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Germany's 1875 Banking Act and the genesis of a monetary framework: 1866-76

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Germany's 1875 Banking Act and the genesis of a monetary framework, 1866–76

Hendrik Klaus, London

Abstract:

This paper explores the genesis of the German monetary framework between 1866 and 1876, with a specific focus on the 1875 Banking Act. The Banking Act constituted the final piece within the legislation that established Germany's post-unification monetary order, regulated bank note issuance across the Reich, and established the Reichsbank as Germany's first central bank.

The Banking Act has rarely featured prominently in the literature, and it has often been regarded as a subordinate aspect of Germany's adoption of a gold currency. Drawing on a broad range of primary sources, this study argues that the Banking Act was in fact the most complicated and politicised element of the monetary reform. The debates on the centralisation of note issuance and banking functions are a fascinating window into how late nineteenth-century monetary management developed within the political imperatives of the time.

As a case study, the historical perspective on the development of Germany's monetary framework is relevant in a broader context. It offers insight into the dynamics that have shaped political economies past and present, and it enables us to reflect critically on outcomes and alternatives for specific forms of monetary governance.

Keywords: Bankgesetz, Banking Act, Reichsbank, Ludwig Bamberger, Otto Michaelis, financial history, central bank history, free banking

JEL-Classification: N13, N23, B15, B17

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1. Introduction

In March 2012, towards the beginning of Mario Draghi's tenure as president of the European Central Bank (ECB), journalists from Germany's most widely circulated tabloid, *Bild*, presented the Italian with a historic *Pickelhaube*, the Prussian spiked military helmet. In what was then a widely reported news story in the midst of the European debt crisis, this was to remind the central banker of the 'Prussian virtues'.¹ Draghi accepted the gift and acknowledged: 'The Prussian example is a good symbol for the most important task of the ECB: maintaining price stability and protecting the savers.'² He reportedly kept the *Pickelhaube* in his Frankfurt office throughout his ECB tenure, although *Bild* later publicly asked for the spiked helmet to be returned.³ Negative interest rates and quantitative easing programmes were, supposedly, not aligned with Prussian monetary virtues.

One may see in this anecdote little more than the provocative sensationalism of a tabloid paper. Yet the symbolism invites us to reflect on what has long been a delicate relationship between Germans and their monetary regimes. *Bild*'s journalists employed the *Pickelhaube* as reference to a *German* style of monetary policy, a policy of *stability* commonly associated with the Bundesbank.⁴ 'Not all Germans believe in God, but they all believe in the Bundesbank', Jacques Delors is said to have described Germans' fondness for an institution that had come to epitomise the country's post-war economic stability.⁵ Perhaps ironically, one must see in the *Pickelhaube* a symbol for the opposite. It was throughout the final decades of Prussia's statehood that Germans' experience with the Reichsbank's monetary governance included war financing, hyperinflation, and deep complicity in the crimes of national socialism.⁶ The dramatic and ambivalent monetary history of the twentieth century, however, has often diverted attention away from a period in

¹ 'Interview mit EZB-Chef Mario Draghi zur Euro-Krise', *Bild-Zeitung*, 22 March 2012, [<https://www.bild.de/politik/ausland/mario-draghi/deutschland-ist-ein-vorbild-23270668.bild.html>], accessed 14 April 2024].

² 'Das Preußische ist ein gutes Symbol für den wichtigsten Auftrag der EZB: Preisstabilität zu wahren und die europäischen Sparer zu beschützen.' In 'Interview mit EZB-Chef Mario Draghi zur Euro-Krise'.

³ 'Wir wollen unsere Pickelhaube zurück, Herr Draghi', *Bild-Zeitung*, 24 October 2019, [<https://www.bild.de/politik/inland/politik-inland/jetzt-reichts-wir-wollen-unsere-pickelhaube-zurueck-herr-draghi-65553440.bild.html>], accessed 14 April 2024].

⁴ Dieter Lindenlaub, 'Deutsches Stabilitätsbewußtsein. Wie kann man es fassen, wie kann man es erklären, welche Bedeutung hat es für die Geldpolitik?', in *Die kulturelle Seite der Währung. Europäische Währungskulturen, Geldwerterfahrungen und Notenbanksysteme im 20. Jahrhundert*, ed. Bernhard Löffler (München: R. Oldenbourg Verlag, 2010).

⁵ As cited in Otmar Issing, *The Birth of the Euro* (Cambridge: Cambridge University Press, 2008), 23.

⁶ Harold James, 'The Reichsbank 1876-1945', in *Fifty Years of the Deutsche Mark: Central Bank and the Currency in Germany since 1948*, ed. Deutsche Bundesbank (Oxford: Oxford University Press, 1999), 17 ff.; Bernd Sprenger, *Das Geld der Deutschen: Geldgeschichte Deutschlands von den Anfängen bis zur Gegenwart* (Paderborn: Schöningh, 2002), 197 ff.

which the idea of a specifically German approach to monetary management appears more palpable. The genesis of Germany's monetary governance framework in the 1870s reflected a time when the evolving monetary needs of a fast-growing economy were institutionalised within the specific political constraints of the emerging German federal state.

This study explores the genesis of the German monetary framework between 1866 and 1876, with a specific focus on the 1875 Banking Act. The Banking Act constituted the final piece within the legislation that established Germany's post-unification monetary order, regulated bank note issuance across the Reich, and established the Reichsbank as Germany's first central bank. In broader political narratives of nineteenth-century Germany, matters of monetary governance have rarely featured as the flashy or heatedly debated topics. Bismarck's three-volume autobiography does not include a single mention of the Banking Act or the Reichsbank.⁷ In Thomas Nipperdey's authoritative work on nineteenth-century Germany, the subject is covered on a mere two of the roughly 2,500 pages.⁸ The apparent lack of allure around monetary matters presents both an opportunity and a challenge. It is an opportunity to unearth overlooked but highly relevant aspects of German economic history that have shaped society in potentially meaningful and previously unacknowledged ways. And it is a challenge, for one enters a terrain of technical historical arguments that must be viewed and deciphered within the context of their time.

Works that have looked at Germany's nineteenth-century monetary history have often approached the subject via the perspective of the international gold standard and Germany's role within it.⁹ Of the series of laws that established Germany's federal monetary framework, the Coinage Acts of 1871 and 1873 rather than the 1875 Banking Act have primarily garnered historians' attention. In cementing Germany's adoption of a gold currency and constituting a definitive break with silver and bimetallism, these earlier laws are often viewed as the decisive tipping point that heralded the era of the international gold standard.¹⁰ In turn, the historiography has often viewed the 1875 Banking Act as little more than a renaming of the Bank of Prussia

⁷ This is noted by Sommer in: Albrecht Sommer, *Die Reichsbank unter Hermann von Dechend 1865–1890* (Berlin: Carl Heymanns Verlag, 1931). For Bismarck's autobiography see: Otto von Bismarck, *Gedanken und Erinnerungen*, Volks-Ausgabe (Stuttgart und Berlin, 1915).

⁸ Thomas Nipperdey, *Deutsche Geschichte, 1866–1918* (München: C.H. Beck, 1990), 281–83.

⁹ See for example: Sabine Schneider, 'Imperial Germany, Great Britain and the Political Economy of the Gold Standard, 1867–1914', in *Money and Markets. Essays in Honour of Martin Daunt*, eds. Julian Hoppit, Duncan Needham and Adrian Leonard (Woodbridge: The Boydell Press, 2019), 127–44.

¹⁰ See for example Giulio Gallarotti, 'The Scramble for Gold: Monetary Regime Transformation in the 1870s', in *Monetary Regimes in Transition*, eds. Michael D. Bordo and Forrest Capie (Cambridge: Cambridge University Press, 1993), 40 ff. The argument has been criticised in Marc Flandreau, *The Glitter of Gold: France Bimetallism and the Emergence of the International Gold Standard 1848–1873* (Oxford: Oxford University Press, 2004), 181 ff.

whose ‘functions and organisation remained essentially the same’.¹¹ This study argues that the Banking Act was much more than the inevitable capstone of Germany’s monetary legislation. Rather, it was the most complicated and politicised element of the monetary reform and the debates on the centralisation of note issuance and banking functions are a fascinating window into how monetary management developed within the political imperatives of the time.

The historiography on the subject of nineteenth-century monetary integration in Germany and the 1875 Banking Act specifically remains comparatively sparse. Several key publications on the genesis of the Banking Act date back to the late nineteenth century, chiefly among them the works of Walther Lotz and Karl Helfferich.¹² Both authors have been influential in the historiography owing to their detailed factual accounts of the events and, in the case of Helfferich, the insights drawn from personal connections with protagonists of the monetary legislation. Despite the natural shortcomings of such early works, mainly the biases of nationalist narratives with teleological tendencies, both authors provide remarkably colourful perspectives on the events. Subsequent works from the earlier twentieth century have then often focused on the Reichsbank and its operations rather than its institutional genesis. Examples include a publication commissioned by the Reichsbank itself and the writings by Bach, Sommer, and Bopp.¹³

In the more recent literature, several contributions on the genesis of Germany’s monetary framework exist. Born and James shed light on the legislative process and its political imperatives, relying primarily on published primary sources such as the Reichstag session protocols or the writings of key protagonists.¹⁴

¹¹ Forrest Capie, Charles Goodhart, and Norbert Schnadt, ‘The Development of Central Banking’, in *The Future of Central Banking: The Tercentenary Symposium of the Bank of England*, 1st ed. (Cambridge: Cambridge University Press, 1995), 156. See also Carl-Ludwig Holtfrerich, ‘Did Monetary Unification Precede or Follow Political Unification of Germany in the 19th Century?’, *European Economic Review* 37, no. 2 (1993): 524.

¹² Walther Lotz, *Geschichte und Kritik des deutschen Bankgesetzes vom 14. März 1875* (Leipzig: Duncker & Humblot, 1888); Karl Helfferich, *Die Reform des deutschen Geldwesens nach der Gründung des Reiches – Geschichte der deutschen Geldreform* (Leipzig: Duncker & Humblot, 1898). See also the publication by Soetbeer including many printed primary sources: Adolf Soetbeer, ‘Deutsche Münz- und Bankverfassung’, in *Die Gesetzgebung des Deutschen Reiches mit Erläuterungen*, ed. Ernst Bezold (Erlangen: Verlag von Palm & Enke, 1881).

¹³ *Die Reichsbank 1876–1900* (Berlin: Reichsbank, 1901); Heinrich Bach, *Reichsbank und Reichsfinanzen in den Jahren 1876–1923* (Leipzig: Schwarzenberg & Schumann, 1930); Sommer, *Die Reichsbank unter Hermann von Dechend 1865–1890*; Karl Bopp, *Reichsbank Operations, 1876–1914* (Federal Reserve Bank of Philadelphia, 1953).

