Book Reviews

ANCIENT TO MODERN EUROPE

Central Bank Independence and the Legacy of the German Past. By Simon Mee. Cambridge: Cambridge University Press, 2019. Pp. 368. $65.59, Kindle; $78.57, hardcover.
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In this book, Simon Mee tackles one of the most enduring myths about central bank independence, particularly in European history. It is often said that the German central bank, the Bundesbank, has always been more independent than any other monetary authority because the German people fear the hyperinflation of the early 1920s. Memories of hyperinflation must have permeated the minds of Germans in a uniform way, so that the independence of the central bank became an undisputed and inevitable landmark of the nation. In this well-written and intensively researched book, the author argues that the fear of inflation and the love of central bank independence in Germany are not the natural product of memories from the 1920s, but a social construct framed in the domestic policy debates after 1945 by an active communication strategy devised by the central bank.

Mee's starting point is to follow three observations that were already well known to economic historians, but which needed to be brought together in a coherent argumentation covering several decades. They all question the traditional argument that directly links the defense of central bank independence to memories of hyperinflation. First of all, the Reichsbank was in fact independent during the 1921–1923 hyperinflation (it became independent in 1922). And, more generally, its record as an independent central bank during the inter-war period was not brilliant: it pursued a policy of deflation aggravating the Great Depression and then embraced Hitler's policy. Thus, only the formal loss of independence in 1939 and the ensuing hyperinflation could provide strong arguments from the German past for central bank independence after 1945. Second, in 1922 as in 1948, central bank independence was imposed by foreigners. After the creation of the Federal Republic of Germany (FDR), it was not expected that the country would preserve central bank independence brought from abroad, especially in a context where many countries had chosen a different model. Thirdly, there were indeed some notable political opponents of central bank independence in Germany in the post-war period. The most virulent was none other than Chancellor Konrad Adenauer in the 1950s. Chancellor Helmut Schmidt also intended to pass a law limiting the independence of the Bundesbank in 1972–1973 (which gave rise to what the author calls the *Novellierung* debate). It should also be noted that—as Jörg Bibow has pointed out in several contributions—central bank independence did not emerge as a constituent element of ordoliberal thinking either: it is not mentioned, for example, in Walter Eucken's *Foundations of Economics* (1950).

Once these facts are gathered, a teleological account of the Bundesbank's independence collapses. The question then becomes: Who defended independence after WWII, on what arguments was it based, and why did this view become dominant? The book addresses these questions, based on the political debates but also on the rich archives related to the communication strategy of the Bank Deutscher Lander (BdL) and, after 1957, of the Deutsche Bundesbank (DB). According to the author, the key to understanding the story of central bank independence in the post-war FDR is the trial of Haljmar Schacht in Nuremberg in 1946. Schacht was president of the Reichsbank from 1933 to 1939 and minister of economics in 1934–1937. Known as "Hitler's magician," he was the main architect of the financing of the Third Reich before the war and an

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important public figure. But Schacht had to leave the Reichsbank in 1939 after writing a memorandum—which was signed by the entire directorate of the bank—protesting Hitler's inflationary spending on rearmament. At the Nuremberg trials, the 1939 memorandum was used by Schacht's witnesses as evidence that Schacht had remained independent of the regime. According to Mee, the memorandum was used to argue that Schacht was a "monetary martyr" who sacrificed himself to the ideals of sound money. Schacht was acquitted of all charges and the argument formulated in Nuremberg became the backbone of BdL and DB's communication strategy in the years that followed. In the 1950s and 1960s, the central banks of the FDR were subsequently led by Wilhelm Vocke and Karl Blessing, who were members of the Reichsbank management in the 1930s and had co-signed the 1939 memorandum. Simon Mee shows in great detail that this argument had to be used repeatedly, as attacks from all sides against central bank independence were common until the 1970s. They were often based on the fact that—with the exception of the 1939 memorandum—the independence of the Reichsbank in the inter-war period could easily be interpreted as a source of political failure, both in terms of hyperinflation and deflation. Blessing's Nazi past also resurfaced in the 1960s and initially threatened the official arguments put forward by the DB. Schacht himself continued to participate in the public debate and pushed the DB to refine its anti-inflationary stance and discourse when West Germany was confronted with imported inflation at the end of the Bretton Woods system. In his detailed account of the central banks' communication strategy, Mee stresses the importance of Victor von der Lippe, who remained head of the press department for almost three decades, and Volkmar Muthesius, the editor-in-chief of Fritz Knapp-Verlag, whose publications were essential in disseminating the central bankers' thinking. The sustainability of the legal framework of the DB was more the result of an intensive communication strategy—which was also a legacy of Schacht's considerable efforts to become a key public figure as a central banker in the early 1930s—than the result of political consensus. In many cases, the central bank used communication to the general public against attempts by governments to limit its power. On the conflict between Schmidt and the Bundesbank in the 1970s, Mee even goes so far as to suggest that "public opinion played a crucial role in protecting an institution [the DB] from democratic accountability itself"(p. 256).

