

BOOK REVIEWS

*Lance Davis and Robert Gallman, **Evolving Financial Markets and International Capital Flows. Britain, the Americas, and Australia, 1865–1914*** (Cambridge: Cambridge University Press, 2001. 994 pp. £70.00)

This is a prodigious work of research and scholarship. It shows the empirical strength and persuasiveness, as well as the limitations, of the quantitative, comparative, institutionalist approach to the relationship of past to present for both explaining the history of economic development and understanding the present world economy in all its variations.

The contemporary era of globalisation of financial markets has roots deep in the nineteenth century. The period between the American Civil War and the First World War witnessed the emergence of the modern world economy with its financial, trading and political systems. The relationship between the core industrialising, capital surplus, zones, especially Britain, and the emerging New World zones, with their rapidly growing need for capital by which to develop their infrastructures, raw material industries and nascent manufacturing, was the chief dynamic of the era. What Davis and Gallman call the ‘frontier’ countries of Argentina, Australia, Canada and the United States, which are also described as ‘settler’ societies or ‘neo-Europes’, received the bulk of British overseas investment during this period. These were the ‘emerging’ markets of the nineteenth century. These four and Britain had the world’s highest incomes per capita during the late nineteenth century. But their institutional structures of finance and government varied a good deal, and these variations played a major role in their economic histories.

Davis and Gallman aim to show the significance of economic history for understanding the contemporary world financial system and the major shocks it has experienced in recent times. This is largely a story about the development of systems of institutional intermediaries in both Britain and the frontier countries that solved to varying degrees the general problem of informational asymmetry that leads, in turn, to problems of moral hazard and adverse selection. How investible funds were raised in Britain and the frontier countries and then mobilised for risky but profitable investment in remote parts of the world is a story at the heart of the rise of the modern capitalist world economy. The authors’ detailed analysis of this process is exhaustive and highly persuasive, as far as it goes. Their study of financial markets and capital flows during this crucial half century will be a standard work for a long time to come. The sections on each country are substantial book-length studies on

their own. (Given the size of the book a more detailed contents listing would have been helpful.)

The First World War was the greatest turning point the world economy has experienced during the nearly two centuries since the Napoleonic Wars. Consequently, one of the chief issues confronting economic historians and those who should learn lessons from economic history concerns the influences of prewar developments upon subsequent developments. That is, what were the pre-1914 developments, processes and events which influenced developments after the great shock? Which continuities and innovations can be traced to that rupture? How important are such ruptures for any country or institutional structure? Of course, ruptures and continuities are not the whole story but this pre- and post-1914 periodisation helps to focus on the long-run trajectories in institutional systems that were so important. Davis and Gallman are concerned with the financial systems of these states, how they experienced shocks and transformations, and responded to them, such that these economic histories can tell us much about our contemporary world of continuities, cycles and shocks. They have interesting comparative things to say about recent events such as the Mexican debt crisis of the 1980s.

The major problem with the book concerns not what is there but what is missing. We do not get a very satisfying explanation of comparative economic development. They do not well explain the post-1918 history of economic convergences and divergences of the four 'frontier' states or of Britain. They have raised the question in a very thorough way and have given some part of the answer but much is still left up in the air. For example, the divergence between Australia and Argentina after 1914 remains something of a puzzle after reading their book. Australia experienced relative stagnation for 50 years after 1890, especially compared with the United States and to a lesser extent with Canada, but after 1946 performed slightly better than the United States. Argentina, whose GDP grew very rapidly during the period to the Great War and had a GDP per capita almost as high as Canada's in 1920, thereafter experienced a dismal relative decline against all the others. Its GDP per capita is now only about one-third of the United States, while the others are at about three-quarters or more. Australia and Argentina shared important similarities in their histories until 1914 but these were less important than the differences. There is no doubt that the financial crises that the two countries experienced during the 1890s (owing in large part to their immature and unbalanced financial systems), had deleterious long-term consequences. But their financial systems had significant differences, well examined by Davis and Gallman, including different degrees of dependence on foreign capital, different roles for government-owned banks, different investment patterns and different savings ratios. Why was the Argentinian savings ratio so low before the war? Why do savings ratios vary so much by country and era? We are not given a good explanation. An explanation must take more account of social forces.

