Public Disclosure Authorized

Public Disclosure Authorized

WPS 1539

POLICY RESEARCH WORKING PAPER 1539

The Rise of Securities Markets

What Can Government Do?

Richard Sylla

Institutions interested in stimulating the development of securities markets in developing and transition economies should remember lessons from U.S. financial history: Put fiscal practices on a solid ground and then encourage disclosure of financial information to investors. One benefit of a good stock market is that a developing country will find it easier to sell bonds to foreign investors. At least that was the U.S. experience more than a century ago.

The World Bank
Policy Research Department
Finance and Private Sector Development Division
and
Financial Sector Development Department
November 1995

Summary findings

Using U.S. securities markets as a case history, Sylla explores the role securities markets play in economic development, how they emerge, and how regulation can make them more effective.

Why the United States? Two centuries ago, it was a small undeveloped country with serious financial problems. It confronted those problems and, guided by Alexander Hamilton, creatively reformed its financial system, which then became a foundation of the U.S. economic infrastructure and a bulwark for long-term growth. When Hamilton's program established public credit and securities markets in the early 1790s, U.S. citizens were immediately able to borrow from older, richer countries. U.S. wealth then increased until, by the end of the nineteenth century, U.S. residents began to lend and invest more abroad than they borrowed.

During the 1820s and 1830s, the United States — usually state governments — borrowed large sums from foreign investors to build roads, canals, and early railroads, to make other transportation improvements, and to capitalize state banks. From the 1830s to the end of the century, still larger sums from overseas went into private U.S. railway companies that provided cheap transcontinental transportation. Most of this borrowing took the form of state and corporate bond sales to overseas investors. The pristine U.S. government credit established by Hamilton thus rubbed off on U.S. state and corporate debt.

The British stock market did better than the U.S. market until the United States adopted security-market regulation (including disclosure rules) under the SEC. Then the U.S. market became a world leader.

The U.S. stock market developed more slowly than the bond market, but it both aided and benefited from foreign investment in U.S. bonds. Foreign investors preferred debt securities to equities, yet equities create a safety margin for bondholders who, because of this margin, are more willing to purchase and hold bonds.

Foreign investors preferred bonds; U.S. investors, after exporting bonds, held more stocks than bonds at home. Why? Because good stock markets permit the conversion of equity securities into cash.

This paper — a joint product of the Finance and Private Sector Development Division, Policy Research Department, and the Financial Sector Development Department—was presented at a Bank seminar, "Financial History: Lessons of the Past for Reformers of the Present," and is a chapter in a forthcoming volume, *Reforming Finance: Some Lessons from History*, edited by Gerard Caprio, Jr. and Dimitri Vittas. Copies of this paper are available free from the World Bank, 1818 H Street NW, Washington, DC 20433. Please contact Daniele Evans, room N9-061, telephone 202-473-8526, fax 202-522-1955, Internet address pinfo@worldbank.org. November 1995. (15 pages)

The Policy Research Working Paper Series disseminates the findings of work in progress to encourage the exchange of ideas about development issues. An objective of the series is to get the findings out quickly, even if the presentations are less than fully polished. The papers carry the names of the authors and should be used and cited accordingly. The findings, interpretations, and conclusions are the authors' own and should not be attributed to the World Bank, its Executive Board of Directors, or any of its member countries.

Produced by the Policy Research Dissemination Center

The Rise of Securities Markets: What can Government Do?

by

Richard Sylla

This paper was presented at a World Bank Seminar, "Financial History: Lessons of the Past for Reformers of the Present," and is a chapter in a forthcoming volume, Reforming Finance: Some Lessons from History, edited by Gerard Caprio, Jr. and Dimitri Vittas. The author wishes to thank the participants at that seminar and the editors for their comments.

Table of Contents

Securities Markets in U.S. History

Securities Markets and Economic Development

Securities Markets and Public Finance

Case Study: Alexander Hamilton and the Formation of the U.S.

Financial System

Funding the War Debt

Creating the Bank of the United States

Hamilton's Legacy

References

Discussion

Table and Figures

What role do securities markets play in economic development? How do they emerge in the development process? And how can regulation make them more effective? Like many a business school professor, I will use a case study to explore these issues. The case is the history of U.S. securities markets, a history that I believe is very relevant to policymakers and financial reformers concerned with developing countries today.

