\text{o}) \times \text{t}$					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 A10 reports the coefficients every five years. The control variables are the same as defined in Table A9. 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 gravity measures of commonality

$$\ln(\text{Ex}_{odt}) = \beta_t \text{F}_o + \Gamma' X_{odt} + \gamma_o + \gamma_{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$

	(1)	(2)	(3)	(4)	(5)	(6)
$\beta_{1850\text{-}1855}$	-0.340	-0.259	-0.227	-0.324	-0.264	-0.273
	[0.322]	[0.306]	[0.315]	[0.334]	[0.324]	[0.316]
$\beta_{1856\text{-}1860}$	-0.203	-0.139	-0.186	-0.157	-0.139	-0.235
	[0.234]	[0.221]	[0.239]	[0.228]	[0.226]	[0.239]
$\beta_{1866\text{-}1870}$	-1.452***	-1.537***	-1.163***	-1.491***	-1.535***	-1.221***
	[0.329]	[0.342]	[0.391]	[0.306]	[0.347]	[0.379]
$\beta_{1871\text{-}1875}$	-1.732***	-1.797***	-1.383**	-1.754***	-1.797***	-1.446**
	[0.502]	[0.522]	[0.604]	[0.460]	[0.522]	[0.595]
$\beta_{1876\text{-}1880}$	-1.709***	-1.803***	-1.407**	-1.740***	-1.802***	-1.479**
	[0.558]	[0.571]	[0.656]	[0.536]	[0.570]	[0.653]
$\beta_{1881\text{-}1885}$	-1.290**	-1.393**	-1.033*	-1.317**	-1.391**	-1.102*
	[0.547]	[0.556]	[0.602]	[0.544]	[0.556]	[0.595]
$\beta_{1886\text{-}1890}$	-1.113**	-1.236**	-0.869	-1.172**	-1.236**	-0.933*
	[0.496]	[0.499]	[0.526]	[0.500]	[0.499]	[0.527]
$\beta_{1891\text{-}1895}$	-1.079**	-1.203**	-0.847	-1.107**	-1.203**	-0.906*
	[0.490]	[0.503]	[0.538]	[0.491]	[0.504]	[0.535]
$\beta_{1896\text{-}1900}$	-1.154***	-1.269***	-0.905*	-1.223***	-1.269***	-0.961**
	[0.423]	[0.429]	[0.468]	[0.425]	[0.432]	[0.466]
$\beta_{1901\text{-}1905}$	-0.789	-0.888*	-0.587	-0.859*	-0.885*	-0.645
	[0.505]	[0.509]	[0.569]	[0.498]	[0.512]	[0.566]
$\beta_{1906\text{-}1910}$	-0.640	-0.735	-0.437	-0.724	-0.738	-0.493
	[0.505]	[0.503]	[0.549]	[0.503]	[0.504]	[0.551]
$\beta_{1911\text{-}1914}$	-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 A11 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 A12: Long-term effects: robustness to monetary standard and conflict

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

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
$\beta_{1850\text{-}1855}$	-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]
$\beta_{1856\text{-}1860}$	-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]
$\beta_{1866\text{-}1870}$	-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]
$\beta_{1871\text{-}1875}$	-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]
$\beta_{1876\text{-}1880}$	-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]
$\beta_{1881\text{-}1885}$	-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]
$\beta_{1886\text{-}1890}$	-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]
$\beta_{1891\text{-}1895}$	-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]
$\beta_{1896\text{-}1900}$	-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]
$\beta_{1901\text{-}1905}$	-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]
$\beta_{1906\text{-}1910}$	-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]
$\beta_{1911\text{-}1914}$	-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
$\text{Gold standard}_o \times \text{t}$	Y						
$\text{Silver standard}_o \times \text{t}$		Y					
$\text{Conflict (any)}_o \times \text{t}$			Y				
$\text{Conflict (interstate)}_o \times \text{t}$				Y			
$\text{Conflict (other)}_o \times \text{t}$					Y		
Country_{ot} war						Y	
$\text{Country-pair}_{odt}$ war							Y
$\text{I(Brit bank}_o) \times \text{t}$	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 A12 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 A13: Long-term effects: robustness to industry composition of exports

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

	(1)	(2)	(3)	(4)	(5)	(6)
$\beta_{1850\text{-}1855}$	-0.292	-0.341	-0.231	-0.327	-0.379	-0.349
	[0.314]	[0.402]	[0.344]	[0.398]	[0.386]	[0.319]
$\beta_{1856\text{-}1860}$	-0.141	-0.362	-0.103	-0.335	-0.207	-0.256
	[0.226]	[0.249]	[0.233]	[0.250]	[0.233]	[0.229]
$\beta_{1866\text{-}1870}$	-1.381***	-1.632***	-1.620***	-1.501***	-1.736***	-1.469***
	[0.360]	[0.441]	[0.388]	[0.478]	[0.426]	[0.445]
$\beta_{1871\text{-}1875}$	-1.518***	-2.030***	-1.789***	-1.752***	-2.024***	-1.814***
	[0.476]	[0.604]	[0.515]	[0.642]	[0.557]	[0.511]
$\beta_{1876\text{-}1880}$	-1.551***	-2.155***	-1.760***	-1.751**	-2.038***	-1.800***
	[0.531]	[0.667]	[0.536]	[0.701]	[0.589]	[0.547]
$\beta_{1881\text{-}1885}$	-1.185**	-1.798***	-1.393**	-1.390**	-1.676***	-1.421***
	[0.529]	[0.684]	[0.557]	[0.678]	[0.602]	[0.525]
$\beta_{1886\text{-}1890}$	-1.097**	-1.688**	-1.306***	-1.314**	-1.561***	-1.212**
	[0.518]	[0.673]	[0.499]	[0.620]	[0.573]	[0.479]
$\beta_{1891\text{-}1895}$	-1.066**	-1.639**	-1.210**	-1.239*	-1.444**	-1.184**
	[0.519]	[0.683]	[0.479]	[0.630]	[0.578]	[0.495]
$\beta_{1896\text{-}1900}$	-1.168**	-1.696***	-1.146***	-1.207**	-1.480***	-1.294***
	[0.453]	[0.620]	[0.438]	[0.562]	[0.526]	[0.420]
$\beta_{1901\text{-}1905}$	-0.841	-1.422**	-0.702	-0.706	-1.011*	-0.880
	[0.524]	[0.695]	[0.486]	[0.615]	[0.546]	[0.544]
$\beta_{1906\text{-}1910}$	-0.820	-1.292*	-0.537	-0.545	-0.871	-0.835
	[0.508]	[0.673]	[0.499]	[0.633]	[0.600]	[0.515]
$\beta_{1911\text{-}1914}$	-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
$\text{Country}_{\text{o}}$ FE	Y	Y	Y	Y	Y	Y
$\ln(\text{coffee}_{\text{o}}) \times$ t	Y					
$\ln(\text{grains}_{\text{o}}) \times$ t		Y				
$\ln(\text{bullion}_{\text{o}}) \times$ t			Y			
$\ln(\text{alcohol}_{\text{o}}) \times$ t				Y		
$\ln(\text{tobacco}_{\text{o}}) \times$ t					Y	
Commodities $\text{share}_{\text{o}} \times$ t						Y
$\text{I(Brit bank}_{\text{o}}) \times$ t	Y	Y	Y	Y	Y	Y
$\text{Country}_{\text{dt}}$	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 A13 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 A14: Long-term effects: robustness to excluding cotton exporting countries

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

	(1)	(2)	(3)	(4)	(5)	(6)
$\beta_{1850\text{-}1855}$	0.0141	-0.281	0.0470	-0.231	0.0783	-0.167
	[0.234]	[0.358]	[0.221]	[0.328]	[0.201]	[0.311]
$\beta_{1856\text{-}1860}$	-0.0175	0.0118	-0.0715	-0.162	-0.0354	-0.104
	[0.153]	[0.214]	[0.148]	[0.227]	[0.143]	[0.216]
$\beta_{1866\text{-}1870}$	-1.590***	-1.498***	-1.501***	-1.469***	-1.453***	-1.373***
	[0.347]	[0.439]	[0.326]	[0.377]	[0.294]	[0.371]
$\beta_{1871\text{-}1875}$	-1.715***	-1.550**	-1.744***	-1.737***	-1.710***	-1.656***
	[0.498]	[0.606]	[0.468]	[0.524]	[0.426]	[0.505]
$\beta_{1876\text{-}1880}$	-1.789***	-1.439**	-1.889***	-1.758***	-1.843***	-1.654***
	[0.556]	[0.609]	[0.529]	[0.571]	[0.488]	[0.550]
$\beta_{1881\text{-}1885}$	-1.374***	-1.068*	-1.498***	-1.374**	-1.434***	-1.260**
	[0.483]	[0.588]	[0.456]	[0.551]	[0.435]	[0.534]
$\beta_{1886\text{-}1890}$	-1.330***	-0.940*	-1.398***	-1.218**	-1.342***	-1.117**
	[0.427]	[0.561]	[0.395]	[0.510]	[0.387]	[0.497]
$\beta_{1891\text{-}1895}$	-1.233***	-0.881	-1.325***	-1.174**	-1.270***	-1.067**
	[0.429]	[0.573]	[0.390]	[0.515]	[0.373]	[0.502]
$\beta_{1896\text{-}1900}$	-1.319***	-0.966*	-1.393***	-1.227***	-1.334***	-1.121**
	[0.363]	[0.530]	[0.332]	[0.456]	[0.325]	[0.444]
$\beta_{1901\text{-}1905}$	-0.903**	-0.481	-1.038**	-0.860	-0.971**	-0.745
	[0.420]	[0.559]	[0.412]	[0.541]	[0.400]	[0.527]
$\beta_{1906\text{-}1910}$	-0.750*	-0.366	-0.863**	-0.711	-0.796*	-0.592
	[0.437]	[0.552]	[0.429]	[0.528]	[0.425]	[0.508]
$\beta_{1911\text{-}1914}$	-0.883*	-0.535	-1.041**	-0.928	-0.917*	-0.745
	[0.528]	[0.592]	[0.526]	[0.574]	[0.523]	[0.555]
Controls	Y	Y	Y	Y	Y	Y
Country_o FE	Y	Y	Y	Y	Y	Y
excluding USA	Y	Y				
excluding Brazil			Y	Y		
excluding Egypt					Y	Y
I(Brit bank_o) × t	Y	Y	Y	Y	Y	Y
Country_d	Y		Y		Y	
Country_dt		Y		Y		Y
N	63851	63851	66381	66381	66570	66570
Clusters	128	128	128	128	128	128
Adj. R^2	0.524	0.524	0.531	0.531	0.530	0.530

