BOOK REVIEWS

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Throughout its development over the last thirty years, International Political Economy (IPE) has been constantly reshaping the study of the field it defined: the interaction of economics and politics on the international level. Even though, initially, this discipline intended to be a new approach, it contributed partially to the reproduction of positivistic epistemological habits, which are characteristic of the Popperian influence after the war. A critical IPE appears therefore important in its aim to integrate time and space in the study of social processes. Influenced by the pioneering works of Braudel and Polanyi, a historical IPE stream is constituting itself. It is within this movement that Paul Langley’s important contribution has to be understood.

Following the path opened by Randall Germain with *The International Organization of Credit* (Cambridge, 1997), Langley suggests a synthetic overview of the constitution and reproduction of financial orders from the seventeenth century until the present day. Far from writing a detailed account of credit from Amsterdam to NASDAQ, the author puts the notion of financial order at the center of his analysis. Thus, he looks into the social constitution of norms, knowledge and technology which help to structure financial orders. Inspired by the seminal works of Braudel about world economies, Langley’s research emphasizes the mechanisms of power within successive orders and the emergence of world financial centers. He shows how they structure the international social space and the mechanisms of credit creation and distribution on a global scale. Furthermore, the author shows the social reproduction of financial orders and the role of institutions in this process.

The strength of Langley’s book lies in the ‘impossible’ separation of the study of ontology of financial orders and the production of a mode of knowledge; the discourse acts indeed both on the analytic level and for the reproduction of the social order. The epistemological perspective suggested from the very beginning shows the consequences of an orthodox IPE that tends to reproduce the normative neo-liberal premises of the current financial order. The suggested analysis points out the importance of a historical approach less for itself than for its role in the deconstruction of dominant discourses of the neo-liberal order. Thus, the aim of a historical viewpoint in IPE consists of three inseparable steps: the historical inquiry enables one, at first, to reconsider a neo-liberal mode of knowledge of world finance.
which is de-politicised, teleological and exclusionist in nature. As a consequence, all alternatives are dismissed: the famous Thatcherian phrase ‘There Is No Alternative’ springs to mind. In a second step, the reference to regulation processes of the past enables the constitution of an alternative mode of knowledge that (re)socializes and (re)politicizes world finance. Finally, in the perspective opened by Robert Cox, Langley shows the importance of a historical IPE in the constitution of a ‘new understanding’, which opens the way to concrete political action in the present and future. According to the author, ‘by explicitly recognising the connection between human action, knowledge and reflection, an Historical IPE holds the potential of a transformative form of knowledge that reflects an emancipatory commitment to challenge a dominant mode of knowledge’ (pp. 155–6).

The overview of different financial orders enables one to compare the current situation with the dominant role of Amsterdam (seventeenth and eighteenth centuries), London (nineteenth century) and New York (before 1973) for the structure of credit creation and circulation. The processes through which the orders are reproduced show the importance of ‘epistemic communities’ in the diffusion of norms. The financial centers, presented as social spaces, play a key role through bank institutions that produce and reproduce the modes of knowledge in the realm of financial technique and are directly active in normative constructions like the notion of ‘risk’ for example. Among the institutions reproducing a particular order, the business networks and the media also play a significant role, which could have been emphasized more. The phenomenon of crises also appears to be common to the different orders under review and Langley rightly insists on the mimetic behaviors which characterized speculative bubbles and financial crashes. In terms of governance, Dutch and British orders, as much as the current globalized finance, clearly illustrate a regulation mode determined by the logic of the market. The internal contradiction of such a governance, focused on the apparent separation of political and economic realms, is presented as the source of tensions Polanyi had described in The Great Transformation.

Despite a historical continuity on several levels, Langley shows how the internationalization of the current financial order appears mainly as a historical break with the past. First, the strong hierarchy of financial orders, and the influence of one dominant financial center in past orders, have been replaced by three different, competing centers: New York, London and Tokyo. This first break is partly connected to a second, namely the appearance of a large gap between the ‘real’ and the financial economy. The process of change in the world financial order since the 1960s shows a development of flows of capital no longer connected to trade, production and work. In the constitution of social spaces connected to the current financial order, one can see the outset of a third historical break, the emergence of offshore finance. This new situation is characterized by the channelling of speculative streams and their removal from state control. The financial architecture and the process of credit allocation are thus determined by processes outside all social control. Therefore, central banks (which were the key elements of control under the
gold standard) and treasuries (at the center of Fordist regulation) are relegated to the background. The contemporary financial order, rather, seems to obey the forces of transnational finance and the structural power of institutional investors.

The historical perspective in IPE, shedding light on continuities and changes in social orders, thus enables Langley to suggest ways towards an alternative to neo-liberalism, which is at the basis of the current world order. On this account, the re-socialization of financial practices takes the form of the transformation of credit practices (socially and environmentally sustainable investment) and of a territorial renewal of financial regulation with regard to speculation (Tobin tax and control of capital flows). Eventually, a multilateral mobilization of civil society appears necessary for a democratization of finance. This mobilization, as Langley shows, is necessary both on the epistemic level and in the realm of formal governance of the financial order.

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This book represents a good balance between theoretical and empirical analysis, between economic theory and economic history. It may count as one of the first attempts in Spanish financial history to explain the relationship between the banking sector and the political regime during the Franco dictatorship. The book has two well-defined parts. The first part (chapters 1 and 2) gives an overview of the macro-economic situation of Spain, followed by a literature review of the object of study, the Spanish financial system between 1939 and 1975. It sets the framework for the following analysis. The second part (chapters 3 to 6) is the core of the book, with an explanation of financial regulation theory and with empirical evidence about the case of Spain.