Some might doubt that lessons of financial history from the United States could be relevant to developing and transition economies. I would remind these doubters that two centuries ago the United States was a small and undeveloped country with serious financial problems. But it confronted those problems and creatively reformed its financial system, which then became a foundation of the U.S. economic infrastructure and a bulwark of the country's long-term growth. Several background papers—Sylla and Smith (1993, 1993a) and Sylla, Wilson, and Jones (1994)—examine this history in great detail. Here I will mention only the most interesting points and add some additional evidence regarding the importance of foreign investment in U.S. history and the role of securities markets in promoting foreign investment.

Securities Markets in U.S. History

Securities markets in the United States have a long history. The commercial paper market, as far as financial historians can discern, did not begin until the 1830s, but the bond and stock markets date back to the first term of George Washington.

As an economist and financial historian I have been interested in the question of what we can learn about early U.S. economic growth from financial data. Aggregate data on production are to sketchy

to allow for good estimates of gross product before the mid-1830s. And by that time the U.S. economy was already growing at high, modern rates.

When did modern economic growth begin in the United States? The returns that investors in the United States earned on stocks and bonds suggest that a great upsurge of economic growth began sometime around 1815. Although the financial returns data show cyclical downturn around 1824, on closer inspection this drop seems to be an interruption in very rapid growth: returns grew to be extremely high by 1824 and then fell to a "mere" 10 percent in succeeding years. Even in the depression of the 1840s the real return on stocks was 5 percent on a ten-year moving average.

Economic historians debate when modern economic growth really took off in the United States. From the financial returns evidence, I conclude that sometime after the War of 1812 there was a great upsurge, a great bull market, which lasted until about the middle of the nineteenth century. This trend is seen in both the stock (equity) and bond markets. As I note later in more detail, stocks and bonds tend to deliver better long-run returns when effective government is in place. That is one lesson of U.S. history.

Securities Markets and Economic Development

What role can securities markets play in economic development? Like all financial markets they link "deficit units"—people, enterprises, or governments—which want more funds than they currently have to "surplus units," which have more funds than they currently need. In more colorful, if less comprehensive, terms securities markets provide a meeting place for investors and borrowers who want to invest money in business (real productive assets) and the savers and lenders who seek financial returns. The users of capital—government and businesses—are the issuers of securities, whereas the providers of capital are the buyers of securities.

Banks, of course, provide another meeting place for borrowers and lenders. Historically, in countries that witnessed the rise of securities markets, a division of labor in finance emerged with banks dealing in relatively short-term loans and the securities markets providing long-term funds. But there were many gray areas between and overlaps among the long- and short-term financial markets. Today the distinctions are even less clear as banks increasingly take long-term investment positions in nonbank enterprises, and the securities markets "securitize" many types of short-term loans. Banks and securities markets compete, but they also cooperate with and complement each other. A well-developed financial system features both banks and securities markets. The trend of financial history nonetheless seems to favor an increasingly important role for securities markets and a lesser role for banks. Regional, national, and world financial centers tend to be characterized more by the presence of developed securities markets than by that of large banks.

Securities markets have two broad components: primary and secondary markets. The primary securities market is the new-issue market where securities originate, that is, where bond and stock issues are born, typically with the assistance of midwives called investment or merchant bankers. The secondary markets, the banks we read about in the papers everyday and whose results are regularly reported on radio and television, are the trading markets where stocks, bonds, and other securities are bought and sold by investors after they are issued.

Many people, including some economists, do not think that secondary markets are important in a fundamental economic sense because they only shuffle assets (or the ownership of assets) from one owner to another. This view is incorrect for at least two reasons. First, the primary, new-issue markets would probably not exist or would be much smaller than they are if the secondary markets did not exist to give liquidity or shiftability to securities after they are first issued. When I exchange some of my money for a twenty-year bond or 100 shares of common stock, one of the most important reasons I do so

is because if I change my mind tomorrow (or next month or next year), I can sell the stock or bond to someone else in the trading market and turn it back into money.

Second, secondary trading markets produce an extremely valuable commodity: information. Information and liquidity are really the products of secondary markets. Although many people think that there is too much information in our world today, that we are in danger of suffering from information overload, when it comes to investment decisions there never seems to be enough information. The social function of secondary securities markets lies in their generation of tremendous amounts of information on the value of government debts, on the value of corporate bond and stock issues, on the trade-offs between present and future income and consumption, and on the yields and returns of different investments. All of this information is extremely important for efficiently allocating the world's capital.