Notes: Table A14 reports the coefficients every five years. Exports from the USA, Brazil, and Egypt are excluded in columns 1–2, 3–4, and 5–6, respectively. 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 contemporaneous financial crises

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

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
$\beta_{1850\text{-}1855}$	-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]
$\beta_{1856\text{-}1860}$	-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]
$\beta_{1866\text{-}1870}$	-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]
$\beta_{1871\text{-}1875}$	-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]
$\beta_{1876\text{-}1880}$	-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]
$\beta_{1881\text{-}1885}$	-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]
$\beta_{1886\text{-}1890}$	-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]
$\beta_{1891\text{-}1895}$	-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]
$\beta_{1896\text{-}1900}$	-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]
$\beta_{1901\text{-}1905}$	-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]
$\beta_{1906\text{-}1910}$	-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]
$\beta_{1911\text{-}1914}$	-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
$\text{Country}_{\text{o}}$ FE	Y	Y	Y	Y	Y	Y	Y	Y
Currency $\text{crisis}_{\text{ot}}$	Y							
Inflation $\text{crisis}_{\text{ot}}$		Y						
Stock mkt $\text{crisis}_{\text{ot}}$			Y					
Sovereign debt $(\text{domestic})_{\text{ot}}$				Y				
Sovereign debt $(\text{external})_{\text{ot}}$					Y			
Sovereign debt $(\text{any})_{\text{ot}}$						Y		
Banking $\text{crisis}_{\text{ot}}$							Y	
Any $\text{crisis}_{\text{ot}}$								Y
I(Brit bank_{o}) × t	Y	Y	Y	Y	Y	Y	Y	Y
$\text{Country}_{\text{dt}}$	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 A15 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 A16: Long-term effects: robustness to financial crises in 1865

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

	(1)	(2)	(3)	(4)	(5)
$\beta_{1850\text{-}1855}$	-0.202	-0.314	-0.264	-0.306	-0.187
	[0.325]	[0.359]	[0.330]	[0.342]	[0.356]
$\beta_{1856\text{-}1860}$	-0.0976	-0.203	-0.226	-0.234	-0.257
	[0.214]	[0.264]	[0.240]	[0.229]	[0.245]
$\beta_{1866\text{-}1870}$	-1.352***	-1.541***	-1.248***	-1.419***	-1.340***
	[0.431]	[0.399]	[0.417]	[0.406]	[0.399]
$\beta_{1871\text{-}1875}$	-1.621***	-1.941***	-1.634***	-1.769***	-1.657***
	[0.538]	[0.432]	[0.548]	[0.524]	[0.504]
$\beta_{1876\text{-}1880}$	-1.608***	-1.958***	-1.701***	-1.754***	-1.642***
	[0.566]	[0.446]	[0.588]	[0.572]	[0.535]
$\beta_{1881\text{-}1885}$	-1.179**	-1.465***	-1.260**	-1.253**	-1.178**
	[0.546]	[0.522]	[0.551]	[0.553]	[0.547]
$\beta_{1886\text{-}1890}$	-1.063**	-1.320**	-1.111**	-1.120**	-1.074*
	[0.526]	[0.505]	[0.531]	[0.523]	[0.538]
$\beta_{1891\text{-}1895}$	-0.958*	-1.281**	-1.125**	-1.069*	-1.024*
	[0.527]	[0.502]	[0.524]	[0.535]	[0.535]
$\beta_{1896\text{-}1900}$	-1.110**	-1.386***	-1.247**	-1.229**	-1.178**
	[0.473]	[0.436]	[0.474]	[0.471]	[0.482]
$\beta_{1901\text{-}1905}$	-0.883	-1.129**	-1.140**	-1.030*	-0.969*
	[0.542]	[0.522]	[0.544]	[0.549]	[0.537]
$\beta_{1906\text{-}1910}$	-0.640	-0.909*	-0.933	-0.827	-0.756
	[0.540]	[0.526]	[0.565]	[0.553]	[0.557]
$\beta_{1911\text{-}1914}$	-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
Inflation crisis_o × t	Y				
Stock mkt crisis_o × t		Y			
Sovereign debt crisis_o × t			Y		
Banking crisis_o × t				Y	
Any crisis_o × t					Y
I(Brit bank_o) × 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 A16 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 A17: Long-term effects: robustness to borrowing from London Stock Exchange

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

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

Notes: Table A17 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 A18: Long-term effects: robustness to composition of banks

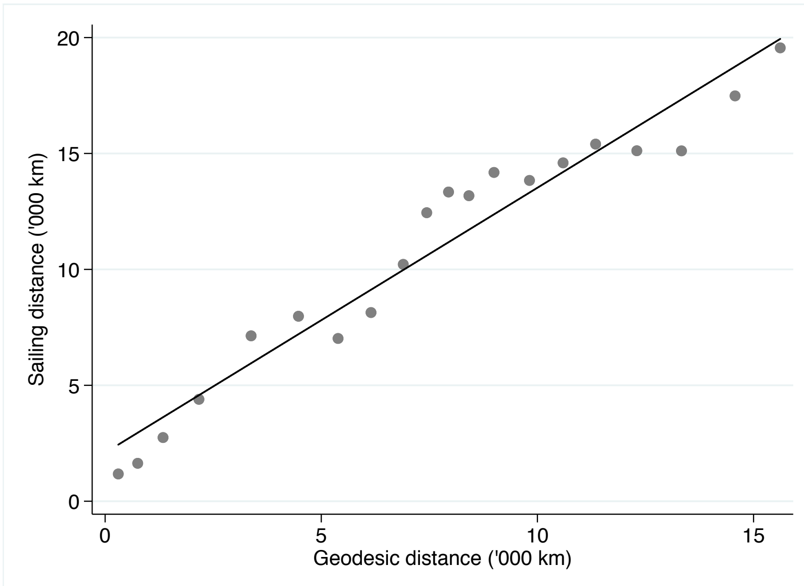
$$\ln(\text{Ex}_{odt}) = \beta_t \text{F}_o + \Gamma' X_{ot} + \gamma_o + \gamma_{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
$\beta_{1850\text{-}1855}$	-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]
$\beta_{1856\text{-}1860}$	-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]
$\beta_{1866\text{-}1870}$	-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]
$\beta_{1871\text{-}1875}$	-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]
$\beta_{1876\text{-}1880}$	-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]
$\beta_{1881\text{-}1885}$	-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]
$\beta_{1886\text{-}1890}$	-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]
$\beta_{1891\text{-}1895}$	-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]
$\beta_{1896\text{-}1900}$	-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]
$\beta_{1901\text{-}1905}$	-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]
$\beta_{1906\text{-}1910}$	-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]
$\beta_{1911\text{-}1914}$	-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
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 A18 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. $^*p < 0.1$, $^{**}p < 0.05$, $^{***}p < 0.01$

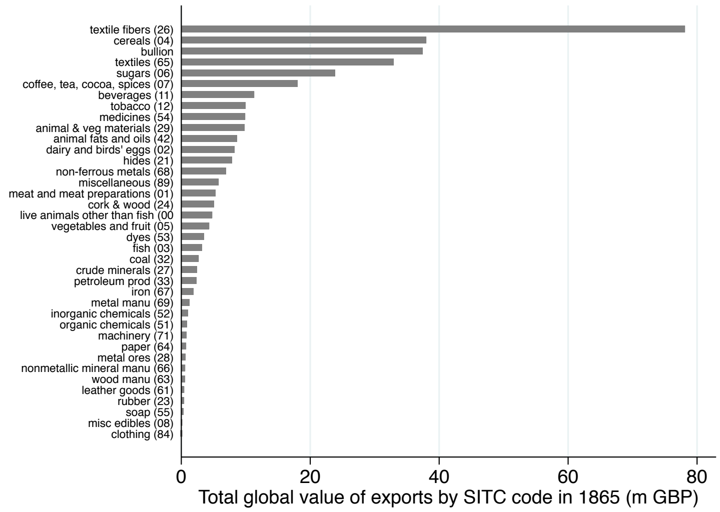
B Additional Figures

Figure B1: Positive correlation between sailing distance and geodesic distance



Notes: Figure B1 plots the binscatter relationship between ports' distance to each other measured geodesically in kilometers and sailing distance measured in kilometers. The data for sailing distance come from *Philips' Centenary Mercantile Marine Atlas II* published in 1935. Sailing distances are calculated without the Suez Canal route, which only opened in 1869. See Appendix F for a full discussion of the data source. Geodesic distances are calculated based on the port's longitude and latitude coordinates.