After the Spanish Civil War, the new government called for the regulation of the Spanish banking system as one among other means of stabilising the country’s economy. Until now, most literature on the subject has suggested that the Franco government had been rather passive. It is said to have regulated the financial sector in response to pressures coming from society, especially industrial and banking groups (Braña, Buesa and Molero, 1984, or Lukauskas, 1992). This view implies that the banks managed to use the regulation imposed by the state as a means of furthering their own interests. Pons Brias’s research demonstrates, instead, that government and banking interests did not always coincide. As she argues, ‘on the one hand, there was the interest of the Franco government in involving the banking sector in their strategy of development. Banking and saving institutions were used as instruments of industrialisation and they were also used to obtain cheap financing. On the other hand, there was the banking interest in maximising profits and minimising risk. The Franco government offered some advantages to the banking sector to obtain their
collaboration and banks tried to take advantage of this situation by investing in preferential sectors. The financial regulatory framework was the result of both pressures’ (p. 195). Reaching this conclusion constitutes the main goal of the first part, but she also enters into analysis of the Spanish political economy in the post-war period while, at the same time, putting it into a broader European context. In general, the first two chapters are a good review of the Spanish economy and its financial system during the Franco period, even if the reader misses a more detailed description of the situation before the Civil War, which would have contributed to a better understanding of the evolution of the Spanish banking sector. Why reregulate the system, when one, instead, could have expected, after a war period, a fresh attempt at establishing an entirely new system?

The subsequent step in the analysis, after having studied the reasons for the regulation of the Spanish banking system, consists of studying the results of this regulation, especially with regard to banking profitability. The second part starts with chapter 3. It contains a description of the regulatory legal framework for the banking system constructed under the Franco regime. Two periods can be distinguished, 1939–62 and 1962–75, marked by two principal laws, the 1946 Banking Supervision Law and the 1962 Banking Law. The first law was born with the objective of guaranteeing the stability of the banking system and, by extension, of the whole economy. However, as Pons concludes, we cannot take for granted that the main objective of the banking regulation was really stability, as inflation was rampant and constituted a significant obstacle to the development of the Spanish economy in this period. The second law had the objective of liberalising the financial system because of exogenous financial pressures (Spain joined the OEEC and the IMF) as well as of the changes in the Spanish economy during the 1950s. In spite of this, Pons affirms that ‘it was only in the mid–1970s, in the transition to the democracy, that the liberalisation of the Spanish financial system took place’. Chapter 4 explains regulation theories, public interest theory and capture theory, trying to establish which one applies better to the Spanish case. In order to do so, the author describes the economic policies implemented by the regime, based on a clear ideology: the aim of self-sufficiency.

The main ‘undeclared’ reasons of the authorities for the regulation of the banking system were: the need to reconstruct the banking sector after the Civil War, the creation of an instrument to avoid monopolistic behaviour and, finally, an effective mechanism for allocation purposes. Pons Brias reaches these conclusions: (1) we cannot demonstrate with the empirical evidence available that there was an agreement between the government and the bankers for the regulation of the Spanish economy, but that the banks took advantage of the autarkic political economy in order to generate more profits; (2) banking regulation that was implemented in Spain was not able to avoid firms’ monopolistic behaviour, as it did not establish a maximum price for loans nor a minimum price for deposits.

In chapter 5 the author analyses all the possible cases indicated by theory (with and without regulation, with interest control measures only and with more control measures – as compulsory coefficients) and concludes that theory remains
ambiguous on regulation results. Hence she turns to empirical evidence in chapter 6: the Spanish case. In this last chapter she examines the effects of regulation over efficiency and profitability in the Spanish banking system and reaches the following conclusions. (1) Whenever interest-rate regulation existed, the banks took advantage of monopoly power to ‘exploit’ depositors. This was the case in the 1940s in Spain. (2) In the 1950s the regulatory measures affected the Spanish banks’ strategies of profit maximisation and they took an ‘implicit interest rate’ in order to compete and be able to secure more deposits. (3) Though a superficial look at changes in banking behaviour in the 1960s in Spain may lead one to conclude that the banks were provoked by an increase in competition, as concentration decreased, a more in-depth analysis shows that concentration and market share do not offer much information about the level of competition in the banking sector. Accordingly, Pons Brias concludes that regulation had ambiguous effects on profitability. Even though regulation may have guaranteed Spanish banks a minimum rate of profitability, the difference in profitability between banks depended on management. However, there were three variables which affected banking profitability and were tightly regulated by the Spanish government. (1) The number of branches: Spanish banking regulation tended to favour the concentration of branches in the hands of the larger banks. In this vein, national banks had a regulatory incentive to expand the number of branches and this had a positive effect on their rate of profitability. (2) Preferential interest rates: the Franco regime tried to involve banks in their programme of industrialisation through the establishment of preferential interest rates for important industries, and compulsory coefficients to finance these sectors. (3) Discrimination against savings banks: as competition for savings had a negative effect on banking profitability, the Spanish regulatory framework favoured commercial banking profitability.

This is a fine piece of work. It combines theory and empirical evidence in a balanced way. In fact, the author used sources that had never been used before: information from the Bank of Spain Archives, the data published by the High Banking Council and the Bank Annual Reports. Pons Brias makes good use of them, reconstructing the data, as banks did not have homogeneous accounts and they presented their economic results in very different ways. She has made this information homogeneous, developing a profit-and-loss-account model to obtain consistent profit figures. Nonetheless, she used data on GDP which is problematic. It is true that getting macroeconomic figures for that period in Spain is a tough problem, as she rightly points out, but Pons Brias used GDP data (in the construction of indexes in chapter 1) without telling us that they are not very reliable. As a matter of fact nobody knows how Álvarez Llano reconstructed the Spanish economic structure, but she used the data to describe the Spanish economic situation before and after the war. Again, it is necessary to say that more information, at least about the 1920s and 1930s, would have been very useful for a better understanding of the situation of the Spanish economy after the Civil War.