Securities markets contribute to development in that they increase savings and investment flows and make the allocation of these flows more efficient. In doing so, they reduce the cost of funds to borrowers and investors in real productive assets while increasing the returns to savers, lenders, and financial investors. They accomplish this by creating liquidity and generating information, thereby encouraging people to save and invest more.

Securities Markets and Public Finance

Let me anticipate some of the lessons I will draw from the evolution of securities markets. The first lesson is that it is important to take a holistic view in thinking about finance and the financial system—we must recognize that each component of this system is related to every other part. Trying to reform or fix just one part of a financial system in a country is probably not going to be very useful to its citizens if other parts are defective. Instead, one should consider every part—the monetary system, the

banking system, the securities and other capital markets, and, possibly most important of all, the public finance system.

The public finance system teaches a second lesson. As I read history, I see that public finances are often crucial to the development of an effective financial system. Effective public finance can set the tone for and tie together all parts of a fully articulated system of public and private finance. The public finance aspects of financial systems are much more important than one would discover today by studying in a typical economics or finance department at a college, university, or business school. We live in an age of academic specialization. Public finance economists pay little or no attention to private finance, and finance specialists pay no attention to public finance, other than to assume that it is in place and generates safe assets, such as treasury bills, to include in efficient portfolios. But historically, public and private finance were much more closely intertwined. In fact if a country gets its public finances right, other components of a financial system such as securities markets naturally emerge.

How can we apply these lessons to today's developing countries? Clearly, before trying to reform banks and establish securities markets, pension funds, or deposit insurance, governments and their financial advisors must get public finances in order. Then, many other facets of the financial system will fall into place.

A third lesson applies directly to securities markets. Because securities markets are essentially markets in information, regulation can improve them by increasing the amount of information that they receive and process, and disseminating this information among actual and potential investors. Many people hold that if information is really worthwhile, it will come out automatically through market processes. But historically, capital markets did not automatically generate needed information. Information certainly has value, but in capital markets people who have had inside information have wanted, as a matter of self interest, to retain their monopoly power. Some of the great figures in financial

history were people who had inside information and made a lot of money controlling that information. Therefore, the kind of regulation that the Securities and Exchange Commission (SEC) enforces in the United States, especially in the area of corporate disclosure, is good overall, even though one could disagree with some features of how the SEC implements its mandate. Although SEC regulation was widely resented when it was first implemented, some of the more knowledgeable and thoughtful financial-market practitioners on Wall Street now recognize that the U.S.'s huge, innovative, and highly successful capital markets owe much to the confidence in their openness, honesty, and fairness that participants gained as a result of SEC regulation.

Case Study: Alexander Hamilton and the Formation of the U.S. Financial System

Just over two centuries ago the United States was a developing economy. It was populated with only 3.9 million people in 1790. In a very short time, largely because of the financial genius of one person, the United States got its public finances in order, and consequently, private financial institutions and markets developed soon after. Because a good financial structure developed, the United States had from the outset a critical piece of economic infrastructure that facilitated all subsequent development. Thus before there were more than a handful of isolated banks, before the industrial revolution came to a nation where 90 percent of the people worked in agriculture, before the great transportation improvements of the nineteenth century, and before the westward movement across the North American continent, the basis of a resilient financial system grounded in strong public finances suddenly emerged in the United States.

What was the financial problem at that time? The American Revolution of 1775-81, financed largely by paper money and evidences of debt, led to inflation and monetary depreciation plus a huge overhang of domestic and foreign debt. In the 1780s, after the war was over and independence achieved, economic conditions were depressed, and both the states and the national government struggled with

their debt overhangs. The states made some progress in handling their debt problems. The national government made no progress because it did not have any taxing power. The U.S. revolutionaries had fought a war against a strong British government, and they naturally set up a weak government under the Articles of Confederation, the original U.S. governmental compact. Under the Articles the Congress could requisition financial support from the states, but given the depressed conditions in the 1780s, the states were not inclined to respond favorably to the national government's call for assistance.

