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A State of Supervision: The Political Economy of Banking Regulation in Germany, 1900s–1930s

This article examines debates over banking regulation in Germany that culminated in the 1934 Reich Banking Law. Existing accounts have traced its origins to the 1931 banking crisis or the 1933 Nazi seizure of power. Yet, rather than the outcome of a single financial or political crisis, banking regulation was the product of longer-term discussions on national security, legal rationale, and financial globalization. Prior to World War I, officials expressed concerns over Germany's dependence on foreign capital, while later efforts to improve liquidity in the banking sector continued in the 1920s. The construction of a regulatory policy thus arose from a series of investigations into how to protect the German economy from foreign crises, thereby reflecting the interdependence of politics and finance.

Keywords: financial history, banking regulation, Germany, interwar Europe, legal history

The Reich Banking Law (Reichsgesetz über das Kreditwesen) was the first comprehensive legislation over the entire German banking sector. Its implementation in 1934 arose from extensive deliberations among officials—including those at the central bank (Reichsbank); the

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cabinet; and the finance, economics, interior, and justice ministries—to address the vulnerabilities of the financial sector. The legislation further marked a pivotal moment in the formation of a regulatory policy that standardized rules and established new supervisory functions. As this article argues, neither the 1931 banking crisis nor the 1933 Nazi seizure of power alone can fully explain the enactment of banking regulation, as one must also consider the longer-term structural factors that induced such a change. Above all, the Reich Banking Law was a reactionary political decision that was intended to protect the national economy from foreign withdrawals of capital and exchange-rate volatility. By identifying the Reich Banking Law as one of many possible configurations of intervention that could have arisen, the following analysis probes the relationship between the state and the economy.

Officials in prewar and interwar Germany had been greatly distressed by the vulnerability of the national financial sector. Specifically, they questioned whether banks were reporting adequate levels of liquidity—the volume of cash and cash equivalents (government securities, bills of exchange, or advances), often in proportion to bank deposits—on their balance sheets.[1] Here, liquidity can be interpreted as a measure of how resilient a particular bank might have been to a crisis of confidence or a bank run. Moreover, contemporary assessments connected this issue to other problems, such as the deficient supply of industrial credit or the heavy reliance on foreign sources of capital. As Reichsbank director Karl Nordhoff observed, the "liquidity question" (*Liquiditätsfrage*) undermined the stability of the entire German economy: "Insufficient liquidity causes not only distrust on the part of the bank's customers, [but] there is also the danger that such expressions of distrust . . . will spill over to other banks. For this reason, there can be no doubt that not only the banks themselves, but also the government authorities generally responsible for credit and monetary affairs and the central bank, as well as public criticism, must pay the greatest attention to questions of the liquidity of banks."[2] Nordhoff's call for greater financial oversight in 1933 derived from the persistent fear of inadequate liquidity in the years prior. Not only were banks reporting low levels of cash reserves, but their balance sheets also revealed a significant dependence on foreign capital. Officials thus came to believe that the liquidity question was both a structural problem endemic to the banking sector and an outgrowth of global entanglements. From this perspective, protecting the economy from foreign volatility became a matter of national security.

[1] See, for instance, Rudolf Havenstein to Theobald von Bethmann Hollweg, 25 Mar. 1908, R3101/15584, Bundesarchiv, Berlin-Lichterfelde (hereafter, BArch).

[2] Karl Nordhoff, "Über die Liquiditätsfrage" [On the liquidity question], in *Untersuchung des Bankwesens 1933*, part 1, vol. 1 (Berlin, 1933), 477.

As others have argued, the incentives for a state to enact banking legislation have varied widely, ranging from efforts to exert control over the economy to an interest in improving overall market efficiency.[3] Banking regulation, indeed, proved more difficult than simply imposing a standard set of rules on the entire financial sector. It was a deeply politicized project, subject to numerous debates on state involvement and public law. In the German case, officials considered the extent to which a supervisory authority needed to be independent from the government itself.[4] They were interested in identifying an enforcement mechanism for such legislation, as well as the necessary legal arguments for their actions.[5] At the same time, there was tension between these views and those that remained committed to classical-liberal principles of a limited state. From industrialists on government commissions to prominent bankers in Berlin, many groups advocated a model of indirect supervision over the banking system.

This article identifies the rationale that underpinned the state's regulatory policy. It argues that banking regulation was a product of protracted discussions over government intervention since the turn of the century. In contrast, historians have argued that the Reich Banking Law was a predominantly technocratic policy independent of the state, a direct outcome of the 1931 banking crisis, or the result of Nazi economic policy.[6] Some of these arguments were made by contemporary

[3] On banking regulation, see Richard Tilly, "Zur Geschichte der Bankenregulierung" [On the history of banking regulation], in *Monetäre Institutionenökonomik*, ed. Dietrich von Delhaes-Günther, Uwe Vollmer, and Karl-Hans Hartwig (Stuttgart, 2001), 3–27; Stefano Battilossi and Jaime Reis, ed., *State and Financial Systems in Europe and the USA: Historical Perspectives on Regulation and Supervision in the Nineteenth and Twentieth Centuries* (Farnham, 2010); Richard S. Grossman, *Unsettled Account: The Evolution of Banking in the Industrialized World since 1800* (Princeton, 2010); Charles Goodhart, *The Basel Committee on Banking Supervision: A History of the Early Years, 1974–1997* (Cambridge, UK, 2011); Alexander Thiele, *Finanzaufsicht. Der Staat und die Finanzmärkte* [Financial oversight: the state and financial markets] (Tübingen, 2014); Catherine R. Schenk and Emmanuel Mourlon-Druol, "Bank Regulation and Supervision," in *The Oxford Handbook of Banking and Financial History*, ed. Youssef Cassis, Richard S. Grossman, and Catherine R. Schenk (Oxford, 2016), 395–419; Christoph Kaserer, "Fifty Years of Financial Regulation in Germany," in *Financial Deregulation: A Historical Perspective*, ed. Alexis Drach and Youssef Cassis (Oxford, 2021), 101–120.

[4] See, for instance, Fritz Paersch, "Maßnahmen des Staates hinsichtlich einer Beaufsichtigung und Reglementierung des Bankwesens" [State measures with regard to oversight and regulation of the banking system], Oct. 1933, R2501/6925, BArch.

[5] "11. Sitzung des Unterausschusses V für Geld-, Kredit- und Finanzwesen" [11th meeting of Subcommittee V on Money, Credit, and Finance], 10 Nov. 1926, R2501/6975, BArch; Statistische Abteilung, "Die öffentliche Meinung zur Frage der Bankenkontrolle" [Public opinion on the question of bank control], 15 Aug. 1931, R2501/6489, BArch.

[6] Gerd Hardach, "Banking in Germany, 1918–1939," in *Banking, Currency, and Finance in Europe between the Wars*, ed. Charles H. Feinstein (Oxford, 1995), 289; Christopher Kopper, *Zwischen Marktwirtschaft und Dirigismus. Bankenpolitik im „Dritten Reich" 1933–1939* [Between market economy and dirigisme: banking policy in the "Third Reich" 1933–1939]

observers, too.[7] Meanwhile, Christoph Müller has shown how formal banking legislation arose from the economic problems facing Germany after World War I.[8] However, although such factors had contributed to overall banking instability, attempts to increase financial oversight more directly came from extensive debates in both the prewar and interwar years. First, prior to 1914, the government sought to protect the German financial sector from foreign crises. Banking regulation had certainly embodied the evolving legal paradigms of "liquidity" and "solvency" from the mid-nineteenth century onward.[9] Nevertheless, while there is no singular origin of an analysis of the liquidity question, the proceedings of the 1908 Bank Inquiry (Bankenquete) serve as one useful starting point since it was within recent institutional memory.[10] Second, in the 1920s, economists, lawyers, and bankers blamed the international situation—the burden of reparations, the dependence on foreign capital, and the gold-hoarding policies of other countries—as the primary reasons for low liquidity. They often resorted to indirect means of financial supervision, such as credit limits or alterations to the discount rate, which allowed the government to manage market instability without formal legislation. It was in this context that the foundation of a more interventionist regulatory policy emerged.

(Bonn, 1995), 122–125; Gerd Waschbusch, *Bankenaufsicht. Die Überwachung der Kreditinstitute und Finanzdienstleistungsinstitute nach dem Gesetz über das Kreditwesen* [Banking supervision: the monitoring of credit institutions and financial institutions under the banking law] (Munich, 2000), 89–91; Grossman, *Unsettled Account*, 161; Eiji Hotori, Mikael Wendschlag, and Thibaud Giddey, *Formalization of Banking Supervision* (Singapore, 2022), 82, 84–85.

[7] For instance, F. Souchon, "Das Reichsgesetz über das Kreditwesen" [The Reich Banking Law], *Deutsche Justiz, Rechtspflege und Rechtspolitik* 97 (1935), 21.

[8] Christoph Müller, *Die Entstehung des Reichsgesetzes über das Kreditwesen vom 5. Dezember 1934* [The emergence of the Reich Banking Law of December 5, 1934] (Berlin, 2003), 26–27.

[9] Jan Körnert, "Liquiditäts- oder Solvabilitätsnormen für Banken? Zu den Anfängen eines Paradigmenwechsels und zur Einführung von Solvabilitätsnormen zwischen 1850 und 1934" [Liquidity or solvency standards for banks? On the beginnings of a paradigm shift and the introduction of solvency standards between 1850 and 1934], *Vierteljahrschrift für Sozial- und Wirtschaftsgeschichte* 99, no. 2 (2012), 171–188. On earlier forms of financial oversight, see Louis Pahlow, "Bankenregulierung zur Stärkung der Krisenprävention? Die staatliche Aufsicht über die Kreditwirtschaft im 19. und 20. Jahrhundert" [Banking regulation to strengthen crisis prevention? State supervision of the credit economy in the 19th and 20th centuries], *Der Staat* 50, no. 4 (2011), 621–636; Jan Körnert, "Paradigmenwechsel in der deutschen Bankenregulierung. Zur Evolution eigenkapitalorientierter Solvabilitätsnormen in Theorie und Praxis seit 1850" [Paradigm shifts in German banking regulation: on the evolution of equity-oriented solvency standards in theory and practice since 1850], *Zeitschrift für das gesamte Handelsrecht und Wirtschaftsrecht* 176 (2012), 96–127.

[10] See, for instance, a reference in Hjalmar Schacht, "Zur Frage der gesetzlichen Regelung des Kreditwesens in Deutschland" [On the question of the legal regulation of the credit system in Germany], 18 May 1934, R2501/6919, BArch.

This argument also requires understanding the transnational elements of political debates, which determined the possible configurations of a regulatory policy. From the early 1900s onward, German officials noted the differences between their banking system and the British one. Because of the relatively weaker positions of their own banks, they became more committed to sweeping (albeit different) forms of regulation than their British counterparts, the latter often finding ways of regulating the banking sector through private meetings and informal pressure.[11] Moreover, comparisons with foreign banking systems serve a second purpose here: German officials observed how Germany had become exposed to economic and political vicissitudes abroad. There was criticism of other countries for causing volatility and, by extension, threatening national security. After the Panic of 1907, Reichsbank director Karl von Lumm claimed that a "stronger foreign-exchange portfolio" was a "valuable weapon" for the central bank in preventing future withdrawals of capital.[12] Similarly, with an influx of short-term foreign capital after 1924, officials believed they now had less control over domestic credit and price levels.[13] "Deflation is not dependent on our will but simply an inevitable consequence of international conditions," stated Reichsbank president Hans Luther. "The liquidity question is the main issue."[14]

Even so, resolving the debate on the crisis that beset Germany in the summer of 1931 is not the goal here.[15] Recent scholarship has detailed

[11] Geoffrey Jones, *British Multinational Banking, 1830–1990* (Oxford, 1993), 106–109; John D. Turner, *Banking in Crisis: The Rise and Fall of British Banking Stability, 1800 to the Present* (Cambridge, UK, 2014), 174–179.

[12] Karl von Lumm, *Die Stellung der Notenbanken in der heutigen Volkswirtschaft* [The position of central banks in today's economy] (Berlin, 1909), 26, 38–39.

[13] See, for instance, Hjalmar Schacht, *Die Stabilisierung der Mark* [The stabilization of the mark] (Stuttgart, 1927), 168–174. Other works have explored the effects of foreign (primarily US) lending to Germany: Werner Link, *Die amerikanische Stabilisierungspolitik in Deutschland 1921–32* [The American stabilization policy in Germany 1921–32] (Düsseldorf, 1970); Stephen A. Schuker, *American "Reparations" to Germany, 1919–33: Implications for the Third World Debt Crisis* (Princeton, 1988); Hans-Georg Glasemann, *Deutschlands Auslandsanleihen, 1924–1945. Rückzahlungen nach der Wiedervereinigung von 1990* [Germany's foreign bonds, 1924–1945: repayments after the reunification of 1990] (Wiesbaden, 1993); Zara Steiner, *The Lights That Failed: European International History, 1919–1933* (Oxford, 2005), 240–246, 431–435.