¹⁴ Karl-Erich Born, ‘Der Ausbau der Reichsinstitutionen und das Notenbankproblem: Die Herstellung der Währungseinheit und die Entstehung der Reichsbank’, in *Bismarck und seine Zeit, hrsg. v. Johannes Kunisch* (Berlin: Duncker & Humblot, 1992), 257–79; Harold James, ‘Monetary and Fiscal Unification in Nineteenth-Century Germany: What Can Kohl Learn From Bismarck?’, *Essays in International Finance*, no. 202 (1997); James, ‘The Reichsbank 1876–1945’; Harold James, ‘The Mark and the Kaiserreich: Cosmopolitan or National Currency?’, *SSRN Electronic Journal*, 2001. See also Dieter Ziegler, ‘Die Entstehung der Reichsbank 1875’, in *Schlüsselergebnisse der deutschen Bankengeschichte*, eds. Dieter Lindenlaub, Carsten Burhop, and Joachim Scholtyssek (Stuttgart: Franz Steiner Verlag, 2013), 167–77.

Otto is the first to draw systematically on the primary sources from the federal archives and (with some omissions) the Prussian Privy State Archives. He provides an extensive factual account of Germany's nineteenth-century monetary integration including the 1875 Banking Act.¹⁵ Kroha gives a similar narrative account and attempts a monetarist analysis of money aggregates.¹⁶ Together, Otto and Kroha deliver a detailed Rankean event history of the Banking Act's genesis that is grounded in the relevant archival primary sources. But there remains room for an analysis that further embeds the factual findings from these primary sources in a narrative on the evolution of monetary functions. Were the monetary reforms between 1866 and 1876 more than the expression of wider trends in a specific context, more than Germany joining the British-conducted 'international orchestra' of the gold standard?¹⁷ What, if anything, was specifically *German* about the development of banking functions and note issuance? Was this the institutionalisation of an economic belief system or was it a pragmatic, predominantly political compromise?

Several works in the secondary literature provide context when embedding the findings from the primary sources within the broader discourse around Germany's monetary reform. Holtfrerich and Morys have written on the relationship between political and monetary union in the German context.¹⁸ The development of central banking functions has been surveyed by Goodhart in an influential study.¹⁹ Ziegler has discussed the evolution of banking functions in the context of the Bank of Prussia.²⁰ Contributions by Häuser and Rieter

¹⁵ Frank Otto, *Die Entstehung eines nationalen Geldes: Integrationsprozesse der deutschen Währungen im 19. Jahrhundert* (Berlin: Duncker & Humblot, 2002).

¹⁶ Gerald Kroha, 'Die Währungsreform des Deutschen Reiches 1871–76: Eine quantitative und qualitative Untersuchung der Reformwirkungen auf ausgewählte Sektoren' (Münster, Westfälische Wilhelms-Universität Münster, 2009).

¹⁷ Barry Eichengreen, 'Conducting the International Orchestra: Bank of England Leadership under the Classical Gold Standard', *Journal of International Money and Finance* 6, no. 1 (March 1987): 5–29.

¹⁸ Carl-Ludwig Holtfrerich, 'The Monetary Unification Process in Nineteenth-Century Germany: Relevance and Lessons for Europe Today', in *A European Central Bank?*, eds. Marcello De Cecco and Alberto Giovannini (Cambridge: Cambridge University Press, 1989), 216–43; Holtfrerich, 'Did Monetary Unification Precede or Follow Political Unification of Germany in the 19th Century?'; Matthias Morys, 'Goldstandard und Reichsbank: Der Wandel des monetären Regimes', in *Deutschland 1871: Die Nationalstaatsbildung und der Weg in die moderne Wirtschaft*, eds. Ulrich Pfister, Jan-Otmar Hesse, Mark Spoerer, and Nikolaus Wolf, 179–98 (Tübingen: Mohr Siebeck, 2021), 179–98.

¹⁹ Charles Goodhart, *The Evolution of Central Banks* (Cambridge, Mass: MIT Press, 1988).

²⁰ Stefano Ugolini, 'What Do We Really Know about the Long-Term Evolution of Central Banking?' (Norges Bank Working Paper, 2011); Dieter Ziegler, 'Zentralbankpolitische "Steinzeit"? Preußische Bank und Bank of England im Vergleich', *Geschichte und Gesellschaft* 19 (1993): 475–505; Dieter Ziegler, 'Der "Latecomer" lernt. Der "Peel's Act" und die preußische Währungsgesetzgebung im Zeitalter der Industrialisierung', in *Pionier und Nachzügler? Vergleichende Studien zur Geschichte Großbritanniens und Deutschlands im Zeitalter der Industrialisierung. Festschrift für Sidney Pollard zum 70. Geburtstag*, eds. Hartmut Berghoff, Dieter Ziegler (Bochum: Studienverlag Dr. N. Brockmeyer, 1995), 75–95.

have surveyed the state of economic and monetary theory in nineteenth-century Germany.²¹ The relevance of broader geopolitical factors in the context of the monetary reforms and specifically Germany's relationship with Great Britain has been discussed by Schneider.²²

A narrative on the genesis of Germany's federal monetary framework should lean on firsthand accounts by the political actors involved. This study relies predominantly on primary sources from the federal chancellery (*Bundeskanzleramt/Reichskanzleramt*), housed within section R1401 of the German federal archives (Bundesarchiv, BArch). The lack of a broader ministerial executive at the federal level in the late 1860s and early 1870s works to the historian's advantage for all communication on federal matters was channelled centrally through the chancellery. For the Prussian perspective, documents from the Prussian Privy State Archives (Geheimes Staatsarchiv Preußischer Kulturbesitz, GStAPK) are consulted, mainly the protocols of the Prussian state ministry (GStAPK I. HA, Rep. 90a) and documents from the Prussian ministry of commerce and trade (GStAPK I. HA, Rep. 120).²³ The sources from the federal chancellery and the Prussian Privy State Archive were largely inaccessible to Western researchers before 1990 which may explain their relative novelty in the secondary literature.²⁴ Protocols of plenary sessions from the Reichstag and the Bundesrat as well as other official publications were sourced via the Bavarian State Library (Bayerische Staatsbibliothek, BSB). In addition to archival sources, numerous published writings of key protagonists involved in the discourse on banking complement the body of primary sources consulted as part of this work.

I divide my approach to the discourse on monetary governance, note issuance, and banking legislation between 1866 and 1876 into four chapters. Chapter one sets the stage by describing how the sudden change of political circumstances in 1866–67 opened a window of opportunity for a federal monetary framework to emerge. A review of the state of monetary matters in nineteenth-century Germany provides the necessary context to argue that the time of political renewal from 1866 onwards was more than just a

²¹ Karl Häuser, 'Dogmengeschichtliche Betrachtungen zur deutschen Währungsunion von 1871–1876', *Die Umsetzung wirtschaftspolitischer Grundkonzeptionen in die kontinentaleuropäische Praxis des 19. und 20. Jahrhunderts*, 17 (1998): 67–94; Heinz Rieter, 'Deutsche Geldtheorie im 19. Jahrhundert – mehr als nur ein Echo englischer Debatten?', in *Exogenität und Endogenität: Die Geldmenge in der Geschichte des ökonomischen Denkens und in der modernen Politik*, ed. Bertram Schefold, (Marburg: Metropolis-Verlag, 2002), 13–54.

²² Schneider, 'Imperial Germany'.

²³ Finding aids are available and have been consulted. For GStAPK I. HA, Rep. 90: Jürgen Kocka and Wolfgang Neugebauer, eds., *Die Protokolle des Preußischen Staatsministeriums 1817–1934/38*, vol. 6, Acta Borussica, Bd. 1–12 (Hildesheim ; New York: Olms-Weidmann, 2004). For GStAPK I. HA, Rep. 120: Deutsches Zentralarchiv. Abteilung Merseburg, *Zur Geschichte der Produktivkräfte und Produktionsverhältnisse in Preußen 1810–1933: Spezialinventar des Bestandes Preußisches Ministerium für Handel und Gewerbe / bearbeitet von Herbert Buck*. (Weimar: Böhlau, 1960).

²⁴ Both were housed within the East German *Zentrales Staatsarchiv der DDR* (ZStA), BArch R1401 in ZStA Potsdam, GStAPK I. HA in ZStA Merseburg.

catalyst for the evolution of an institutional monetary framework. The second chapter discusses the legislative steps on monetary integration that followed the Franco–German war. The 1871 and 1873 Coinage Acts introduced the *mark* as a gold-based federal currency and the 1874 Law on Imperial Treasury Notes regulated the issuance of state governments notes. The laws reflected a pragmatic political process during which the contours of the future monetary framework emerged gradually, navigating the manifold political obstacles that complicated the harmonisation of monetary functions in the still fractious federal state. Chapter three shows how, in the summer of 1874, a leaked draft bill on banking sparked an intense debate on the merits of a central bank and argues that political dynamics rather than economic or monetary dogma continued to stand in the way of legislative progress. Specific attention is given to the ideas of the free banking school (see pp. 35–7) which, despite having lost the argument on central banking, remained more relevant than commonly acknowledged. The fourth and final chapter sheds light on how the parliamentary debate on the Banking Act achieved progress by making the central banking debate explicitly political. The Banking Act's provisions are reviewed and compared to some of its international equivalents, seeking to understand the degree to which they represented a specifically German take on the question of note issuance and central banking.

In light of this chronological approach, a note of caution is warranted. There is a teleological temptation in seeing the path towards German unification as a coherent progression or even as part of a larger policy plan.²⁵ This temptation carries over into the domain of monetary governance, where the legislative steps leading to the 1875 Banking Act may look like a logical or even necessary development. An analysis of Germany's nineteenth-century political economy should resist this temptation. We must be especially cautious not to project our modern perspective on the functioning of money, monetary policy, and central banking backwards in time. As we immerse ourselves in the debates of the past, we should instead, in the words of Quentin Skinner, aim to 'act as a kind of archaeologist, bringing buried intellectual treasure back to the surface, dusting it down and enabling us to consider what we think of it'.²⁶ As we shall see, there was a certain path dependence in the successive legislative steps that led to the 1875 Banking Act. Yet at each point in time the future remained open and possible trajectories diverse and uncertain.

²⁵ The teleological view behind German unification is rejected by most scholars, see notably Nipperdey, *Deutsche Geschichte, 1866–1918*, 14 ff.

²⁶ Quentin Skinner, *Liberty before Liberalism* (Cambridge: Cambridge University Press, 2012), 112.

2. 'A time of becoming': 1866–70

In 1866, historical time accelerated across the German states as political unity suddenly became a palpable prospect. This chapter charts how the change of political circumstances turned a year of overlapping political and financial crises into an opportunity for Germany's monetary framework to evolve. A review of the monetary and banking developments in nineteenth-century Germany situates the narrative and highlights why there remained a pressing need for reform. The focus then lies on how a widespread sense of political renewal coupled with the emergence of a federal institutional framework laid the necessary foundation to transform Germany's fragmented monetary landscape.