At the same time, because of the depression, some states began printing more of their own paper money and putting tariffs on imports from other states. Other states retaliated with tariffs of their own. These were not strong signs of unity in the newly established United States. Some of the states raised taxes to try to service and pay off their debts. Massachusetts was a notable example, with notable consequences in Shays's Rebellion of 1786-87, an early U.S. taxpayers' revolt. This was an armed revolt, not a revolt at the ballot box. And also not a sign of unity.

Clearly, a fundamental problem under the Articles of Confederation was the absence of taxing power at the national level. When states failed to meet the requisitions of the Confederation Congresses, the principal and interest on the large national debt that had been incurred to gain independence was not paid, and therefore more debt was incurred as payment of interest on the old debt. Does this country sound like a transitional economy with serious financial problems? Possibly.

Controversies over tariffs between states and other commercial difficulties led to a convention in Annapolis in 1786. That convention led to a call for another convention in Philadelphia in the spring and summer of 1787 to revise the Articles of Confederation. The Philadelphia convention drafted a new constitution, giving the new federal government powers of taxation and, more importantly given the problems at the time, the power to regulate trade between the states. That decision was fundamental because it established the potential for a large, internal free-trade area more than 200 years ago—a

potential soon realized. The Constitution of 1787 also gave the federal government monetary powers, taking from the states the power to print their own paper money. The weak national government defined by the Articles became a strong federal government of the Constitution. After much debate between Federalists—supporters of the Constitution—and Antifederalists the Constitution was adopted. George Washington was elected as the first national president and took the oath of office in April 1789—opposite what today is the New York Stock Exchange in Wall Street. The first congress under the Constitution passed the Tariff Act of 1789, and on July fourth the new government's first tax became law.

Now entering the picture was Alexander Hamilton (1757-1804), the financial genius who would get U.S. public finances right and, in the eyes of at least one contemporary and knowledgeable French observer of the world scene, the diplomat Talleyrand, who was the leading statesman of that whole period of history. Hamilton, of course, enters now only in the context of this chapter: he was a leading participant in most of the key events between 1774 and 1801. Hamilton had written revolutionary pamphlets as a teenager on the eve of the Revolution, had crossed the Delaware with Washington, spent the winter at Valley Forge, and stormed the last redoubt at Yorktown in 1781 as a soldier. He had called for a constitutional convention as early as 1780, had participated at Annapolis in 1786 and at Philadelphia in 1787, had written much of *The Federalist* to defend and explain the new Constitution in 1787-1788, and had led the successful fight for its ratification in New York's ratification convention in 1788. Yet he was only thirty-two years old when he became the first secretary of the treasury in 1789.

Funding the War Debt

Hamilton's first task was to draw up a plan to fund all the outstanding debts connected with gaining independence. "Funding" in this context meant restructuring the debts, funding interest payments right

away, and eventually making provisions to redeem the principal. In January 1790 Hamilton, just three or four months in office, came up with a plan for funding all national debts and those of the states that had issued their own debts in the cause of independence. Because the states had issued debts for a common cause, Hamilton argued that the national government should assume those debts and fund them with long-term United States government bonds, paying interest and principal in gold and silver.

How was Hamilton able to claim that the United States could pay the interest and principal in gold and silver? Precisely because the new government had the power to tax imports. These taxes were important for raising revenue, rather than for protectionist purposes, and were to be paid in gold and silver money. Hamilton could promise to pay U.S. creditors in gold and silver provided that U.S. revenues were sufficient. To insure that they were sufficient, he also added to his plan an excise tax on whiskey, a domestic tax that was enacted to help pay for the assumption of state debts. Other domestic excise taxes soon followed. In 1790 the federal debt, including arrears of interest, was estimated to be $54 million, and the aggregate state debts to be $25 million. Congress vigorously debated Hamilton's plan for several months and finally adopted it. An interesting byproduct was a compromise Hamilton struck with Southerners, particularly the Virginian opponents of his plan. In return for their support the U.S. capital would be moved from New York City to Philadelphia, and eventually to the banks of the Potomac in what became Washington, D.C.