[14] "Nr. 453. Sitzung des Wirtschaftsausschusses der Reichsregierung" [No. 453: meeting of the Economic Committee of the Reich Government], 22 Aug. 1931, Die Kabinette Brüning I/II, Akten der Reichskanzlei. Weimarer Republik, accessed 21 Feb. 2023, https://www.bundesarchiv.de/aktenreichskanzlei/1919-1933/0000/index.html (hereafter, AdR).

[15] Gerd Hardach, *Weltmarktorientierung und relative Stagnation. Währungspolitik in Deutschland 1924–1931* [World market orientation and relative stagnation: monetary policy in Germany 1924–1931] (Berlin, 1976); Harold James, "The Causes of the German Banking Crisis of 1931," *Economic History Review* 37, no. 1 (1984), 68–87; Theo Balderston, "The Banks and the Gold Standard in the German Financial Crisis of 1931," *Financial History Review* 1, no. 1 (1994), 43–68; Thomas Ferguson and Peter Temin, "Made in Germany: The

how a "sudden stop" in foreign capital flows exacerbated the current-account deficits of Germany, Austria, and Hungary.[16] The crisis in central Europe posed a major problem for the British merchant banks that had significant continental holdings of acceptance credits.[17] Institutionalized efforts to resolve the liquidity shortage first emerged through financial-sector initiatives—the Acceptance and Guarantee Bank (Akzept- und Garantiebank, 1931), the German Financing Institute (Deutsche Finanzierungsinstitut, 1932), and the Amortization Fund for Commercial Loans (Tilgungskasse für gewerbliche Kredite, 1932)—and were later embodied by the 1934 Reich Banking Law. While efforts to expand the state apparatus in financial affairs certainly accelerated after the Nazi seizure of power in 1933, the process had, in many ways, already been underway.

The Making of the Liquidity Question

Although prewar Germany did not implement nationwide banking regulation, it was responsible for an evolution in the political economy of financial-sector intervention. Initially, the monetary authorities grappled with the question of whether banks were reporting adequate levels of liquidity.[18] Germany's banking sector broadly comprised three main groups: private banks, including mortgage banks (*Hypothekenbanken*), provincial banks (*Provinzbanken*), and the Berlin-based "Great Banks" (*Großbanken*); public banks, such as state banks (*Staatsbanken*), regional banks (*Landesbanken*), and savings banks (*Sparkassen*); and cooperative banks (*Genossenschaftsbanken*), which supported farmers and other small to medium-sized businesses. Across these groups,

German Currency Crisis of July 1931," *Research in Economic History* 21 (2003), 1–53; Isabel Schnabel, "The German Twin Crisis of 1931," *Journal of Economic History* 64, no. 3 (2004), 822–871; Schnabel, "The Role of Liquidity and Implicit Guarantees in the German Twin Crisis of 1931" (Discussion Paper, no. 5, Max Planck Institute for Research on Collective Goods, 2005). See also a summary of the debate: Carsten Burhop, "The Historiography of the 1931 Crisis in Germany," *Jahrbuch für Wirtschaftsgeschichte* 52, no. 2 (2011), 9–27.

[16] Olivier Accominotti, "London Merchant Banks, the Central European Panic, and the Sterling Crisis of 1931," *Journal of Economic History* 72, no. 1 (2012), 1–43; Olivier Accominotti and Barry Eichengreen, "The Mother of All Sudden Stops: Capital Flows and Reversals in Europe, 1919–32," *Economic History Review* 69, no. 2 (2016), 469–492; Nathan Marcus, *Austrian Reconstruction and the Collapse of Global Finance, 1921–1931* (Cambridge, MA, 2018); Flora Macher, "The Hungarian Twin Crisis of 1931," *Economic History Review* 72, no. 2 (2019), 641–668.

[17] Harold James, "Financial Flows across Frontiers during the Interwar Depression," *Economic History Review* 45, no. 3 (1992), 594–613; Mark Billings and Forrest Capie, "Financial Crisis, Contagion, and the British Banking System between the World Wars," *Business History* 53, 2 (2011), 193–215; Olivier Accominotti, "International Banking and Transmission of the 1931 Financial Crisis," *Economic History Review* 72, no. 1 (2019), 260–285.

[18] *Der deutsche Oekonomist* XXIX, 1503, 21 Oct. 1911, 689–690.

Table 1
Cash-Liquidity Ratios by Bank Type (as Percentages of Total Deposits)

	Great Banks	*Regional banks and clearing houses*	*Provincial banks*	*State banks*	*Savings banks*	*Cooperative banks*
1913	7.5	10.4	5.6	5.6	1.2	4.2
1925	5.4	3.0	7.4	5.6	2.5	5.1
1929	3.5	1.9	5.2	4.2	1.6	3.0
1930	3.8	1.6	5.1	3.8	1.3	2.7
1931	4.2	2.2	5.2	4.1	1.3	3.2
1932	3.1	1.9	4.5	3.6	1.0	2.7
1933	2.1					

Source: Compiled by the 1933–4 Committee of Inquiry in: "Liquide Mittel und Liquiditätsquoten" [Cash and cash equivalents and liquidity ratios], in *Untersuchung des Bankwesens 1933*, part 2 (Berlin, 1934), 88–97. Note: These figures include branches and are based on published balance sheets at year's end (except for 1933, which is based on the October balance sheet).

published balance sheets revealed a decline in the cash-liquidity ratios since the early twentieth century (Table 1).

It was the multiplicity of institutions that complicated the task of implementing comprehensive regulation, hitherto confined to other areas of the financial system. Since the nineteenth century, the rapid growth of the banking sector depended on several factors: the state's demands for loans to fund wars, as well as new social programs; private-sector industrialization via railroads and other technologies; and the proliferation of overseas opportunities for investment.[19] Nevertheless, the German states maintained only a limited role in financial oversight. For instance, in 1838, Prussian savings banks were subject to some reporting requirements, but self-regulation was commonplace in their daily operations.[20]

[19] Richard Tilly, "Public Policy, Capital Markets and the Supply of Industrial Finance in Nineteenth Century Germany," in *The State, the Financial System, and Economic Modernization*, ed. Richard Sylla, Richard Tilly, and Gabriel Tortella (Cambridge, UK, 1999), 135–138; Toni Pierenkemper and Richard Tilly, *The German Economy during the Nineteenth Century* (New York, 2004), 153–156; Cornelius Torp, "The Great Transformation: German Economy and Society, 1850–1914," in *The Oxford Handbook of Modern German History*, ed. Helmut Walser Smith (Oxford, 2011), 343–345; Laure Quennouëlle-Corre, "State and Finance," in *The Oxford Handbook of Banking and Financial History*, ed. Cassis, Grossman, and Schenk, 423.

[20] Thorsten Wehber, "Das preußische Sparkassenreglement von 1838" [The Prussian Savings Bank regulation of 1838], in *Schlüsselereignisse der deutschen Bankengeschichte*, ed. Dieter Lindenlaub, Carsten Burhop, and Joachim Scholtyseck (Stuttgart, 2013), 97.

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Subsequent governments enacted more reforms, such as the establishment of the Prussian State Bank (a private corporation under state ownership) in 1846. Yet even after unification in 1871, Germany did not impose nationwide regulation over the banking sector, in contrast to other areas of reform, including health insurance, pensions, and cooperative law.[21] This absence cannot be explained by a lack of awareness. Other countries, notably England and Sweden, had introduced legislative changes in the 1840s for new banking codes that outlined charter requirements and minimum capital ratios for private banks to operate.[22] Nor did the state struggle with an institutional incapacity to enact widespread regulation. While chambers of commerce and other private organizations had regulated the commodity and stock exchanges, most prominently in the agriculture sector, an imperial act in 1896 brought their supervision under state control.[23]

There were, however, discussions on the idea of banking regulation at the turn of the century in response to financial instability abroad. In the United States, a collapse in public confidence led to a run on trust companies in 1907. Facing a liquidity crisis of their own, New York banks then decided to impose restrictions on withdrawals of bank deposits, prompting a rise in interest rates and a net inflow of gold to the United States of $85 million by year's end.[24] These developments, followed by a bailout from J.P. Morgan, instigated an examination into the crisis by the members of the National Monetary Commission, whose recommendations formed the basis of the Federal Reserve in 1913. Yet the Panic of 1907 had also been a transatlantic crisis, one wrought by the global interconnectedness of prewar money markets.[25] Subsequent capital outflows from Germany, as investors searched for

[21] On cooperative law, see Timothy W. Guinnane, "New Law for New Enterprises: Cooperative Law in Germany, 1867–1889," *Jahrbuch für Wirtschaftsgeschichte* 61, no. 2 (2020), 377–401; Guinnane, "Creating a New Legal Form: The GmbH," *Business History Review* 95, no. 1 (Spring 2021), 3–32.

[22] Grossman, *Unsettled Account*, 138–141, 217–220.

[23] "Börsengesetz. Vom 22. Juni 1896" [Stock Exchange Act of June 22, 1896], *Reichsgesetzblatt*, no. 15 (1896), 157–176; Caroline Fohlin, *Finance Capitalism and Germany's Rise to Industrial Power* (Cambridge, UK, 2007), 27–28, 231–244; Jeffrey Fear and Christopher Kobrak, "Making Capitalism Respectable: The Language of German and American Corporate Governance after the Financial Crisis of 1873," in *Remembering and Learning from Financial Crisis*, ed. Youssef Cassis and Catherine R. Schenk (Oxford, 2021), 150.

[24] Gary B. Gorton and Ellis W. Tallman, *Fighting Financial Crises: Learning from the Past* (Chicago, 2018), 55.

[25] Harold James, *The End of Globalization: Lessons from the Great Depression* (Cambridge, MA, 2001), 19–20; Winfried Lampe, *Der Bankbetrieb in Krieg und Inflation. Deutsche Großbanken in den Jahren 1914 bis 1923* [Bank operations in war and inflation: German Great Banks in the years 1914 to 1923] (Stuttgart, 2012), 93; Erik Grimmer-Solem, *Learning Empire: Globalization and the German Quest for World Status, 1875–1919* (Cambridge, UK, 2019), 335; Harold James, "Networks and Financial War: The Brothers Warburg in the First Age of Globalization," *Financial History Review* 27, no. 3 (2020), 305.

higher interest rates abroad, forced the Reichsbank to raise its discount rate from 5.5 percent to 6.5 percent in October and 7.5 percent in November. Following the drain in gold, Reichsbank president Rudolf Havenstein announced to the German Parliament (Reichstag) his intention to oversee a public inquiry into the banking system.[26] He planned to investigate whether the banks were holding an adequate volume of "minimum reserves" across their nationwide branches, as well as the extent of the Reichsbank's responsibilities in setting the discount rate.[27]

In the summer of 1908, the proceedings of the Bank Inquiry commenced with an opening statement by Havenstein that affirmed his interest in procuring advice from "this body of experts."[28] The deliberations among economists, bankers, lawyers, and civil servants focused on, among many concerns, how to insulate the financial system from panic-induced outflows. Adolph Wagner, an economist whose 1901 proposal for a regulatory office had garnered little support, reiterated his belief that organized intervention was needed to alleviate "the ups and downs of economic life."[29] Yet the general view of the commission was against sweeping reform. According to one industrialist, "we hear nothing but a clamor for state supervision and the creation of new officials in order to supervise where there is no need for supervision." Alternative means for protecting the country's reserves, such as removing the tax on metallic imports, might have afforded temporary relief to the strains imposed by foreign crises.[30] Practicality was also important since, outside the commission, a professor from the University of Breslau claimed it would have taken "a large army of civil servants" to audit the Great Banks.[31]

Although no immediate legislative changes were made to the financial system, notwithstanding a revision of the Reichsbank's own statutes in 1909, the Bank Inquiry had several important implications in expanding the role of the state in financial affairs.[32] Both the Reichsbank and

[26] "79. Sitzung," *Verhandlungen des Reichstages. XII. Legislaturperiode. 1. Session*, vol. 229 (Berlin, 1908), 2413–2419.

[27] Rudolf Havenstein to Theobald von Bethmann Hollweg, 19 June 1908, R1501/101976, BArch.

[28] Minutes, 26 June 1908, in *German Bank Inquiry of 1908: Stenographic Reports*, ed. National Monetary Commission (Washington, DC, 1910), 9.

[29] Minutes, 15 Oct. 1908, in *German Bank Inquiry*, 628. See also Adolph Wagner, "Bankbrüche und Bankkontrollen" [Bankruptcies and bank controls], *Deutsche Monatsschrift für das gesamte Leben der Gegenwart* 1, no. 1 (Oct. 1901), 74–85; Andreas Busch, *Banking Regulation and Globalization* (Oxford, 2009), 82–83.

[30] Minutes, 13 Oct. 1908, in *German Bank Inquiry*, 425–426, 566.

[31] Georg Obst, "Gesetzliche Regelung des Depositwesens in Deutschland" [Legal regulation of the deposit system in Germany], 1909, R1501/101979, BArch.