2.1. A window of opportunity

When the rivalry between Prussia and Austria escalated in the dispute over the duchies of Schleswig and Holstein in June 1866, it led to a short but consequential war that redrew the political map of Germany. Prussian victory set the stage for a unification of the German states that excluded Austria, the so-called lesser German solution. The political framework for unification became the North German Confederation (*Norddeutscher Bund*): initially a military alliance between Prussia and the German states north of the river Main, it evolved into Germany's first confederated state when it adopted a constitution in July 1867. In less than a year, the abstract idea of a unified German nation state had become a palpable possibility. The North German Confederation's constitutional framework rested on the Bundesrat as the representative body of the individual state governments and the Reichstag as its parliament. The federal chancellery (*Bundeskanzleramt*, from 1871 *Reichskanzleramt*) served as the Confederation's executive and, although formally a distinct body, it was in practice closely associated with Bismarck's dual role as Prussian minister president and federal chancellor. The North German Confederation remained a union of a provisional, yet arguably irreversible nature and its institutional setup proved durable.²⁷ It remained largely unchanged as, following the outbreak of the Franco-German war, the Confederation was expanded to admit the southern German states through bilateral treaties in November 1870 and subsequently 'rechristened' itself as the German Reich in January 1871.²⁸

A month before war broke out between Prussia and Austria in the summer of 1866, a crisis of a different kind had unfolded in the City of London. On 10 May, the banking house of Overend, Gurney & Co. collapsed, wreaking havoc on financial markets. In Germany, news of the crash in London coincided with Prussian

²⁷ Nipperdey, *Deutsche Geschichte, 1866–1918*, 23–24.

²⁸ Hans-Ulrich Wehler, *Das Deutsche Kaiserreich 1871–1918*, 7. Auflage (Göttingen: Vandenhoeck & Ruprecht, 1994), 60.

mobilisation and the growing prospect of war. The result was a financial panic that culminated when hostilities broke out a few weeks later. As a *de facto* central bank, the Bank of Prussia stabilised markets through continued credit provision via bill discounting and Lombard facilities at a discount rate that was raised from 7 to 9 per cent on 11 May in response to increased demand for liquidity.²⁹ The bank maintained full convertibility of its notes and, to further stabilise markets, extended convertibility across its branch network throughout the country.³⁰ Contrasting the Bank of Prussia's increasingly well-rehearsed role of lender of last resort were the responses of the thirty-three private banks that also issued bank notes across the German states. With few exceptions, these banks restricted discounting activities and withdrew from the market.³¹ The banking system stood at the abyss and only Prussia's swift victory at Königgrätz prevented its collapse.³² The crisis of 1866 laid bare the vulnerabilities of Germany's highly fragmented banking landscape and the dangers of incoherently regulated note issuance. A vivid debate over the appropriate role of note-issuing banks ensued. Was the 'privileged and monopolistic' Bank of Prussia the 'Achilles heel' of the German banking landscape as asserted the liberal economist Otto Michaelis who, as we shall see, was to change roles to become a key figure driving the centralised legislation on banking from within the federal chancellery?³³ Or did the Bank of Prussia's function as the only reliable lender of last resort warrant an immediate expansion of its remit over the newly acquired Prussian territories as the Prussian minister of trade Count Itzenplitz proposed in August 1866?³⁴

Similar debates had surfaced in the wake of earlier banking crises such as in 1857, yet this time the change of political circumstances turned crisis into opportunity.³⁵ The North German Confederation's 1867 constitution recognised the need for monetary harmonisation with its article 4 prescribing that 'the regulation of measures, coinage, and weight systems' as well as the 'governance concerning the emission of backed and unbacked paper money' and 'general provisions concerning banking' were all to be placed under

²⁹ Erwin Nasse, 'Die deutschen Zettelbanken während der Krisis von 1866', *Jahrbücher für Nationalökonomie und Statistik* 11, no. 1 (1868): 4.

³⁰ Heinrich von Poschinger, *Bankwesen und Bankpolitik in Preußen* (Berlin: Julius Springer, 1878), 42.

³¹ Only the Frankfurter Bank and the Leipziger Bank can be said to have adopted some form of lender of last resort strategy. Nasse, 'Die deutschen Zettelbanken während der Krisis von 1866', 16-18.

³² James, 'The Reichsbank 1876-1945', 7. For a contemporary view see Johann Louis Tellkamp, *Erforderniß voller Metalldeckung der Banknoten* (Berlin: Julius Springer, 1873), 35.

³³ 'Er tadelte ferner das Vorgehen der "privilegierten und monopolisierten preußischen Bank mit ihren garantierten Banknoten" auf das heftigste, erklärte dieselbe sogar für die „Achillesferse“ des Kredits bei Kriegsgefahr.' As quoted in Lotz, *Geschichte und Kritik des deutschen Bankgesetzes vom 14. März 1875*, 119.

³⁴ See Lotz, 118.

³⁵ See Lotz, 88 ff.

federal authority.³⁶ Like other aspects of the constitution, notably in judicial, financial, and budgetary matters, this was a concession by Bismarck to the liberal movement that saw in the federalisation of competencies an avenue for reform.³⁷ Despite the arguably far-reaching consequences of article 4, its introduction appears to have been uncontroversial with state governments and did not feature in the debates that preceded the constitution's adoption.³⁸ The new constitution thus outlined a future agenda to be filled with legislative content and was an invitation for liberals to partake in the political process. But before exploring how this change of political circumstances galvanised ideas and actors around the goal of advancing a federal monetary legislation, an overview must be given of the broader monetary developments in nineteenth-century Germany.

2.2. Monetary developments in nineteenth-century Germany

By 1866, there were few areas of day-to-day life in which the 'ruin of particularism' had remained as obvious as in monetary matters.³⁹ Among the four kingdoms, six grand duchies, five duchies, seven principalities, and three free and hanseatic cities that would form the German Reich, there were six coinage systems, thirty-four private note-issuing banks, and state-issued paper notes by no less than twenty of the constituent sovereign states.⁴⁰ Despite this prevailing chaotic state that 'poisoned the people's life', earlier attempts at harmonising monetary affairs across the German states had yielded some progress.⁴¹ An early forum to advance Germany's economic integration was the *Zollverein* (customs union) of 1834. Including most states of the German Confederation (*Deutscher Bund*), the loose political union that had emerged as part of the post-Napoleonic order, the Zollverein was aimed at creating a single market across the German states, reducing tariffs, and harmonising rules and regulations. Within the Zollverein's framework, coinage standards had been agreed across various guilder currencies of the south (Munich coinage treaty of 1837)

³⁶ „Artikel 4. Der Beaufsichtigung seitens des Bundes und der Gesetzgebung desselben unterliegen die nachstehenden Angelegenheiten: [...] 3) die Ordnung des Maaß-, Münz- und Gewichtssystems, nebst Feststellung der Grundsätze über die Emission von fundirtem und unfundirtem Papiergelde; 4) die allgemeinen Bestimmungen über das Bankwesen;“ In *Bundes-Gesetzblatt des Norddeutschen Bundes 1867* (Berlin, 1867), 3-4.

³⁷ Nipperdey, *Deutsche Geschichte, 1866-1918*, 45.

³⁸ See for example Otto Becker, *Bismarcks Ringen um Deutschlands Gestaltung*, ed. Alexander Scharff (Heidelberg: Quelle & Meyer, 1958), 290 ff.

³⁹ „Der Ruin des Partikularismus“, Theodor Mommsen as cited in Heinrich August Winkler, *Der lange Weg nach Westen* (München: C.H. Beck, 2000), 1817.

⁴⁰ Otto, *Die Entstehung eines nationalen Geldes*, 387-88.

⁴¹ „Wie kommt es denn, dass ein solcher Zustand geduldet wird, [...] der [...] das ganze Leben des Volkes vergiftet? Ludwig Bamberger, as cited in Karl Helfferich, ed., *Ausgewählte Reden und Aufsätze über Geld- und Bankwesen von Ludwig Bamberger*, herausgegeben von Karl Helfferich (Berlin: J. Guttentag Verlagsbuchhandlung GmbH, 1900), 190.

and relative to the thaler currencies of the north (Dresden coinage treaty of 1838). The result was a silver-based regime that regulated the standard fineness of both the thaler and the guilder and thereby established a fixed exchange rate of 1 thaler to 1.75 guilder. In 1857, the coinage treaty of Vienna expanded the Zollverein's coinage regime to include the Austrian guilder at a rate of 1.5 Austrian guilder to the thaler (from 1867 the treaty with Austria was suspended). While the coinage treaties of Munich, Dresden and Vienna created a fixed, silver-based exchange rate regime that spanned most German states, significant practical challenges remained with a multitude of different currencies in circulation.

The need for harmonisation and regulation was particularly acute in respect to the various forms of paper money that had developed and become an increasingly prevalent form of payment throughout the nineteenth century. In the German states, paper money had mainly developed in two forms: First, bank notes issued by private banks which promised the bearer to exchange their notes for specie money on demand. These bank notes were frequently referred to as *Zettel* (paper slips), the issuing banks as *Zettelbanken* or *Privatnotenbanken* (private issuing banks). Second, state government notes (*Staatspapiergeld*) which were issued by governments and were typically not redeemable in specie, but constituted an acceptable form of payment for taxes and other obligations towards the state. By 1866, these forms of paper money circulated widely and, in the eyes of many contemporaries, chaotically across the German states. This was remarkable, considering that the adoption of paper money over the earlier decades had been a slow and, at times, painful process.

From the 1830s onwards, economic growth driven by the onset of industrialisation had rendered insufficient the supply of money through specie and coins alone and created demand for additional money surrogates.⁴² Yet note issuance activity initially remained subdued in Germany. Strict regulations limited most private banks' ability to engage in the practice of issuing notes and cultural fears about the risks associated with paper money prevailed. These were in part fuelled by earlier experiences with French *assignats*, the collapse of Austrian *Bancozettel*, and Prussian *Tresorscheine*. All three were attempts at state financing through the printing press as governments grappled with the financial fallout of the French Revolutionary and Napoleonic wars, resulting in drastic devaluations of the state-issued notes.⁴³ 'Paper money is such a terrible sound to most people's ears that the very name of it frightens them', the encyclopaedia *Brockhaus Conversations-Lexikon* explained the term in 1820.⁴⁴ For Germany's educated bourgeoisie, the *Bildungsbürgertum*, it was Johann Wolfgang Goethe's depiction of note issuance and

⁴² Ziegler, 'Der "Latecomer" lernt', 83.

⁴³ Otto, *Die Entstehung eines nationalen Geldes*, 221.