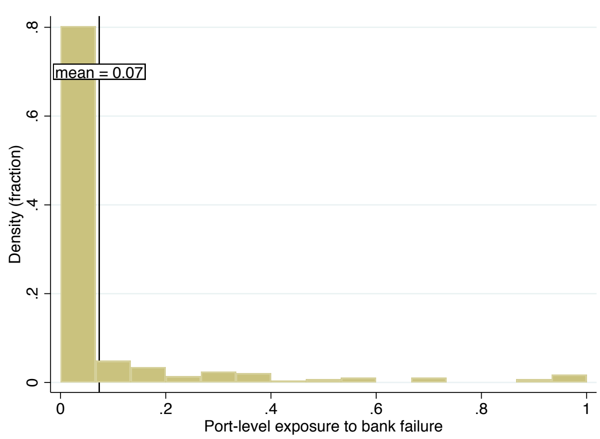
Figure B2: Industry composition of global exports in 1865



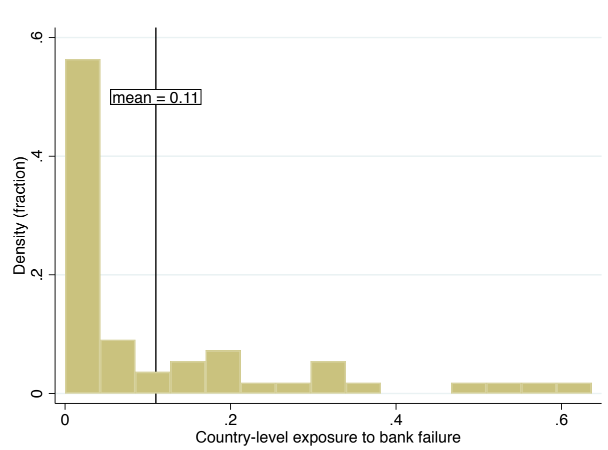
Notes: Figure B2 shows the total value of world exports across all countries by two-digit SITC categorization. The handcoded SITC category is given in parentheses next to the category name. Units are millions of pounds sterling in 1865. Sources: *Statistical Tables relating to Foreign Countries* and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

Figure B3: Distribution of exposure to bank failure

(a) Ports

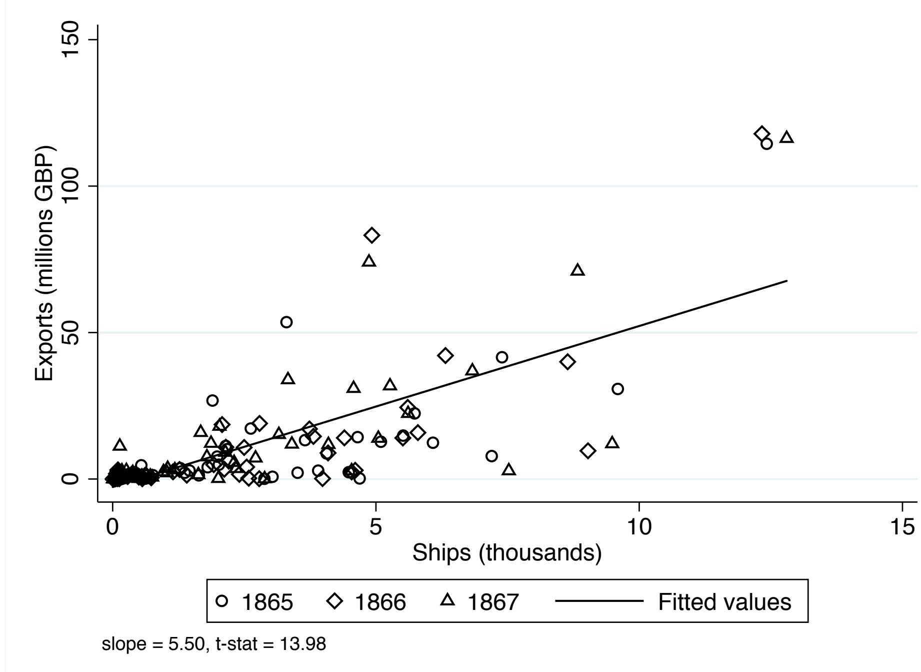


(b) Countries



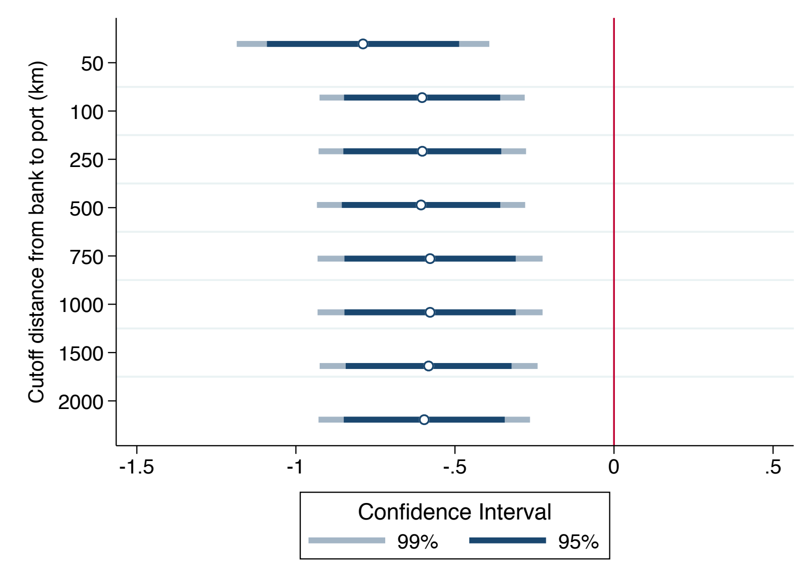
Notes: Figure B3 plots the histogram of port (n = 289) and country (n = 55) exposure to bank failures for the sample of ports and countries that were active in the pre-crisis year.

Figure B4: Positive correlation between country-level number of ships and exports values



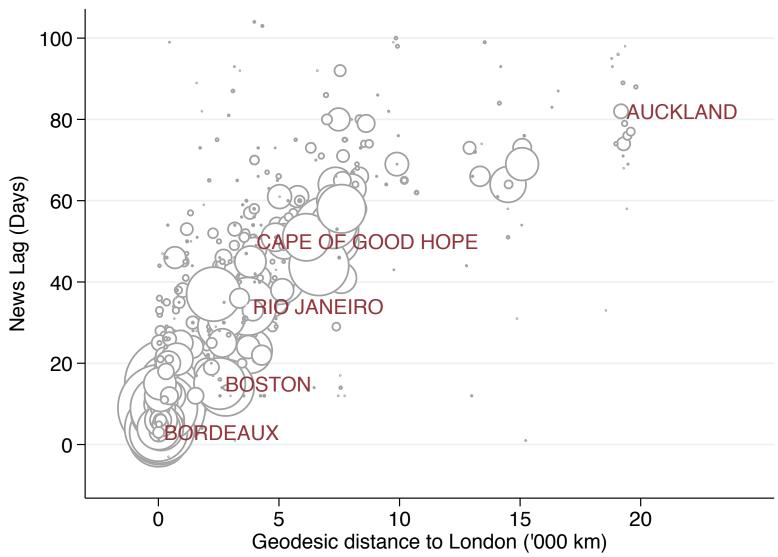
Notes: Figure B4 shows the positive linear relationship between the number of ships leaving a country in a given calendar year (from the *Lloyd's List* and the values of exports from that country. Three years around the crisis year are plotted. The line is fitted to the pooled sample of all years.

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



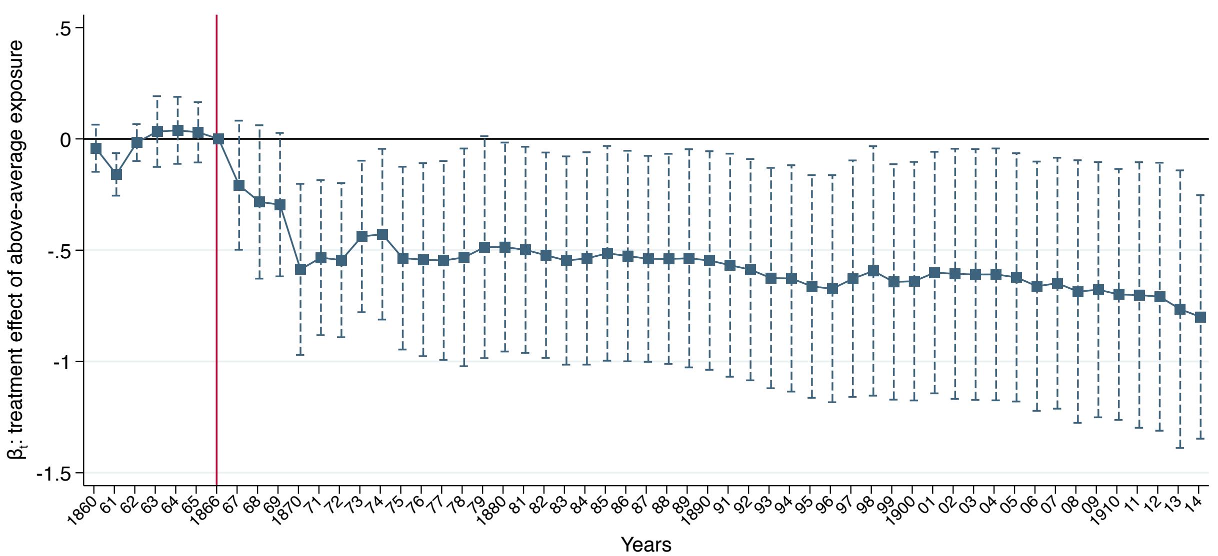
Notes: Figure B5 plots the estimated coefficients for β for the specification below, where the control group of completely unexposed ports is based on the distance between the port and the nearest city of financing. The baseline specification in the paper uses a cut-off of 500 km. $\ln(S_{pot}) = \beta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

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



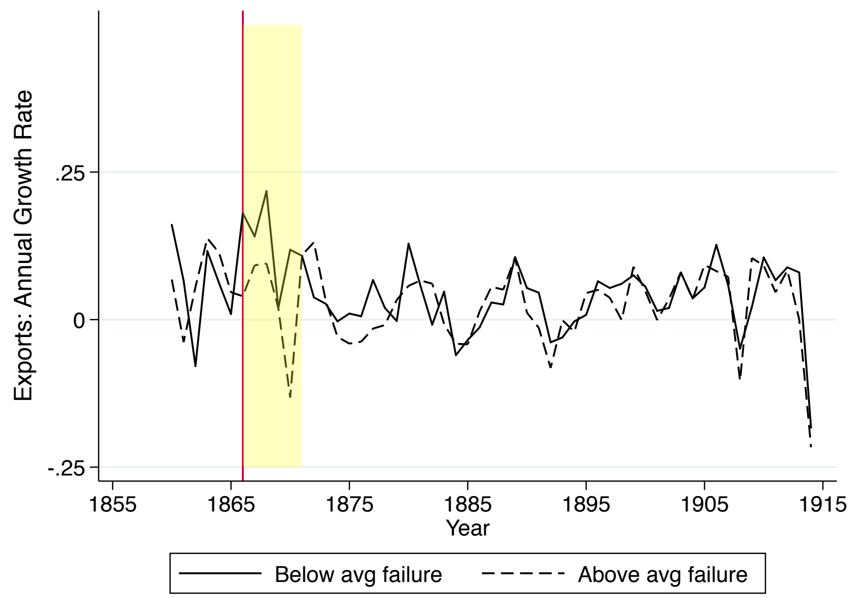
Notes: Figure B6 plots the relationship between the ports' physical distance to London (measured geodesically in kilometers) and the news lag in days that the ports received news of the banking crisis. The circles convey the pre-crisis size of the port. Select ports from each continent are named.