[32] Prior research on the Bank Inquiry has identified its role in the development of banking regulation in 1934 yet has underemphasized its political implications in legitimizing state intervention. See, for instance, Angelika Müller, *Die Mindestreserve. Ausgestaltung und*

interior ministry were concerned with the question of whether banks were holding an adequate volume of liquidity. Ensuring financial stability might have been possible, as Interior Minister Clemens von Delbrück hinted, if the state could have promoted transparency through the publication of their balance sheets.[33] Such projects of collecting economic statistics and preparing data for publication had long served an important purpose for the state.[34] From March 1909 onward, the largest banks agreed to share their financial statements on a bimonthly basis.[35] Indeed, statistics were vital for assessing conditions in the banking sector. As Nordhoff later argued, improving the quality of statistics helped officials make better "conclusions for the policy of the [central] bank."[36]

When in April 1911 the Agadir crisis in Morocco caused a run on German banks, officials again prioritized state intervention. The Reichsbank made bimonthly reporting a legal requirement and, two years later, organized a cartel under the auspices of the Stamp Association to stabilize interest rates among banks.[37] By June 1914, Havenstein, with

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Wandlungen eines Instrumentes der deutschen Zentralbank seit 1948 [The minimum reserve: design and changes of an instrument of the German Central Bank since 1948] (Berlin, 1992), 23–38; Müller, *Die Entstehung des Reichsgesetzes*, 82–84; Niels Frederik Krieghoff, "Banking Regulation in a Federal System: Lessons from American and German Banking History" (Ph.D. diss., London School of Economics and Political Science, 2013), 65–68; Jan Körnert, Jörn von Elsenau, and Klemens Grube, "Zur Entstehung zwangsmittel- und strafbewehrter Vorschriften im Reichsgesetz über das Kreditwesen (RKWG)" [On the emergence of coercive and punitive provisions in the Reich Banking Law (RKWG)], *Journal on European History of Law* 9, no. 1 (2018), 39.

[33] Clemens von Delbrück to Adolf Wermuth, 30 Sept. 1910, I. HA Rep. 151, IC Nr. 10094, Geheimes Staatsarchiv Preußischer Kulturbesitz, Berlin-Dahlem (hereafter, GStAPK).

[34] On statistics and the German state, see J. Adam Tooze, *Statistics and the German State, 1900–1945: The Making of Modern Economic Knowledge* (Cambridge, UK, 2001); Michael C. Schneider, *Wissensproduktion im Staat. Das königlich preußische statistische Bureau, 1860–1914* [Knowledge production in the state. The Royal Prussian Statistical Bureau, 1860–1914] (Frankfurt, 2013); Adam Tooze, "Wirtschaftsstatistik im Reichswirtschaftsministerium, in seinem Statistischen Reichsamt und im Institut für Konjunkturforschung" [Economic statistics in the Reich Ministry of Economics, in its Reich Statistical Office, and in the Institute for Business Cycle Research], in *Das Reichswirtschaftsministerium der Weimarer Republik und seine Vorläufer. Strukturen, Akteure, Handlungsfelder*, ed. Carl-Ludwig Holtfrerich (Berlin, 2016), 361–420.

[35] *Die Reichsbank, 1901–1925* (Berlin, 1926), 31. Reporting, though voluntary, was required for banks to be listed on the German stock exchanges; Schnabel, "German Twin Crisis," 868.

[36] Karl Nordhoff, "Mémorandum présenté par le Dr. Nordhoff de la Reichsbank, Berlin," 12 Apr. 1928, 1370200401/1, Archives historiques de la Banque de France, Paris (hereafter, BdF).

[37] Gerald D. Feldman, "Die Deutsche Bank vom Ersten Weltkrieg bis zur Weltwirtschaftskrise, 1914–1933" [Deutsche Bank from the First World War to the Great Depression, 1914–1933] in *Die Deutsche Bank, 1870–1995*, ed. Lothar Gall, Gerald D. Feldman, Harold James, Carl-Ludwig Holtfrerich, and Hans E. Büschgen (Munich, 1995), 141; Gerald D. Feldman, *The Great Disorder: Politics, Economics, and Society in the German Inflation, 1914–1924* (New York, 1997), 30.

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support from Anton Arnold, the new head of the Reichsbank's statistical division, proposed a reform to raise liquidity by requiring banks to increase their own cash reserves among local associations or their accounts directly held by the central bank.[38] The goal was to "limit ourselves to minimal proposals that will not impose an excessive burden on any bank, that can be implemented without seriously disrupting economic life."[39] By July, the liquidity ratios of German banks rose to around 7 percent.

The outbreak of World War I delayed the state's efforts to improve liquidity. Regular publications of bank balance sheets ceased, and the Reichsbank reported no longer having "a well-rounded picture of our economic situation."[40] Throughout much of the conflict, Germany was able to maintain investors' confidence even with the departure of the Reichsmark (RM) from the gold standard in 1914.[41] Yet, after the loss in 1918, the government had to confront the problems of both reparations and exchange-rate instability. Despite adjustments to the reparations bill, including the plan outlined by the London Schedule of Payments in May 1921, many officials still believed that any long-term financial stabilization was contingent on political negotiations.[42] Preserving national security remained part of this assumption. Following the assassination of Foreign Minister Walther Rathenau and the Franco-Belgian occupation of the Ruhr—the latter overburdening the government's budget through the continued payment of public pensions—a collapse in confidence engendered the subsequent hyperinflation.[43]

[38] Karl Nordhoff, "Die Maßnahmen der Reichsbank zur Verbesserung der Publizität, Liquidität und Solidarität der Banken" [The Reichsbank's measures to improve the publicity, liquidity, and solidarity of banks], in *Untersuchung des Bankwesens 1933*, part 1, vol. 2, 253–254.

[39] "Sitzung vom 18. Juni 1914," R2501/6474, BArch.

[40] "Vortrag Havensteins über Wirtschaftslage" [Havenstein's lecture on the economic situation], Sept. 1914, N2108/2, BArch.

[41] Stephen Gross, "Confidence and Gold: German War Finance, 1914–1918," *Central European History* 42, no. 2 (2009), 224; Olivier Feiertag, "La Banque de France et la Reichsbank face aux règlements internationaux (1914–1919) : l'adieu à l'étalon-or?" [The Banque de France and the Reichsbank facing international rules (1914–1919): farewell to the gold standard?], in *Les banques centrales pendant la Grande Guerre*, ed. Olivier Feiertag and Michel Margairaz (Paris, 2019), 214–219. T. Balderston, however, finds that borrowing placed great strains on public finance; Balderston, "War Finance and Inflation in Britain and Germany, 1914–1918," *Economic History Review* 42, no. 2 (1989), 222–244.

[42] Carl-Ludwig Holtfrerich, *Die deutsche Inflation, 1914–1923. Ursachen und Folgen in internationaler Perspektive* [The German inflation, 1914–1923: causes and consequences in an international perspective] (Berlin, 1980), 298, 306–308; Niall Ferguson, "Constraints and Room for Manoeuvre in the German Inflation of the Early 1920s," *Economic History Review* 49, no. 4 (1996), 639–642.

[43] Stanislas Jeannesson, *Poincaré, la France et la Ruhr, 1922–1924 : histoire d'une occupation* (Strasbourg, 1998), 25, 179–181; Hans Mommsen, "Die politischen Folgen der Ruhrbesetzung" [The political consequences of the Ruhr occupation], in *Der Schatten des Weltkriegs. Die Ruhrbesetzung, 1923*, ed. Gerd Krumeich and Joachim Schröder (Essen, 2004), 305–307.

Solutions to the hyperinflation emerged from both domestic and international reforms. An emergency currency (*Rentenmark*), backed by land mortgages, offered investors a guarantee against the issuance of further notes in November 1923, while an international consortium of bankers, economists, and state officials formulated the 1924 Dawes Plan for rehabilitating the German banking system and facilitating reparation payments through the Agent General.[44] An 800 million Goldmark loan achieved a temporary stabilization of the financial sector, in addition to guaranteeing transfer protection for commercial claims.[45] As foreign support helped to quell the hyperinflation, it also provided Germany with new legal institutions for managing domestic credit. In August 1924, a new bank law brought Germany onto a gold-exchange standard, thereby affirming the principles of the Brussels (1920) and Genoa (1922) Conferences. The Reichsbank itself obtained a monopoly over the issuance of notes.[46] Its general council (*Generalrat*), half of which was to be composed of non-German members, intended to formalize the central bank's independence from the national government, while also keeping public finance under foreign supervision.[47]

[44] Link, *Die amerikanische Stabilisierungspolitik*, 255–259; Charles S. Maier, *Recasting Bourgeois Europe: Stabilization in France, Germany, and Italy in the Decade after World War I* (Princeton, 1975), 376–381; Sally Marks, "The Myths of Reparations," *Central European History* 11, no. 3 (1978), 246–250; Anne Orde, *British Policy and European Reconstruction after the First World War* (Cambridge, UK, 1990), 245–253; Manfred Pohl and Andrea H. Schneider, *Die Rentenbank. Von der Rentenmark zur Förderung der Landwirtschaft, 1923–1949–1999* [The Rentenbank. From the Rentenmark to support of agriculture, 1923–1949–1999] (Munich, 1999), 14–16; Michel Fior, *Institution globale et marchés financiers : la Société des Nations face à la reconstruction de l'Europe, 1918–1931* [Global institutions and financial markets: the League of Nations facing the reconstruction of Europe, 1918–1931] (Bern, 2008), 291–293; Sebastian Teupe, *Zeit des Geldes. Die deutsche Inflation zwischen 1914 und 1923* [Time of money: The German inflation between 1914 and 1923] (Frankfurt, 2022), 134–140.

[45] Harold James, "Banks and Bankers in the German Interwar Depression," in *Finance and Financiers in European History, 1880–1960*, ed. Youssef Cassis (Cambridge, UK, 1992), 270; Piet Clement, "'The Touchstone of German Credit': Nazi Germany and the Service of the Dawes and Young Loans," *Financial History Review* 11, no. 1 (2004), 40; Christopher Kopper, *Hjalmar Schacht. Aufstieg und Fall von Hitlers mächtigstem Bankier* [Hjalmar Schacht: the rise and fall of Hitler's most powerful banker] (Munich, 2006), 102–104; Albrecht Ritschl, "The German Transfer Problem, 1920–1933: A Sovereign Debt Perspective," *European Review of History* 19, no. 6 (2012), 952.

[46] "Bankgesetz. Vom 30. August 1924" [Banking Law of August 30, 1924], *Reichsgesetzblatt*, no. 32 (30 Aug. 1924), 235–246; Helmut Müller, *Die Zentralbank – eine Nebenregierung. Reichsbankpräsident Hjalmar Schacht als Politiker der Weimarer Republik* [The Central Bank – a subsidiary government. Reichsbank President Hjalmar Schacht as a politician of the Weimar Republic] (Opladen, 1973), 38–39. Four private banks (the Bavarian Central Bank, the Württemberg Central Bank, the Saxon Bank, and the Badische Bank) were allowed to continue issuing notes until this privilege was set to expire on 31 December 1935; "Die deutsche Reichsbank," 25 Apr. 1934, R2501/6356, BArch.

[47] Hans Otto Schötz, *Der Kampf um die Mark 1923/24. Die deutsche Währungsstabilisierung unter dem Einfluss der nationalen Interessen Frankreichs, Grossbritanniens und der USA* [The struggle for the mark in 1923/24: the German currency stabilization under the

The Reichsbank and Domestic Liquidity

While Wilhelmine Germany offered a potential framework for banking supervision, Weimar Germany added the institutional impetus. An interventionist policy was the government's response to the unresolved problems facing the national economy. For one, public spending, as measured by real wages, continued to rise throughout the 1920s such that budget deficits after 1925 had to be financed by surpluses from prior years.[48] In the realm of monetary policy, the money supply increased rapidly following the Dawes Loan, which permitted foreign credits to be used as payment for German imports.[49] Germany, in contrast to much of the prewar era, had become a net importer of capital.

Consequently, the Reichsbank supported a wide range of tactics to ensure financial stability. Already on April 7, 1924, it had declared a credit freeze on the volume of discounted bills (except in certain industries) to prevent inflation.[50] Other measures, such as the Capital Flight Law (1919) and the Law on Deposit Banking (1925), addressed some of the state's existing concerns over liquidity, while also avoiding the implementation of regulations across the entire banking sector.[51] Additionally, there were opportunities to use less direct measures for encouraging the banks to limit their intake of foreign capital.[52] In 1926, for instance, the general council suggested an amendment to the 1924 Bank Law: if direct loans to businesses were not feasible, then the Reichsbank itself needed to help cover short-term loan requirements to banks by issuing additional Treasury bills.[53] This proposal was ultimately rejected by the Reich Economic Council.

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influence of the national interests of France, Great Britain, and the United States] (Berlin, 1987), 165–171; Simone Reinhardt, *Die Reichsbank in der Weimarer Republik* (Frankfurt, 2000), 118.

[48] Harold James, *The German Slump: Politics and Economics, 1924–1936* (Oxford, 1986), 48–52; William C. McNeil, *American Money and the Weimar Republic: Economics and Politics on the Eve of the Great Depression* (New York, 1986), 131–133.