⁴⁴ As cited in Morys, 'Goldstandard und Reichsbank: Der Wandel des monetären Regimes', 185.

inflationary excess in *Faust Part Two* (1832) that became a ubiquitous cautionary tale. In what has remained one of the most recognisable themes of German literature, the demon Mephistopheles promises to solve the emperor's fiscal malaise through the issuance of notes backed by the prospect of future specie metal discoveries:

To all whom it concerns let it be known,
Who hath this note, a thousand crowns doth own.
As certain pledge thereof shall stand
Vast buried treasure in the Emperor's land.
Provision has been made that ample treasure,
Raised straightway, shall redeem the notes at pleasure.⁴⁵

However, with the growing economy's increasingly pressing need for an expansion of the supply of money, economic necessity ultimately trumped cultural reservations. From the mid-1840s onwards, calls for the establishment of note-issuing banks became more prominent across Prussia and the German states.⁴⁶ In 1846, the Prussian government reconsidered its long opposition to bank note issuance when it transformed the *Königliche Bank* (Royal Bank) into the Bank of Prussia and equipped it with note issuance privileges in an effort to increase the money supply carefully.⁴⁷ Funded largely through private share capital, the Bank of Prussia, however, was forced to operate within a tight set of government rules that ultimately limited its ability to issue notes in sufficient quantity. A relative specie coverage requirement equating to one third of the value of issued bank notes (*Dritteldeckung*) and, more restrictively, a static issuance limit of twenty million thaler led the Bank of Prussia to operate at the legal issuance limit from the early 1850s onwards, unable to match the growing economy's demand for money creation.⁴⁸ Clearly defying the Prussian government's intentions, the void began to be filled by banks of issue that established themselves in several of the smaller German states in Prussia's vicinity where less onerous legal restrictions prevailed. Between 1855 and 1856 alone, a total of thirteen banks of issue were established outside Prussian territory within the Zollverein, many in the Saxonian microstates to Prussia's south. The result was an influx of thaler-denominated foreign bank notes into Prussia. By 1856, the total value of such foreign notes in circulation

⁴⁵ Johann Wolfgang von Goethe, *Faust. Parts One and Two* / Translated by George Madison Priest. (Chicago: Encyclopaedia Britannica, 1952), v. 6057 ff.

⁴⁶ Ziegler, 'Der "Latecomer" lernt', 84.

⁴⁷ See Ziegler, 83 ff.

⁴⁸ von Poschinger, *Bankwesen und Bankpolitik in Preußen*, 373.

reached an estimated thirty million thaler, surpassing the Bank of Prussia's issuance limit.⁴⁹ The Prussian government was forced to act if it were to regain control over the issuance of paper money. In 1855, foreign bank notes of smaller denominations were forbidden inside Prussia, a complete ban of foreign notes followed in 1858 (the larger states of Saxony, Bavaria, Württemberg, and Baden enacted similar legislation).⁵⁰ At last, the Bank of Prussia's note-issuing limit was removed in 1856, allowing the bank to increase the domestic monetary base. Within a year, the Bank of Prussia's notes in circulation tripled and continued to increase sharply over the years to follow.⁵¹

Although coins remained the only form of legal tender across the German states, the development of note-issuing functions caused the composition of the money supply to change considerably. Where private bank and government notes had represented just 11 per cent (46 million thaler) of the money supply in 1846, that share rose to 45 per cent (512 million thaler) by 1870.⁵² Now contributing over two thirds of all bank notes in circulation, the Bank of Prussia dominated issuing activities.⁵³ As the Prussian government accepted that the proliferation of bank notes was a development that could only be managed but not prevented, the stage was set for the Bank of Prussia to evolve into a *proto*-central bank of the Zollverein and the German Reich. The removal of its static note issuance limit in 1856 allowed the bank to assume the role of a lender of last resort during the financial crises in 1857 and 1866, solidifying its standing as the *primus inter pares* of note-issuing banks.⁵⁴ The Bank of Prussia's dominance was also sustained by the limited note issuance activity in the south where the states of Baden and Württemberg, for example, continued to lack their own bank of issue.

In light of the Bank of Prussia's increasingly dominant role as a *de facto* central institution, how pressing was the need to harmonise note issuance and banking functions? The Prussian trade minister Count Itzenplitz, whose ministry held responsibility for the Bank of Prussia, summarised the necessity for reform in a letter to Bismarck:

A legal regulation [of banking], as assigned to the federal government by article 4 of the constitution, cannot [...] be postponed. It is urgent, at least concerning the note-issuing banks. The current situation, where numerous banks with issuance levels exceeding the needs of commerce are allowed in the smaller states of

⁴⁹ Otto, *Die Entstehung eines nationalen Geldes*, 300 ff.

⁵⁰ Otto, 334 ff.

⁵¹ Curt Schauer, *Die Preußische Bank* (Halle a.S.: Buchdruckerei von Heinrich John, 1912), 63 ff.

⁵² As in Otto, *Die Entstehung eines nationalen Geldes*, 381. Figures have been translated to thaler values (1 thaler = 3 mark).

⁵³ The Bank of Prussia had about 311 million thaler of notes in circulation, compared to a total circulation of around 450 million thaler. Figures from an overview of note-issuing banks compiled by the federal chancellery, in BArch R1401/36 fol. 15v.

⁵⁴ Ziegler, 'Zentralbankpolitische "Steinzeit"?', 496.

the Confederation, and which has led to Prussia having to protect itself against the circulation of these notes through prohibition laws, is untenable. It does not align with the interests of commerce, which suffers from the abundance of different money surrogates and cannot fend them off despite the blocking measures; nor is it compatible with the cooperative spirit that should unite the members of the Confederation.⁵⁵

The thirty-four private issuing banks across the Zollverein were licensed by the individual states without a common legal framework for their governance. At the same time, the Zollverein's principle of free movement of capital created a common market for the use of money surrogates. Bans on foreign bank notes thus rarely had the desired effect, often leading to these notes simply trading at a discount to reflect the legal risk.⁵⁶ Fundamentally, without a common governance framework around note issuance, there remained incentives for individual states and their banks to exploit the legal fragmentation. Additionally, and as the crisis of 1866 had illustrated, there was a need to address the dangers of a banking system whose note issuance activities amplified rather than absorbed liquidity shocks. Lastly, if the Bank of Prussia were to become a central banking institution, it needed a legal basis to operate across the German states rather than deriving its standing as a *proto*-central bank merely from commercial habit. This was especially relevant if the bank were to play a role in the management of a future federal currency.

2.3. Political mobilisation

From 1867, the North German Confederation's Reichstag and the federal chancellery led by president Rudolf Delbrück seized the legislative opportunities that had emerged and advanced a series of federal regulations at a pace that led Bismarck to speak of 'regulation diarrhoea'.⁵⁷ Among many others, these regulations included freedom of movement across the Confederation (1867), the decree on measures and weights (1868), and the German commercial code (*Handelsgesetzbuch*, 1869). In matters of monetary and banking

⁵⁵ „Eine gesetzliche Regelung [des Bankwesens], wie sie Artikel 4. der Bundesverfassung dem Bunde zuweist, wird [...] nicht aufgeschoben werden können. Sie ist wenigstens in Betreff der Zettelbanken dringlich. Der gegenwärtige Zustand, daß in den kleineren Staaten des Bundes zahlreiche Banken mit einer Noten-Emission zugelassen sind, welche über das Bedürfnis des Verkehrs hinausgeht, und welche dazu geführt hat, daß Preußen durch Verbotsgesetze sich gegen den Eintritt dieser Noten hat schützen müssen, ist nicht haltbar. Er entspricht nicht den Interessen des Verkehrs, welcher unter der Menge der verschiedenartigsten Geldsurrogate leidet, indem er trotz der Sperrmaßregeln sich ihrer nicht erwehren kann; er ist eben so wenig mit dem genossenschaftlichen Geiste verträglich, welcher die Mitglieder des Bundes vereinigen soll.“ Letter from Itzenplitz to Bismarck, 22 November 1869, in BArch R1401/34 fol. 15v.

⁵⁶ See for example Vera C. Smith, *The Rationale of Central Banking and the Free Banking Alternative* (Westminster, England: King & Son Ltd., 1936), 66 ff.

⁵⁷ As cited in Dominik Geppert, 'Die Einheit Deutschlands im Innern', in *Kanzler der Einheit - Bismarck - Adenauer - Kohl. Herausforderungen und Perspektiven*, eds. Hanns Jürgen Küsters and Ulrich Lappenküper (Sankt Augustin ; Berlin: Konrad-Adenauer-Stiftung, 2012), 55.

governance, however, the federal government initially trod carefully. It remained unclear how the practical modalities of monetary governance would be transferred from the national to the federal level as article 4 of the North German Confederation's constitution stipulated. The federal chancellery's cautious approach under Delbrück was likely also a reflection of the still provisional and unclear nature of the relations between the north and the south. A first albeit small legislative step was the Law on Interest Rate Setting from November 1867 through which the Reichstag affirmed banks' right to set their discount rates freely.⁵⁸

After 1866, the Zollverein increasingly morphed into a vehicle for Prussia to advance the integration of the southern German states of Hesse–Darmstadt, Baden, Württemberg, and Bavaria, which had remained outside of the North German Confederation. To that end, it was on Prussia's persistence that the Zollparlament and the Zollbundesrat were established as an extension to the North German Reichstag and Bundesrat that included representatives from the four southern German states, thereby further institutionalising the relationship between north and south. The Zollparlament and the Reichstag became avenues for liberals to partake in the political process of unification – as long as they were willing to accept an alliance of convenience with Bismarck and save their democratic ideals for a later day. It was in that spirit that a former revolutionary now turned banker, Ludwig Bamberger, felt drawn back to his fatherland after seventeen years in exile: 'As pleasant and stimulating as my life in Paris had become [...], it was unable to distract me from thoughts of returning to Germany and taking a part in its political fate. Seeing the great struggle of the Prussian liberals [...] could only strengthen this longing.'⁵⁹ Bamberger, born into a family of Jewish bankers in Mainz, had fled political persecution in his native state of Hesse in 1849 and entered the banking profession in London, Antwerp, and Rotterdam. He later settled in Paris where he ran a banking business and became a widely respected expert on financial affairs, exemplified by his involvement in the founding of the Banque de Paris et des Pays Bas.⁶⁰ After being granted amnesty, he returned to his native Mainz in 1866 and moved to Berlin following his election to the Zollparlament in 1868. It was the 'time of becoming', he later recalled in his memoirs, 'which so often is more rewarding than the accomplished fact.'⁶¹

Bamberger was not alone in sensing that the time had come to partake in the political fate of his country. Pressure groups such as the *Deutscher Handelstag* (German Trade Assembly) and the *Kongreß Deutscher Volkswirte* (Congress of German Economists), founded to advance the agenda of political and economic unification, now saw their opportunity to shape policy. The Handelstag, established in Heidelberg in 1861 as

⁵⁸ Gesetz, betreffend die vertragsmäßigen Zinsen, in *Bundes-Gesetzblatt 1867*, 159-60.

⁵⁹ Ludwig Bamberger, *Erinnerungen* (Berlin: Verlag Georg Reimer, 1899), 499.

⁶⁰ Benedikt Koehler, *Ludwig Bamberger: Revolutionär und Bankier* (Stuttgart: Deutsche Verlags-Anstalt, 1999), 67 ff.