Thus the major missing ingredients in their comparative analysis include class relations, especially relating to rural land ownership and the distribution of income

and wealth. Political culture and institutions and national culture and legends, growing out of national experiences, are also crucial. These are all closely interconnected. One of the biggest differences that Argentina, and all of Latin America, had with the Anglo settler societies concerned land ownership and the socio-economic and political dominance of the landed oligarchy and their urban collaborators. Other significant differences concern the colonial experiences of conflict with indigenous people and the military struggles for independence. The social, cultural and political structures that emerged in Argentina by the late nineteenth century were very different from the Anglo-frontier countries. These structures constitute everywhere the framework for financial and economic development and should not be bracketed as requiring separate accounts in a work that purports to explain long-run comparative economic development.

Despite the very disastrous financial devastation of 1893 and the subsequent stagnation, Australia recovered to become a fully industrialised, rich, liberal, cosmopolitan society. Argentina's trajectory was quite different and its underdevelopment persists. Why did these two countries turn out so differently? Australia's financial system developed and altered slowly for most of the twentieth century – until changing rapidly during the last part of the century. Such regime change is part of what Davis and Gallman say they want to examine but they do not come up with much of an explanation. For example, the remarkable strength, persistence and stability of the social democratic 'settlement' in Australia (including the central role of government-owned and/or -controlled financial institutions) until replaced very rapidly during the 1980s by neoliberalism, is not really discussed nor compared with, say, the very different trajectory of the United States. To understand the centrality of the state in Australia it is necessary to go back well before the 1850s. Nevertheless, these two very different financial structures and roles for the state both produced similar macroeconomic outcomes during the second half of the twentieth century. How?

Northian institutionalism, concentrating rightly on path dependency, takes insufficient account of these social and cultural factors and so is unable to account for the different levels of attachment to democracy, liberal constitutionalism, individualism and collectivism, nor the social determination of important economic variables such as savings rates, rural productivity, technological change in agriculture, and the connections between these and internal consumer demand. Class disaggregation and examination of relations of production (such things as property ownership, employment and tenancy systems, wage and other income levels) are necessary to account for the significance of these. When Argentina is compared with the others, we see a contrasting situation, especially in rural areas where family farming did not become the dominant pattern in the nineteenth century. The rural/urban divide in Argentina was more significant than in the others. Some comparison of Argentina with Quebec and the southern United States would have been interesting here. Yet there is no attempt to break up any of these countries to

examine regional differences, which is a pity for much can be learnt about economic development from doing so.

Perhaps it is unfair to point to absences that are never meant to be present. Davis and Gallman's book is primarily about financial systems and, as such, is a tour-de-force. The wealth of data assembled and presented so accessibly and the thoroughness of the comparative examination will make this an essential text for understanding the financial and economic history of the world since 1865.

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Harald Wixforth (ed.), Sparkassen in Mitteleuropa im 19. und 20. Jahrhundert (Geld und Kapital. Jahrbuch der Gesellschaft für mitteleuropäische Banken- und Sparkassengeschichte) (Vienna: Bohlau, 1998, 186 pp.)

The Gesellschaft für mitteleuropäische Banken- und Sparkassengeschichte is an association of historians whose main interest lies in a very specific economic region – central Europe. There is no doubt that the geographical position of central Europe and, consequently, its specific economic development, influenced the development of a specific financial system. The *Gesellschaft* endeavours to promote communication, cooperation and the exchange of ideas between the region's economic historians, and is mostly known for its yearbook, *Geld und Kapital*. This relatively small book, edited by three eminent scholars, Alois Mosser, Alice Teichova and Richard Tilly, has resulted in a publication of outstanding quality. Each issue concentrates on one of the most important problems in central Europe's financial history. The articles are the result of solid research often undertaken by lesser-known scholars.

The 1998 issue is dedicated to the topic of savings banks. These played a very important role in the financial systems of central Europe, where some thousands of financial institutions called themselves 'savings bank', including those owned by municipalities or provinces as well as postal savings banks and many local, commercial banks. Harald Wixforth, the editor, has chosen a few papers to illustrate the variety of approaches taken to writing the history of savings banks.