[49] M. Grinberg, "La situation économique en Allemagne d'après les banquiers allemands" [The economic situation in Germany according to German bankers], *Revue d'économie politique* 40, no. 1 (1926), 42.

[50] Schnabel, "German Twin Crisis," 835; Carsten Burhop, "Das Wechselkreditgeschäft der Reichsbank vor der Bankenkrise von 1931" [The Reichsbank's bill-of-exchange business before the banking crisis of 1931], *Jahrbuch für Wirtschaftsgeschichte* 61, no. 2 (2020), 425.

[51] Müller, *Die Entstehung des Reichsgesetzes*, 74–79.

[52] Hubert Bonin and Dieter Lindenlaub, "Les fonctions des banques centrales et la monnaie scripturale en France et en Allemagne dans l'entre-deux-guerres" [The functions of central banks and scriptural money in France and Germany between the wars], in *Politiques et pratiques des banques d'émission en Europe (XVIIe–XXe siècle) : le bicentenaire de la Banque de France dans la perspective de l'identité monétaire*, ed. Olivier Feiertag and Michel Margairaz (Paris, 2003), 486.

[53] Statistische Abteilung, "Die Reichsbank als Bankier des Reiches," 19 Oct. 1929, R2501/6345, BArch.

Nevertheless, the need for financial-sector reform had begun to gain wider support. Nineteenth-century economists, including Gustav von Schmoller and Max Weber, had introduced the study of the economy as a unit of analysis, although they remained outside the direct channels of policymaking.[54] After World War I, Weimar Germany witnessed the continued endurance of "academic politics" (*Gelehrtenpolitik*), through which economic experts exerted greater influence.[55] One such individual was Nordhoff, who had joined the Reichsbank's statistical division in 1912. He had worked at a Hamburg-based bank prior to writing a dissertation at the University of Halle on the German bill of exchange. In October 1924, he wrote about the need for greater involvement by the central bank to limit speculative credit in the domestic economy. Doing so, he argued, was vital for controlling inflation that derived from the new inflows of foreign capital.[56]

Indeed, the main concern was the declining levels of cash and gold reserves in the domestic banking system, coupled with the high degree of dependence on foreign capital. Improving domestic liquidity was operationally possible through the Gold Discount Bank (Golddiskontbank), which had provided credits to German companies since 1924. At a meeting of the general council on 27 May 1927, Reichsbank president Hjalmar Schacht, advised by Sir Charles Addis (a director at the Bank of England), advocated altering the Gold Discount Bank's responsibilities.[57] After a series of discussions on the legality of its operations, which overlapped with those of the Reichsbank, its role was

[54] On the German Historical School and *Nationalökonomie*, see in particular Dieter Krüger, *Nationalökonomen im wilhelminischen Deutschland* [National economists in Wilhelmine Germany] (Göttingen, 1983), 141–152; Keith Tribe, *Strategies of Economic Order: German Economic Discourse, 1750–1950* (Cambridge, UK, 1995), 71–92; Erik Grimmer-Solem, *The Rise of Historical Economics and Social Reform in Germany, 1864–1894* (Oxford, 2003), 40–44; Roman Köster, *Die Wissenschaft der Außenseiter. Die Krise der Nationalökonomie in der Weimarer Republik* [The science of outsiders: the crisis of national economics in the Weimar Republic] (Göttingen, 2011), 31–51.

[55] On *Gelehrtenpolitik*, see Rüdiger vom Bruch, *Wissenschaft, Politik und öffentliche Meinung: Gelehrtenpolitik im Wilhelminischen Deutschland (1890–1914)* [Science, politics, and public opinion: academic politics in Wilhelmine Germany (1890–1914)] (Husum, 1980); Adam Tooze, "The crisis of *Gelehrtenpolitik* and the alienated economic mind: economists and politics in interwar Germany," in *Worlds of Political Economy: Knowledge and Power in the Nineteenth and Twentieth Centuries*, ed. Martin Daunton and Frank Trentmann (Basingstoke, 2004), 189–216; Jens Herold, *Der junge Gustav Schmoller. Sozialwissenschaft und Liberalkonservatismus im 19. Jahrhundert* [The young Gustav Schmoller: social science and liberal conservatism in the 19th century] (Göttingen, 2019), 249–254.

[56] Karl Nordhoff, "Zur Frage der Kredit- und Währungspolitik" [On the question of credit and monetary policy], 18 Oct. 1924, R2501/6461, BArch.

[57] Charles S. Addis, "Bericht an den Generalrat der Reichsbank über die Stellung der Golddiskontbank in Bezug auf den Dawesplan" [Report to the General Council of the Reichsbank on the position of the Gold Discount Bank in relation to the Dawes Plan], 15 May 1927, R2/2457, BArch; Schacht to Heinrich Köhler, 23 May 1927, R2/2457, BArch.

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expanded in response to the liquidity issue.[58] It planned to continue financing the import of raw materials alongside its new responsibilities: granting sterling-based credits; providing emergency relief to agriculture; and discounting one-signature, short-term bills.[59] Schacht further envisioned the Gold Discount Bank establishing greater control over the domestic money market.[60]

Later that month, a stock market crash tested the Reichsbank's ability to manage the organization of national credit. According to Hans-Joachim Voth, Schacht was misguided in his attempts to control the inflows of foreign investments through interest rate hikes since they only further contracted the supply of credit in the money market.[61] The justification, however, came from a widespread interest to curb speculative investments and stop the diversion of capital from the real economy.[62] Schacht also wanted to make banks hold more liquid assets. He often noted that while short-term capital inflows were important for rebuilding industry, they destabilized the domestic economy if used for nonproductive investments.[63] Thereafter, the Reichsbank publicly campaigned for additional credit rationing as a means of controlling foreign borrowing.[64]

In these instances, liquidity emerged as a more defined object of analysis. A desire to gain a better understanding of liquidity in the

[58] Statistische Abteilung, "Die Legalität der neuen Golddiskontbankaction. Die volkswirtschaftliche Berechtigung der Aktion (I). Die juristische Seite der Frage (II)" [The legality of the new Gold Discount Bank's action: The economic justification of the action (I). The legal side of the question (II)], 26 Jan. 1927, R2501/6783, BArch; Schacht to Carl von Grimm, 31 May 1927, R2501/6783, BArch.

[59] "Memorandum on the Activities of the Gold Discount Bank," 7 May 1927, Strong Papers 1600.04, Federal Reserve Bank of New York Archives (hereafter, FRBNY).

[60] "Memorandum of the Reichsbank-Directorium on the Activities of the Gold Discount Bank," 24 May 1927, Strong Papers 1600.04, FRBNY.

[61] Hans-Joachim Voth, "With a Bang, not a Whimper: Pricking Germany's 'Stock Market Bubble' in 1927 and the Slide into Depression," *Journal of Economic History* 63, no. 1 (2003), 70–73.

[62] T. Balderston, "The Beginning of the Depression in Germany, 1927–30: Investment and the Capital Market," *Economic History Review* 36, no. 3 (1983), 406; McNeil, *American Money*, 154–162.

[63] Friedrich-Wilhelm Henning, "Die Liquidität der Banken in der Weimarer Republik," in *Finanz- und wirtschaftspolitische Fragen der Zwischenkriegszeit*, ed. Harald Winkel (Berlin, 1973), 73–74; Harold James, *The Reichsbank and Public Finance in Germany, 1924–1933: A Study of the Politics of Economics during the Great Depression* (Frankfurt, 1985), 41–45, 57–62; Carl-Ludwig Holtfrerich, "Relations between Monetary Authorities and Governmental Institutions: The Case of Germany from the 19th Century to the Present," in *Central Banks' Independence in Historical Perspective*, ed. Gianni Toniolo (Berlin, 1988), 125–127.

[64] Hjalmar Schacht, *76 Jahre meines Lebens* (Bad Wörishofen, 1953), 288–289; Frédéric Clavert, *Hjalmar Schacht, financier et diplomate (1930–1950)* (Berlin, 2009), 50–52; Albrecht Ritschl, "Reparations, Deficits, and Debt Default: The Great Depression in Germany," in *The Great Depression of the 1930s: Lessons for Today*, ed. Nicholas Crafts and Peter Fearon (Oxford, 2013), 118–119.

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banking sector coincided with efforts to expand the role of the state in economic affairs. Already in 1925, the Reichsbank had recommenced the publication of its own balance sheets. Given the inadequacy of existing statistics, it sought to procure additional data from banks, including more detailed information on their assets, such as the quality of bills and their maturity dates. As Nordhoff wrote, "bimonthly balance sheets as a barometer of economic activity . . . provide a picture of the general German credit-market position . . . and, thus, clues for the general direction of the monetary policy to be adopted."[65] By March 1928, the government (at the behest of the economics minister) once again required the banks to publish interim balance sheets.[66] Data from the monthly reports of the Great Banks showed a continued decline in several liquidity ratios (Figure 1).

One interpretation of declining levels of liquidity was less credit available to the industrial and agricultural industries.[67] Steel companies, for instance, depended on external financing to pay their relatively high wages and tax burden.[68] Such was the case for the industrial behemoth Thyssen AG, which had to procure loans primarily from private US banks.[69] After the hyperinflation, debt financing became more difficult as banks were increasingly reluctant to extend loans, with the board of Deutsche Bank even considering the existing terms of their loans to be far too generous.[70] Yet even if German industrial finance had become more reliant on foreign sources of capital, Reichsbank officials were more concerned with the stability of the financial sector. There was certainly a dilemma between increasing liquidity and lowering the influx of foreign funds in an attempt to curb speculation. The former involved lowering interest rates to make credit more available, while the latter necessitated raising rates to deter another speculative boom. Accordingly, the government needed to find a policy that reconciled the

[65] Nordhoff, "Die Maßnahmen der Reichsbank," 249.

[66] Hans Schäffer, "Avis, concernant la publication de bilans intérimaires par les banques de crédit" [Notice, regarding the publication of interim balance sheets by credit banks], 10 Mar. 1928, R2501/6857, BArch; "Bekanntmachung" [Notice], *Deutscher Reichsanzeiger und Preußischer Staatsanzeiger*, no. 64 (15 Mar. 1928), 1.

[67] A public inquiry into industrial production acknowledged that many banks had neglected the financing needs of small firms; Ausschuß zur Untersuchung, *Der Bankkredit. Verhandlungen und Berichte des Unterausschusses für Geld-, Kredit- und Finanzwesen (V. Unterausschuß)*, vol. 2 [Bank credit. Negotiations and reports of the Subcommittee for Money, Credit, and Finance (V. Subcommittee)] (Berlin, 1930), 167–172.

[68] James, *German Slump*, 140–146.

[69] Harald Wixforth, *Banken und Schwerindustrie in der Weimarer Republik* [Banks and heavy industry in the Weimar Republic] (Cologne, 1995), 224–232; Alfred Reckendrees, *Das «Stahltrust»-Projekt. Die Gründung der Vereinigte Stahlwerke A.G. und ihre Unternehmensentwicklung 1926–1933/34* [The "steel trust" project: the founding of Vereinigte Stahlwerke A.G. and its corporate development 1926–1933/34] (Munich, 2000), 165–168.

[70] Feldman, "Die Deutsche Bank," 234.

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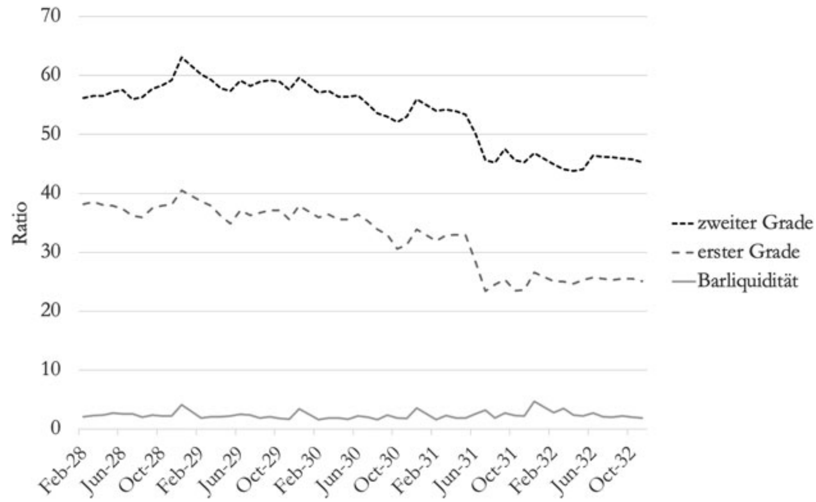

Figure 1. Liquidity ratios of the Great Banks. Note: The liquidity ratios of the Great Banks are calculated as follows: the cash liquidity (*Barliquidität*) ratio = cash/deposits; the first-degree liquidity (*erster Grade*) ratio = (cash + bills of exchange)/deposits; the second-degree liquidity (*zweiter Grade*) ratio = (cash + bills of exchange + advances + marketable securities)/deposits. (Sources: Karl Nordhoff, "Über die Liquiditätsfrage" [On the liquidity question], in *Untersuchung des Bankwesens 1933*, part 1, vol. 1 [Berlin, 1933], 491; Erich Schneider, "Die Liquidität der Berliner Großbanken in den Jahren 1928 bis 1932" [The liquidity of Berlin's Great Banks in the years 1928 to 1932] [Ph.D. diss., Universität Rostock, 1934], 33.)

seemingly contradictory goals of improving banks' liquidity ratios and limiting their dependence on foreign capital. In an effort to reduce the balance-of-payments deficit, the Reichsbank began to offer liquidity through domestic channels. To this end, the purchase of 240 million RM in mortgage securities through the Gold Discount Bank aimed to support the agricultural sector.[71]

Yet a reliance on overseas capital persisted. Reichsbank vice president Friedrich Dreyse noted the ineffectiveness of discount policy due to the lack of domestic sources of capital.[72] Since 1924, banks had welcomed the influx of foreign loans, the total volume of which outpaced the Reichsbank's gold- and foreign-exchange reserves, as well as the volume of bills of exchange circulating in Germany, by 1926.[73] The Reichsbank estimated that the total short-term foreign credits between

[71] "Nr. 195. Bericht des Reichsbankpräsidenten," 7 Mar. 1927, Die Kabinette Marx III/IV, AdR.

