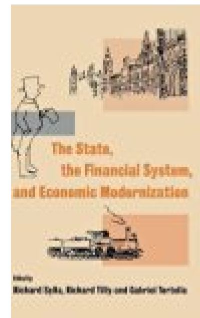
H-Net Reviews in the Humanities & Social Sciences

Richard Sylla Tortella, Richard Tilly, eds. Gabriel. *The State, the Financial System and Economic Modernization.* New York: Cambridge University Press, 1999. xiv + 295 pp. $64.95 (cloth), ISBN 978-0-521-59123-2.



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The role of the financial system in industrial development is a topic of perennial interest to economic historians, and there is no shortage of volumes dealing with the topic. Though this book enters a crowded field, it still manages to offer a valuable contribution. In particular, this volume of a dozen essays takes a comparative approach to the question of state involvement in the development of financial institutions – a less-researched topic that is gaining greater attention among economic historians, as well as among economists of the modern stripe. At least according to the preface, the collection began as a conversation among old colleagues and grew into a project that would involve well-known scholars mainly of Europe, but of the U.S. and Argentina as well. Hardly any contributor will be a stranger to consumers of the financial history literature. The approach is intended to be Cameronian, and the volume is explicitly dedicated to that role-model of comparative financial history.

The editors' introductory essay calls for rejoining the study of public and private finance and for taking an international, comparative approach in such work: "[The book's] intent is to demonstrate, through comparative historical analysis, the richness of the history of modern financial systems and to restore the state to its primary role in the shaping of those systems" (p. 3). After surveying the landscape of the book, the authors set out four main themes to watch out for in reading the chapters to follow: 1. Inter-country differences in the mix of public and private finance and role of the state are significant, 2. States affected private development by altering information flows relevant to private financial decision making, 3. Economic history has important things to say about the relative effectiveness of 'market-oriented' and 'bank-oriented' financial systems as development mechanisms, and 4. Short-run state policy responses to immediate problems could have long-run effects.

The book includes entries on nine countries: France, Belgium, England (and Wales), Germany, Spain, Italy, Russia, Argentina, and the United States. Forrest Capie, in studying the role of central banking in Europe, offers the only comparative essay of the group, other than the introduction. The first half of the paper sets out to define the idea of central banking and of the role of lender of last resort – an important first step, it turns out, given the variety of experiences and interpretations. The second part of the chapter then applies these hypotheses to the British and continental European records. In pointing to the role of central banks as 'lender of last resort,' Capie argues that the Bank of England was a full-fledged LOLR-central bank by the 1870s and then makes the somewhat surprising claim that true central banking arrived on the European continent only in the twentieth century. This argument is based on the idea, drawn in part from the classical writers on the subject as well as the more recent work by Charles Goodhart, that the LOLR should shoulder responsibility for the stability of the banking system without regard to its own profitability. Such a shift in policy is difficult to date precisely, but the evidence laid out on Germany, Austria, France, Italy, Belgium, the Netherlands, Scandinavia, and Iberia does, for the most part, support the author's conclusions quite compellingly (though one might want to quibble with certain details, such as the notion that the universal banking systems were more concentrated than the specialized system of Great Britain).

Taking the reader off the beaten path of European and U.S. financial history, Roberto Cortés Conde offers a quick tour of the Argentine financial system of the nineteenth and early twentieth centuries. The inclusion of this less-frequented area of the literature will broaden the book's appeal beyond the normal Euro-centric audience. The chapter mainly provides a descriptive primer on the country's monetary and financial systems – the first discount and issue bank in 1822, the founding of the first National Bank in 1826, the government-dominated operations of the Buenos Aires Provincial Bank, the founding of the second National Bank in 1872, and the passage of the free banking legislation-rather than a unified analysis of the government's role in that development. The author follows the many financial twists and turns (particularly interesting is the discussion of the free banking act, designed to closely resemble the American National Banking System) and comes to rest at a two-fold conclusion: that the main business of the banks was seignorage and that the banks were primarily used to dispense funds to the government and its allies. After this chapter, the reader will not question the "whats" of the rather poor performance of the Argentine financial and monetary system, but many will be left wondering about the "hows" and the "whys."

A real stand-out is Phil Cottrell and Lucy Newton's chapter on banking liberalization in England and Wales between 1826 and 1844. The authors mine the archives of the large banks as well as the pages of the Circular to Bankers, to offer a new look at the earliest formations of quasi-corporate banks. In particular, the authors review the politics of money and banking at the time and especially surrounding the 1826 banking act, analyze and explain the expansion of joint-stock banking in the 18 years following the Act, and assess overall the impact of banking liberalization on English banking after 1826. The active involvement of the state in commercial banking policy, spurred by the banking crises of the early 1820s, followed a century of legislative silence. Of course, the Bank of England's monopoly over joint-stock banking from 1707 (the famous six-partner limitation on banking firms), essentially a political kickback for financing the government's wars, determined the industrial organization of banking up until its reform. In a political debate that seems to presage the branching debate in the U.S., small, country bankers opposed the lifting of the ban on large banking partnerships, since the law safeguarded each little patch of monopolistic territory. Widespread banking collapses in 1825-26 finally ensured the success of the liberalization measures, and the number of joint-stock banks exploded from 3 in 1826 to 113 a decade later (including 59 promotions in 1836 alone). The middle portion of the paper presents the bulk of the primary-source research; offering detailed insight into the management, competitive positions, and share flotations of the new banks as well as the gathering anxiety over speculation in the new shares.

As with any edited volume, a reviewer must pick and choose. But readers will learn much from other offerings as well – François Crouzet's tale of politics and banking in Napoleonic France, Gabriel Tortella's look at government policies and their connection to banking sector development in Spain, Boris Anan'ich's exploration of government control of Russian banking (if there was one case in which the government played a role in banking, this was it), and the two chapters on the U.S. by Richard Sylla and Mira Wilkins. In addition, Hermann van der Wee and Monique van der Wee-Verbreyt cover 175 years of Belgium's top bank, while Peter Hertner investigates two decades of relations between the top two Italian universal banks and the central bank. Both these chapters make use of extensive archival evidence in developing their stories. Finally, Richard Tilly poses some rather provocative hypotheses about the relative efficiency of the German capital markets (e.g., that the Berlin market rivaled or exceeded London on certain performance measures).

Though the topics are all of great interest, with fewer than 300 pages for all twelve essays and the index, the treatment is not as deep as one might prefer (and specialists will likely recognize material in certain chapters). Many readers will likely yearn for a more explicit link among the various contributions – perhaps a final chapter to tie it all together – and the cliometrically-inclined might hanker for more formalized hypothesis testing. Most important among these relatively small quibbles, this book demonstrates the entrenchment of certain views and paradigms in financial history: the dichotomy between banks versus markets, for example, and the connection between a country's geographical position relative to the UK and the role played by financial and government institutions. These shortcomings, however, do not spoil the usefulness of a volume that permits one to travel several areas of the globe, gleaning insights on an important topic, all in one place. As a result, this book will be a useful reference both for established scholars and for students in search of research topics in the political economy of banking from an historical perspective.

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