⁶¹ Bamberger, *Erinnerungen*, 519.

the parent organisation of local chambers of commerce, had its opening speaker declare at the first meeting post 1866: 'The competency of the Handelstag paired [...] with the legislative competencies of the North German Confederation and those of the reconstructed Zollverein [...] [gives] the possibility [...] that the Handelstag moves beyond mere resolutions and into the field of practical work.'⁶² As we shall see, this new ambition to shape policy transpired when the Handelstag laid important groundwork for a future legislative framework on banking. Based on questionnaires sent to the Handelstag's members across the Zollverein in November 1869, a commission of twenty-six experts, among them Ludwig Bamberger and the Bank of Prussia's president Hermann Dechend, was tasked with the preparation of a policy proposal to reflect an 'expression of public opinion on the question of banking'.⁶³

The federal and Prussian governments first explicitly approached the subject of monetary and banking reform in late 1869 and in response to an earlier written request by the Reichstag.⁶⁴ In an exchange of letters, Bismarck and the chancellery's president, Delbrück, acknowledged the importance of regulating the issuance of both state government notes and bank notes and sought the confidential opinion of the Prussian ministers for trade, Count Itzenplitz, and finance, Otto Camphausen.⁶⁵ Itzenplitz replied on 22 November with an early political assessment on the regulation of banking.⁶⁶ He argued that a federal banking institution for the North German Confederation was needed to 'keep the flow of money healthy and satisfy the need for credit', and that this function would naturally fall to the Bank of Prussia.⁶⁷ Decentralised note issuance by private banks would remain possible but required harmonised regulation, for example, through specie reserve requirements, limits on note issuance tied to banks' balance sheets, or specific reporting obligations. As a more immediate measure to prevent a worsening of the status quo, the trade minister suggested a federal law subjecting the licensing of new issuing banks to federal authority.

⁶² *Das Zusammenfallen [...] der Kompetenz des Handelstages einerseits mit den Kompetenzen der legislatorischen Factoren des Norddeutschen Bundes und [...] des reconstruirten Zoll-Vereins [...] [gibt] die Möglichkeit [...], daß der Handelstag aus dem Bereiche bloßer Resolutionen heraustritt und übergeht auf das Gebiet praktischer Arbeiten [...]* 'In Verhandlungen des Vierten Deutschen Handelstages zu Berlin vom 20. bis 23. Oktober 1868 (Berlin: Verlag von Stilke & van Muyden, 1868), 9.

⁶³ *eine Commission einzuberufen [...], welcher die Aufgabe zufiel, das eingehende Material weiter zu verarbeiten und den Ausdruck einer öffentlichen Meinung über die Bankfrage hervorzurufen*, Deutscher Handelstag, *Die Bankfrage betreffend*, in BArch R1401/34 fols. 163r. ff.

⁶⁴ BArch R1401/1267 fol. 3r.

⁶⁵ BArch R1401/34 fols. 2r. ff.

⁶⁶ Letter from Itzenplitz to Bismarck, in BArch R1401/34 fols. 14r. ff.

⁶⁷ *Meines Erachtens ist die Centralisirung der Noten-Ausgabe in einer Bank auf die Dauer am besten geeignet, den Geldverkehr des Landes gesund zu erhalten und die Creditbedürfnisse zu befriedigen*. 'In BArch R1401/34 fol. 19v.

The trade ministry's arguments for converting the Bank of Prussia into a federal banking institution, however, did not resonate with finance minister Otto Camphausen. In a comparatively short note addressed to Itzenplitz, he urged patience on the matter and warned that any reorganisation of the Bank of Prussia ought to be 'in the financial interests of the [Prussian] state'.⁶⁸ Appointed to the cabinet only several weeks prior, Camphausen had just presented the Prussian state ministry with an ambitious plan to reduce the government's deficit.⁶⁹ He showed little willingness to forgo the Bank of Prussia's profits, in part derived from its seigniorage gains on the issuance of bank notes. This was the beginning of what turned out to be a political impasse that permeated the debate on banking. Bismarck nevertheless took up one of Itzenplitz's suggestions when, in January 1870, he informed his ministers of the intent to pass imminently legislation to prevent the proliferation of note issuance activities.⁷⁰ Two federal laws, the so-called blocking statutes, were enacted to limit a further deterioration of the status quo. The first law made the licensing of issuing banks subject to federal approval, while the second prohibited the issuance of new state government notes without the consent of federal legislators.⁷¹ Both laws expired in 1872, thereby setting an implicit timeframe to introduce more comprehensive legislation on banking and note issuance.

Tasked with drafting the blocking statutes at the federal chancellery was Otto Michaelis, a liberal economist who was to become a key figure to shape Germany's monetary legislation. A leading member of the *Kongreß Deutscher Volkswirte* and former parliamentarian of the German Progress Party (*Deutsche Fortschrittspartei*), he had once passionately opposed Bismarck during the Prussian constitutional conflict in the early 1860s. After 1866, his attitude towards the chancellor changed when he saw an opportunity to shape the politics of unification and enlisted with the more moderate National Liberal Party. In 1867, he joined Rudolf Delbrück at the federal chancellery to act as the representative for trade and commercial affairs.⁷² 'I see the difference between then and now', Michaelis reflected on the period, 'in that back then it was important to prepare and win public awareness for [...] an economically liberating legislation, for the

⁶⁸ 'im finanziellen Interesse des Staates', in letter from Camphausen to Itzenplitz, 13 December 1869, in BArch R1401/34 fols. 36r. See also letter from Camphausen to Itzenplitz, 11 February 1870, in BArch R1401/34 fols. 32r. ff.

⁶⁹ See protocol of the Prussian state ministry from 2 November 1869, in GSTAPK, I. HA, Rep. 90a, B III 2b no. 6, vol. 81 fols. 216–17.

⁷⁰ Letter from Bismarck to Itzenplitz, Camphausen, in BArch R1401/34 fols. 3r. ff.

⁷¹ *Gesetz über die Ausgabe von Banknoten*, 27 March 1870, in *Bundes-Gesetzblatt des Norddeutschen Bundes 1870* (Berlin, 1870), 51. *Gesetz über die Ausgabe von Papiergeld*, 16 June 1870, in *Bundes-Gesetzblatt 1870*, 507.

⁷² Volker Hentschel, 'Otto Michaelis', in *Neue Deutsche Biographie 17* (Berlin: Duncker & Humblot, 1994), 436–37.

practical implementation of which the institutions were still missing; whereas now it is about implementing [...] the legislation.’⁷³

Efforts to advance the federal monetary framework were put on hold with the outbreak of the Franco-German war in the summer of 1870. While the period between 1866 and 1870 did not yet yield much legislative substance, it was a time during which the requirements for a monetary reform fell into place. With political actors mobilised, economic pressure groups engaged, and institutions established, the stage was set for the monetary unification of the German states.

2.4. Monetary versus political unification

The broadly shared sense of political renewal that catalysed the emergence of Germany’s monetary framework invites a reflection on the conditionality between political and monetary union. Were the political developments from 1866 onwards a prerequisite for the genesis of Germany’s monetary order? Or could a monetary unification have preceded political unification, for instance, within the existing pre-1866 framework of the German Confederation and the Zollverein? There are reasons to be cautious about viewing the act of political unification as the *conditio sine qua non* of monetary unification. Monetary integration across the German states had been underway since the early nineteenth century, with the Zollverein and the successive coinage treaties yielding tangible progress towards harmonisation.⁷⁴ Also, the monetary debates in the 1850s and 1860s were themselves key in driving the political case for unification and have rightly been characterised as an ‘endogenous’ element of German unification.⁷⁵ The call for monetary reform was as much an impetus for political unification as it was its outcome.

Yet a perspective that views the political developments from 1866 onwards merely as a catalyst of monetary integration struggles to explain the failure of the numerous prior attempts at monetary harmonisation across the German states. If the benefits of monetary union were widely and repeatedly acknowledged since the late middle-ages, why did a monetary union not materialise earlier?⁷⁶ Here,

⁷³ ‚sehe ich den Unterschied zwischen damals und jetzt [...] darin, dass es damals darauf ankam, das öffentliche Bewusstsein für eine [...] wirtschaftlich befreiende Gesetzgebung zu gewinnen und vorzubereiten, für deren praktische Durchführung die Organe noch fehlten, während es jetzt weit mehr gilt, die [...] Gesetzgebung durchzuführen [...]‘; in Otto Michaelis, *Volkswirtschaftliche Schriften. Erster Band* (Berlin: F. A. Herbig, 1873), V.

⁷⁴ Holtfrerich, ‘The Monetary Unification’, 217 ff.

⁷⁵ See Morys, ‘Goldstandard und Reichsbank: Der Wandel des monetären Regimes’, 184.

⁷⁶ Oliver Volckart, ‘Die Reichsmünzordnung von 1559. Das Scheitern reichseinheitlichen Geldes.’, in *Schlüsselergebnisse der deutschen Bankengeschichte*, eds. Dieter Lindenlaub, Carsten Burhop, and Joachim Scholtyssek (Stuttgart: Franz Steiner Verlag, 2013), 26-37.

structural economic arguments risk neglecting the importance of institutional frameworks in enabling monetary integration. Monetary union requires a political economy that can enforce sustained cooperation between sovereign political actors who retain monetary and fiscal autonomy and whose particularistic interests may not align. Historically, currency unions frequently failed in their task of preventing competitive debasements of specie coins, leading to the displacement of *good* money by *bad* money (Gresham's Law). The development of note issuance and central banking functions increased the potential latitude of monetary recklessness and made currency areas particularly vulnerable to the bad actions of a few of its individual members. The Prussian experience with excessive bank note issuance in the Saxonian micro-states and the difficulties to respond to the challenge were a case in point. Attempts at regulating note issuance across the Zollverein remained futile, leading Prussia to ban foreign bank notes in violation of the Zollverein's principle of free movement of capital.⁷⁷ Monetary integration in nineteenth-century Germany necessitated an effective institutional governance framework that the pre-1866 political order could not provide.

What characterised the post-1866 institutional framework that ultimately enabled the legislation of monetary functions? Several features of the new federal political governance structure are noteworthy. First, the North German Confederation's constitution and the stipulations regarding monetary matters in its article 4 were a source of authority that had no equivalent in the pre-1866 political order. References to article 4 were a recurring theme in the speeches, requests, and proposals of the time and while opinions differed on the form and timeline of the monetary legislation, the need to advance the 'implementation of article 4' was undisputed.⁷⁸ Second, the new federal institutions, including the chancellery, the Reichstag, and the Bundesrat, provided a governance framework through which federal legislation on monetary matters could be enacted via a defined process. Finally, and perhaps crucially, Prussia's hegemonial grip on the North German Confederation and the Zollverein gave confidence that federal rules would and could be enforced. As the hegemon, Prussia could no longer resort to isolationist practices in instances when common ground was hard to find within the Zollverein. In the words of Becker, 'only Prussian hegemony could overcome Prussian particularism'.⁷⁹ This manifested when the Prussian government, instead of unilaterally banning foreign bank notes as in the 1850s, now advanced a common federal policy through the 1870 blocking statutes.

⁷⁷ Otto, *Die Entstehung eines nationalen Geldes*, 337 ff.

⁷⁸ See letter by the president of the Reichstag to Bismarck, 2 June 1869 in BArch R1401/1267 fol. 3r.

