**Youssef Cassis, Gerald D. Feldman, Ulf Olsson, eds.** *The Evolution of Financial Institutions and Markets in Twentieth-Century Europe.* Brookfield, Vt.: Ashgate, 1995. vi + 337 pp. $79.95 (cloth), ISBN 978-1-85928-127-7.

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This is a very valuable collection of essays which will be useful to all scholars of modern financial history. These are some of the papers given at the colloquium of the European Association for Banking History in 1993 and represent the state of the fields covered. The title is a bit misleading: the essays cover only the Northern and Western European countries, mostly members of the present-day European Union. The only significant omission is a discussion of the Austrian financial system, which would have made a valuable contrast to the essays on German and Swiss banking.

This volume does not pretend to be a comprehensive history of modern European banking, but it does give us a sense of that enormous territory. It covers central, commercial, and savings banks, discusses the relationship of banks to the nation and the regions, and examines the development of several financial sectors. There are a number of recurrent themes. The relationship of banks with governments has always been a difficult one, and several authors examine the interplay of market forces and government regulations. Not surprisingly, they find that the 1930s marked a golden age for state regulation, which went furthest in Norway's formation of a state-run bank. An important question concerns the asymmetry of information between lenders and borrowers. Is a bank-oriented capital system superior to a market-oriented system because banks have more information than small investors?

Two essays will be of particular interest to the readers of H-German. Paul Thomes takes a close look at German savings banks, which have often been overshadowed by the "D-Banks." If these gigantic banks' role was to provide capital for growing industries, the savings banks played a very different role. They were oriented to the regions and catered to social concerns. They tapped into the capital of the lower middle class and by 1900, 15 million savings accounts added up to 9 billion marks. The savings banks and cooperative credit banks grew rapidly in the years before 1914, and the capital they raised outpaced that of the large joint-stock commercial banks. Most of this capital was invested in buildings and land, then government securities. Loans to local authorities were rare, and loans to individuals even rarer. These banks were not evenly distributed across the empire. Although differences narrowed over time, the inhabitants of Baden, Wuerttemberg, and Prussia were consistently better served than the residents of Hesse and Bavaria.

World War I, the inflation, and the revaluation changed the picture dramatically. While the savings banks survived, the mortgage banks were virtually wiped out and the cooperative credit banks became much less important. Banks loaded up on government bonds during the war, but after 1919 they took up the role of providers of capital to local authorities for improvements in infrastructure: electricity, gas, water, and new roads and bridges. In the stabilization period (1924-28), the savings banks yielded this role to foreign investors in many cases. Under a 1931 decree, the Bruening government banned savings banks from providing any more credit to local authorities. This was but a step on the road to the nationalization of fiscal and credit policy which came to its logical conclusion in the 1934 Credit Law of the National Socialist regime. Savings banks were fully integrated into a national credit system and made dependent on central control. The savings banks' capital would now be harnessed to rearmament and then the Nazi war effort. At the time of the Credit Law, mortgages and loans to local authorities or individuals made up 63 percent of all credits extended by savings banks. This fell to 45 in 1939 and to 10 percent in 1944.

An interesting parallel to this is the essay on English regional financing after 1945 by Francesca Carnevali. She finds that large banks with a decentralized structure had a direct interest in protecting small markets and therefore cushioned smaller firms from higher interest rates and credit structure. Why did not the regional savings banks of Germany cater to local businesses with small markets in the same way? Did the D-Banks have a more decentralized structure than is commonly supposed? Did small business fall into a "lending gap" which would explain its problems in economic depressions and the sudden rise of a German radical right in the 1890s and 1930s? Michel Lescure demonstrates that this was certainly a problem in France between the wars. French small business had grown beyond its traditional means of finance and when the regional banks began to collapse during the Depression, the new national institutions such as the Credit National were not equipped to take up the slack. Since they did not have proximity to these local businesses, they tried to compensate for the lack of information by having on-site inspections and by seeking exhaustive documentary evidence. Even so, businesses often had difficulty providing sufficient collateral for a loan. Lescure does not try to draw any connections between the problems of French small businesses and the political problems of the 1930s.

The other essay which centers on Germany is by Harald Wixforth and Dieter Ziegler. This chapter disputes the traditional notion that the big banks were a cartel which distorted industrial development in Germany and encouraged monopoly formation. Alexander Gerschenkron suggested that development led by big banks was typical of "latecomer economies of the first generation," but that the enterprises would gradually free themselves from bank control. The authors find that control tended to be exercised through stock ownership, not by the need for loans. Deutsche Bank was the exclusive bank for Mannesmann, for example, until the 1920s. The Weimar Republic saw the influence of the banks wane. As the banks were weakened in the 1914-25 period, companies diversified their banking relationships. The *Vereingte Stahlwerke*, founded in 1926, dealt with fifty-six banks. Other companies such as Krupp set up their own banks to provide capital. Some even tried to take over large joint-stock banks. Foreign capital was also a major source of revenue during the stabilization period. This leads again to the question of whether it is better for a company to rely on banks (as in Germany) or the stock market (as in Britain and the United States) for investment capital. Wixforth and Ziegler suggest that for infant industries or those going through great uncertainty, bank-centered investment may be preferable. This contrast is shown in the electrical industry of the late nineteenth century, where English companies were wrecked in erratic and irrational stock crashes, while the banks held their portfolios of Rathenau and AEG through all the storms. However, Katherine Watson's essay on the British brewing and iron and steel industries supports the market-oriented model. Not only is the market more flexible, but companies respond by adopting appropriate capital structures.

Historians of German finance can draw some valuable inferences from other essays in the collection. Each nation has its own pace of development. Norway, for example, had very little banking until the 1880s when the system was built on the base of a national bank. Its commercial banks developed as foreigners poured capital into hydroelectric development. As neutrals in World War I, Denmark and Norway both flourished and suffered inflation. Unlike Germany, the Danish banks were pushed to the edge of collapse and only government action saved them in 1922. The Norwegian central bank vigorously took action and stopped the inflation. This would suggest that indeed Reichsbank President Rudolf Havenstein bears heavy responsibility for the hyperinflation of 1923. Strong action to cut back on the money supply and credit in 1922 might have broken the inflationary cycle. On the other hand, Germany had other problems that Denmark and Norway did not have, notably reparations and a much heavier war debt. In the aftermath of inflation, both Germany and Denmark resorted to deflationary policies, but the Reinhold stimulus program of 1926 meant that Germany avoided Denmark's prolonged recession of 1925-27. Again in contrast to the Reichsbank, the Bank of France was not a true central bank until after 1945. It only gained the legal right to conduct open market operations in 1936 and was fully nationalized after 1945. Another contrast was the law on holdings. Portugal long required banks to buy most of the government's bonds, and Sweden moved in that direction in the 1920s by forbidding them from holding stock. Sweden also had strict regulations on insurance funds, which largely restricted them to investing in government bonds. It was never debated during the demobilization period or when the Banking Law was re-written in 1924, but perhaps the German government should have mandated banks to hold thirty or forty percent of their assets in national bonds. Similar rules for German banks and insurance companies would have enabled Germany to avoid the debacles of 1927 and especially 1929 when it tried to market long-term bonds. If borrowing had been much easier, the Mueller and Bruening governments could have avoided the ruinous deflationary policies which led to the rise of the Nazis. The Nazi government, having few scruples about private property, proceeded to put in exactly those laws to finance its schemes.

These essays provide scholars of European finance with rich food for thought and should stimulate more fruitful research in both national and comparative finance.





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