Figure B7: Effect of above average exposure to bank failure on total exports
$\ln(\text{EX}_{ot}) = \beta_t \mathbb{I}(\text{Above avg exposure}_o) + \gamma_o + \gamma_t + \varepsilon_{ot}$



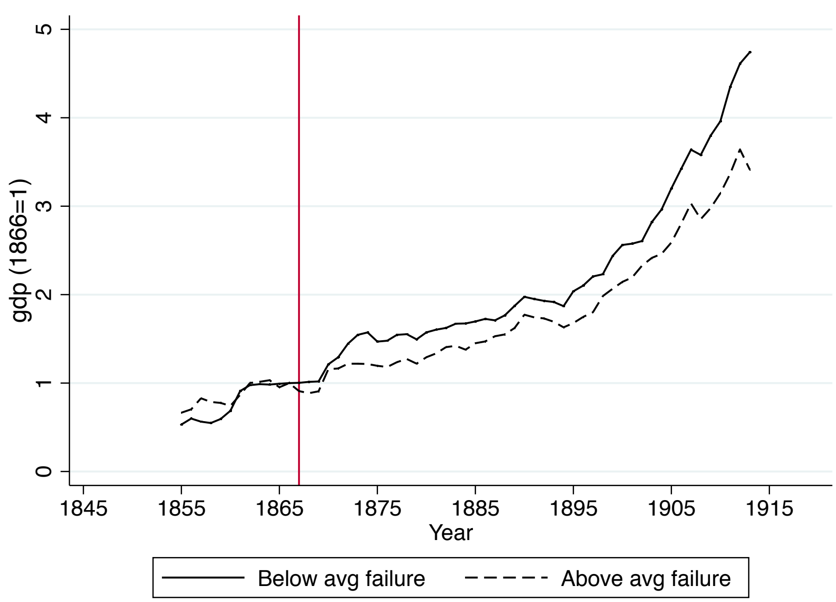
Notes: Figure B7 plots β_t from 1860–1914 for the specification above. The dependent variable is the ln of the total value of exports for origin country o in year t. γ_o and γ_t are country and year fixed effects, respectively. The regressions are weighted by the total value of exports in order to most closely mirror Figure 4. 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 4. The vertical line marks 1866.

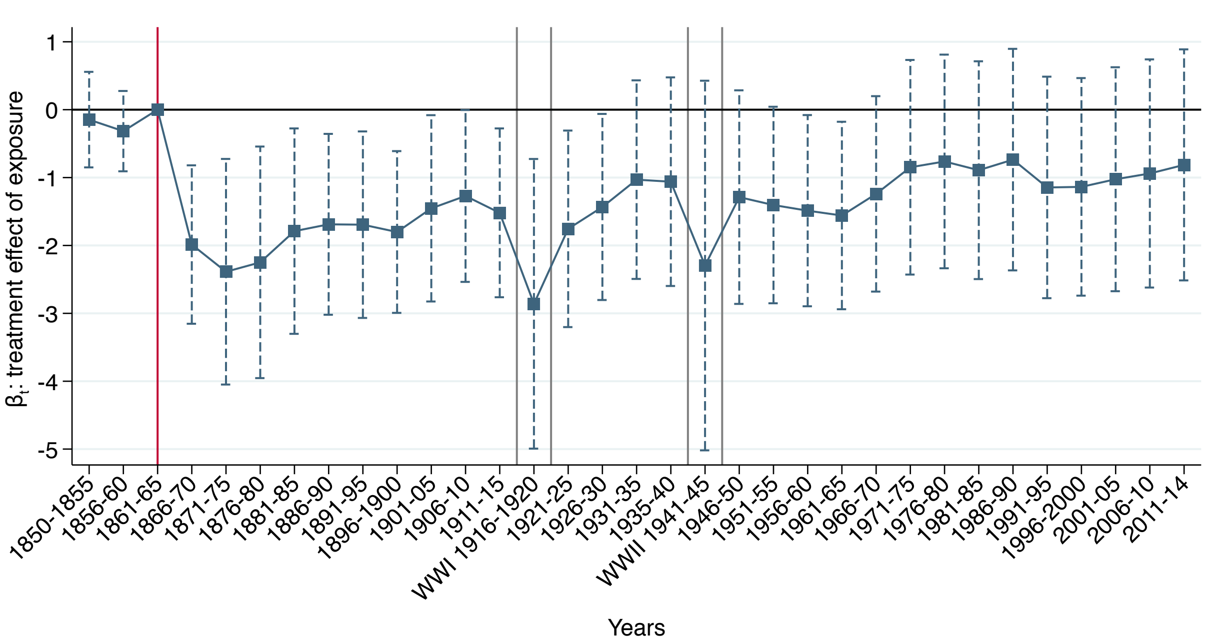
Figure B9: Aggregate GDP, grouped by above and below average exposure to bank failures



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.

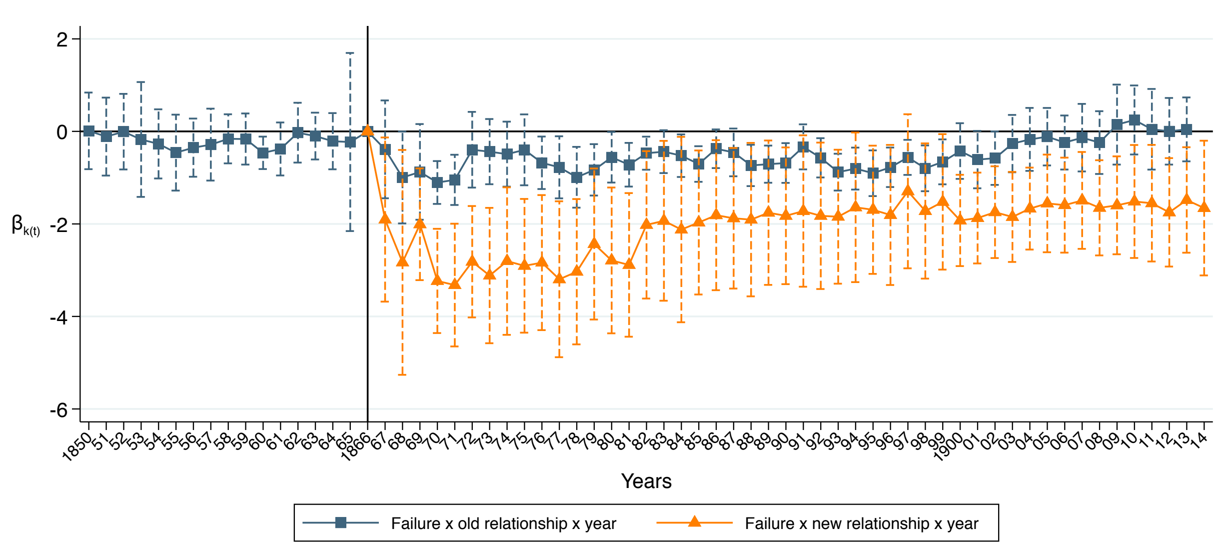
Figure B10: Effect of bank failures from 1850–2014

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



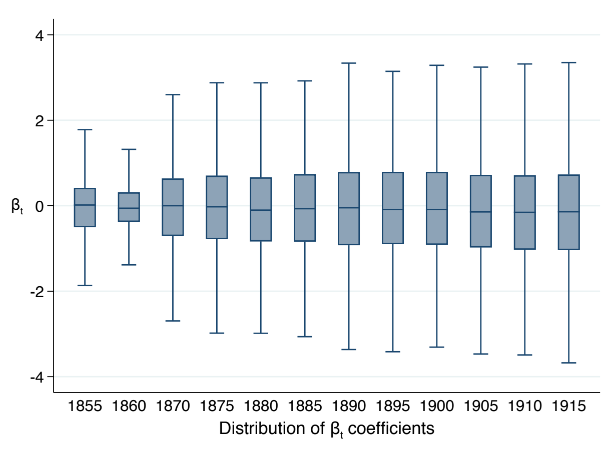
Notes: Figure B10 plots the point estimates and 95 percent confidence intervals for the specification given above estimated on the country-level panel of trade from 1850–2014. The dependent variable is the ln value of exports. The specification includes origin country o FE, destination country-year dt FE, and time-varying controls for the bilateral distance between countries. β_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 A10 reports the coefficients.