Peter Eigner and Andres Weigl give a very original overview for postal savings banks. The first part of their article analyses the role of the Austrian postal savings bank as an integrating factor in Cisleithania's financial market. Their paper goes on to describe the adoption of the postal savings bank 'model' in the successor states to the Monarchy, including Czechoslovakia, Hungary, Poland and Yugoslavia.

Jan Hajek, a Czech scholar, looks at the differences in formation between Czech and German savings banks in Bohemia before 1914, and the ensuing competition. Tedeus Wludyka contributes a short overview of the development of savings banks in Poland, concentrating on the legal background. He also presents the results of his research on the municipal savings bank of Krakow from 1934 to 1938.

This issue of the yearbook also includes two exemplars of social history – studies of people and mentalities in their relationship to these new financial institutions.

Jürgen Loterer analyses the directors of savings banks in the northern Ruhr region before 1914. Paul Thomes concentrates his research on customers, offering an interesting study of female clients of the St Wendel provincial savings bank during the early period, 1859–67, when savings banks were flourishing. He shows to what extent, and how, the credit policy of these banks was gender-biased. Lastly, Christop Keleschenke, historical archivist of the Bielefeld savings bank, addresses the role of savings banks during the German inflation (1914–23).

By presenting many different aspects of their development, this yearbook offers a stimulating and interesting contribution to the history of savings banks in central Europe. Yet, in terms of a general history of savings banks within this region, it gives only a view of the tip of the iceberg. For instance, it would widen the perspective to include studies of the development of Hungarian municipal and commercial savings banks, either before or after the Austro-Hungarian Monarchy. Savings banks in Bosnia, Croatia, Hungary, Slovakia and western Romania were, legally or fiscally, very similar to commercial banks. At the same time, they played a significant role in municipal and local economic development, and the issue of national debt, not unlike their western neighbours.

Heidelberg

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H. Bonin, Le monde des banquiers français au XXe siècle (Brussels: Complexe, 2000. 310 pp.)

This is a small book, with flaws and qualities. It mainly addresses the various professions within the banking sector from the top to the bottom of the hierarchy. Hubert Bonin is well acquainted with this world since he has already written several books on the subject, to which references can be found all through the pages which address the twentieth century. The author provides very contemporary information, quite purposefully arranged and not only meant for specialists. The last two chapters focus on the developments since the 1960s, referred to as ‘the third banking revolution’, a subject rarely covered in history books.

The successive chapters deal with the world of bankers (and not of banks), beginning with the most prestigious in the collective imagination: the ‘haute banque’, those of major businesses as well as family businesses. Bonin then focuses on financiers, including those who provided the great innovative businesses of the 1920s with funds, especially in the chemical or automobile industries. He moves on to commercial banking, with an emphasis on branch banking and urban areas. Here Bonin deals mostly with customers from industry and trade, rather than mass banking, although the latter is the real revolution in banking.

The third part of the book deals with managers and other employees. While the small banking world at the beginning of the twentieth century is very much alive in the book, it is regrettable that data concerning employees are so imprecise, whereas it could have been found in a very good book by the sociologist Yves Grafmeyer (*Les gens de la banque*, 1992). But the life of a branch director, with all the details of

his daily business, is described in a very concrete manner. Bonin also devotes considerable space to changes in banking techniques, especially the consequences of the appearance of punch cards, and the changes in information technology in general between the two world wars.

Contemporary or 'mythical' bankers are portrayed here and there, but the most complete picture is that of the period between the two world wars. Bonin also mentions those bankers who nourished the dream of professional mobility, the rare men who pushed carts in their adolescence but became members of the board of directors. However, these individual histories are based on sources a little too hagiographical, such as memoirs. This is particularly true for Dorizon, director of Société Générale at the turn of the twentieth century.

An index of names would have helped to guide the reader through this sometimes dense work. It is also regrettable that Bonin's effort to systematise brings about a succession of different 'worlds' – that of the 'discrete bank', the 'commercial bank' or the 'manager's banking'. Here the exclamatory punctuation is sometimes used in place of a demonstration. But the book remains a good synthesis of what needs to be known about 'the world' of the banking sector from every angle.

Lyon II

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