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ANGELA MOYA LUNA
Jon Cohen and Giovanni Federico have produced a true tour de force. In only 112 pages of text (inclusive of footnotes), they accomplish three stated scholarly goals relating to the process of growth and structural change in Italy over the period 1820–1960: ‘to provide a concise, up-to-date account of the literature, to highlight new insights into old problems, and to signal areas desperately in need of more research’ (p. 1). It is true that, as the authors state, their theme is more historiography than history. Nevertheless, their book is readable on two levels: both ‘a comprehensive and critical review of the literature on Italy’s remarkable economic growth between 1820 and 1960’ (pp. 4–5) and a history of that growth itself. While the index is sparse, only two pages (perhaps as befitting so concise a book), the bibliography stretches over 19 pages and will be appreciated by the specialist.

Following an introduction, chapter 2 addresses the measurement of aggregate performance of the Italian economy over the long time period from before unification (pre-1860) to 1971. The authors, as in virtually all their encounters with quantitative information, find the historical data divergent for different authors and in need of improvement, especially for the pre-unification period. Nevertheless, they are confident of a number of characteristics of performance. First, per capita GDP – and industry in particular (if not agriculture) – stagnated during the pre-unification (1810–60) period. Second, as expected in long-run development, the industrial and service sectors expanded relative to agriculture. Third, in properly devoting attention to regional disparities, the authors note – not for the last time – ‘one of the most salient features of the Italian economy: the wide and persistent disparity in income between the North and the South’ (p. 15). This gap not only existed at unification but also widened substantially between 1871 and 1951.

The nature and timing of growth and structural change is the subject of chapter 3. The authors observe one of the many controversies in the scholarly literature. Some authors believe there was a discontinuous jump in industrial production to begin growth; others see only cycles around a positive trend. The kink in industrial development has lost advocates, and now most scholars believe that there was not just one but a number of subperiods of rapid growth. The views of various authors on the forces that affected growth and industrial development are assessed: international capital flows, supply of domestic capital, agricultural exports, unification of the country. The interwar period retained the salient features of the economy: an elastic supply of labor, a large agricultural sector and a lack of natural resources.

The authors make two important criticisms of the literature here. First, the Marxist view of Italian development, or rather lack thereof, is properly attacked. Second, the models used by scholarly investigators are macroeconomic in a bad sense, treating the Italian economy as unitary. Thus ‘the North-South divide, for many the leitmotif of Italian economic development’ (p. 25) is ignored in this branch of literature. Very pertinent is the fact that ‘with a few exceptions, good and
bad times seem to alter regional rankings in other countries, but not in Italy’ (p. 26). Why? The authors (and they are not alone) speculate that the answer may be cultural. Again the data quality is judged poor. Better regional data, especially prior to 1891, are wanted.

In chapter 4, the authors consider the agricultural sector. The conventional wisdom is poor technical advance until 1938; but Cohen and Federico warn that the data are poor and other evidence not compelling. A lack of credit may have hindered agricultural development, but again the authors observe the paucity of data. Contrary to traditional wisdom, (1) farmers did respond to the market, and (2) commercialization relative to self-sufficient production increased over time. Labor-intensive techniques reflected factor endowments. Certainly, agriculture suffered from farmland unsuited to production of wheat, which received high tariff protection. The authors wisely note that, with too many peasants on too little land, agrarian poverty resulted and the labor/land ratio required reduction. In the long run, the solution was industrialization; in the short run, massive emigration (especially from the South). Cohen and Federico call for more scholarly work on the effect of emigration on growth (in real wages and per capita GDP).

The two high-growth sectors, industry and services, are examined in chapter 5. Notwithstanding obstacles (small domestic market, expensive power, shortage of capital and skilled labor), industrialization occurred. Much research remains to be done, according to the authors. The dichotomy between oligopolistic industries and competitive sectors is explored. Important in development was an elastic supply of unskilled labor. Also, through necessity (lacking coal resources), Italy developed hydroelectric power. In most other respects, Italian entrepreneurs imported technology from abroad and tended to introduce such technology piecemeal. The conventional wisdom that the state fostered development has been rejected by modern scholars. The role of the state, most now agree, led to misallocation of resources.

The most interesting chapter to a monetary historian (such as the present reviewer) is chapter 6, on macroeconomic policy. The history of Italian central banking is presented well. Rarely for Cohen and Federico, they state admiration of previous research, calling Michelle Fratianni and Franco Spinelli’s Monetary History of Italy ‘a breakthrough in Italian economic history’ (p. 75). The themes of these monetarist advocates is that monetary policy passively responded to the fiscal authorities, with money printed to finance government deficits, and that high inflation resulted. However, Cohen and Federico are skeptical about the conclusions of Fratianni and Spinelli. Fiscal dominance is deemed by Cohen and Federico to end with World War I and inflation was high only during that war and not in other periods. They conclude: ‘there seems to be little empirical support for Fratianni and Spinelli’s model in the period prior to 1940’ (p. 80).

Chapter 7 studies the Italian ‘economic miracle’, the ‘golden age’ after World War II to 1960, during which time Italy truly became an industrial power. Recovery from World War II was speedy, because of (1) light wartime destruction of capital,
(2) the Marshall Plan, (3) deflationary monetary policy, and (4) trade liberalization. There was a process of catching-up in technology that was instrumental in growth. With a now-skilled labor force, a constitution supporting property and personal rights, and a tradition of community support for business initiatives, adoption of up-to-date technology was realized. Also fostering a high rate of investment were responsible macroeconomic policies and liberalization of trade.

Cohen and Federico note that problems remain. First, the North-South income gap persists. Second, sectoral imbalances increased, with some firms efficient and dynamic, others the opposite. Third, the unemployment rate is high. Fourth, the government needs to reform public administration and to develop rules and institutions to foster efficient markets. The supply of public goods remains a serious defect in Italy. In spite of these problems, the authors properly conclude, in their final chapter, that ‘Italy has managed, in spite of the odds, to become one of the world’s richest and economically more advanced countries’ (p. 107).