⁷⁹ 'Nur preußische Hegemonie konnte den preußischen Partikularismus überwinden [...]', in Becker, *Bismarcks Ringen um Deutschlands Gestaltung*, 371.

3. Legislative pillars for a monetary framework: 1871–74

Following the proclamation of the German Reich on 18 January 1871 and the completion of political unification, the objective of monetary reform resurfaced quickly on the federal political agenda. As per article 4 of what was now the constitution of the German Reich, legislative action was needed to regulate monetary matters across the new federal state. This chapter explores how the federal chancellery embarked on the challenging path towards monetary reform that encompassed the intertwined aspects of coinage, note issuance, and banking. The result was a period during which the legislative pillars of the federal monetary framework emerged gradually, in a process that saw the federal chancellery prioritise what was politically feasible at each stage. It was through this process that the scope of the later Banking Act crystallised as the discourse gained focus and evolved by narrowing the spectrum of viable options.

3.1. The Handelstag's proposal on banking

The president of the federal chancellery, Rudolf Delbrück, had barely returned from the Prussian headquarters in France when he was reminded of the need for monetary reform in late February 1871. Rudolf's cousin Adelbert Delbrück, a banker, co-founder of Deutsche Bank, and current chairman of the German Handelstag, addressed the chancellery in the Handelstag's name to highlight the urgent need for legislative action prior to the expiry of the blocking statute on bank note issuance in July 1872.⁸⁰ To avoid a 'return to chaotic conditions' through uncontrolled licensing of issuing banks, a provisional law ought to be enacted to expand the Bank of Prussia's branch network across the south and mandate its notes be accepted by all public bodies across Germany.⁸¹ 'The development of the German banking system has evolved in such a peculiar way that in the Saxonian–Thuringian lands there are eleven issuing banks in a comparatively small area, while the kingdoms of Bavaria and Württemberg together have only one such bank', Adelbert Delbrück argued.⁸² The expansion of the Bank of Prussia's branches across the south was 'a wish expressed by many merchants and industrialists in these parts of the country'.⁸³ Delbrück's letter was noteworthy, affirming

⁸⁰ Letter by Adelbert Delbrück to the federal chancellery, in BArch R1401/34 fols. 150r. ff.

⁸¹ *„so treten von Neuem die chaotischen Zustände ein“*, in BArch R1401/34 fol. 150v.

⁸² *„Die Entwicklung des deutschen Bankwesens hat sich so eigenthümlich gestaltet, daß in den Sächsisch–Thüringischen Landen auf verhältnismäßig kleinem Gebiete elf Zettelbanken bestehen, während die Königreiche Bayern und Württemberg zusammen derer nur eine haben“*, in BArch R1401/34 fol. 157r.

⁸³ *„Die Ausdehnung des Geschäftskreises der Preußischen Bank [...] ist ein Wunsch, der von vielen Kaufleuten und Industriellen der betreffenden Landestheile gehegt wird[...]“*, in BArch R1401/34 fol. 154v.

that the Bank of Prussia's standing as a *proto* central bank was recognised beyond Prussia's borders by the commercial sector that the Handelstag represented.

Further charting a path for the legislation on banking, the Handelstag chairman forwarded a policy proposal that the Handelstag's commission of experts, including Bamberger and Dechend, had published a year earlier.⁸⁴ It laid out plans for a reform of the German banking system that would see the Bank of Prussia transformed into a federal banking institution. The existing private issuing banks would be allowed to continue their operations alongside the Bank of Prussia, but would be placed under the same strict set of federal regulations. The Handelstag proposed that notes be issued in denominations of no less than twenty-five thaler, emphasising their predominantly commercial nature (in 1871, the average annual income of a worker was around 165 thaler).⁸⁵ It also served to prevent the excessive issuance activity in increasingly small denominations that some private banks had engaged in. Importantly, the Handelstag's commission rejected a strict note issuance limit but, in line with previous rules in the German states, proposed that one third of the value of issued notes be covered by specie (*Dritteldeckung*).

The Handelstag's proposal that Adelbert Delbrück sent to the chancellery in early 1871 outlined several of the key features that would characterise the later Banking Act. Chiefly, the dualism between a central bank and multiple private issuing banks and the rejection of strict issuance limits in favour of a more flexible specie coverage requirement. There are no records of an immediate response by the chancellery to the Handelstag's appeals, but it is plausible that the demands for a provisional law were seen as a step that would have gone too far, too early. It would have risked political tensions with the southern states only weeks after the Reich had been proclaimed. The bilateral treaties that governed the integration of the south into the Reich included specific provisions that delayed the implementation of the blocking statutes.⁸⁶ This was to allow Baden and Württemberg to establish their own issuing banks and, in light of these efforts, a premature expansion of the Bank of Prussia's branch network into the south would have been a recipe for political conflict. Nevertheless, the Handelstag commission's proposal and its subsequent resolutions framed the debate on banking over the following months and years. About two years later, in a letter addressing the ongoing need for banking reform, Bismarck himself acknowledged that there was now 'general agreement

⁸⁴ Deutscher Handelstag, *Die Bankfrage betreffend*, in BArch R1401/34 fols. 163r. ff.

⁸⁵ Ashok V. Desai, *Real Wages in Germany 1871–1913* (Oxford: Clarendon Press, 1968), 112 ff. Figures have been translated from mark to thaler (1 thaler equated to 3 mark).

⁸⁶ Helfferich, *Geschichte der deutschen Geldreform*, 115.

that the resolutions passed by the Handelstag [...] correctly describe the desired practical design of the banking system'.⁸⁷

3.2. The lure of gold and the 1871 Coinage Act

Avoiding the terrain of particularistic political conflict, the coordinator for monetary affairs at the chancellery, Otto Michaelis, focused on the question of coinage where the discourse had become more mature. Here, a federal reform needed to address two aspects: First, how a common federal currency would replace the seven silver-based coinage standards that prevailed across the Reich. Second, the specie metal that the new currency would be based upon. Throughout the 1860s, the debate on coinage had centred around two major alternatives. The first was the adoption of the French bimetallic system, which relied on both gold and silver as specie metals, legally fixed at a ratio of 1 to 15 ½. A monetary integration with France and the wider Latin Monetary Union was economically attractive to the southern German states.⁸⁸ The alternative was a new gold-based currency, emulating the British example. By 1871, the pendulum had swung in favour of gold. This was driven by a combination of scepticism towards the stability of an enforced bimetallic regime, geostrategic concerns as the Reich sought to establish a trading currency to rival sterling, and, importantly, ideological factors.⁸⁹ As vast gold discoveries in California and Australia towards the middle of the century enabled the adoption of gold more broadly, a gold currency became a matter of monetary prestige and, in Schumpeter's words, a 'symbol of sound practice and the badge of honour of decency'.⁹⁰ The German discourse thus mirrored similar developments across a number of European countries that ushered in the period of the international gold standard.⁹¹

The comparatively broad support in favour of a gold currency gave Michaelis a suitable starting point as he set out to devise a legislative framework for Germany's monetary order. The draft bill presented to the

⁸⁷ 'glaube ich zunächst Einverständnis darüber voraussetzen zu dürfen, daß die von dem Deutschen Handelstage [...] gefassten Beschlüsse [...] die zu erstrebende praktische Gestaltung des Bankwesens im Allgemeinen richtig bezeichnen', in letter by Bismarck to Camphausen and Itzenplitz, 6 January 1873, in BArch R1401/35 fol. 62r.

⁸⁸ Matthias Morys, 'Der weltweite Übergang zum klassischen Goldstandard in den 1870er Jahren: Reiner Zufall oder tiefere Kräfte?', in *Ordnung und Chaos. Trends und Brüche in der Wirtschafts- und Sozialgeschichte. Erträge der 26. Arbeitstagung der Gesellschaft für Sozial- und Wirtschaftsgeschichte (1. Deutscher Kongress für Wirtschaftsgeschichte) in Münster vom 11. bis 14. März 2015*, ed. Günther Schulz (Stuttgart: Franz Steiner Verlag, 2018), 95-112.

⁸⁹ The sceptical perspective towards bimetallism transpires, for example, in the Handelstag proceedings in *Verhandlungen des Vierten Deutschen Handelstages zu Berlin vom 20. bis 23. Oktober 1868*, 27 ff. For the geostrategic perspective see Schneider, 'Imperial Germany', 132 ff. A concise summary of the debate around gold vs. bimetallism is given in Ziegler, 'Die Entstehung der Reichsbank 1875', 172-74.

⁹⁰ Joseph A. Schumpeter, *History of Economic Analysis* (London: George Allen & Unwin, 1954), 770.

⁹¹ Morys, 'Der weltweite Übergang zum klassischen Goldstandard in den 1870er Jahren: Reiner Zufall oder tiefere Kräfte?', 108 ff.

Bundesrat in October 1871 proposed a new gold-based federal currency named *mark*. The mark would be introduced in addition to, rather than in replacement of, the existing thaler and guilder currencies, thereby circumnavigating political sensitivities in this initial legislative step. The proposed mark gold coins would be minted at a fineness that fixed the mark's value at one third of a thaler on *French terms* (that was at a gold-silver ratio of 1 to 15 ½). The proposal resonated with the state governments in the Bundesrat on whose right of initiative the chancellery relied.⁹² The Reichstag then mainly debated the types of mark coins to be minted before the law was passed and came into force on 4 December.⁹³ The 1871 Coinage Act was a mostly uncontroversial and, arguably, unambitious piece of legislation. It introduced a federal gold currency but referred to a future law to govern the politically more contentious aspect of phasing out the existing silver currencies in circulation. Nevertheless, and despite its limited scope, the law was a significant step that defined the trajectory towards a common federal currency and set in motion the broader process of monetary reform.

3.3. Political obstacles

By the spring of 1872, a more comprehensive regulation of the federal monetary framework remained out of reach, making necessary an extension of the 1870 blocking statute. Although an uncontroversial proposal on its own, the extension sparked debate in the Reichstag over the increasing urgency behind more conclusive banking legislation.⁹⁴ While a first step had been made towards the reform of coinage, there was no progress in the domain of note issuance and banking. In the Reichstag, Bamberger demanded that the remaining aspects of the coinage reform be advanced concurrently with a legislative framework on banking.⁹⁵ Rudolf Delbrück, however, voiced scepticism: 'I fear [the difficulties] much less on the side of principles than on the side of interests', he replied to Bamberger. 'Without the latter, I would be more confident that the law on banking could be presented at the same time as the coinage law during the next

⁹² See Karl Helfferich, *Die Reform des deutschen Geldwesens nach der Gründung des Reiches – Beiträge zur Geschichte der deutschen Geldreform* (Leipzig: Duncker & Humblot, 1898), 186 ff.

⁹³ Reichstag debate in *Stenographische Berichte über die Verhandlungen des Deutschen Reichstages. 1. Legislatur-Periode. II. Session 1871. Erster Band.* (Berlin: Verlag der Buchdruckerei der Norddeutschen Allgemeinen Zeitung, 1871), 226 ff.; *Gesetz, betreffend die Ausprägung von Reichsgoldmünzen* (Law on the Minting of Imperial Gold Coins). *Reichs-Gesetzblatt 1871* (Berlin: Kaiserliches Post-Zeitungsamt, 1871), 404-6.