Figure B11: Effect of exposure to bank failure on new vs pre-existing trade relationships



Notes: Figure B11 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: $\ln(\text{EX}_{odt}) = \beta_{t,old}\text{Fail}_o \times \mathbb{I}(\text{Old}_{od}) + \beta_{t,new}\text{Fail}_o \times \mathbb{I}(\text{New}_{od}) + \gamma_o + \gamma_{dt} + \varepsilon_{odt}$

Figure B12: Treatment placebo



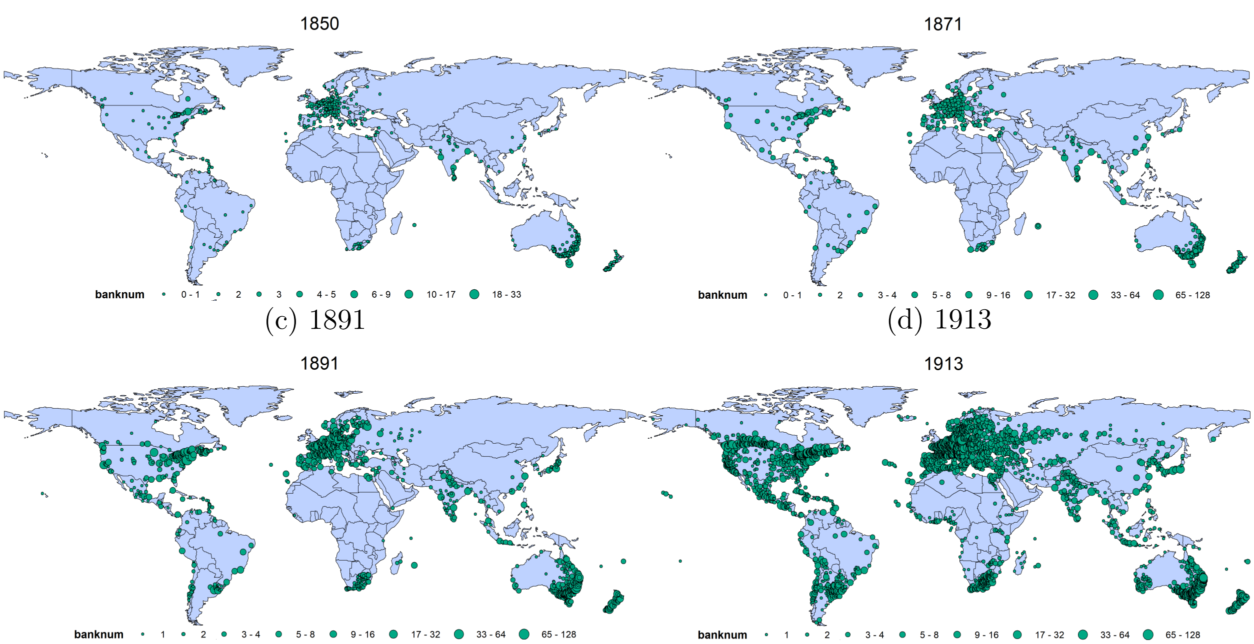
$$\ln(\text{EX}_{odt}) = \beta_t \text{Fail}_o + \Gamma' X_{ot} + \gamma_o + \gamma_{dt} + \theta_t \ln(\text{dist})_{od} + \varepsilon_{odt}$$

Notes: Figure B12 plots the median, 25th and 75th percentile (edges of the box), and lower and upper adjacent values for the frequency distribution of estimates of β_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 β's range of year is given on the x-axis (for instance, 1855 refers to $\beta_{1850-1855}$).

Figure B13: Growth of multinational banks, 1850-1913

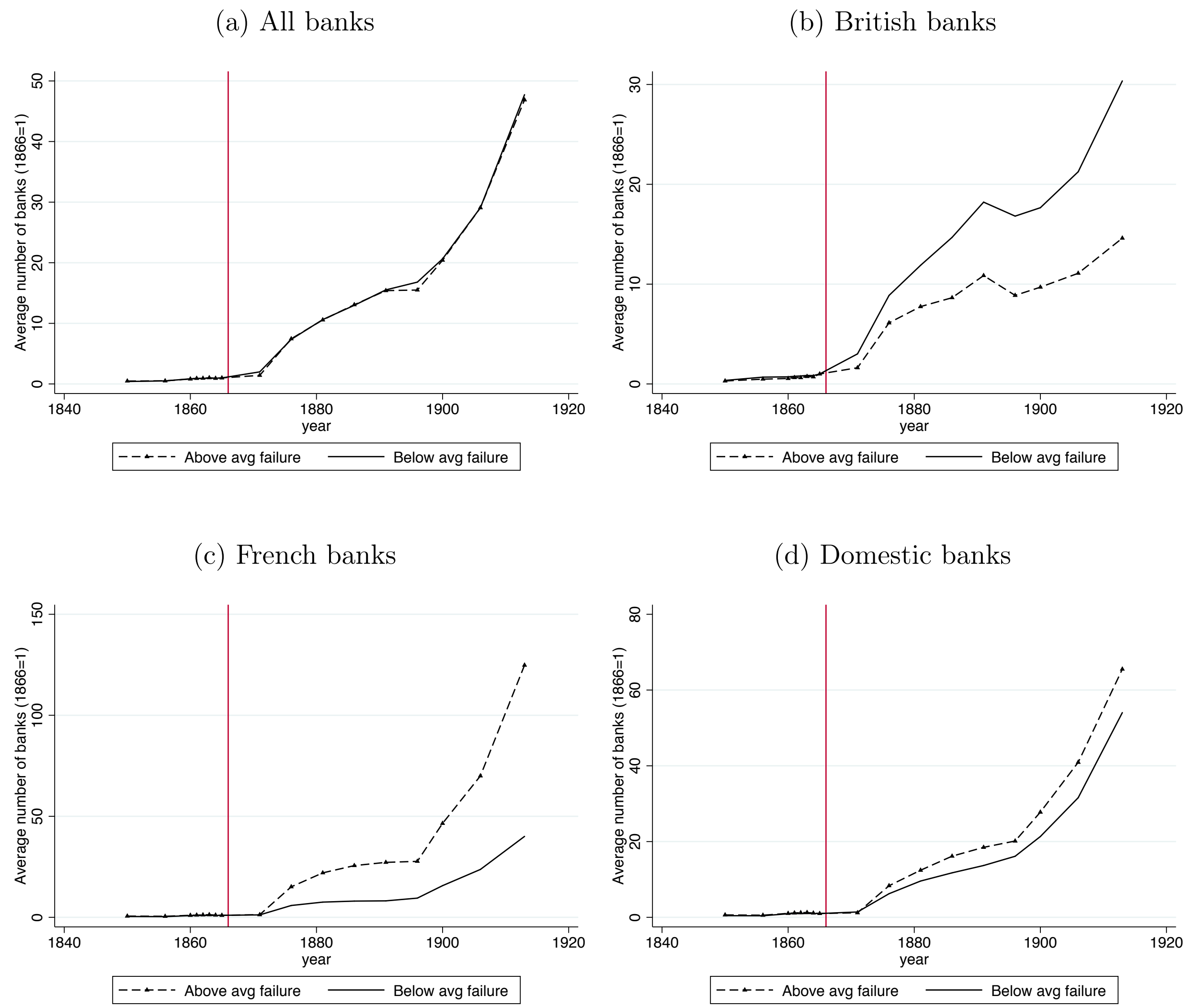
(a) 1850 (b) 1871

(c) 1891 (d) 1913



Notes: Figure B13 maps the total number of multinational banks (of all nationalities) from the *Banking Almanac* for various years.