One hesitates to criticize so impressive a work. Nevertheless, the book has some deficiencies. First, nothing is said about the role of organized crime and corruption in keeping down the economy of the South. Many readers might wonder whether the Mafia has anything to do with the North-South economic dichotomy. Second, the role of the European Community and its predecessor entities is neglected, although granted most European integration occurred after the period of investigation of the authors. Third, little attention is devoted to the impact of World War I and the Great Depression. Fourth, while the authors are refreshingly correct in calling for improved data, they might also have advocated better use of data (for example, via modern time-series analysis). Finally, Cohen and Federico are perhaps too skeptical of past research. Some readers might be offended by so much criticism, although in fairness much of the authors’ evaluations can be construed as eclecticism and synthesis of existing scholarly studies.

All in all, The Growth of the Italian Economy, 1820–1960 is an admirable work, with a high scholarly content relative to its pagination. I recommend it unreservedly to those who want to learn about the status of research on Italian economic development and about this development itself.

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Manfred Pohl, Teresa Tortella and Herman van der Wee (eds.), A Century of Banking Consolidation in Europe: the History and Archives of Mergers and Acquisitions (Aldershot: Ashgate, 2001. x + 320 pp. £55.00)

This volume presents a broad overview regarding the concentration process within Europe with special emphasis on the banking industry. Besides this specialization, the authors narrowed their investigation period in that they mostly focused on the post-1914 period. Accordingly, the first merger wave around 1900 – for which indisputable empirical evidence is still lacking – is hardly discussed. Nevertheless,
a collection of a variety of country studies on mergers over nearly a century needs limitations.

The volume contains 14 papers and four comments on different aspects of banking consolidation in Europe. It thus covers case studies, legal aspects and social and financial issues. Furthermore, the consequences of mergers between banks for concentration and the need for deconcentration in the banking sector are discussed. The last part stresses the expansion of European banks in Latin American countries. Manfred Pohl concludes this volume. However, given the variety of the 14 papers, drawing an overall conclusion seems hardly possible. The same difficulty applies to reviewing the very different contributions.

Youssef Cassis starts the first part with a description of general trends of the consolidation process in European banking. He focuses on several case studies which underline the importance of mergers and acquisitions over the course of more than one hundred years for the formation of the largest European banks. Despite the interesting case studies, some readers would favor more figures, such as the relative importance of the leading banks as measured by their total assets compared to smaller companies. Unfortunately, such figures are only provided for 1988. Considering long-term trends in the consolidation process, however, would require drawing this picture for a long time horizon. Appropriate data sources are easily available. Gabriel and Teresa Tortella both concentrate on the Spanish evidence. Their first contribution discusses the state interventions regarding mergers in the banking industry, whereas the second provides a lot of valuable evidence of mergers occurring in the period 1942 to 1977. From my point of view, Gabriel Tortella’s paper could have been placed in part two, which deals with the legal framework in which mergers occur. Nevertheless, the role of the Spanish state since the nineteenth century is described by detailed examples. Based on historical examples that Spanish banks mainly expanded into countries with which they shared common cultural features, such as the language, he draws the conclusion that cross-border mergers should be seen as risky ventures due to cultural obstacles. Correspondingly, historical evidence seems to be highly valuable for assessing the failure of many cross-border mergers today. Edwin Green argues that different kinds of archives, such as customers’ accounts or legal agreements, can contain a variety of additional information on the companies involved. This might be useful for economic historians, who are not only interested in the process of a merger. Accordingly, information on all kinds of assets, names of customers, debtors and creditors can be found in merger agreements. Green also collected information about the actual and proposed acquisitions of Midland Bank between 1889 and 1918. The dates of the transactions can be used as the starting point for an empirical investigation that could identify the success of these activities and the contribution of the mergers to the total growth of the company.

The regulation and supervision of mergers are the subject of the second part. Ginette Kurgan-van Hentenryk shows the development of regulatory changes and supervision of mergers in Europe since World War I. The Swiss Banking Law,
established in 1934, and the banking crisis of the 1930s are at the core of interest of Patrick Halbeisen. In contrast to other countries, which strengthened the supervision of mergers in the 1930s, the Swiss Banking Law was liberal. The current influence of the European Community regulations on banking consolidations is discussed by Joaquin Lopez Madruga. Despite the interesting cases in which the Commission intervened, it would also be promising to put more emphasis on the emergence of European regulations and their historical path with regard to the development from member-state-oriented laws to supranational rules.

The third part, entitled ‘Social and financial aspects of consolidation’, is dedicated to British and Scottish banking. The three papers in this part, by David Kynaston, Charles Munn and Alan Cameron, also cover social issues related to banking consolidations, which are nearly always overlooked. Particularly, the standard empirical literature on the success of mergers (with the exception of the redistribution theory) defines success as an increase in the shareholder value of the involved companies after the announcement of a merger. However, a discussion of whether other stakeholders in the company, such as employees, lost after mergers is a prerequisite for evaluating the change in welfare due to mergers.

In the fourth part, Gerald Feldman traces the concentration process in German banking from 1900 to 1933. However, the strong cyclical movement of the merger activity and the dominant role of banking mergers compared to other industries should also be considered. In contrast to the German development, Hubert Bonin stresses the need for deconcentration in France because the oligopolistic structure of the French banking system, with three leading banks, seemed to have prevented national competition.

The last part of the book consists of two papers, by Eric Whittle and Carlos Marichal and Gail Triner, who illustrate the cross-border merger activities of European banks in Latin America. From my point of view, the volume would have been structured more clearly if these two papers had been included in the section on case studies.

After summarizing the basic contents of the individual papers, the edited volume as a whole should be assessed. The title promises that archives of mergers and acquisitions will be discussed. A quantitative economic historian, however, would wish for additional information to build up samples and not just case studies of mergers.

Nevertheless, Tortella’s contribution provides a list of mergers among Spanish banks which could be used for an empirical investigation. Unfortunately, the listed mergers occurred after 1941. Thus, the first and second merger waves are not covered.