⁹⁴ *Stenographische Berichte über die Verhandlungen des Deutschen Reichstages. 1. Legislatur-Periode. III. Session 1872. Zweiter Band.* (Berlin: Verlag der Buchdruckerei der Norddeutschen Allgemeinen Zeitung, 1872), 962 ff.

⁹⁵ *Reichstag Session 1872. Zweiter Band.*, 962.

session.⁹⁶ The president of the chancellery was acutely aware of the political obstacles that remained to be solved, chiefly among them Prussian opposition towards a transformation of the Bank of Prussia into a federal institution. Delbrück and Michaelis nevertheless seemed to explore their options in advancing the banking legislation. Bamberger later recounted that the chancellery supposedly prepared an initial draft bill on banking in the latter half of 1872 but that the proposal 'got stuck at the gates of the Prussian finance ministry' and never made it to the Bundesrat.⁹⁷ While the draft itself is not preserved in the archives, Bamberger's recollection is supported by a later comment from Delbrück at the Prussian state ministry.⁹⁸

The need to advance banking reform was presented to the executive from multiple angles. Bismarck's personal banker, close confidant, and financial power broker Gerson Bleichröder addressed the chancellor on 20 December 1872: 'I have already had the honour [...] to emphasise that our Prussian Bank must become a Reichsbank and that it is advisable if the chancellor were to act as its head. This would be advisable because there are many occasions in which a political understanding of financial issues is more relevant than a material one.'⁹⁹ For over thirty years, Bleichröder, head of the Berlin banking house of the same name and one of the wealthiest individuals of his time, acted as Bismarck's 'special envoy' in political, economic, and financial matters and had unparalleled access to the chancellor.¹⁰⁰ His note to Bismarck was remarkable for it alluded to the political dimensions of banking reform, a perspective that was much more likely to receive the chancellor's attention. In early January 1873, perhaps prompted by Bleichröder's letter, Bismarck sent a lengthy memorandum to ministers Itzenplitz and Camphausen. Highlighting the 'unpleasant condition' of note issuance across the Reich, it urged action on the regulation of banking and discussed and endorsed the Handelstag's earlier proposal.¹⁰¹ We can only speculate, but considering the detailed arguments contained within the memorandum, it is likely that Delbrück and Michaelis were its true authors, seeking to make another attempt at convincing the Prussian finance minister to reform the banking system and transform the

⁹⁶ *'Schwierigkeiten, welche ich auf der Seite der Principien viel weniger fürchte, als auf Seite der Interessen. Wäre diese letzte Seite nicht da, so würde ich die Überzeugung aussprechen können, daß gleichzeitig mit dem in nächster Session vorzulegenden Münzgesetze auch das Gesetz über das Bankwesen würde vorgelegt werden.'* In *Reichstag Session 1872. Zweiter Band.*, 966.

⁹⁷ *'Wo blieb [der Entwurf] denn hängen? Offenbar an den Zäunen des preußischen Finanz-Ministeriums!'* In Ludwig Bamberger, 'Zur Embryologie des Bankgesetzes', in *Deutsche Rundschau*, vol. 2 (Berlin: Verlag von Gebrüder Paetel, 1875), 114-15.

⁹⁸ Meeting protocol Prussian State Ministry, 14 September 1874, in *GStAPK*, I. HA, Rep. 90a, B III 2b no. 6, vol. 86, fols. 212-15.

⁹⁹ *'Ich hatte bereits die Ehre [...] zu betonen, dass unsere preußische Bank eine Reichsbank werden müsse, und es sich außerordentlich empfehlen würde, wenn der jedesmalige Reichskanzler als Chef derselben [...] fungierte, – empfehlen deshalb, weil es viele Momente gibt [...] wo die politische Auffassung finanzieller Fragen wichtiger ist als die materielle.'* As quoted in Fritz Stern, *Gold und Eisen: Bismarck und sein Bankier Bleichröder* (München: C.H. Beck, 2011), 262.

¹⁰⁰ Stern, 428 ff.

¹⁰¹ *'Die gegenwärtigen Zustände der Cirkulation papierner Umsatzmittel sind in hohem Grade unerfreulich.'* In letter by Bismarck to Camphausen and Itzenplitz, 6 January 1873, in *BArch R1401/35 fol. 90r*.

Bank of Prussia into a federal banking institution. Arguably, the memorandum's proposals reflected the latest thinking within the chancellery and notably made the case for several provisions that were to characterise the later draft bill, including the introduction of a tax on uncovered note issuance.¹⁰²

The replies from Itzenplitz and Camphausen, however, were sobering. While both acknowledged the need for a more comprehensive monetary framework as mandated by the constitution's article 4, there was no change of stance concerning the Bank of Prussia's role. Itzenplitz, contradicting his earlier support for a central banking institution, now voiced scepticism about granting the Bank of Prussia exclusive note-issuing privileges at the federal level.¹⁰³ That the seventy-four-year-old Itzenplitz was, according to Bismarck, 'incapable of leading his ministry independently and instead drifted along in the current created for him by his subordinates' did not help the coherence of his argument.¹⁰⁴ Camphausen, in turn, considered it impossible to address the proposed conversion of the Bank of Prussia into a German central bank in the upcoming session, for 'a measure that impacts the financial interests of the Prussian state so drastically cannot be decided without the prior consent of the Prussian legislative.'¹⁰⁵ Consistent with his earlier arguments, for Camphausen, the Bank of Prussia's seigniorage profits, typically amounting to between 0.6 and 1.3 per cent of the government's budget, were a source of income he was unwilling to forgo.¹⁰⁶ Although Bismarck had endorsed the views on future banking legislation as set out in his memorandum, he made no attempts to follow through with the arguments contained therein and change his finance minister's narrow view on the matter. While Bismarck was far from ignorant towards financial matters, the development of Germany's nascent monetary framework was not at the centre of his attention.¹⁰⁷ In a telling passage that Bamberger recorded in his diary in 1873, Bismarck confessed that he had 'gone for a horse ride during the parliamentary debate [on coinage], as he understood absolutely nothing of the matter and could only trust the judgement of his diligent [Rudolf] Delbrück.'¹⁰⁸ Although Bleichröder's note had sought

¹⁰² BArch R1401/35 fol. 97v.

¹⁰³ Letter from Itzenplitz to the chancellery, in BArch R1401/35 fols. 125r. ff.

¹⁰⁴ von Bismarck, *Gedanken und Erinnerungen*, 326.

¹⁰⁵ Letter from Camphausen to the chancellery: '[...] *aber ich halte es für unmöglich in einem für die bevorstehende Session vorzubereitenden Gesetzentwurfe auf die vorgeschlagene Umwandlung der Preußischen Hauptbank in eine deutsche Centralbank einzugehen, schon deshalb, weil eine so tief in die finanziellen Interessen des Preußischen Staates einschneidende Maßnahme m.E. nicht ohne vorgängige Zustimmung der Preußischen Landesvertretung getroffen werden darf.*' In BArch R1401/35 fol. 130r.

¹⁰⁶ The estimate on seigniorage gains is based on Lotz, *Geschichte und Kritik des deutschen Bankgesetzes vom 14. März 1875*, 142 ff.

¹⁰⁷ Stern, *Gold und Eisen: Bismarck und sein Bankier Bleichröder*, 262.

¹⁰⁸ Ludwig Bamberger, *Bismarcks großes Spiel: Die geheimen Tagebücher Ludwig Bambergers* (Frankfurt am Main: Societäts-Verlag, 1932), 305.

to emphasise the political dimension of the legislation on banking, a view of monetary matters as a tool of power politics did not yet resonate with the chancellor and his ministers.

3.4. The 1873 Coinage Act and the Law on Imperial Treasury Notes

Lacking the necessary support from the higher echelons of power, Delbrück and Michaelis continued to seek progress along the path of lesser resistance and turned towards the unfinished aspects of the coinage legislation. In February 1873, Michaelis prepared a draft bill for consideration by the state governments in the Bundesrat. Continuing where the 1871 Coinage Act had left off, the bill provisioned that 'the imperial gold currency replaces the national currencies across Germany. Its unit of account is the mark [...]'¹⁰⁹ Again displaying awareness for the political sensitivities at play, the proposal initially refrained from setting an explicit timeline for the phasing out of the existing currencies in circulation. The target date by which the mark would become the sole legal currency was to be specified through a further imperial decree, thereby giving the executive additional room to manoeuvre in the implementation of the law. Michaelis's draft caused little controversy in the Bundesrat where the continuation of the coinage reform was expected.¹¹⁰

What satisfied the state governments in the Bundesrat, however, was met with frustration in the liberally dominated Reichstag, where the expectation was for more conclusive regulation that also included banking and note issuance.¹¹¹ With their repeated demands for banking legislation seemingly leading nowhere, parliamentarians under the leadership of Ludwig Bamberger now saw the need to adopt a more assertive approach and test the new constitutional mechanisms. Bamberger organised a Reichstag majority to back the addition of an eighteenth paragraph to the draft bill. The paragraph required that all state government notes and all bank notes not denominated in mark or valued at less than one hundred mark be retracted by 1 January 1875.¹¹² While far from constituting a conclusive resolution, the Reichstag's initiative sought to bring paper money within the scope of the regulation on coinage and effectively set a timeline for more comprehensive legislation on banking to be enacted.

In the ensuing negotiations, the Bundesrat appeared willing to accept the provisions of the additional paragraph 18 in relation to bank notes but rejected the retraction of state government notes without a

¹⁰⁹ 'An die Stelle der in Deutschland geltenden Landeswährungen tritt die Reichsgoldwährung. Ihre Rechnungseinheit bildet die Mark [...]', in *GStAPK I. HA Rep. 120 A X no. 27*, vol. 4 (1301).

¹¹⁰ Helfferich, *Beiträge zur Geschichte der deutschen Geldreform*, 217.

¹¹¹ *Stenographische Berichte über die Verhandlungen des Deutschen Reichstages. 1. Legislatur-Periode. IV. Session 1873. Erster Band.* (Berlin: Verlag der Buchdruckerei der Norddeutschen Allgemeinen Zeitung, 1873), 117 ff.