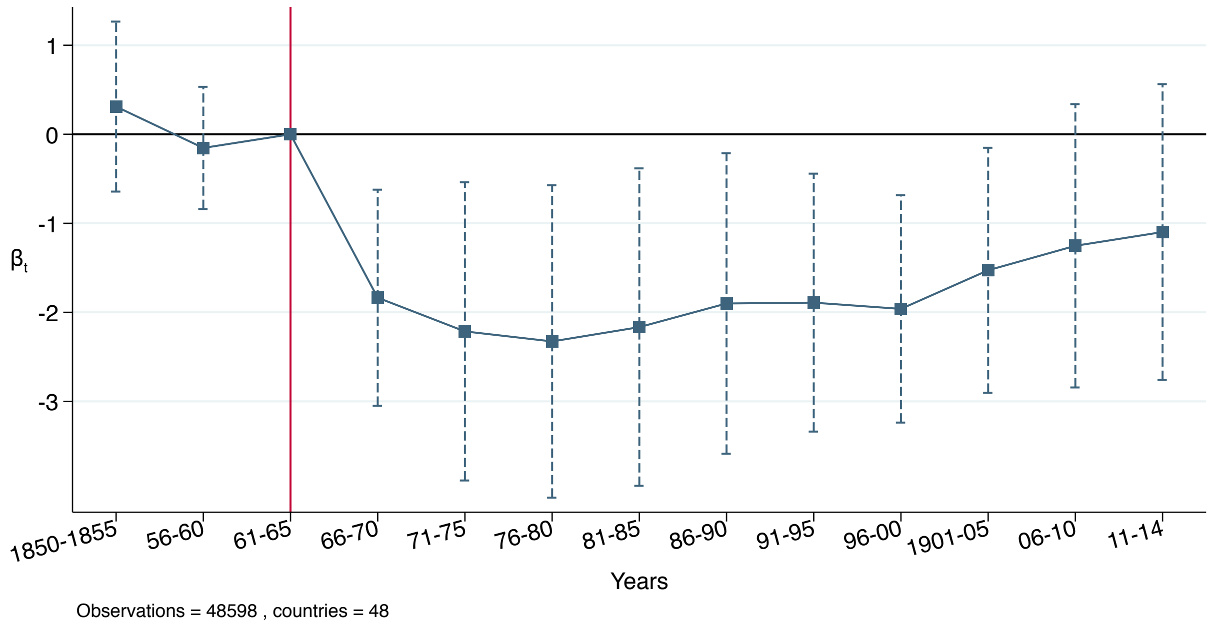
Figure B14: Banking sector recovery



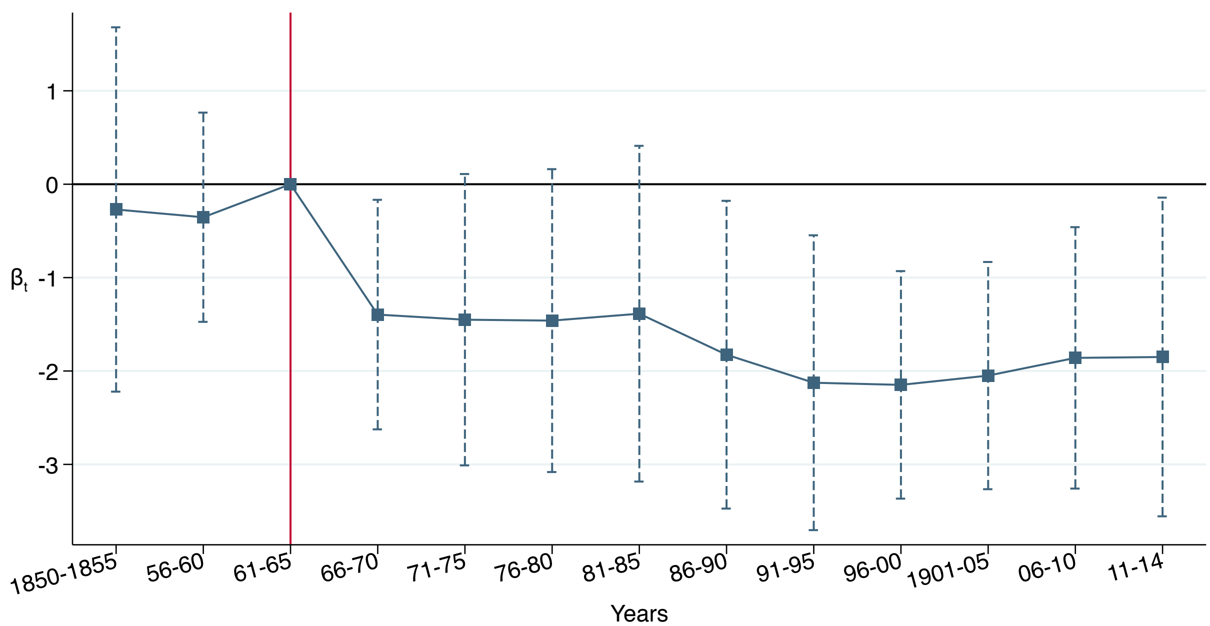
Notes: Figure B14 plots the raw data of the average number of banks in cities exposed to above and below average British bank failure. The data come from 5 year intervals of the *Banking Almanac*. Subfigure (a) plots all the average for all banks. Subfigures (b), (c), and (d) split the total by nationalities. "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 B15: Recovery within country groups

(a) Within SITC groups

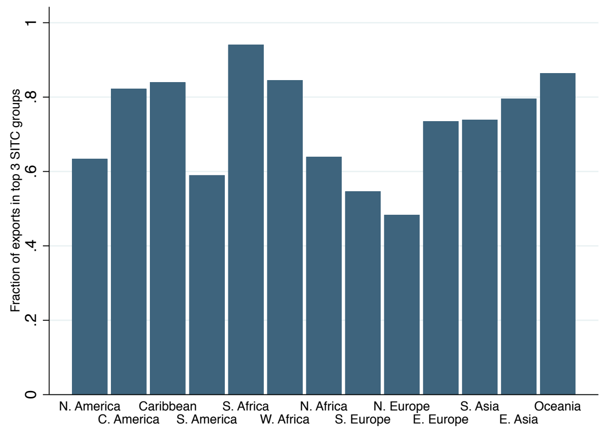


(b) Within regions using the same countries



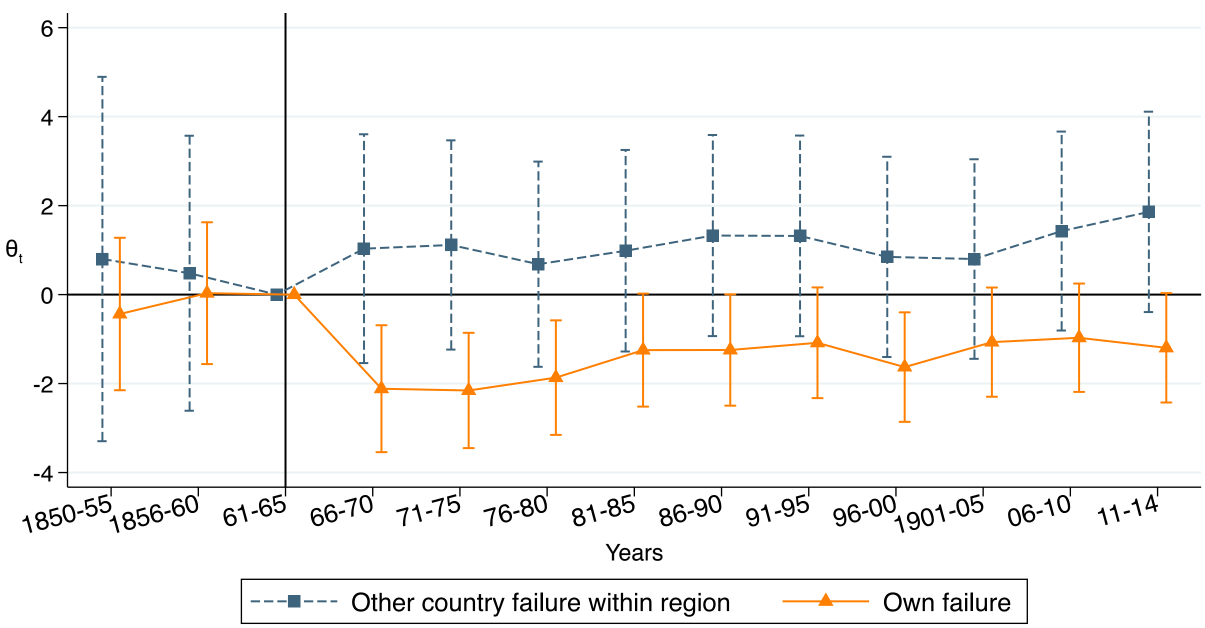
Notes: Figure B15 plots the estimated coefficients from the regression specification below, which is the main specification in equation 8 including SITC-year fixed effects (Figure B15a) and region-year fixed effects (Figure B15b). Figure B15b is estimated on the same sample of countries as in Figure B15a, the countries for which data on exports composition in 1865 is available.

Figure B16: Exports correlation within country regions



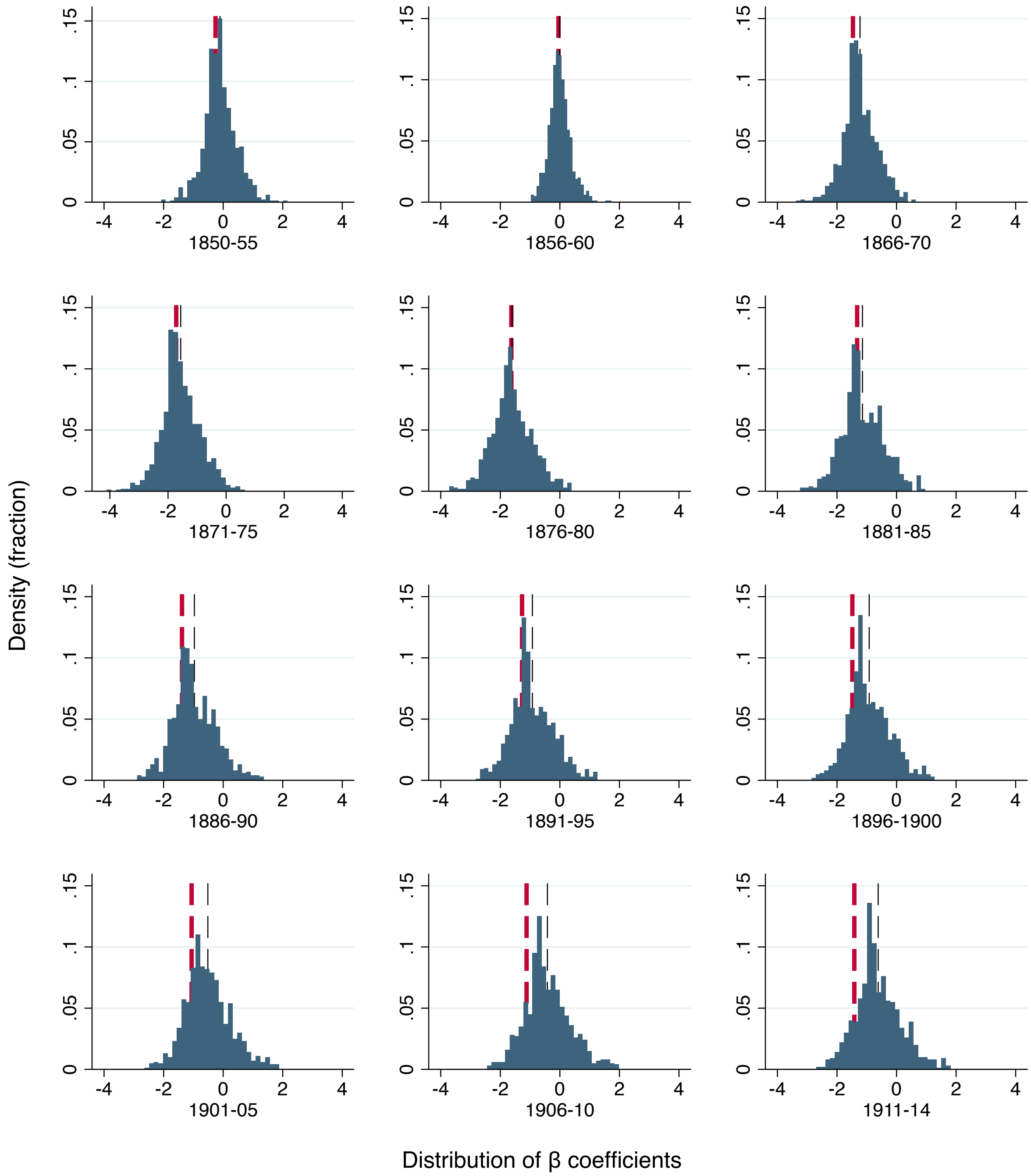
Notes: Figure B16 plots the fraction of exports in the top 3 SITC groups for each region. Exports values are calculated from 1865. The full list of countries and their geographic regions are given in Appendix E.4. Regions are listed by geographic proximity, beginning in North America and traveling south and east.