The author makes clear that this is not a book against central bank independence, but an attempt to deconstruct "monetary mythology." He starts by citing Jeffrey Herf: "writing history is a matter of reconstructing the openness of past moments before choices congealed into seemingly inevitable structures." The author has undoubtedly achieved this goal. He sets out the policy implications of his method and research findings in the conclusion: a new narrative of central bank independence must emerge to be consistent with the new monetary policy instruments currently in place in Europe.

Mee has written a fascinating book that should be of interest to any historian of central banking in twentieth-century Europe and, more generally, to any European citizen wishing to discuss current monetary policy issues. Like any scholarly work, it also has certain limitations. The book does not attempt to compare the history of the German central bank with those of foreign central banks. A comparative perspective could have sometimes strengthened the argument. It may have helped, for example, to discuss two other myths about central bank independence that the book leaves out. First, the current view of central bank independence is that it is inseparable from the principle of free market. Central bank independence is seen as synonymous with the absence of intervention in the allocation of capital and credit. However, this equivalence is a myth that is not supported by historical comparisons. Mee provides numerous examples of this. The independent Reichsbank—even before Schacht—invented the

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(in)famous Mefo bills, the Bundesbank was the greatest advocate of capital control in the 1960–1970s, etc. The deliberate role of the central bank in export credit financing could also have been discussed. Thus, the relationship between central bank independence and free market (and thus the definition of the former) has fluctuated throughout history. Second, another key element of current German monetary mythology is that the independence of the Bundesbank was a superior model because it was the only central bank in an advanced economy that managed to avoid the high inflation of the 1970s. This may not be a myth, as many people like Otmar Issing argue. But others have tried to qualify it, pointing out the role of fiscal policy or wage coordination in keeping inflation stable in the FDR in the 1970s. It is a bit frustrating that the author, who covers the political debate on the independence of the DB in the 1970s in depth, does not try to enter the debate. These criticisms do not minimize the book's important contribution to the history of European central banking and to the history of the narrative and communication strategy of central banks.

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Going the Distance: Eurasian Trade and the Rise of the Business Corporation, 1400–1700. By Ron Harris. Princeton: Princeton University Press, 2020. Pp. xiii, 465. $39.95/£34.00, hardcover.
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The joint-stock business corporation, as an increasing scholarly literature has documented, emerged in Western Europe around and after 1600, pioneered by the Dutch and British East India Companies. The timing and geographical location of this institutional breakthrough has been an enduring subject of academic interest (e.g., Dari-Mattiacci, Giuseppe, Oscar Gelderblom, Joost Jonker, and Enrico C. Perotti. "The Emergence of the Corporate Form." *Journal of Law, Economics, and Organization* 33, no. 2 [May, 2017]: 193–236; Greif, Avner, and Guido Tabellini. "The Clan and the Corporation: Sustaining Cooperation in China and Europe." *Journal of Comparative Economics* 45, no. 1 [February, 2019]: 1–35; Guinnane, Timothy, Ron Harris, Naomi Lamoreaux, and Jean Laurent Rosenthal. "Putting the Corporation in Its Place." *Enterprise & Society* 8, no. 3 [September, 2007]: 687–729; Hansmann, Henry, Reinier Kraakman, and Richard Squire. "Law and the Rise of the Firm." *Harvard Law Review* 119, no. 5 [March, 2006]: 1333–403.). The legal technology itself—joint stock equity finance, separate legal personality, collective governance, tradable shares, investment lock-in, and asset partitioning—was not so complex that one would think earlier societies could not have conceived them. Quite the opposite, subsets of these legal technologies existed through various premodern business forms across the globe. Even asset partitioning, an amalgam term that refers to the combination of entity shielding and limited liability, had its share of qualitatively and conceptually similar predecessors in a number of premodern societies. Nonetheless, the full combination of these technologies into a single form of business organization emerged very late in human history and initially only in Europe.

In *Going the Distance*, Ron Harris provides the most thorough and rigorous study of this phenomenon to date. By combining a systemic theoretical overview of modern institutional economics with carefully researched narrative surveys of the evolution of business organizations in nearly all major medieval and early modern Eurasian economies, the book effectively crystalizes an entire field of academic research into a single

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