In addition, lots of data material is provided for the period 1991 to 1996 (see, for instance, the decisions of the European Commission with regard to banking consolidations). Of course, this material might be interesting for someone who is more concerned about the current situation of regulatory restrictions of mergers. Yet, for an economic historian this information could only be of minor importance,
although comparisons between mergers today and over the last hundred years would be a promising field for research. Unfortunately, such comparisons are only rarely drawn, despite the comparative advantage an economic historian would have in discussing institutional issues. Using historical evidence and observing major regulatory changes that prohibited or encouraged mergers in Europe could contribute much to the understanding and solution of current debates on regulation and institutional reforms. The papers included in this volume fail to raise such an institutional question and to exploit their indisputable historical knowledge on merger activities in the banking industry. Nevertheless, this book captures the European dimension of the consolidation process, and, hence, should find a wide audience.

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Stefano Battilossi and Youssef Cassis (eds.), European Banks and the American Challenge: Competition and Cooperation in International Banking under Bretton Woods (Oxford: Oxford University Press, 2002. x + 228 pp. £50.00)

At the turn of the twentieth century $3 billion US was invested outside the United States, about one-sixth of it in the UK. Americans had invested smaller amounts in other European countries, including just $10 million US in Sweden, $20m in Germany and $25m in Russia. Although modest, these non-UK European investments signaled increasing American financial maturity and foreshadowed America’s financial invasion of Europe. Indeed, Austria’s foreign minister encouraged Europe’s financial intermediaries to defend themselves against the looming financial threat emanating from Wall Street by banding together to meet the American invaders. Two world wars, interwar monetary instability, increased protectionism and the Great Depression stalled the American invasion for a half century, but postwar Europe’s economic growth and the increased internationalization of business made European markets attractive to US banks. The eight contributions to this volume address the reasons for and the European responses to this ‘American challenge’ during the Bretton Woods period (1944–73).

The common thread linking the eight contributions to European Banks and the American Challenge is that they view European banking through an American lens. A pair of introductory essays, one by Stefano Battilossi, the other by Youssef Cassis, effectively set the stage for the remaining chapters. Battilossi first considers how macroeconomic events influenced US invasion of European banking markets. American multinationals swarmed across Europe in the postwar period and most of the large US banks initially followed to service them. Once they arrived, however, American banks were not content to provide standard financial services to familiar US clients. US banks established extensive branch networks connecting the western world’s principal financial centers. US banks also courted European multinationals, promoted innovation in commercial and investment banking, and encouraged the then incipient Eurodollar, Eurobond and Eurocredit markets. Retail banking
Youssef Cassis’s microeconomic focus nicely complements Battilossi’s macroeconomic perspective. The cliché, Cassis notes, is that at midcentury European banks were lumbering behemoths, insulated by cozy cartel agreements, and not particularly innovative. Although most clichés do not fully capture reality, they often reflect larger truths. Europe’s banks were, in fact, sleepy and unresponsive at the turn of the century, but Cassis concludes that at midcentury European banks were no longer dominated by family dynasties, and managers had grown more professional and competent. Battilossi (pp. 103–4) goes further, holding that the transformation of British banking from a group of complacent giants to a group of internationally minded, ambitious, innovative wholesale and retail banks represents one of the most remarkable transformations in postwar business.

In the third chapter, Richard Sylla contends that what Europeans interpreted as invasion, US bankers viewed as escape. US banks entered Europe as much from the ‘push’ of onerous US regulation as from the ‘pull’ of European opportunities. By tapping the Eurodollar market, US banks could alleviate short-term funding problems engendered by tight domestic monetary policy and Regulation Q limits on interest rates. By tapping Eurobond markets, they could avoid the Glass–Steagall prohibition against combining commercial and investment banking. Compared to the US, especially during the Kennedy and Johnson administrations, Europe seemed a godsend for American banks. In this, Sylla highlights one of the broader lessons to be drawn from this volume: as globalization proceeds, national regulatory policies of all kinds become progressively less effective. Hindered by domestic policy, banks and other businesses will exploit foreign escape hatches – a Tiebout interpretation of business. Either national regulatory policy will need to be coordinated internationally or it will become meaningless.

Catherine Schenk’s chapter, which addresses the relative position of international financial centers, nicely complements Sylla’s. She argues that in 1945 New York City had every reason to look forward to a century of financial preeminence. It was not to be. The City of London, after a half century of relative decline, reasserted its late nineteenth-century leadership. According to Schenk, London regained its historical place because it exploited its knowledge advantage in international financial services and because regulatory choices made by successive US administrations hamstrung US banks. Unlike American and French authorities, British regulators adopted policies attractive to international borrowers and lenders.

Subsequent chapters portray the initial European response to the ‘American challenge’ as defensive and ineffective. As the era wore on, however, Europe’s banks emulated American strategies and took advantage of opportunities afforded by reduced trade barriers, relaxed exchange and capital controls, booming international trade, and improvements in communications and information processing. In his chapter on British clearing banks, Battilossi argues that British banks quickly adapted to the American strategy of using the Eurodollar market actively to manage their
liabilities. Moreover, British banks responded to the American challenge by establishing wholly owned offshore subsidiaries to sidestep British regulations; by learning to use the Eurodollar market to manage liabilities; and by forming regional consortia to meet specific competitive threats. Although British banks followed rather than led, Battilossi provides an upbeat assessment, arguing that they compared favorably to their US counterparts by the mid-1970s.

Duncan Ross’s assessment of banking clubs and consortia is less favorable. Both types of alliance exploited synergies with counterpart banks in different countries. Yet both were designed to establish an international presence without risking a sizeable investment. Ross argues that the strategy of extending one’s reach without putting much at risk was a recipe for failure. Moreover, consortia only succeeded to the extent that they did not compete with any of their constituent members, which became increasingly difficult as European banks extended their own international presence.

In addressing the French response, Eric Bussière argues that consortia and clubs were attractive to European banks not because they presented small risks, but because they respected market boundaries that, more often than not, followed national borders. In the 1970s, two principal French banks, Crédit Lyonnais and Paribas, followed separate strategies. Crédit Lyonnais preferred alliances but, because it was state-owned, foreign banks balked at forming close relationships. As one observer explained: ‘We do not want de Gaulle in our association’ (p.168). Paribas, on the other hand, established subsidiaries in Germany and Italy to capture a share of the growing merchant and investment banking in those countries. While Bussière provides few details, he concludes that both banks’ experiences were mixed.