Figure 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: $\ln(\text{EX}_{odt}) = \theta_t \text{Fail}_o \times \text{Fail}_{o,other} + \beta_t \text{Fail}_o + \gamma_o + \gamma_{dt} + \varepsilon_{odt}$

Figure B18: Country region placebo



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

Notes: Figure B18 plots the frequency distribution of estimates of β_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 Table A9, 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.

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:

$$\Delta\ln(Y_l) = \beta_0 + \delta_1(\Delta\text{Credit}_l^{total}) + \varepsilon_l \tag{13}$$

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

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

This allows us to rewrite Equation 13 in the following way where $\beta_1 = \alpha_b * \delta_1$ and $\beta_2 = (1 - \alpha_b) * \delta_1$:

$$\Delta\ln(Y_l) = \beta_0 + \beta_1\Delta\text{Credit}_l^{Brit} + \beta_2\Delta\text{Credit}_l^{non-Brit} + \varepsilon_l \tag{14}$$

Instrumenting for total credit loss using British bank failures:

$$\Delta\text{Credit}_l^{total} = \gamma_0 + \gamma_B\text{Fail}_{l,B} + \nu_l$$
$$\varepsilon_p \perp 1, \text{Fail}_{l,B} \text{ and } \nu_l \perp 1, \text{Fail}_{l,B}$$

The 2SLS estimator is:

$$\hat{\delta}_1^{IV} \longrightarrow \frac{\text{Cov}[\Delta\ln(Y_l), \text{Fail}_{l,B}]}{\text{Cov}[\Delta\text{Credit}_l^{total}, \text{Fail}_{l,B}]} = \frac{\beta_1\text{Cov}[\Delta\text{Credit}_l^{Brit}, \text{Fail}_{l,B}] + \beta_2\text{Cov}[\Delta\text{Credit}_l^{non-Brit}, \text{Fail}_{l,B}]}{\alpha_b\text{Cov}[\Delta\text{Credit}_l^{Brit}, \text{Fail}_{l,B}] + (1 - \alpha_b)\text{Cov}[\Delta\text{Credit}_l^{non-Brit}, \text{Fail}_{l,B}]}$$

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

1. $\delta_1 = \beta_1$ when $\alpha_b = 1$, so $\beta_2 = 0$: non-British credit does not matter for trade
2. $\hat{\delta}_1^{IV} \longrightarrow \beta_1$ when: $\text{Cov}[\Delta\text{Credit}_l^{non-Brit}, \text{Fail}_{l,B}] = 0$: 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

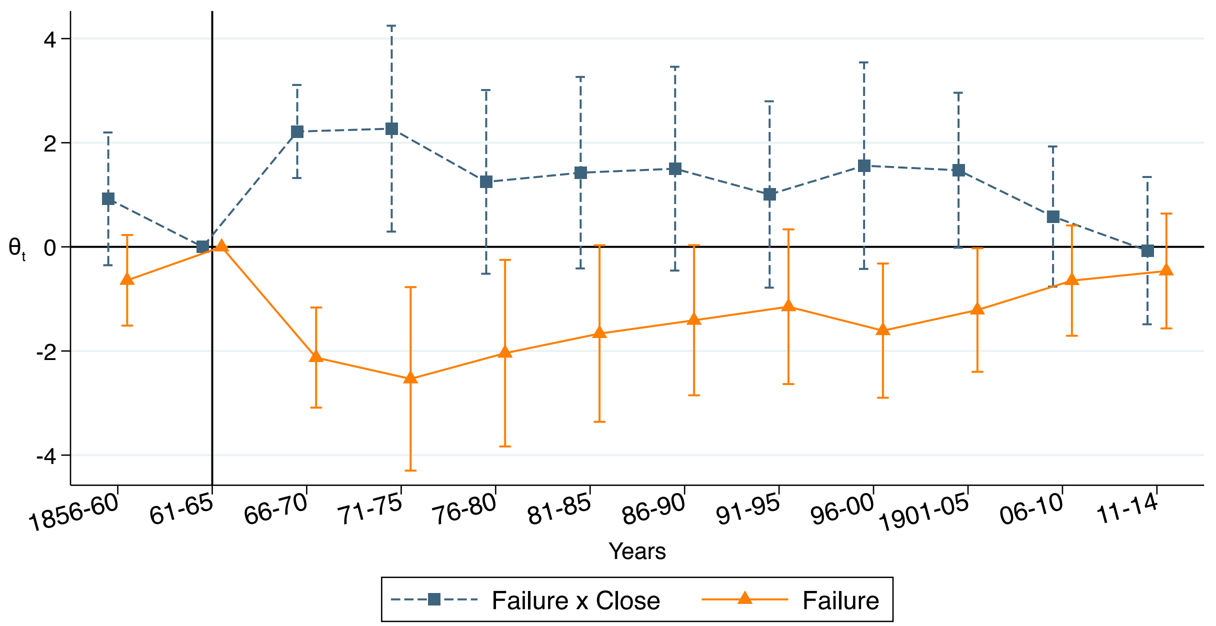
Shorter routes are less expensive to finance because goods spend less time in transit. An externally financed loan has shorter maturity, and it is easier for exporters to internally finance out of working capital. Since financing costs increase with the distance between trading partners, the key prediction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

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

Figure D19 plots $\theta_{t,close}$ in blue and β_t in orange. β_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 $\theta_{t,close} + \beta_t$, 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 β_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 Additional historical context

E.1 Trade finance

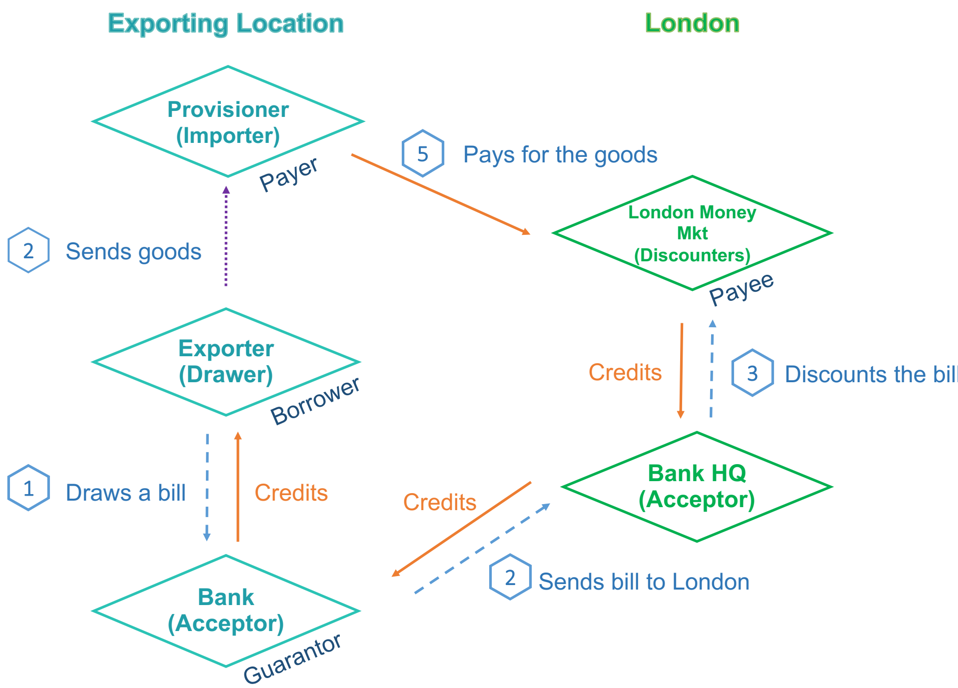
The mechanics of trade finance in the 19th century were conducted through bills of exchange traded among the networks of banks and interbank lenders centered on London. Bills were short-term loans that became contractual obligations when the creditor "accepted" it by signing across it. In their simplest 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 essentially acted as guarantors and transformed the idiosyncratic risk of individual borrowers into their own credit risk. As a result, bankers' acceptances 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.

A concrete example of how the funds flowed when banks acted as acceptors is presented below in Figure E20. In the Exporting Location, the "drawer" (exporter) draws a bill, which is "accepted" by his bank, and the exporter is given credit to fund his operations during the period of shipment. The exporter ships goods to the importer (the one who will ultimately settle the bill) while his bank remits the bill to its London headquarters. In

London, the bill is discounted on the money market, which provides the headquarters with fresh funding. In the final step, the importer's bank settles the bill as payment for goods when it matures.

Figure E20: Flowchart of life cycle of a bill of exchange



Notes: Figure E20 shows the flow of funds. Blue dashed lines indicate the passage of the bills of exchange; solid orange lines indicate the flow of credit, and dotted purple lines indicate the flow of goods. The steps in the process are numbered in the hexagons.

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.[68]

Table E19: 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: Table E19 lists a sample of the banks providing trade credit. The operational region is given as countries although city-level variation is used in many of the empirical estimations. Sources: Bank of England Archives C24/1, *Banker's Magazine*, select bank histories listed in Appendix F.

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

[68] 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)

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). See Table E19 for examples of these banks and their operating regions.

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 Court case for fraud: Peek v. Gurney

William Peek sued the surviving late directors of Overend & Gurney and the representatives of Mr. Gibbs, a deceased director, for the losses he sustained after purchasing 2000 shares in the company. The plaintiff alleged that he purchased the shares based on the prospectus, but that the defendants had "intentionally suppressed facts of vital importance, which, if disclosed, would have prevented him from making any such purchase," (p. 26).

The full write-up of the court case for the legal profession, published in *The Law Times: The Journal and Record of the Law and the Lawyers* Volume 52 in 1872, is printed below.

