

Coping with Crisis: International Financial Institutions in the Interwar Period. Edited by Makoto Kasuya. Oxford: Oxford University Press. xiv + 235 pp. Index, notes, figures, tables. Cloth, \$70.00. ISBN 0-199-25931-3.

Reviewed by Barry Eichengreen

Some books should come emblazoned with a sticker reading “Caution: Conference Volume Ahead.” In this case, your reviewer was fooled by the publisher’s blurb, which promises a systematic analysis of how financial institutions coped with the turbulence of the 1920s and 1930s. “Leading international authorities,” the back cover announces, “examine the circumstances and strategies of financial institutions in the UK, Germany, the US, France and Japan. They explain how various types of financial institution competed and cooperated in the 1920s, how they escaped the Great Depression (or why they could not), and how they adapted to the new business environment, namely the government regulations of the 1930s.”

These questions are of considerable interest. Despite the turbulence of the financial environment, banks and banking systems fared very differently in the 1920s and 1930s, depending on their circumstances, strategies, and management. Australian banks were singularly conservative in their lending policies and investment strategies; institutional memory of the bank failures of the 1890s evidently rendered them once burned, twice shy. Canadian banks were prevented from indulging in the worst financial excesses of the 1920s by restrictions on their ability to lend against real estate. U.S. banks were prevented from efficiently diversifying their portfolios by limits on interstate branching. In Germany, incestuous links with industry and heavy reliance on short-term foreign deposits brought the entire banking system crashing down. In Austria, loans to industry were encouraged by implicit government guarantees extended in return for the banks’ complicity in the authorities’ industrial policy. At the systemic level, the gold standard limited the capacity of central banks to act as lenders of last resort. In some cases, inadequate comprehension of the responsibilities of a last-resort lender prevented this institutional capacity from even being tested. Diplomatic disputes between France and Germany prevented the Bank for International Settlements from being effectively

enlisted to contain the German banking crisis. In all these cases, the parallels with current concerns are obvious.

That we receive less than a systematic analysis of these issues is perhaps unsurprising when we learn that the volume is made up of the proceedings of the twenty-sixth International Conference on Business History, held in September 2000 in Japan. This is not to question the appropriateness of the venue. Japan having been in the grip of a banking crisis for a decade, the fragility of financial systems and the challenge to banks' business strategies posed by the collapse of an asset price bubble would have only served to point up the importance of these historical studies. Several chapters hint at the special sense of urgency that was no doubt evident at the conference. Still, that we get a hodgepodge of studies grouped under the headings "commercial banking," "universal banking," and "insurance and securities" is an unavoidable consequence of the format.

A more useful way of categorizing the contributions may be as economic and business history. The economic historians give priority to the macroeconomic and regulatory environment as a determinant of bank behavior and treat individual management strategies as interesting complications. Thus, Michael Collins and Mae Baker explain British banks' preference for short-term lending, which persisted in the face of intense moral suasion to lengthen the tenor of their commitments, not as a strategic insight of particular managers but as a response to the broader information and contracting environment. Eugene White shows that the trend in the other direction in the United States, toward more long-term lending, was not so much a change in management strategy as a consequence of the regulatory innovations of the New Deal. The business historians, in contrast, see individual banks and their managers as prime movers and the macroeconomic and regulatory environment as leaving considerable room for distinctive management strategies. Thus, Shingi Ogura explains changes in the lending policies of Mitsui Bank in terms of management's loosening ties with the House of Mitsui.

The most successful attempt to straddle these two perspectives is the chapter by Eric Bussiere. Using Paribas as a window on the broader class of French *banques d'affaires*, Bussiere shows how the choices made by its management reflected not only the broad economic and political context of the time—such as the inflation of the 1920s, which eroded its equity base, and legal restrictions on the export of long-term capital—

but also the influence of several of its top executives, such as the Belgian H. Urban, who helped to lead the bank toward the model of universal banking as it was practiced in Belgium.

More straddling is clearly called for. Bank history is a flourishing subfield of business history, in part because banks keep copious records, even if they are not always prepared to make them available to independent scholars. Many banks have the resources to commission official histories. Recent scandals remind us that managing directors and executives are not automatons; they play an autonomous role in determining whether banks indulge in the excesses of periods of irrational exuberance, like the late 1920s and late 1990s and in guiding their banks successfully through the changes necessary for adapting to the exigencies of growing competition. That said, it is not possible to understand why management responded as it did without reference to the broader macroeconomic and regulatory framework. In Japan, for example, management was constrained by tight regulations imposed as early as 1928 in response to an earlier wave of bank runs. In Britain, the stability of the banks was ensured by the mildness of the post-1929 slump, reflecting in part the country's early departure from the gold standard. Compared to these factors, one can argue that individual management strategies were of only second-order importance. In future scholarship it would be useful to see the analysis of management strategies and macroeconomic factors—in other words, business history and economic history—integrated more tightly.

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