[72] F. Dreyse, "Fragen der Währungspolitik" [Monetary policy questions], *Bank-Archiv* 27, no. 1 (1 Oct. 1927), 4.

[73] Schacht, *Die Stabilisierung der Mark*, 177.

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1924 and 1930 were around 14 billion RM, half of which were debts held by the commercial banks.[74] As Isabel Schnabel has shown, this dependence increased the risk of a liquidity crisis because withdrawals by foreign depositors would have further destabilized the exchange rate.[75] Additionally, investors held accounts denominated in foreign currencies (primarily to lower the exchange-rate risk associated with foreign investments) and usually with short-term maturities (between one and three months), factors which raised the possibility of a sudden withdrawal of funds at the first sign of a crisis.[76]

To what extent, however, was the liquidity problem a product of conditions abroad? Even if contemporaries criticized the apparent "foreignization" of German companies, many of the banks' problems stemmed from developments at home. The savings banks had since 1908 cleared transactions through a network of clearing bank houses, and by 1927 the cooperative banks had established their own similar giro system.[77] These innovations, in tandem with the development of a system of cashless payments, permitted banks to hold lower cash reserves at any given moment, thereby decreasing their reported levels of liquidity.[78] Some cooperative banks also chose to invest their excess cash reserves through the Prussian Central Cooperative Fund, which suffered its own liquidity crisis at the end of 1927.[79] While the movement of funds allowed for more flexibility by transferring credits between customers' accounts, it also exposed the system to greater risks. A significant asset–liability mismatch arose as short-term withdrawals of cash began to surpass long-term holdings of debt.

Yet because the savings banks and cooperative banks primarily served domestic borrowers and depositors (including households,

[74] Ernst Hasse, "Die Krisenmaßnahmen des Jahres 1931" [The crisis measures of 1931], in *Untersuchung des Bankwesens 1933*, part 1, vol. 2, 69.

[75] Schnabel, "German Twin Crisis," 825–827.

[76] Theo Balderston, "German Banking between the Wars: The Crisis of the Credit Banks," *Business History Review* 65, no. 3 (Autumn 1991), 568–570; Balderston, "Banks and the Gold Standard," 61; Schnabel, "German Twin Crisis," 864.

[77] Müller, *Die Entstehung des Reichsgesetzes*, 36; Pamela E. Swett, "Mobilizing Citizens and Their Savings: Germany's Public Savings Banks, 1933–39," in *Money in the German-Speaking Lands*, ed. Mary Lindemann and Jared Poley (New York, 2017), 235.

[78] Curt Victorius, "Zur Frage der Barreserven der Banken" [On the question of bank cash reserves], *Bank-Archiv* 26, no. 24 (15 Sept. 1927), 511–512.

[79] Astrid von Pufendorf, *Otto Klepper (1888–1957). Deutscher Patriot und Weltbürger* [Otto Klepper (1888–1957): German patriot and world citizen] (Munich, 1997), 43–47; Patrick Bormann, Joachim Scholtyseck, and Harald Wixforth, "Die kreditgenossenschaftlichen Zentralinstitute vom Beginn des Ersten Weltkriegs bis zur bedingungslosen Kapitulation des NS-Staats (1914–1945)" [The Credit Cooperative Central Institutions from the beginning of World War I to the unconditional surrender of the Nazi state (1914–1945)], in *Die Geschichte der DZ-BANK. Das genossenschaftliche Zentralbankwesen vom 19. Jahrhundert bis heute*, ed. Timothy Guinnane (Munich, 2013), 185, 191–193.

farmers, and small businesses), it was instead the private, Berlin-based Great Banks that bore the brunt of criticism. They had by far the largest proportion of capital from foreign depositors, and the Statistical Office estimated that foreign investors comprised 30 percent of all their bank deposits at the end of 1929.[80] The short-term foreign debts of the Great Banks had also increased from 2.18 billion RM in April 1927 to 3.74 billion RM in September 1928.[81] These adverse developments were worsened by structural changes in the banking system, namely a series of mergers that led to the consolidation of the Great Banks from nine institutions in 1913 to six by 1929.[82] Additionally, competition among the banks had forced them to declare higher dividends throughout the 1920s, thereby weakening their liquidity base.[83] From 1926 to 1929, Deutsche Bank and Dresdner Bank had offered dividend rates of 10 percent, Commerzbank of 11 percent, and Darmstädter und Nationalbank (Danatbank) of 12 percent.[84] They later defended these rates as a way of raising investors' confidence. As one representative from the Central Association of German Bankers later reported, "the banks . . . must attach great importance to the greatest possible continuity and stability of dividends. This principle is unchallenged in all cultured countries and particularly pronounced in England, where high dividend rates were maintained in the crisis to the end."[85]

[80] Alfred Lansburgh, "Die Liquidität der deutschen Banken" [The liquidity of German banks], *Die Bank* 23, no. 46 (24 Dec. 1930), 1945. Of the 5.1 billion RM in short-term foreign debt among German banks, the Reichsbank estimated the *Großbanken* held 3.1 billion RM; "Zur gegenwärtigen Höhe der kurzfristigen Auslandsverpflichtungen und kurzfristigen Auslandsforderungen der deutschen Banken und ihrer Gliederung nach Verschuldungsarten, Gläubigerländern und Fälligkeitsterminen" [On the current level of short-term foreign liabilities and short-term foreign claims of German banks and their breakdown by debt type, creditor country, and maturity date], 15 Aug. 1931, R2501/6491, BArch.

[81] "Nr. 59. Bericht des Reichsbankpräsidenten an die Reichsregierung über die Lage der Reichsbank und über Fragen der Finanz- und Währungspolitik" [No. 59: report of the President of the Reichsbank to the Reich government on the situation of the Reichsbank and on questions of financial and monetary policy], 9 Nov. 1928, Das Kabinett Müller II, vol. 1, AdR.

[82] Jakob Riesser, *Die deutschen Grossbanken und ihre Konzentration im Zusammenhang mit der Entwicklung der Gesamtwirtschaft in Deutschland* [The German Great Banks and their concentration in the context of the development of the overall economy in Germany] (Jena, 1912); Manfred Pohl, *Konzentration im deutschen Bankwesen (1848–1980)* [Concentration in German banking (1848–1980)] (Frankfurt, 1982), 325–330; Detlef Krause, *Die Commerz- und Disconto-Bank 1870–1920/23. Bankgeschichte als Systemgeschichte* [The Commerz- and Disconto-Bank 1870–1920/23: banking history as system history] (Stuttgart, 2004), 42.

[83] James, "Banks and Bankers," 272.

[84] Statistische Abteilung, "Dividendenerklärungen deutscher Banken" [Dividend declarations of German banks], 12 Mar. 1928, R2501/6977, BArch; "Die Dividendenzahlungen," in *Untersuchung des Bankwesens 1933*, part 2, 284.

[85] Robert Arzet, "Die privat- und volkswirtschaftliche Bedeutung der Bankreserven" [The private and economic significance of bank reserves], in Centralverband des Deutschen Bank- und Bankiergewerbes, *Materialien zur Vorbereitung der Banken-Enquete 1933*, F088/0044, Historisches Archiv der Deutschen Bank, Frankfurt (hereafter, HADB).

By the late 1920s, confidence in the economy, both at home and abroad, began to deteriorate. German officials were convinced of the need for reform but were divided over the means of achieving it. For some, reparations exacerbated the liquidity problem. During a cabinet meeting in 1928, Schacht ascribed the strains of industrial performance to the burden of reparation payments outlined under the Dawes Plan.[86] For him, financial stability was closely linked with geopolitics. That the government had an incentive to prove its financial difficulties is apparent from the political controversy over reparations in accordance with the new terms of the 1929 Young Plan.[87] Due to the plan's provisions that gave priority to reparation payments over commercial credits, Germany's standing on international markets was effectively weakened.[88] At the same time, the possibility of losing access to foreign credit prevented Chancellor Brüning from pursuing more countercyclical policies.[89] Even though a supplementary internal loan of 500 million RM, as proposed by Finance Minister Rudolf Hilferding, offered an attractive 7.5 percent interest rate and additional

[86] "Nr. 11. Bericht des Reichsbankpräsidenten an die Reichsregierung über die Lage der Reichsbank und über Fragen der Finanz- und Währungspolitik," 19 July 1928, Das Kabinett Müller II, vol. 1, AdR.

[87] Schacht, "Memorandum zum Youngplan," 1929, R2501/6733, BArch. On the Young Plan, see *Report of the Committee of Experts on Reparations*, Cmd. 3343 (London, 1929); Heinz Habedank, *Die Reichsbank in der Weimarer Republik. Zur Rolle der Zentralbank in der Politik des deutschen Imperialismus, 1919–1933* [The Reichsbank in the Weimar Republic: on the role of the central bank in the politics of German imperialism, 1919–1933] (Berlin, 1981), 203–210; Philipp Heyde, *Das Ende der Reparationen. Deutschland, Frankreich und der Youngplan, 1929–1932* (Paderborn, 1998), 76–83.

[88] Ritschl, "German Transfer Problem," 954–945; Albrecht Ritschl, "Schuldenkrise und Austerität. Die Rolle des Reichswirtschaftsministeriums in der Deflationspolitik, 1929–1931" [Debt crisis and austerity: the role of the Reich Ministry of Economics in deflationary policy, 1929–1931], in *Das Reichswirtschaftsministerium*, ed. Holtfrerich, 582–593.

[89] Knut Borchardt, "Zwangslagen und Handlungsspielräume in der großen Weltwirtschaftskrise der frühen dreißiger Jahre" [Constraints and room for maneuver in the Great Depression of the early 1930s], in *Wachstum, Krisen, Handlungsspielräume der Wirtschaftspolitik* (Göttingen, 1982), 101–104. On the Borchardt thesis, see Carl-Ludwig Holtfrerich, "Zu hohe Löhne in der Weimarer Republik? Bemerkungen zur Borchardt-These" [Too high wages in the Weimar Republic? Remarks on the Borchardt thesis], *Geschichte und Gesellschaft* 10, no. 1 (1984), 126; James, *German Slump*, 192–197; Gerald D. Feldman, "Industrialists, Bankers, and the Problem of Unemployment in the Weimar Republic," *Central European History* 25, no. 1 (1992), 80–84; Hans-Joachim Voth, "Wages, Investment, and the Fate of the Weimar Republic: A Long-Term Perspective," *German History* 11, no. 3 (1993), 265–266; Albrecht Ritschl, "Reparation Transfers, the Borchardt Hypothesis and the Great Depression in Germany, 1929–32: A Guided Tour for Hard-Headed Keynesians," *European Review of Economic History* 2, no. 1 (1998), 52–54; Theo Balderston, *Economics and Politics in the Weimar Republic* (Cambridge, UK, 2002), 88–91; Albrecht Ritschl, *Deutschlands Krise und Konjunktur, 1924–1934. Binnenkonjunktur, Auslandsverschuldung und Reparationsproblem zwischen Dawes-Plan und Transfersperre* [Germany's crisis and business cycle, 1924–1934. Domestic business cycle, foreign debt, and the reparations problem between the Dawes Plan and the transfer ban] (Berlin, 2002), 22–26.

tax incentives, it remained severely undersubscribed at only 183 million RM.[90]

Banking in Germany and Britain

When evaluating the exposure of the national economy to foreign capital, German officials frequently contrasted their own banking system with foreign ones. As the Reichsbank viewed it, if German banks "were forced to hold 15 percent cash, which is the custom in England," then "the credit volume of the economy would be reduced accordingly."[91] Comparisons made, notably to the British banking system, accelerated the prospect of reform at home. To be sure, on June 25, 1930, Jakob Goldschmidt, a German banker, revealed the limits of such observations: "a tendency has shown itself in Germany to consider the English system of banking to be the real goal of bankers, while in England the view has often been expressed that the German banking system is more suitable for present conditions."[92] This opinion was in reference to the German system of universal banking, which supported industrialization by combining the traditional work of deposit banks with the long-term financing of businesses.[93] In contrast, British banks were more specialized institutions: merchant banks (private businesses that financed international trade), clearing banks (joint-stock corporations that settled transactions at a central clearing house), and discount houses (buyers and sellers of bills of

[90] Note, 19 Dec. 1929, R43-I/2362, BArch. See also Peter-Christian Witt, "Die Auswirkungen der Inflation auf die Finanzpolitik des Deutschen Reiches" [The effect of inflation on the fiscal policy of the German Reich], in *Die Nachwirkungen der Inflation auf die deutsche Geschichte, 1924–1933*, ed. Gerald D. Feldman and Elisabeth Müller-Luckner (Munich, 1985), 59–61; Ursula Bachmann, *Reichskasse und öffentlicher Kredit in der Weimarer Republik, 1924–1932* [The Reich Treasury and public credit in the Weimar Republic, 1924–1932] (Frankfurt, 1996), 143–147.