The impact of Hamilton's program on the value of U.S. debt was dramatic. What were junk bonds in August 1789, when Hamilton was just about to become secretary of the treasury, quickly became prime paper. The main issues of revolutionary war debt were selling at 25 percent of par in the summer of 1789, but a year later, just after the bill had been enacted by Congress, the price rose to 60 percent of par. In August 1791, when the main federal debt issue started to carry interest in gold and silver, the price was 100 percent of par. In September 1792, toward the end of President Washington's

first term, these bonds were selling at 120 percent of par. The junk bonds of 1789 became prime low-risk bonds by 1791-92 as a result of Hamilton's funding plan and its execution. The implementation of the plan created a lot of new securities—some $70 million of them—and active trading markets for these securities quickly emerged on Wall Street and in a few other cities. The United States now had a bond market.

Creating the Bank of the United States

The next task in Hamilton's financial plan was to create a Bank of the United States, which would serve as the government's fiscal agent and also serve in other capacities. This task arose toward the end of 1790, and again the Southerners resisted. The origins of political divisions in the United States today are found in the debates that took place over Hamilton's bank. Jefferson and Madison contended that Hamilton's plan for a Bank of the United States was unconstitutional because the Constitution did not explicitly grant the new government the power to charter such an institution or, in fact, even mention the word bank. Hamilton, however, persuaded Congress to pass his Bank bill, and then persuaded President Washington, against the advice of his other cabinet members, to sign the bill, arguing that the Constitution had implied powers. Hamilton contended that the Constitution was designed to promote the nation's welfare, and therefore implied that the government could create a bank if it would accomplish this. The legal principle of implied powers, developed by Hamilton to secure his bank, became a pillar of constitutional law everywhere.

Soon after the Bank bill was enacted in 1791, scrip (rights to subscribe to Bank shares when they became available) was issued and became an object of frenzied trading. Not long afterward the Bank itself issued equity shares—$10 million worth—and the trading in these shares commenced. By 1791 the United States had active stock markets, especially on Wall Street.

Hamilton demonstrated his financial acumen as well as statecraft in making much of the Bank's stock available for purchase by tendering the U.S. bonds created from his funding plan. Thus the Bank supported the national debt, and the debt supported the Bank. And the holders of U.S. bonds and Bank stock had strong reasons to support the new federal government.

Hamilton's Debt and Bank bills and his Mint bill and Report on Manufactures that soon followed were all completed within two years. They essentially created the U.S. money and capital markets. The federal government collected its revenue, minted coins, paid interest on a large national debt, and was able to borrow from the Bank of the United States. The Bank of the United States helped to manage the government's finances and practiced private banking as well. The securities markets traded U.S. bonds and Bank stock, and with these issues at their base, they extended their scope to include other securities issues. Both the government and the U.S. economy emerged stronger.

Hamilton's plan to align the interests of government, business, and investors also attracted foreign capital. He predicted that if his program were adopted, the United States would export securities. And that is exactly what happened. By 1795, of a national debt totaling about $70 million, $20 million was held abroad. This figure rose to $33 million in 1801, and to $50 million in 1803. The Bank of the United States was capitalized in 1791 at $10 million, and by 1803, barely a decade since its birth, about 60 percent of its stock had been purchased by foreign investors. Largely because of Hamilton's system, U.S. credit had risen in the world. A decade after his plans were conceived and implemented, a huge amount of U.S. securities were held overseas, meaning that capital had been transferred to the United States. Ironically, Thomas Jefferson, who had so often opposed Hamilton's plans, became a beneficiary of Hamilton's system. When Jefferson, as president in 1803, was offered the Louisiana territory by Napoleon (a purchase that would double the size of the United States), he was easily able to borrow the

purchase amount in Europe because of the prime credit status the United States had attained as a result of Hamilton's program.

Hamilton's Legacy

Once securities markets are established with firm grounding, as they were early in U.S. history, they remain important in a country's long-term development. When Hamilton's program established public credit and securities markets in the early 1790s, U.S. citizens were immediately able to borrow from older, richer countries. And these effects persisted for more than a century: by the end of the nineteenth century the United States had become so developed and wealthy that U.S. residents began to lend and invest more abroad than they borrowed.

During the 1820s and 1830s the United States—usually state governments—borrowed large sums from foreign investors to build roads, canals, and early railroads; make other transportation improvements; and capitalize state banks. From the 1840s to the end of the century, still larger sums from overseas went into private U.S. railway companies that provided a continental economy with cheap transportation. Most of this borrowing took the form of state and corporate bond sales to overseas investors. The pristine U.S. government credit established by Hamilton thus rubbed off on U.S. state and corporate debt.