In his discussion of the German response, Ulrich Ramm attributes the growing internationalization of German banks less to the ‘American challenge’ than to domestic German developments. Although US banks, which Ramm labels ‘financial cowboys’, were viewed as excessively aggressive, the big three German banks went abroad for the same reasons US banks did: long-term clients were expanding abroad, decelerating domestic growth, and onerous domestic regulations. Unlike the US experience, however, these three factors did not converge to push German banks abroad until the mid-1970s. Up to then, German banks, like other European banks, relied on international alliances.

Harold James’s concluding chapter brings into sharp relief an underlying but barely addressed issue: was all this innovation brought about by the ‘American challenge’ beneficial? Whereas previous chapters are either neutral or implicitly accept the principal financial innovations as beneficial, James’s discussion of central banking and globalization is decidedly skeptical. Those central banks established before or during the first wave of globalization (1870–1920) were charged with various public functions, including cushioning domestic economies from the less beneficial aspects of globalization. This charge placed central banks in a competitive race of regulator against innovator, a race the central banks were bound to lose. The Bretton Woods organizers envisioned a different playing field and rewrote the rules
to advantage the central banks. They too lost in the end because innovators are better at circumventing regulations and exploiting loopholes than regulators are at building dikes and sticking their thumbs in them. James laments the loss of regulatory control brought about by the development of the Euromarkets, changes that vitiated the effectiveness of the largest central banks and the IMF. He calls for additional, more effective, regulatory control over international finance, without asking whether Americans or Europeans have been made better off as a result of increased competition between formerly insulated, complacent, cartelized banks.

There is much to be learned from this slim volume and the editors did a masterful job of commissioning a set of complementary and focused essays. As just mentioned, most essays consider the effects of the American invasion on Europe’s financial sector without addressing its ramifications for Europe’s consumers and nonfinancial firms. Did the spread between lending and borrowing rates shrink, making consumers better off? Did nonfinancial firms realize lower costs of funds and find expansion easier and more profitable as a result of innovations spurred by the American challenge? Not every pertinent question, of course, can be answered in every book, but the absence of such discussions in the present volume certainly opens possibilities for a multitude of further studies. There remains, as well, much work to be done on the basic themes raised in this volume. The essays included in this volume add value because they are written by accomplished economic historians who bring their perspectives and sensibilities to the issues. Yet, I am left with the impression that better answers can be offered to the questions raised here with additional archival work and, especially, some serious econometric work. Nevertheless, the current volume represents a valuable early contribution that sheds much light on an important topic.

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In the interwar period the international financial system was confronted with dramatic changes. World War I had seduced most governments, especially France and Germany, to leave the gold standard and print money to finance the war. The result was an enormous inflation in both countries and the breakdown of the monetary order in Germany in 1923. At the same time, the growing international competition in international finance led to a consolidation of financial institutions. With the failure of many small and medium banks the whole banking market had an oligopolistic structure in most countries except for the United States. Another important factor of change was that governments had issued huge amounts of bonds during the war, which were now to a great extent held by private citizens. This became the basis for an extended securities sector. Together with bonds of railroad and utility companies and industrial firms, the market for these securities broadened
to an extent never known before in history. This extended market met with an increasing demand for financial products due to the overall growing income per capita. Even lower- and middle-income classes deposited their funds in savings banks and the percentage of families that owned securities such as stocks, government or corporate bonds therefore also increased significantly. This rapid development was possible in a liberalised financial world market. With the Great Depression, the situation changed again dramatically, because governments tried to mitigate the consequences of the severe economic crisis by introducing new regulations for the competition of financial institutions.

The purpose of Kasuya’s book is to analyse the impact of these rapid and dramatic changes on the financial architecture of the United Kingdom, Germany, France, the United States and Japan. The first part deals with the management of commercial banks. Youssef Cassis explains that the leaders of Europe’s top banks in the interwar period in terms of family background, education and training largely conformed to the model of the pre-1914 businessman. According to him, in spite of the dramatic changes in the international financial system, the business of banking itself underwent few changes in the first half of the twentieth century. Michael Collins and Mae Baker’s contribution deals with the British commercial banks’ support for the business sector between 1918 and 1939. They argue that British bankers perceived the task of reforming the country’s economic base principally as a problem for industrialists. Because British commercial banks were not heavily involved in lending to industrial firms and limited their activities to holding government bonds, treasury bills and lending short-term funds, the UK’s banking system was relatively stable in this period. Eugene N. White shows that banking regulation in the United States originated in a considerable part in the effects of the Great Depression. Government regulation of the national financial market was also a reason for the transformation of the Japanese Mitsui Bank from active securities operations and short-term loans to limited securities operations, as Shinji Ogura shows.

The second part of this book is dedicated to universal banking. In contrast to commercial banks, universal banks underwent explicit changes in the interwar period. Eric Brussière shows how the French bank Paribas, as a result of the decline of international business and the breakdown of the securities market in France after World War I, expanded its deposit and loan activities and finally moved into universal banking. German universal banks were particularly shocked by inflation, as Harald Wixforth explains in his contribution on German banks and their strategies in the Weimar Republic. After the World War they had lost most of their capital and assets. Even if they recovered after the end of inflation, German banks were at a disadvantage compared to foreign financial institutions because they did not have enough funds to meet the credit demands of German industry. Consequently, competition became harder and during the Great Depression it became clear that the German banking system suffered from structural weakness. As a result, the German system collapsed and aggravated the severe economic crisis.
The last part deals with insurance companies and security firms in the interwar period. Japanese life insurance companies benefited a lot from the increasing government control in the financial sector and decreasing managerial independence, as Mariko Tatsuki shows. The same applies in a certain way to the stockbroker Yamaichi (Makoto Kasuya). At the beginning of the 1920s, Yamaichi profited from the growing bond markets. But, by 1930, the international flow of funds began to be controlled and the issue of bonds came under the influence of big banks and trusts. Therefore, Yamaichi suffered from heavy losses in its stock business. One of the most interesting contributions deals with Charles Merill, the founder of the stock brokerage firm Merrill Lynch. He successfully drew middle-class households to investment in common stocks with modern promotional techniques, and conquered new markets for financial institutions.