[91] Statistische Abteilung, "Die volkswirtschaftliche Liquidität (Barliquidität) der deutschen Kreditinstituten" [The economic liquidity (cash liquidity) of German credit institutions], 30 July 1927, R2501/6469, BArch.

[92] Macmillan Committee, *Minutes of Evidence Taken before the Committee on Finance and Industry*, vol. 2 (London, 1931), 148.

[93] On universal banking and industrialization, see Manfred Pohl, *Entstehung und Entwicklung des Universalbankensystems. Konzentration und Krise als wichtige Faktoren* [Emergence and development of the universal banking system: concentration and crisis as important factors] (Frankfurt, 1986), 85–91; Richard Tilly, *Geld und Kredit in der Wirtschaftsgeschichte* [Money and credit in economic history] (Stuttgart, 2003), 100–108; Francesca Carnevali, *Europe's Advantage: Banks and Small Firms in Britain, France, Germany, and Italy since 1918* (Oxford, 2005), 34–39; Fohlin, *Finance Capitalism*, 66–81. See also criticism of this thesis in Jeremy Edwards and Sheilagh Ogilvie, "Universal Banks and German Industrialization: A Reappraisal," *Economic History Review* 49, no. 3 (1996), 427–446; Harald Wixforth and Dieter Ziegler, "Deutsche Privatbanken und Privatbankiers im 20. Jahrhundert" [German private banks and private bankers in the 20th century], *Geschichte und Gesellschaft* 23, no. 2 (1997), 205–235.

exchange and government bonds). Yet the structures and problems of banking systems in both countries had begun to converge. Similar to their German counterparts, British firms reported on the widespread shortage of funds, a deficiency coined the "Macmillan gap."[94] The British government was also concerned with whether small and medium-sized firms had been able to access sufficient capital, as well as the extent to which finance had "failed" industry.[95] This view was confirmed in the final report of the Committee on Finance and Industry (the Macmillan Committee), which aimed to investigate whether such a funding gap had contributed to overall industrial stagnation.[96]

In response to concerns of inadequate lending to industry, central banks across Europe endeavored to identify new channels for improving economic statistics. The Bank of England identified itself as the institution primarily responsible for compiling such data, including the cash balances of the clearing banks.[97] Yet it would have been a mistake to rely too much on their estimates. A common and well-known practice of "window dressing" allowed the banks to move funds among one another prior to reporting their liquidity positions on different days of the week.[98] The problem of distortionary data also occurred in German reports, albeit through different means. Whereas the British banks reported on different days of the week, German banks reported at month's end, allowing them to transfer funds before the reporting date and appear more liquid than they actually were. They were, as a result, able to manipulate their annual balance sheets "to show a

[94] Dieter Ziegler, "The Origins of the 'Macmillan Gap': Comparing Britain and Germany in the Early Twentieth Century," in *Finance in the Age of the Corporate Economy*, ed. P.L. Cottrell, Alice Teichova, and Takeshi Yuzawa (Aldershot, 1997), 184–208; Duncan M. Ross and Dieter Ziegler, "Problems of Industrial Finance between the Wars," in *After the Slump: Industry and Politics in 1930s Britain and Germany*, ed. Christoph Buchheim and Redvers Garside (Frankfurt, 2000), 161–177; Mark Christopher Loeffler, "Producers and Parasites: The Critique of Finance in Germany and Britain, 1873–1933" (Ph.D. diss., University of Chicago, 2012).

[95] Michael H. Best and Jane Humphries, "The City and Industrial Decline," in *The Decline of the British Economy*, Bernard Elbaum and William Lazonick (Oxford, 1986), 223–239; Michael Collins, *Banks and Industrial Finance in Britain, 1800–1939* (Cambridge, UK, 1991), 10–12; Peter Scott and Lucy Newton, "Jealous Monopolists? British Banks and Responses to the Macmillan Gap during the 1930s," *Enterprise & Society* 8, no. 4 (2007), 893; Ranald C. Michie, *British Banking: Continuity and Change from 1694 to the Present* (Oxford, 2016), 132.

[96] Committee on Finance and Industry, *Report*, Cmd. 3897 (London, 1931), 173. On the Macmillan Committee, see also Robert W. D. Boyce, *British Capitalism at the Crossroads, 1919–1932: A Study in Politics, Economics, and International Relations* (Cambridge, UK, 1987), 280–288; Philip Williamson, *National Crisis and National Government: British Politics, the Economy and Empire, 1926–1932* (Cambridge, UK, 1992), 65–67.

[97] "Réunion des statisticiens des banques centrales," 20 Feb. 1928, 1060196201/2, BdF; "Mémoire présenté par M. J.A.C. Osborne," 12 Apr. 1928, 1370200401/1, BdF; "Minutes of the Sixth Meeting," 14 Apr. 1928, OV1/1, Bank of England Archives, London (hereafter, BoE).

[98] *Economist*, 29 Dec. 1928, 1205; R. S. Sayers, *Modern Banking* (London, 1938), 36–42.

picture of the most fluid balance possible." Even so, requiring balance sheets on a weekly (as done by British banks) or even a daily basis would have been "wholly impossible" to sustain from a practical standpoint.[99]

The weaknesses of German banking relative to other countries, as public statistics revealed, became readily apparent to officials who continued to weigh the possibility of reform. On May 30, 1931, Nordhoff met with representatives from the economics ministry, the Prussian trade ministry, and the Association of Savings Banks. Although the attendees considered ways of supporting financial institutions, such as by lowering interest rates or amalgamating failing banks, they also expressed doubts that mergers in the eastern regions would have helped ease credit conditions. Nordhoff was opposed to any proposal that included rationalization because of the adverse "psychological effect" of exposing additional problems.[100] Instead, the emergency ordinance introduced by President Paul von Hindenburg on June 5 only ordered the banks to reduce their expenditures and lower administrative costs.[101] Yet this legislation, followed by the Reichsbank's decision to raise the discount rate on June 13, failed to prevent the ensuing liquidity crisis. As capital outflows began to undermine the gold standard, it became increasingly clear that the Reichsbank was unable to maintain adequate reserves to back the currency.[102] Even though foreign aid to Germany in the form of a $100 million loan had already been exhausted by early July, the Reichsbank rejected any plans for providing additional emergency loans to the banks.[103] Danatbank (Germany's second-largest private bank) was forced to close its

[99] Nordhoff, "Über die Liquiditätsfrage," 481.

[100] "Vermerk über eine Besprechung in der Oststelle bei der Reichskanzlei am 30. Mai 1931 über die Frage der Rationalisierung im Bankgewerbe" [Note on a meeting in the east office at the Reich Chancellery on May 30, 1931, on the question of rationalization in the banking industry], R3101/15567, BArch.

[101] "Zweite Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen. Vom 5. Juni 1931" [Second decree of the Reich President for securing the economy and finances of June 5, 1931], *Reichsgesetzblatt*, no. 23 (6 June 1931), 279–314; "Nr. 331. Besprechung mit Gewerkschaftsvertretern" [No. 331: meeting with union representatives], 15 June 1931, Die Kabinette Brüning I/II, AdR.

[102] "Nr. 361. Das Reichsbankdirektorium an den Reichskanzler" [No. 361: the Reichsbank Board of Directors to the Reich Chancellor], 4 July 1931, Die Kabinette Brüning I/II, AdR; "Zur Entwicklung der deutschen Devisenkrise" [On the development of the German foreign exchange crisis], 10 July 1931, R2501/6484, BArch.

[103] Gerhard Schulz, *Von Brüning zu Hitler. Der Wandel des politischen Systems in Deutschland 1930–1933* [From Brüning to Hitler: the change of the political system in Germany 1930–1933] (Berlin, 1992), 398; Gianni Toniolo, *Central Bank Cooperation at the Bank for International Settlements, 1930–1973* (Cambridge, UK, 2005), 105; Youssef Cassis, *Crises and Opportunities: The Shaping of Modern Finance* (Oxford, 2011), 119; Tobias Straumann, *1931: Debt, Crisis, and the Rise of Hitler* (Oxford, 2019), 179.

doors on July 13.[104] Alongside the Great Banks, other financial institutions across the country, from cooperative banks to state banks, similarly faced the threat of bankruptcy.[105]

Abroad, British merchant banks—in contrast to the clearing banks, which did not have a significant volume of acceptances in Germany—were soon vulnerable to the crisis.[106] Paul Einzig, a financial journalist, later remarked that it was "common knowledge that British banks were heavily involved in German credits."[107] Further pressure on the British pound derived from a crisis in public finance. The final report of the Committee on National Expenditure, released on July 31, revealed the government's budgetary problems and projected a deficit of nearly £120 million in the next fiscal year.[108] Despite attempts to sustain confidence in the pound—the sale of foreign-exchange reserves, the announcement of a bank holiday, and the procurement of an emergency loan—the Bank of England was forced to abandon the gold standard in September.[109]

Retrospective examinations of 1931 have debated whether Germany suffered a banking crisis or a currency crisis. Several scholars have identified how the liquidity problem exacerbated both a domestic bank run in Germany and the subsequent sterling crisis.[110] Since 1924, structural weaknesses among German banks, notably the Great Banks, had come

[104] Christopher Kopper, "New Perspectives on the 1931 Banking Crisis in Germany and Central Europe," *Business History* 53, no. 2 (2011), 220–222; Harold James, "The 1931 Central European Banking Crisis Revisited," in *Business in the Age of Extremes: Essays in Modern German and Austrian Economic History*, ed. Hartmut Berghoff, Jürgen Kocka, and Dieter Ziegler (Cambridge, UK, 2013), 123–125; Straumann, *1931*, 188.

[105] Patrick Bormann and Joachim Scholtyseck, *Der Bank- und Börsenplatz Essen. Von den Anfängen bis zur Gegenwart* [The Banking and Stock Exchange Center of Essen. From the beginnings to the present] (Munich, 2018), 206–208; Sebastian Knake, *Unternehmensfinanzierung im Wettbewerb. Die Braunschweigische Staatsbank von 1919 bis 1969* [Corporate finance in competition: the Braunschweigische Staatsbank from 1919 to 1969] (Berlin, 2020), 138.

[106] Diane Kunz, *The Battle for Britain's Gold Standard in 1931* (London, 1987), 63–71; Kathleen Burk, *Morgan Grenfell, 1838–1988: The Biography of a Merchant Bank* (Oxford, 1989), 146–147; Accominotti, "London Merchant Banks," 4.

[107] Paul Einzig, *The Tragedy of the Pound* (London, 1932), 65.

[108] Committee on National Expenditure, *Report*, Cmd. 3920 (London, 1931), 15; Robert Skidelsky, *Politicians and the Slump: The Labour Government of 1929–1931* (London, 1967), 343–346; G. C. Peden, *The Treasury and British Public Policy, 1906–1959* (Oxford, 2000), 238–242; Williamson, *National Crisis*, 267–271.

[109] Committee of Treasury, Minutes, 31 Aug. 1931, G8/60, BoE; D. E. Moggridge, *British Monetary Policy, 1924–1931: The Norman Conquest of $4.86* (Cambridge, UK, 1972), 191–194.

[110] Carl-Ludwig Holtfrerich, "Auswirkungen der Inflation auf die Struktur des deutschen Kreditgewerbe" [Effects of inflation on the structure of the German credit industry], in *Die Nachwirkungen der Inflation*, ed. Feldman and Müller-Luckner (Munich, 1985), 207–208; James, "Banks and Bankers," 270–272; Schnabel, "German Twin Crisis," 835–838; Accominotti, "London Merchant Banks," 4.

from their speculative investments in high-risk and low-profit industries.[111] Still other explanations for the crisis have focused on domestic politics: Germany suffered from a currency crisis that was worsened by political choices, namely the decision to remain on a gold standard.[112] Had Brüning made different policy choices, according to these arguments, the crisis might have been resolved sooner or been less severe. Yet it is difficult to reconcile this thesis in light of the fragility of the banking sector, especially when compared with other countries that also adopted the gold standard or ran budget deficits. Since the prewar years, nearly all financial institutions in Germany reported declining levels of liquidity, and it was widely known that they had been much less liquid than their foreign equivalents.[113] The cash-liquidity ratio of the Great Banks decreased from 7.4 percent in 1913 to 5.3 percent by 1931 and 3.5 percent the following year, while that of the British clearing banks consistently remained around 11 percent.[114] Estimates by the League of Nations showed that the liquidity ratios of banks in France and the United States were also relatively high and even increased after 1931.[115] Moreover, German banks were particularly susceptible to bank runs since foreign depositors were more likely to withdraw their short-term funds ("hot money").[116] Officials thus speculated that a sudden devaluation of the Reichsmark might have precipitated fear-induced capital outflows, which could have culminated in another hyperinflation.[117]

[111] Karl Erich Born, *Die deutsche Bankenkrise 1931. Finanzen und Politik* [The German banking crisis of 1931: finance and politics] (Munich, 1967), 56–63, 182–183; Balderston, "German Banking" 574–577; Natacha Postel-Vinay and Stéphanie Collet, "Hot Money Inflows and Bank Risk-Taking: Germany from the 1920s to the Great Depression" (CEPR Discussion Paper, no. DP16606, 2021), 7–9.