The U.S. stock market developed more slowly than the bond market, but it both aided and benefited from foreign investment in U.S. bonds. It was only natural that foreigners who invest in a country, particularly a young but promising country, would prefer debt securities to equities. Yet equity securities are good for a country—or, for the corporate enterprises of a country—because they create a safety margin for bondholders, who, because of this margin, are more willing to purchase and hold

bonds. Data for the United States in the 1850s indicate that outstanding securities totaled between $1 billion and $1.5 billion, and were about evenly divided between bonds and equities. Other data for the same period show that about one-fifth of U.S. securities were held by foreign investors (table 11.1). Foreign holdings of U.S. securities in 1853 were mostly bonds (about 93 percent) with only about 7 percent in stocks (equities). In other words, foreign investors had a much stronger preference for bonds compared with U.S. investors, who, after they exported bonds, held more stock than bonds at home.

It is understandable that foreign investors in the United States preferred to hold bonds. But why were U.S. investors willing to hold almost all of the outstanding U.S. equities? The answer to this question reveals why secondary trading markets for securities were important. Because good stock markets permit the conversion of equity securities into cash, more people become more willing to invest in equities. This is the benefit of a good stock market for a developing country: the country will find it easier to sell bonds to foreign investors. That, at least, was the U.S. experience more than a century ago.

A final point I would make about historical securities markets concerns the size of corporate stock as a percentage of national assets (table 11.2). U.S residents, relative to their economy's total assets, had the biggest stock market in the world in the early nineteenth century, even though they were mainly a nation of farmers at that time. The United States maintained a stock market even larger than that of Britain, a country whose economy was more developed. Britain's earlier legislation—the Bubble Act and other laws dating from the early eighteenth century—made it difficult to establish corporations. Thus it is not surprising that Britain lagged behind the United States in equity market development, as the United States had no such constraints. By the middle of the nineteenth century the United States had outpaced other countries, such as Germany, by even more in terms of the ratio of stock to national assets. But the British did manage to catch up. And by the beginning of the twentieth century Britain surpassed the United States in corporate stock relative to national assets.

Why did Britain catch up with and pass the United States in terms of this measure of stock market development? One important reason is that the British, beginning in the mid-nineteenth century, began to develop stock market regulation, requiring corporations to issue prospectuses, to place audited reports in the hands of investors, and to make other disclosures to investors. This regulation developed at the end of the nineteenth century and was firmly established by the early twentieth century. The United States, on the other hand, did not require companies to publish audited reports, they did not require registration of securities issues, and there was no federal securities regulation. With limited information in the hands of investors, insider trading flourished in U.S. equity markets and stifled equity market development. During the 1930s and 1940s, however, the United States, with its SEC-mandated disclosure and other forms of security-market regulation, caught up with and passed the British. Since that time U.S. stock and bond markets have remained world leaders in many respects.

Thus what many developing and transitional economies need today is another Alexander Hamilton. But such genius and talent is rarely seen. The modern age, however, has substitutes. If the World Bank and other modern institutions are interested in stimulating securities market development in developing and transitional economies, they should remember lessons of U.S. history: put fiscal practices on a solid ground and then encourage disclosure of financial information to investors. These measures will stimulate both the emergence of securities markets and the demand for securities. Once they are in place, the authorities need only to get out of the way—security markets will continue to develop on their own.

References

Sylla, Richard, and George David Smith, 1995. "Information and Capital Market Regulation in Anglo-American Finance." In Michael D. Bordo and Richard Sylla, eds., *Anglo-American Financial Systems: Institutions and Markets in the Twentieth Century.* Burr Ridge, Ill.: Irwin.

Sylla, Richard, and George David Smith, 1993. "The Transformation of Financial Capitalism: An Essay on the History of American Capital Markets." *Financial Markets, Institutions & Instruments* 2(2):.

Sylla, Richard, Jack W. Wilson, and Charles P. Jones. 1994. "U.S. Financial Markets and Long-Term Economic Growth, 1790-1989." In Thomas Weiss and Donald Schaefar, eds., *American Development in Historical Perspective.* Stanford: Stanford University Press.

