

Property Rights: The Rise and Fall of America's First Bank

The absolutist Dominion of New England (1686-89) saw both the rise and fall of the first operational bank scheme in America. Both the rise and the fall resulted from the rulers' attempts to personally profit from the real estate sector. The first, local ruler established a nominally private land bank to achieve that goal. A subsequent, non-local ruler did it by invalidating all land titles (and thus killing the bank). This unique natural experiment clarifies how economic development can be affected in different ways by absolutism, as in Mancur Olson's analysis of stationary and roving bandits. The episode is also a unique natural experiment in that it considers English subjects launching an English bank scheme under English jurisdiction – but in America. It thus isolates an essential ingredient of Stuart absolutism (disrespect of property rights) from all the complications and peculiarities of England just before the Glorious Revolution. Finally, the episode shows a credible commitment to *destroy* property rights. The latter ruler's warnings about the validity of land titles had been ignored for a year by the colonists in general and the bank partners in particular. Only when his policy was implicitly approved by the king he launched a legal attack against land owners. The land bank was aborted four days later.

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