[112] Ferguson and Temin, "Made in Germany," 32–33. See also Hardach, *Weltmarktorientierung*, 144–149; Barry Eichengreen, *Golden Fetters: The Gold Standard and the Great Depression, 1919–1939* (New York, 1992), 262, 276; Martin Hans Petri, "The Causes of the German Banking Crisis of July 1931 Viewed from Bank Balance Sheets and the Contemporary Financial Press" (Ph.D. diss., University of California, Berkeley, 1998), 123–124.

[113] *Der deutsche Oekonomist* XLV, 2158, 2 June 1927, 703–705.

[114] Nordhoff, "Über die Liquiditätsfrage," 482, 491.

[115] League of Nations, *World Economic Survey, 1932–33* (Geneva, 1933), 232, cited in Eichengreen, *Golden Fetters*, 279.

[116] Ben Bernanke and Harold James, "The Gold Standard, Deflation, and Financial Crisis in the Great Depression: An International Comparison," in *Financial Markets and Financial Crisis*, ed. R. Glenn Hubbard (Chicago, 1991), 55; Accominotti, "International Banking," 276–281; Dieter Ziegler, "Die Commerzbank 1870 bis 1945. Entwicklung und Behauptung als Filialgroßbank" [Commerzbank 1870 to 1945: development and claim as a great branch bank], in *Hundertfünfzig Jahre Commerzbank 1870–2020*, ed. Stephan Paul, Friederike Sattler, and Dieter Ziegler (Munich, 2020), 114–115. Dependence on foreign capital has been a recurrent theme in the historiography on balance-of-payment crises. See, for instance, a similar discussion on Latin America in Eric Helleiner, "Handling 'Hot Money': US Policy toward Latin American Capital Flight in Historical Perspective," *Alternatives: Global, Local, Political* 20, no. 1 (1995), 81–110.

[117] Balderston, "German Banking," 584–585; Hardach, "Banking in Germany," 284.

Interventions and Reform

Precisely because the banking system had been susceptible to foreign withdrawals of capital, the German monetary authorities advocated a sharp response through financial-sector reforms. Already in place were capital controls, enacted on July 15, 1931; bank holidays lasting until August 5; and the first two Standstill agreements, which froze the repayment of short-term foreign claims.[118] At a meeting of the Friedrich List Society in September, Wilhelm Lautenbach from the economics ministry proposed a reflationist policy of credit expansion and wage reductions. This internal devaluation—whereby lower prices made goods more competitive abroad—meant Germany would have been able to maintain parity with gold, a policy viewed as a self-stabilizing mechanism.[119] Even more radical than the Lautenbach Plan was the proposal of Ernst Wagemann, president of the Statistical Office, who advocated a major restructuring of the banking system and a greater expansion of credit, much to the dismay of the anti-inflationary Reichsbank and cabinet.[120] Meanwhile, British officials offered less urgent assessments of their own banking system. One of the Bank of England's economists, Henry Clay, reported that, if anything, "[the banks] have been too generous, too ready" to offer loans.[121] Thus, industrial support through rationalization had been prioritized over financial-sector reform (Table 2).[122]

[118] "Nr. 387. Sitzung des Wirtschaftsausschusses des Reichskabinetts" [No. 387: meeting of the Economic Committee of the Reich Cabinet], 15 July 1931, Die Kabinette Brüning I/II, AdR; Jan-Otmar Hesse, Roman Köster, and Werner Plumpe, *Die Große Depression. Die Weltwirtschaftskrise 1929–1939* (Frankfurt, 2014), 57–58.

[119] Wilhelm Lautenbach, "Weltwirtschaftskrise und Währungskrise. Die Aufgaben und Möglichkeiten für eine aktive deutsche Wirtschaftspolitik" [World economic crisis and currency crisis: the tasks and possibilities for an active German economic policy], Sept. 1931, R2501/6494, BArch. On the Lautenbach plan, see also Knut Borchardt and Hans Otto Schötz, ed., *Wirtschaftspolitik in der Krise. Die (Geheim-)Konferenz der Friedrich List-Gesellschaft im September 1931 über Möglichkeiten und Folgen einer Kreditausweitung* [Economic policy in the crisis: the (secret) conference of the Friedrich List Society in September 1931 on the possibilities and consequences of a credit expansion] (Baden-Baden, 1991); Ritschl, "Schuldenkrise und Austerität," 626–632.

[120] Ernst Wagemann, *Geld- und Kreditreform* [Monetary and credit reform] (Berlin, 1932), 13–14; Carl-Ludwig Holtfrerich, "Konjunkturpolitik. Vom Beginn der Austerität 1929 bis zur *sekundären* Deflation 1931/32" [Business cycle policy: from the beginning of austerity in 1929 to the secondary deflation in 1931/32], in *Das Reichswirtschaftsministerium*, ed. Holtfrerich, 670–671; Tooze, *Modern Economic Knowledge*, 165–176. On the response, see "Nr. 651. Vermerk des Ministerialrats Feßler über eine Besprechung zum Wagemann-Plan" [No. 651: memorandum by Ministerial Councilor Feßler on a meeting on the Wagemann Plan], 28 Jan. 1932, Die Kabinette Brüning I/II, AdR; Statistische Abteilung, "Kritik des Wagemannschen Planes einer Geld- und Kreditreform" [Critique of Wagemann's plan for monetary and credit reform], 5 Feb. 1932, R2501/6417, BArch; Heinrich Brüning, *Memoiren 1918–1934* [Memoirs 1918–1934] (Stuttgart, 1970), 503.

[121] Macmillan Committee, *Minutes of Evidence*, vol. 2, 267.

[122] On rationalization, see Steven Tolliday, *Business, Banking, and Politics: The Case of British Steel, 1918–1939* (Cambridge, MA, 1987); Julian Greaves, *Industrial Reorganization*

Table 2
Select Interventions in Germany and Britain

Germany	*Britain*
- Industrie-Finanzierungs AG-Ost (1926): 1.5 million RM	- Agricultural Mortgage Corporation (1928): £650,000
- Akzept- und Garantiebank (1931): 200 million RM	- Lancashire Cotton Corporation (1929): £300,000
- Diskont-Kompagnie AG (1931): 50 million RM	- Bankers' Industrial Development Company (1930): £6 million
- Tilgungskasse für gewerbliche Kredite (1932): 30 million RM	- Securities Management Trust (1930): £2.25 million
- Deutsche Finanzierungsinstitut (1932): 30 million RM	- United Dominions Trust (1930): £250,000
	- Credit for Industry (1934): £1 million
	- Special Areas Reconstruction Association (1936): £1 million

Sources: On German interventions, see Hasse, "Die Krisenmaßnahmen des Jahres 1931," 74–76; Born, *Die deutsche Bankenkrise*, 118; Manfred Pohl, "Die Liquiditätsbanken von 1931" [The liquidity banks of 1931], *Zeitschrift für das gesamte Kreditwesen* 27, no. 20 (15 Oct. 1974), 929. On British interventions, see Committee of Treasury, Minutes, 30 Jan. 1929, G8/58, Bank of England Archives, London; Henry Clay, *Lord Norman* (London, 1957), 336–338; R. S. Sayers, The Bank of England, 1891–1944, vol. 1 (Cambridge, UK, 1976), 318–327; Carol E. Heim, "Industrial Organization and Regional Development in Interwar Britain," *Journal of Economic History* 43, no. 4 (1983), 937–941; Michael Collins, *Banks and Industrial Finance in Britain, 1800–1939* (Cambridge, UK, 1991), 78–79.

Contrary to the non-statutory interventions in Britain, Germany implemented several financial-sector reforms. The new Acceptance and Guarantee Bank, established on July 28, 1931, provided endorsements on bills of exchange that were then rediscounted by the Reichsbank. By extending credits to Danatbank and other banks, it effectively deterred the implementation of more radical proposals of reflation. At the same time, German officials wanted to avoid imposing an overly stringent system of regulation as had been established elsewhere. Although the United States, for instance, appeared to have "the longest history of banking supervision and strict banking legislation," the rules exercised by the federal and state governments were "quite inconsistent."[123] Thus, only an emergency ordinance followed as a temporary expedient to address the liquidity shortage by requiring savings banks to hold a

and Government Policy in Interwar Britain (Aldershot, 2005); Valerio Cerretano, "The Treasury, Britain's Postwar Reconstruction, and the Industrial Intervention of the Bank of England, 1921–9," *Economic History Review* 62, no. 1 (2009), 80–100.

[123] Statistische Abteilung, "Material über die Frage einer staatlichen Beaufsichtigung des privaten Bankwesens" [Material on the question of state supervision of private banking], 6 Aug. 1931, R2501/6488, BArch.

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certain percentage of their deposits in liquid assets.[124] These more conservative efforts had an important precedent, as the tools of the Acceptance and Guarantee Bank in 1931 mirrored those of the Gold Discount Bank in 1927, which included discounting bills and providing industrial credits. Other projects, such as the German Financing Institute and the Amortization Fund for Commercial Loans in December 1932, aimed to increase liquidity by purchasing additional assets from private banks.[125]

Additional impetus for legal reform came at the behest of Schacht in June 1933.[126] A formal examination of the banking sector commenced later that year through the hearings of the Committee of Inquiry into the Banking System. For more than a year, both the internal proceedings and the external testimony from 123 experts covered a wide range of issues, including the conditions for instilling trust in the system, the organization of the banking sector, and the national shortage of liquidity.[127] The investigation effectively brought bankers, lawyers, economists, and civil servants together to discuss the extent to which insufficient liquidity had exacerbated the crisis. A preliminary draft of the Reich Banking Law, written by the Reichsbank in November, addressed the most important provision from the hearings, namely the requirement of banks to maintain (after a transition period) a minimum cash-liquidity ratio of 10 percent.[128] To limit speculation, new prohibitions on the savings banks sought to distinguish between their operations (accepting deposits and

[124] "Dritte Verordnung des Reichspräsidenten zur Sicherung von Wirtschaft und Finanzen und zur Bekämpfung politischer Ausschreitungen. Vom 6. Oktober 1931" [Third Decree of the Reich President for Securing the Economy and Finances and for Combating Political Excesses of October 6, 1931], *Reichsgesetzblatt*, no. 56 (7 Oct. 1931), 537–571; Carl Severing to the Deutscher Sparkassen- und Giroverband, 22 Oct. 1931, I. HA Rep. 151, IC Nr. 10134, GStAPK.

[125] "Verordnung über die Bilanzierung von Forderungen gegen Tilgungskassen für gewerbliche Kredite und gegen die Aktiengesellschaft Deutsches Finanzierungsinstitut A.G. Vom 24. Dezember 1932" [Ordinance on the balancing of claims against redemption funds for commercial loans and against the German Financing Institute AG of December 24, 1932], *Reichsgesetzblatt*, no. 83 (28 Dec. 1932), 577–578.

[126] Statistische Abteilung, "Zur Frage der Veranstaltung einer neuen Bankenquete" [On the question of the organization of a new banking inquiry], 9 June 1933, R2501/6910, BArch; Kopper, *Zwischen Marktwirtschaft und Dirigismus*, 87–88.

[127] Hjalmar Schacht, "Untersuchungsausschuß für das Bankwesen 1933" [Committee of Inquiry into the Banking System in 1933], 8 Aug. 1933, R2501/6910, BArch; "Protokoll über die 3. öffentliche Arbeitssitzung des Untersuchungsausschusses für das Bankwesen" [Minutes of the 3rd public working session of the Committee of Inquiry into the Banking System], 21 Nov. 1922, R3102/2527, BArch; Müller, *Die Entstehung des Reichsgesetzes*, 113–129; Ingo Köhler, *Die „Arisierung" der Privatbanken im Dritten Reich. Verdrängung, Ausschaltung und die Frage der Wiedergutmachung* [The "Aryanization" of private banks in the Third Reich: suppression, elimination, and the question of reparation] (Munich, 2005), 64–73.

[128] Statistische Abteilung, "Vorentwurf zu einem Bankengesetz" [Preliminary draft of a banking law], 10 Nov. 1933, R2501/6913, BArch; Statistische Abteilung, "Die Liquiditätsfrage im Reichsgesetz über das Kreditwesen" [The liquidity question in the Reich Banking Law], 27 Dec. 1934, R2501/6942, BArch.