Policy Research Working Paper Series

	Title	Author	Date	Contact for paper
WPS1517	Inflation Crises and Long-Run Growth	Michael Bruno William Easterly	September 1995	R. Martin 39120
WPS1518	Sustainability of Private Capital Flows to Developing Countries: Is a Generalized Reversal Likely?	Leonardo Hernández Heinz Rudolph	October 1995	R. Vo 31047
WPS1519	Payment Systems in Latin America: A Tale of Two Countries — Colombia and El Salvador	Robert Listfield Fernando Montes-Negret	October 1995	S. Coca 37664
WPS1520	Regulating Telecommunications in Developing Countries: Outcomes, Incentives, and Commitment	Ahmed Galal Bharat Nauriyal	October 1995	P. Sintim-Aboagye 38526
WPS1521	Political Regimes, Trade, and Labor Policies	Arup Banerji Hafez Ghanem	October 1995	H. Ghanem 85557
WPS1522	Divergence, Big Time	Lant Pritchett	October 1995	S. Fallon 38009
WPS1523	Does More for the Poor Mean Less for the Poor? The Politics of Tagging	Jonah B. Gelbach Lant H. Pritchett	October 1995	S. Fallon 38009
WPS1524	Employment and Wage Effects of Trade Liberalization: The Case of Mexican Manufacturing	Ana Revenga	October 1995	A. Revenga 85556
WPS1525	Is Ethiopia's Debt Sustainable?	Ejaz Ghani Hyoungsoo Zang	October 1995	A. Nokhostin 34150
WPS1526	Do We Face a Global "Capital Shortage"?	Zia Qureshi	October 1995	V. Barreto 87216
WPS1527	Foreign Direct Investment, Other Capital Flows, and Current Account Deficits: What Causes What?	Maxwell J. Fry Stijn Claessens Peter Burridge Marie-Christine Blanchet	October 1995	R. Vo 33722
WPS1528	Developing Commercial Law in Transition Economies: Examples from Hungary and Russia	Cheryl W. Gray Kathryn Hendley	November 1995	G. Evans 85783
WPS1529	Interest Rates, Credit, and Economic Adjustment in Nicaragua	Ulrich Lächler	November 1995	G. Carter 30603
WPS1530	Poverty, Inequality, and Social Policy in Transition Economies	Branko Milanovic	November 1995	G. Evans 85783

Policy Research Working Paper Series

	Title	Author	Date	Contact for paper
WPS1531	Some New Evidence on Determinants of Foreign Direct Investment in Developing Countries	Harinder Singh Kwang W. Jun	November 1995	S. King-Watson 31047
WPS1532	Regulation and Bank Stability: Canada and the United States, 1870–1980	Michael Bordo	November 1995	D. Evans 38526
WPS1533	Universal Banking and the Financing of Industrial Development	Charles W. Calomiris	November 1995	D. Evans 38526
WPS1534	The Evolution of General Banking	Forest Capie	November 1995	D. Evans 38526
WPS1535	Financial History: Lessons of the Past for Reformers of the Present	Gerard Caprio, Jr. Dimitri Vittas	November 1995	D. Evans 38526
WPS1536	Free Banking: The Scottish Experience as a Model for Emerging Economies	Randall Kroszner	November 1995	D. Evans 38526
WPS1537	Before Main Banks: A Selective Historical Overview of Japan's Prewar Financial System	Frank Packer	November 1995	D. Evans 38526
WPS1538	Contingent Liability in Banking: Useful Policy for Developing Countries?	Anthony Saunders Berry Wilson	November 1995	D. Evans 38526
WPS1539	The Rise of Securities Markets: What Can Government Do?	Richard Sylla	November 1995	D. Evans 38526
WPS1540	Thrift Deposit Institutions in Europe and the United States	Dimitri Vittas	November 1995	P. Infante 37642
WPS1541	Deposit Insurance	Eugene White	November 1995	D. Evans 38526
WPS1542	The Development of Industrial Pensions in the United States in the Twentieth Century	Samuel H. Williamson	November 1995	D. Evans 38526
WPS1543	The Combined Incidence of Taxes and Public Expenditure in the Philippines	Shantayanan Devarajan Shaikh I. Hossain	November 1995	C. Bernardo 37699
WPS1544	Economic Performance in Small Open Economies: The Caribbean Experience, 1980–92	F. Desmond McCarthy Giovanni Zanalda	November 1995	M. Divino 33739
WPS1545	International Commodity Control: Retrospect and Prospect	Christopher L. Gilbert	November 1995	G. Ilogon 33732