To draw a conclusion, this volume is a very useful comparative analysis of international banking in the interwar period, showing differences as well as similarities in the development of financial institutions.

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Nicolas Spulber, *Russia’s Economic Transition: from Late Tsarism to the New Millennium* (New York: Cambridge University Press, 2003. xxiv + 420 pp. £55.00)

Spulber’s book on Russia’s economic transition is very challenging and commands profound respect. Its subject is the three socioeconomic transformations, or transitions, that Russia underwent over the last 150 years: (1) the pre-revolutionary modernisation, since the Great Reforms’ period in the 1860s and 1870s; (2) the Soviet transformation, with its peak in the 1930s; and (3) the post-Soviet transformation since 1991, for which first results can already be summarised. In the author’s opinion, the ‘term *transition* refers to *any* passage or progression through an intermediary situation between two different sets of conditions or circumstances. A socioeconomic transition refers hence to the period of transformations through which a country passes while experiencing the impact of newly emerging ownership and production relations’ (p. xix).

The book analyses the factors common to all socioeconomic transformations, the contests of ideas concerning ways of further economic development in transitional periods, and the degree of correlation of these ideas with a current political and socioeconomic situation. The socioeconomic development of Russia from the Empire, through the USSR, to the Russian Federation is considered across long-term periods of the nineteenth and twentieth centuries, including excursions into earlier epochs of Russian history. I have to point out the indubitable advantages of Spulber’s comparative approach, followed through in his distinct research programme, and clearly visible in the book’s structure.
The book consists of three parts, devoted to three historical epochs. Each part includes three ‘groups of studies of the varied and complex processes of transformations’ (p. xxii): (1) ‘State economy and society’; (2) ‘Sectoral growth and change’; (3) ‘Social accounting’. The final chapter of each part contains an overall view and concluding comments, devoted not merely to the period under review, but also to possible analogies, drawn from Russian and world history.

It is of special interest to see what parallels and continuities in these transitions were revealed by Spulber’s research, because most of the similarities are not so evident, except for the primary goal of all transformations: ‘to catch up with and surpass Western countries’.

As to the first, pre-revolutionary transition, we can say that it lasted from the Great Reforms period to the eve of World War I, at times slowing down or taking up speed. The author stresses the most important features of this transformation: the abolition of serfdom, partial liquidation of feudal institutions, the opening to capitalistic developments, the decisive role of the state and foreign capital in this process. The author points out the incompleteness of the transformation, the conservation of some aspects of feudalism and the deep, growing dissatisfaction of the Russian peasantry with government agrarian policy for all of the 50 pre-revolutionary years. In 1917, the October revolution destroyed not only the rule of the tsar, the administration and army, but society’s structure in general. Its driving force was the hatred of tsarism amongst the lower ranks of society, mainly peasants.

But by stressing the peasant nature of the October revolution and interpreting it as anti-feudal, the author disregards the fierce anti-capitalist enthusiasm of this radical turn of Russian history. Without this anti-capitalist streak the Bolsheviks’ slogans would not have had such an impact on the majority of the people. In my view, Spulber’s research underestimates the evident backlash of Russian traditional society against the first results of a capitalistic development. This development caused a considerable transformation of socioeconomic relations, in particular redistribution of land, pauperisation and the resulting migration of a substantial part of the rural population from the countryside to the cities.

The continuities between the pre-revolutionary and the Soviet transformation result, according to Spulber, from the incompleteness of the first transformation and the leading role of the state in the transformation process. The Soviet transition had to tackle many of the tasks from the previous period, but in the context of the new leaders’ ideology. The Soviet transition exaggerated some traits noticeable before the revolution: the concentration of power and resources in the hands of the state, special attention to the war industry, totalitarianism and slogans such as ‘catch up with and surpass’.

The Imperial and Soviet transformations built an economy of large and highly concentrated industrial enterprises, typical for the period before World War I. This economic legacy turned out to make self-renewal almost impossible. Therefore, the Soviet economic inheritance, together with the continuities regarding management and ruling elites, vastly constrained post-Soviet Russia’s possibilities of a fast and smooth transformation, reducing the gap between Russia and Western countries.
According to Spulber, it was not an easy task to incorporate the post-Soviet transition from command to market economy into his line of three transitions. However, for Spulber it seems counterproductive to point to the nineteenth-century pattern in post-Soviet Russia only. For example, many analogies to the group of Russian post-Soviet ‘oligarchs’ can be found in world history. The author’s comparison between these tycoons and American capitalists at the end of the nineteenth century is only one possible example in the blame game.

His overall conclusion is: ‘Russia’s mentality and society have been shaped by the four hundred years of the Tsarist autocratic, centralized, and patriarchal traditions, built on the Mongolian heritage, and by decades of the Communists’ powerful and cruel dictatorial system’ (p. 403). This reflection rings true, but is also quite traditional, especially in its part regarding the pre-revolutionary period. But are there any other ways of speculating about Russian history? There is nothing to say about the author’s treatment of the topic within the bounds of the literature on which his research is founded, devoted to a macroeconomic perspective or focused on the role of the state in economic development. But what aspects were underappreciated by these lines of Russian studies, rooted in the literature of the turn of the twentieth century? Pre-revolutionary transformation was much more multifaceted than the focus on the development of strategic industries under state patronage and reforms in the agrarian sector reflects. It is worthwhile paying more attention to the development of private property, private capitalism and civil society; in other words, the non-governmental sector in the Russian Empire. This sector had become very strong before World War I, and it was uprooted after the October revolution. Looking at the pre-revolutionary development, we have to stress that despite some successes, feudalism had not been overcome, capitalism had had no time to become stronger. The transforming society was highly explosive at the turn of the twentieth century. The national elite appeared incapable, its foreign policy disastrous. As a result, the Russian Empire was swept away by a peasant revolution, with its dislike of the past, both feudal and capitalistic. In its isolation, the Bolsheviks’ Russia had only one means of catching up with Western countries – through a state-run economy, which proved to be effective only in the short term, and served as a factor of stagnation in the epoch after World War II.