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providing savings accounts) and the investment activities of the Great Banks (underwriting securities for larger firms), a separation analogous to the one defined by the 1933 Glass-Steagall Act in the United States.[129]

In May 1934, a more comprehensive version of the Reich Banking Law returned to the liquidity concern by stating that "sufficient cash liquidity is an absolute requirement for the credit system."[130] More concretely, it delineated the responsibilities of the new Credit Supervisory Office, such as setting new reporting requirements and enforcing penalties for noncompliance.[131] By November, Schacht folded many of these clauses into a single law, which he planned to present to the cabinet.[132] There were relatively few changes between the November report and the December legislation that Hitler's government enacted. Aside from a few minor adjustments, the new draft now stipulated that the Reichsbank was able to issue its own rules regarding the publication of the banks' monthly balance sheets.[133] It also included more details on new licensing and disclosure requirements for banks.

Similar to the 1908 Bank Inquiry, the 1933–4 Committee of Inquiry confronted the longstanding debate over the state's responsibilities in private affairs. "It cannot be the task of the state to restrict the management of the credit institutes to such an extent that the state determines the business policy of the credit institutes," proclaimed Schacht, "but leaves the responsibility and bearing of risk to the credit institutes themselves."[134] Even so, the general view of regulation became linked to the wider effort of financial modernization. At the Reichsbank, Nordhoff stressed the importance of improving the liquidity of domestic banks to the level of banks in Britain, where the liquidity ratio "averages around 11–12%."[135] These comparisons served to justify intervention by the German monetary authorities. Banking supervision abroad often fell under the authority of the finance ministry or a separate government authority, while a few countries—for instance, Italy and the

[129] For a fuller assessment of savings banks during the *Bankenquete*, see Janina Salden, *Der Deutsche Sparkassen- und Giroverband zur Zeit des Nationalsozialismus* [The German Savings Banks and Giro Association in the time of National Socialism] (Stuttgart, 2019), 120–137.

[130] "Begründung" [Rationale], May 1934, R2501/6941, BArch.

[131] "Entwurf. Reichsgesetz über das Kreditwesen" [Draft: Reich Banking Law], May 1934, R2501/6941, BArch.

[132] "Bericht des Untersuchungsausschusses für das Bankwesen mit dem Entwurf eines Reichsgesetzes über das Kreditwesen" [Report of the Committee of Inquiry into the Banking System on the draft of the Reich Banking Law], Nov. 1934, R3001/10719, BArch.

[133] "Entwurf. Reichsgesetz über das Kreditwesen," Dec. 1934, R3001/10719, BArch.

[134] Schacht, "Zur Frage der gesetzlichen Regelung des Kreditwesens in Deutschland."

[135] Nordhoff, "Über die Liquiditätsfrage," 482–483.

United States—conferred regulatory powers to an independent central bank.[136] Elsewhere, such as in Sweden, an independent body enforced liquidity requirements and standardized reports.[137] Through these comparisons, some onlookers were inclined not to emphasize the well-developed nature of regulation in other countries but rather to cite the lack thereof. "A comprehensive legal regulation of the deposit banking system," wrote one Reichsbank official, "exists as little abroad as in Germany."[138] State intervention, in this regard, might have allowed Germany to be a leader for others.

In many respects, the Reich Banking Law preserved numerous aspects of the financial system. The government planned to keep the existing banking network largely intact—as opposed to separating the system into regional banks, as some suggested—while also setting minimum-liquidity requirements, maximum limits on lending, and licensing requirements.[139] These features sought not to eliminate private banking but rather to establish a general system of state oversight. For Hans Rummel of Deutsche Bank, the Reich Banking Law had "far-reaching effects" yet also improved the functioning of the overall banking system by treating all financial institutions "equally" under the law.[140] Moreover, officials were able to adapt the new regulation into the existing legal framework of the Weimar Republic. The position of the Reich Commissioner for the Banking Industry, having been created in September 1931, reported to the economics ministry. While the new office was meant to be *for* the state ("an institution under public law that exercises economic administrative powers"), it had yet to be determined whether it was to be *of* the state, directly beholden either to a government ministry or to the banking

[136] Statistische Abteilung, "Zur Frage der Ausübung der Bankenaufsicht in anderen Ländern unter besonderer Berücksichtigung der Beteiligung der Zentralnotenbank" [On the question of the exercise of banking oversight in other countries with special reference to the involvement of the central bank], 30 May 1934, R2501/6919, BArch.

[137] Georg Obst, "Bankenkontrolle" [Bank control], *Die Betriebswirtschaft* 23, no. 6 (June 1930), 161–166; "Zur Staatsaufsicht und Publizität der privaten Kreditbanken in Schweden" [On the state supervision and publicity of private credit banks in Sweden], 18 Aug. 1931, R2501/6489, BArch.

[138] E. Götz, "Die gesetzliche Regelung des Depositenbankwesens im Ausland" [The legal regulation of deposit banking abroad], 29 Aug. 1933, R2501/6911, BArch.

[139] Statistische Abteilung, "Bemerkungen zur Regionalbanken-Idee" [Remarks on the regional bank idea], 27 Nov. 1933, R2501/6914, BArch; Harold James, "Die Deutsche Bank und die Diktatur, 1933–1945," in *Die Deutsche Bank*, ed. Gall et al., 324–325; Grossman, *Unsettled Account*, 161; Arie van der Hek, *Hjalmar Schacht. Präsident der Reichsbank zwischen zwei Weltkriegen* [Hjalmar Schacht: President of the Reichsbank between two world wars], trans. Andreas Linke (Wiesbaden, 2020), 309–312; Alexander Nützenadel, "Fascism and Finance: Economic Populism in Inter-war Europe," *German Historical Institute London Bulletin* XLIV, no. 1 (May 2022), 19–20.

[140] Hans Rummel to the branches of Deutsche Bank, 11 Dec. 1934, F088/2016, HADB.

sector.[141] Subsequent compromises with Nazi politicians thus featured into the legislation, such as the Reich Commissioner being chosen by the Führer (head of the Nazi Party) and by the Reichskanzler (head of government) only after consultation with the Reichsbank president.[142]

Despite its timing, the Reich Banking Law was not a product of Nazi policy.[143] Had the Third Reich been fully in control of reform efforts in 1934, there could have well been a nationalization of the entire banking system.[144] Instead, for one official, the political shifts provided the Reichsbank with an opportunity to justify its control over domestic credit: "In the National Socialist state, . . . the reawakening of the sense of honor, the emphasis on personality values, [and] the tight structure of the state . . . give the opportunity to reevaluate the character traits of the borrower to a greater extent as a basis of credit."[145] Banking regulation institutionalized existing efforts to address inadequate liquidity and foreign dependency, a solution made compatible with Nazi rhetoric over state intervention. Only separately were there attempts to subsume the new legislation under the apparatus of the Third Reich, notably when the Academy for German Law began its investigation into "whether the legal areas of the banking and stock exchange law . . . correspond to the basic views of the National Socialist state."[146]

Conclusion

The German monetary authorities crafted the Reich Banking Law to bring once-indirect forms of financial supervision into a new regulatory framework. Although regulation at a fundamental level might have aimed to maintain financial stability, the structures that could have been designed had depended on changing perspectives regarding state involvement. The existing statistics on deficient cash reserves and the

[141] "Stellung und Befugnisse des Bankenkommissars und des Bankenkuratoriums" [Position and powers of the Bank Commission and of the Bank Board of Trustees], 4 Nov. 1932, R2501/6502, BArch.

[142] Schacht to Alfred Hugenberg, 8 Aug. 1933, R2/13682, BArch; "Reichsgesetz über das Kreditwesen. Vom 5. Dezember 1934," *Reichsgesetzblatt*, no. 132 (7 Dec. 1934), sec. 30, sec. 33.

[143] Alexander Nützenadel, "Between State and Market, 1914–1989," in *Deutsche Bank: The Global Hausbank, 1870–2020*, ed. Werner Plumpe, Alexander Nützenadel, and Catherine R. Schenk (London, 2020), 298.

[144] Adam Tooze, *The Wages of Destruction: The Making and Breaking of the Nazi Economy* (New York, 2006), 110.

[145] Statistische Abteilung, "Grundsätzliche Untersuchung, ob eine Neuorientierung der Kreditpolitik der Reichsbank möglich ist" [Fundamental examination of whether a reorientation of the Reichsbank's credit policy is possible], 16 Apr. 1934, R2501/6509, BArch.

[146] "I. Sitzung des Ausschusses für Bank- und Börsenrecht der Akademie für Deutsches Recht am 16. April 1934 im Bankhaus Merck, Finck & Co., München" [1st meeting of the Banking and Stock Exchange Law Committee of the Academy of German Law on April 16, 1934 at Bankhaus Merck, Finck & Co, Munich], Apr. 1934, R3001/3103, BArch.

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prevalence of foreign exposure not only encapsulated the anxieties of officials who sought to measure the liquidity of the financial sector but also directly led to the construction of a regulatory policy. Having confronted the liquidity problem in the pre-crisis years—and only later influenced by the events of 1931 and 1933—German officials made the state responsible for credit policy and oversight. For Leopold Scheffler, an adviser at the Reichsbank, a new chapter in state intervention had been written: "The importance of the Reichsbank as the central bank for economic life is based on its given possibilities to expand or narrow credit volume. As the last liquidity reserve of the German organization of credit, it is therefore referred to as the 'bank of banks.'"[147]

Banking regulation thus evolved from an amalgamation of legal reasoning, foreign comparisons, national security, and institutional impetus. It was not a given that the state needed to regulate the banking sector in response to a singular financial (or political) crisis. Nor was there even a perpetual desire to assert more state control given the persistence of classical liberalism, which continually converged around the idea of limited state involvement. An alternative policy might have been drawn from comparisons with Britain, where the government avoided imposing banking regulation. Similarly, there were some commonalities with the federalized financial system in the United States, where state and national jurisdictions conflicted with one another.[148] Yet, more specific to Germany, the creation of a regulatory policy was based on the extensive national security debates over concerns of an illiquid banking sector, one that was increasingly vulnerable to foreign crises. Both the 1908 and 1923 crises demonstrated the possible use of informal financial-sector supervision as an extension of domestic security. By 1934, the Third Reich had inherited a range of supervisory instruments and legal frameworks, which determined the structure of its own politico-economic governance. Attempts by the government and central bank to address the inadequate levels of liquidity persisted well into the postwar years, particularly when minimum-liquidity ratios became a widespread tool for banking supervision.[149]

Further research may consider placing the development of German banking within the wider literature on the history of capitalism. Numerous regulatory configurations, ranging from the decentralized Federal Reserve

[147] Leopold Scheffler, "Entwicklung, Aufbau und Tätigkeitsfeld der Reichsbank" [Development, structure, and field of work of the Reichsbank], June 1934, R2501/6356, BArch.

[148] On comparisons with the United States, especially in the postwar period, see Krieghoff, "Banking Regulation," 137–142; Simon Mee, *Central Bank Independence and the Legacy of the German Past* (Cambridge, UK, 2019), 152–158.

[149] Müller, *Die Mindestreserve*, 50–57; Emmanuel Mourlon-Druol, "'Trust Is Good, Control Is Better': The 1974 Herstatt Bank Crisis and Its Implications for International Regulatory Reform," *Business History* 57, no. 2 (Summer 2015), 327; Mee, *Central Bank Independence*, 281–283.

System to the Bank of England's continued use of informal pressure, were possible. Werner Plumpe has theorized about a particular variant of German capitalism, which arose from an enduring tradition of the state to maintain order in crises.[150] In line with this theory, the emergence of a regulatory policy may appear not as a product of economic rationality but rather as an outcome of historic traditions and cultural practices specific to Germany. This interpretation, along with other recent works on this topic, offers a compelling way of assessing the many conceivable levels of political involvement.[151] A study of regulation must consider the array of options before civil servants, bankers, lawyers, and economists in determining policy. By contending with the various proposals for greater financial supervision, whether direct or indirect, German officials enacted a series of reforms that redefined the role of the state in the economy.

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[150] Werner Plumpe, "Ökonomisches Denken und wirtschaftliche Entwicklung. Zum Zusammenhang von Wirtschaftsgeschichte und historischer Semantik der Ökonomie" [Economic thought and economic development: on the connection between economic history and the historical semantics of the economy], *Jahrbuch für Wirtschaftsgeschichte* 50, no. 1 (2009), 50–51.

[151] See, for instance, Colleen Dunlavy and Thomas Welskopp, "Myths and Peculiarities: Comparing U.S. and German Capitalism," *Bulletin of the German Historical Institute Washington, DC*, no. 41 (Fall 2007), 33–64; Christian Marx and Morten Reitmayer, "Introduction: Rhenish Capitalism and Business History," *Business History* 61, no. 5 (2019), 745–784; Moritz Föllmer and Pamela E. Swett, "Historicizing Capitalism in Germany, 1918–1945," in *Reshaping Capitalism in Weimar and Nazi Germany*, ed. Moritz Föllmer and Pamela E. Swett (Cambridge, UK, 2022), 1–27.