> THIS was a suit instituted by William Peek the younger against the arriving late directors of Overend, Gurney, and Company (Limited), and the representatives of Mr. Gibbs, deceased director, praying for a declaration that the defendants were liable to make good to the plaintiff the loss he had sustained by reason of his having purchased 2000 shares in the company on the faith of the prospectus put forth by the directors, which, as he alleged, intentionally suppressed facts of vital importance, which, if disclosed, would have prevented him from making any such purpose. The evidence in the cause established in his Lordship's opinion that in May 1865. when Messrs. Gurney resolved on the formation of a company, if the firm had attempted to go on without assistance they must have speedily stopped payment, and that if they had stopped they would have paid only a very small dividend; that at that date the liabilities of the firm totally independent of its legitimate business were in round numbers, 4,000,000*l*, and its assets only 1,000,000*l*, that the firm was then hopelessly insolvent, and all the members of the firm were aware of that fact. In that state of affairs the members of the firm applied to the defendants Barclay, Gordon, Rennie, and Gibbs, explained to them the position of the firm, and induced them to join in the formation of the company. Accordingly on the 12th July, 1865, they issued the prospectus for the formation of the company to purchase the business of the firm for 500,000*l*, one half of which was to be paid in cash, and the other half in shares on which 15*l* per share was to be credited as fully paid up. The company was to consist of 100,000 shares of 50*l* each, of which 15*l* per share was intended to be called up. The plaintiff was not one of the original shareholders, but purchased shares in the market.
>
> Lord ROMILLY was of opinion that the defendants had acted bonâ fide with the view of preserving the goodwill of the old business, and in the firm belief that the million and a half that would be obtained by the formation of the company would be sufficient to effect that purpose. The real object of the formation of the company was to preserve this goodwill which the partners and their families could not command money enough to preserve. It was essential to the formation of the company that this fact should be concealed as the public would not otherwise have taken shares. The honest belief of the directors in the probable success of the company exonerated them from liability in a criminal court, but not in a court of equity. The concealment of a most material fact, which concealment the concealer believes will be beneficial to himself and the man whom he induces thereby to join with him in a speculation does not, his Lordship thought, exonerate him from the consequences in a court of equity. Upon the concealed fact being known or

not depended the whole scheme. The prosecution of the directors for a criminal offence was extremely ill-advised; they did not intentionally try to induce persons to put money into concern which they knew would fail; on the contrary they sincerely believed that it would succeed. But that was no excuse in equity, which requires not only that there should be an absence of any intention, or even of any motive to deceive but also that the truth should be told and that not only that there should be an absence of any intention, or even of any motive to deceive, but also that the truth should be told and that not partially, but that the whole truth should be told. If anyone of the shareholders had, shortly after the shares had been allotted to him, discovered the facts and filed a bill to have the allotment cancelled and his money returned, the court would not have hesitated to give him the relief sought for, or, if that was impossible, make the directors personally liable to make good the loss he had sustained. There were, however, other considerations in the present case. Did the case of deception by the prospectus apply to the plaintiff, who was a transferee of shares, and not an allottee, and had the plaintiff come in sufficient time and with sufficient diligence to induce the court to interfere in his favour? With regard to the first question, his Lordship thought that if an allottee of shares was bound by time or condonation, a transferee was bound also by the same bar. As regards the other question when a man takes shares in a company he ought to ascertain at once whether the representations, on the faith of which he took his shares, are correct or not. In the present instance the shares were bought in Oct. 1865, and Jan. 1886, but the plaintiff never made any inquiry into the condition of the concern until after the failure in May 1866, and, but for the failure, would doubtless have made no inquiry at all. There was no conduct more rigidly reprobated in equity than the system of playing fast and loose—of adopting a company if successful, and repudiating it if it fails, and calling on the directors for indemnity. He was therefore of opinion that the plaintiff came too late for equity to assist him in this case. If before the failure an allottee had applied to the court either to cancel his shares, or to make the directors personally liable, he would have obtained a decree in his favour, but the time which had elapsed, and the order for the winding-up of the company, entirely precluded the plaintiff from obtaining the cancellation of the contract, according to the decision in Oakes v. Turquand (16L.T. Rep. N. 8. 642), and, in his Lordship's opinion, the plaintiff was precluded on similar grounds from requiring the personal indemnity of the directors. The lapse of time before filing the bill was fatal to the plaintiff's claim, and the bill must be dismissed, but without costs, on the ground that the directors, although they did not gain or seek to gain, any advantage by their concealment, were nevertheless highly culpable in a moral point of view, and had by their misconduct, occasioned the calamities caused by the failure of Overend, Gurney, and Company.

Bill accordingly dismissed without costs.
Solicitors for the plaintiff, W. A. Downing.
Solicitors for the defendants, Young, Jones and Co.; Bevan and Whitting; Wilson, Bristowe, and Carpmael, Young, Maples, Teasdal, and Co.; Uptons, Johnson, and

Upton; Maynard and Son.

Kay, Q.C., Swanston, Q.C., and Joliffe, for the plaintiff.
Roxburgh, Q.C. and Lindley, for the defendants H. E. Gurney, J H. Gurney, and R Birkbeck.
Sir Roundell Palmer, Q.C., Fry, Q.C., and Sayer, for the defendant H. F. Barclay.
Fooks, Q.C. and W. C. Fooks for the defendant H.G. Gordon.
Jessel, Q.C, Macnaghten, and Medd, for the defendant W. Rennie.
Sir Richard Baggallay, Q.C., Macnaghten, and F.W. Maclean, for the representatives of J.C. Gibbs.
Ferrers, for the liquidators of the company.

E.2.3 Previous scholarship on Overend's failure

During the court case following Overend & Gurney's failure, the following was said in Chancery by Vice-Chancellor Mallins about what was believed about the firm:

> The great firm of Overend, Gurney, and Co. is stated on all sides to have been founded towards the end of the last century, and it had consequently been in existence, in 1865, for at least sixty-five years. During that period it had attained the greatest commercial repute, and was universally considered by those best informed on such subjects to be one of the most flourishing and money-making concerns in the greatest commercial city in the world.

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 & Gurney's demise in *Lombard Street* blames the entirety of the failure on the directors:

> 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.3 London banking crisis

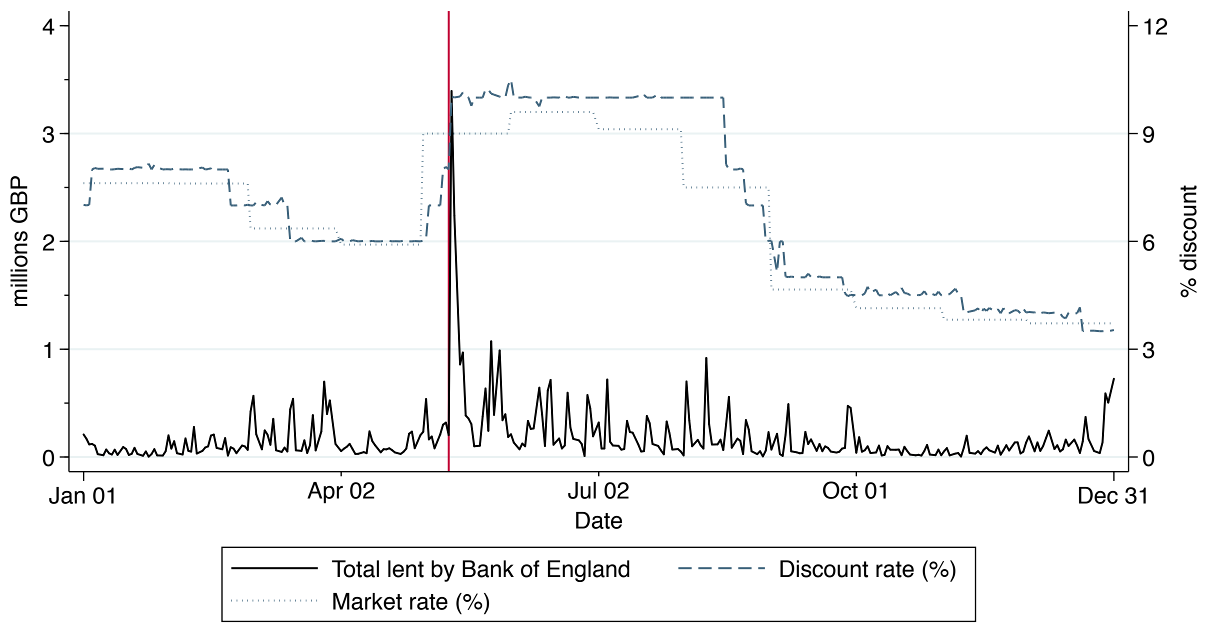
E.3.1 Bank of England response

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. Suspending it would allow the Bank of England to accommodate the demands for liquidity by issuing currency beyond the gold reserve at the Bank of England to meet the demands at its discount window. The government gave its permission, but the announcement alone 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. The time series of the Bank's discounting activity for 1866 is show in Figure E21. 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. The Bank of England was praised for averting a deeper crisis, but 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.

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

Figure E21: Bank of England Discount Window lending in 1866



Notes: Figure E21 shows the total amount of lending by the Bank of England at its Discount Window (left axis). The Bank of England's Discount rate and the open market rate of discount are plotted on the right axis. The red vertical line marks May 11, 1866. Sources: Bank of England Archives C24/1

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: Bank of England Archive (G4/89)

E.3.2 Sample selection of bills

Banks discounted bills that had originally been accepted by *other* banks, which reflected the *other* banks' loans. 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 (reflecting the loans of other banks) are underrepresented in the data. However, the relevant selection is at the bank-location level, not just at the bank-level. In order for adverse selection at the discount window to be driving the results, it would need to be the case that bills from good banks in locations with export growth are underrepresented in the sample, and bills from bad banks in locations with exports contractions are overrepresented.

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.

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.

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 sources

F.1 Data constructed

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 manually standardized according to Standard International Trade Classification (SITC) codes version 4. Appendix figure B2 lists the value of exports by SITC category.

Sailing distances between ports

The sailing distance between ports is reported in nautical miles in the *Philips' Centenary Mercantile Marine Atlas II* published in 1935. Distances for different sailing routes are given, but I exclude the Suez Canal route because it was not open until 1869. The routes that are allowed include the Kiel Canal, Cape of Good Hope, Strait of Magellan, Cape Horn, and Torres Strait.

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.

F.2 Data collected

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 2, 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).

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