And now post-Soviet Russia faces problems similar to the Great Reform period in the middle of the nineteenth century: how not only to start reforms in strategic sectors, but to set in motion society’s self-development mechanism. It has already become evident that it is impossible without the strengthening of private property, private entrepreneurship and civil society. But after the collapse of the USSR these fields appeared non-existent, in contrast to the period after the Crimean War.

But is it possible to cope with a ‘feudal’ legacy during the last ten years, which was not completely subdued in the last 50 years of the Russian Empire and aggravated during the 70 years of the USSR? The answer is evident. And for a long time to come authors of studies in Russian history will cite verses from ‘The Scythians’ (1918) by the great Russian poet Alexander Blok. Nicolas Spulber chose the following lines:
Yea, Russia is a Sphinx. Exulting, grieving,
And sweating blood, she cannot sate
Her eyes that gaze and gaze and gaze
At you [old World] with stone-lipped love for you, and hate. (p. 401)

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In his pithy introduction to this collection of primary printed sources published between 1689 and 1891, Robert Wright argues that there has been continuity in the asymmetric information problems associated with corporate governance over the centuries. Modern regulators can draw lessons from the historical experience of grappling with issues such as adverse selection and managerial self-dealing. Indeed the stated purpose of these volumes, according to Wright, is to illustrate the benefits of shareholder scrutiny of managerial behaviour as a more efficient alternative to government regulation. In theory at least, effective monitoring in one period should reduce information costs for shareholders in subsequent periods. As these documents demonstrate, many devices were applied in the past to achieve a level of monitoring, including shareholder investigative committees, ‘democratic’ franchises which weighted voting power in favour of small shareholders, minority shareholder representation on boards, surety bonds for company officers, extended liability for directors, shareholders’ rights to inspect board papers, and independent audits.

The first volume commences with the late seventeenth-century debate on joint-stock companies. The remainder of this volume and the subsequent five volumes contain an array of British and American texts from the nineteenth century, including directors’ and shareholders’ reports from banking, insurance, bridge, canal, railroad, mining and manufacturing companies, company prospectuses, by-laws, charters and deeds of settlement, general incorporation acts (Virginia 1837, Colorado 1881), plus a miscellany of pamphlets and books, including an essay on New York’s safety fund law of 1829 to combat bank frauds, a defence of joint-stock banks published by the Northamptonshire Banking Company in 1836, John Reid’s compendium of Scottish stock companies (1842), and Henry Wood’s attack on the damaging effects of federal railroad regulation on shareholders’ dividends (1889). Together with an index, the final volume consists entirely of Hamilton’s Manual of Company Law (1891), a magisterial survey of Victorian corporate statutory and case law.

As the above list suggests, many of the texts are not themselves the products of internal company governance processes but either external commentaries on governance, or essays on wider business or economic affairs. Horace Greeley’s report to the shareholders of the North-West Mining Company (1847), for
example, describes not only the mines and their geology, but also the climate, the
toil, and the cost of provisions and labour in the Michigan mining district. Included
is also Nathan Appleton’s account of the origin of Lowell, Massachusetts (1858),
Robert Ward’s essay on joint-stock companies (1865), and several texts from the
minority representation movement of the 1870s, which place an interesting business
perspective on what was, for some, a deeply anti-democratic political movement.
More mundanely, there are also the inevitable examples of public infighting among
company executives surrounding accusations of misbehaviour or malfeasance. One
of my favourites is the lengthy exchange about the Bank of Maryland – a remarkable
partnership where directors ‘lent their names’ but claimed never to have seen their
articles of agreement, nor to have inspected the books, nor to have held any board
meetings. It went bankrupt in 1834.

The cumulative effect of these texts is to lend considerable support to Wright’s
case for ‘stakeholder activism’. They illustrate the importance of transparency (both
of data and decision-making), of careful attention to internal governance structures
and shareholders’ rights, of controlling rogue behaviour by presidents, directors and
managers (especially excessive internal lending), and of the reputational effects
of good governance. The volumes also facilitate a challenging research agenda to
examine the different paths of British and US corporate regulation, and to explore
why and how governance practice crossed the Atlantic in both directions during
these centuries. Some features of US governance which stand out in these texts as
differing from British practice include: the early introduction of general incorpora-
tion (for example, turnpike companies were incorporated by general act in Virginia
from 1817); the fixed terms stipulated in US charters; the appointment of state
commissioners to oversee IPOs; the presence of state appointees on boards of man-
agement; states’ rights of monitoring and inspection; citizenship qualifications for
company officers and sometimes also shareholders; the early use of scrip certificates;
the powerful role of company presidents in relation to other directors.

While one might question what the future holds for this kind of rare document
collection in an age of digitised online texts, there is still scope for its use as a research
and reference tool. It may also have potential as a teaching aid in advanced courses
on business and economic history, although for non-specialists more editorial
guidance would be needed than is provided here. In places even the specialist is left
wanting to know more. Did the additional share issue for the Lancaster canal (1800)
raise the funds required? What was the ‘contest’ between the president of the Bank
of Maryland and the Bank of the United States (1832) all about? With some
documents, notably the debate about the Philadelphia & Reading Railroad (1881),
one feels as though one is witnessing a private spat between executives, the context
of which is hard to understand. In sum, this is a fascinating selection of primary
sources of which the publishers and the editors may feel proud and which will be of
topical interest to financial and business historians.

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