¹¹² *Reichstag Session 1873. Erster Band.*, 343 ff.

suitable replacement.¹¹³ Several southern German states had comparatively large quantities of state government notes outstanding, and, importantly, those notes had been a major source of financing during the war of 1866, making the issue politically contentious.¹¹⁴ The political tug of war between the Reichstag and various Bundesrat factions continued throughout the spring with the end of the parliamentary session fast approaching. On a Saturday in late June, ahead of the Reichstag session's final week, Bismarck called Bamberger to a private meeting to discuss the matter. The record of this encounter in Bamberger's diary paints the picture of a chancellor who was unfamiliar with the legislative details of the coinage law but whose sharp instincts for the power dynamics between the state governments in the Bundesrat led him to intervene.¹¹⁵ Fearing the political fallout from a failed legislative proposal ahead of Reichstag elections scheduled for later in the year, Bismarck asked Bamberger to drop the controversial paragraph 18. But the liberal parliamentarian remained firm: 'You may have your politics in this, but the Reichstag must also have its own politics of self-preservation [...]'¹¹⁶ It took renewed mediation from Delbrück and the imminent risk of a legislative failure, which neither the state governments nor the Reichstag wanted to take responsibility for, to reach an agreement. The retraction of state government notes and non-mark-denominated bank notes was pushed out by a year to 1 January 1876. At the same time, newly introduced federal government notes would replace the retracted state government notes.¹¹⁷ At last, the bill was passed by both chambers and received imperial assent on 9 July.¹¹⁸

The 1873 Coinage Act concluded the legislative work behind Germany's move to the gold-based mark. In practice, however, the act's passage was only the beginning of a multi-year process in which the old silver specie was gradually replaced by gold. The process was helped by the substantial payments of around five billion francs (1.3 billion thaler) that the Reich received from France between 1871 and 1873 as part of the war indemnity that had been fixed in the treaty of Frankfurt.¹¹⁹ Yet, and as Ludwig Bamberger was early to point out in the debates on the coinage acts, the most challenging aspect of the reform lay not in the purchase of gold but in demonetising the existing silver specie in international markets.¹²⁰ The lack of a

¹¹³ Helfferich, *Geschichte der deutschen Geldreform*, 255.

¹¹⁴ See Bamberger's diary: Bamberger, *Tagebücher Ludwig Bambergers*, 306.

¹¹⁵ Bamberger, 306 ff.

¹¹⁶ „Sie mögen Ihre Politik hierin haben“, sagte ich, „aber der Reichstag muß auch seine Politik der Selbsterhaltung haben [...]“, in Bamberger, 307.

¹¹⁷ Helfferich, *Beiträge zur Geschichte der deutschen Geldreform*, 258.

¹¹⁸ *Münzgesetz*, in *Reichs-Gesetzblatt 1873* (Berlin: Kaiserliches Post-Zeitungsamt, 1873), 233-40.

¹¹⁹ Otto, *Die Entstehung eines nationalen Geldes*, 457.

¹²⁰ *Reichstag Session 1871. Erster Band.*, 232.

federal banking institution to manage the associated specie transactions initially prolonged the process, which continued until the late 1870s.¹²¹

Through paragraph 18 of the 1873 Coinage Act, the Reichstag was successful in bringing the issuance of paper money within the scope of the federal legislation. While falling short of the more conclusive regulation on banking that parliamentarians had hoped for, the agreement to replace state government notes with newly issued federal notes ensured progress towards a harmonised monetary framework. It was a first step towards the centralisation of note-issuing functions, although the overall significance for the monetary system was limited. With a total circulation of around 184 million mark in 1872, government notes represented only a fraction of the 1,352 million mark of bank notes in circulation by 1873.¹²² Legislative work preparing the introduction of federal government notes, now named imperial treasury notes (*Reichskassenscheine*), began in early 1874 following the election of a new Reichstag. The treasury notes would not constitute legal tender but would be redeemable in gold at federal cashiers and set up as claims against the Reich, thus mirroring many of the characteristics of the state government notes which they were to replace. The total quantity to be issued was set at 120 million marks, allocated to the federal states on a per capita basis. Generous transition provisions for smaller states whose outstanding issuance exceeded the target quota ensured support by the Bundesrat. Following an uncontroversial plenary debate in the Reichstag, the law was passed on 22 April 1874.¹²³

3.5. A legislative path of least resistance

Between 1871 and 1874, the federal chancellery achieved legislative progress in the reform of Germany's monetary framework by following a path of least resistance. It limited grander ambitions to gradual steps, pragmatically focusing on what was politically achievable at each point in time. In the immediate aftermath of the Reich's proclamation, the Handelstag's proposals for an expansion of the Bank of Prussia's branch network were overly ambitious. The chancellery, instead, focused on introducing the mark as a parallel federal gold currency, leveraging the emerging consensus in favour of gold as a specie metal. The 1871 Coinage Act's reference to a future law to regulate the demonetisation of silver currencies postponed but also outlined the coinage reform's more controversial aspect. Similarly, after the chancellery's 1872 proposal on banking met the resistance of Camphausen, Delbrück and Michaelis shifted focus, now

¹²¹ Otto, *Die Entstehung eines nationalen Geldes*, 461–65.

¹²² Relying on figures by Helfferich and Sombart and as summarised in Otto, 390 ff.

¹²³ *Gesetz, betreffend die Ausgabe von Reichskassenscheinen*, in *Reichs-Gesetzblatt 1874* (Berlin: Kaiserliches Post-Zeitungsamt, 1874), 40–41.

completing the coinage reform through the 1873 Coinage Act. The latter's paragraph 18 and the subsequent Law on Imperial Treasury Notes then brought the regulation of paper money within the purview of the reform. Generous provisions around the replacement of old state government notes with new imperial treasury notes made this step appear, once again, to be a relatively uncontroversial legislative undertaking.

Each element of the emerging monetary legislation thus had a defined scope while also projecting forward the subsequent legislative measure. Rather than waiting for an overarching consensus to emerge, Delbrück and Michaelis secured progress through small yet arguably irreversible steps. The federal chancellery's approach reflected a keen awareness of the political constraints within which it was operating, yet this awareness should not be mistaken for a larger policy plan. Delbrück and Michaelis navigated by sight, perhaps best illustrated by the series of extensions to the blocking statute on banking passed in June 1872, June 1873, and finally in December 1874.¹²⁴ As Germany's federal monetary framework began to take shape between 1871 and 1874, the scope of the later Banking Act emerged slowly and not by design, but indirectly as the remaining piece of the reform that had not yet been solved.

4. Manufacturers of money: 1874

In the years following political unification, lawmakers and the executive had succeeded in advancing the regulation of monetary matters by prioritising its less controversial aspects. As Ludwig Bamberger claimed in the Reichstag: 'We hardly had to argue about principles when it came to the coinage legislation; it was actually just a number of technical economic questions'.¹²⁵ By the spring of 1874, as the debate finally turned towards the regulation of banking and note issuance, the arguments about principles could no longer be avoided. This chapter focuses on the central banking debate that had its roots in the earlier decades of the nineteenth century and resurfaced when the chancellery's draft bill on banking was leaked to the public in July 1874. As we shall argue, a consensus on central banking had emerged and political dynamics rather than economic dogma continued to stand in the way of legislative progress. Nevertheless, the opposition to the centralisation of banking functions, notably by the so-called free banking school, merits our attention, for its perspective on money was more relevant for the ensuing discourse than has been commonly acknowledged.

¹²⁴ See Lotz, *Geschichte und Kritik des deutschen Bankgesetzes vom 14. März 1875*, 141.

¹²⁵ 'Wir haben bei der Münzgesetzgebung kaum mit Principien zu streiten gehabt, es waren eigentlich nur einige technische Fragen der Nationalökonomie.' Ludwig Bamberger, 13 June 1872 in *Reichstag Session 1872. Zweiter Band.*, 962.

4.1. A controversial draft bill

At the federal chancellery, it was in the spring of 1874 that Otto Michaelis began preparing a draft bill on banking that addressed the remaining questions on bank note issuance. Correspondence between the federal chancellery, finance minister Camphausen, and Prussia's new trade minister Achenbach, who had replaced Count Itzenplitz the year prior, revealed the close working relationship that existed between the chancellery and the Prussian executive. In several letters, opinions on banking regulation and initial drafts for a bill were exchanged confidentially and without consulting other state governments or the Bundesrat.¹²⁶ Camphausen remained firm on his refusal to consider a transformation of the Bank of Prussia into a federal institution and instead suggested a trio of three central banks consisting of the Bank of Prussia, a Bavarian, and a Saxonian bank to become the sole issuers of bank notes.¹²⁷ Trade minister Achenbach also voiced scepticism towards the idea of a Reichsbank.¹²⁸

The staunch opposition by the Prussian ministers for finance and trade and the lack of a directive by the chancellor complicated Michaelis's task. The result was a draft bill for the Banking Act that creatively addressed many of the broadly recognised ills of the banking landscape but, crucially, did not provide for a central bank. The focus was on a regulatory setup that sought to submit all note-issuing banks to the same federal requirements, thereby harmonising the often drastically different legislative provisions that prevailed across the individual states. In the spirit of the earlier blocking statutes, the draft bill intended to make the licensing of note-issuing banks subject to federal approval on a permanent basis. In an attempt to rein in the often disproportionate issuance activity by smaller banks, bank notes with denominations of less than one hundred mark would be prohibited. Through a construct that combined elements of both absolute and relative issuance limits, Michaelis's draft suggested that a bank's note issuance be covered by at least one third with specie, coins, imperial treasury notes, or foreign money. In addition, a note issuance tax of 1 per cent would be levied on all unbacked notes, while an increased rate of 5 per cent would be levied on all unbacked notes issued beyond a bank's specific statutory issuance quota. The total issuance quota for

¹²⁶ See, for example, letter from Camphausen to Bismarck in BArch R1401/36 fols. 41r. ff.; letter from Delbrück to Camphausen in BArch R1401/36 fols. 88r. ff.; letter from Achenbach to Camphausen in BArch R1401/36 fols. 112r. ff.; letter from Achenbach to Bismarck in BArch R1401/36 fols. 123r. ff. That these were confidential consultations between the chancellery and the Prussian ministers is confirmed in the state ministry's discussion on the matter on 14 September 1874, in GStAPK, I. HA, Rep. 90a, B III 2b no. 6, vol. 86, fols. 212–15.

¹²⁷ Letter from Camphausen to Bismarck, BArch R1401/36 fols. 41r. ff.

¹²⁸ Letter from Achenbach to Camphausen, BArch R1401/36 fols. 112r. ff.

unbacked notes would be set at three hundred million mark and each bank's share determined based on estimates of that bank's average note circulation.¹²⁹

Incorporating many elements of the Handelstag's earlier proposal on banking, the chancellery's draft bill reflected awareness of some of the most pressing issues. Yet the lack of a central bank made it unacceptable in the eyes of many observers at the time.¹³⁰ When the draft bill was leaked to the newspaper *Weserzeitung* in late July 1874, there was consternation both in specialist circles and within the wider public.¹³¹ A whole subsection within the federal archives with 'opinions on the draft of a banking law' containing 117 folios from between August and November 1874 bears testament to the extent of controversy that the absence of a central bank generated.¹³² Newspaper articles, publications with counter proposals, opinion pieces, and letters to the chancellor were all part of an outpour of frustration over a draft that was seen as 'a doctrinaire quirk', based on 'erroneous assumptions and incorrect foundations'.¹³³ In the late summer of 1874, the draft bill's omission of a Reichsbank reignited a public debate on central banking that many had thought to be settled and that put Michaelis at the centre of an argument to which he had previously contributed from a very different perspective.

4.2. The free banking challenge to central banking

The issuance of paper money through private institutions brought up questions on the relationship between money and sovereignty. Should the creation of money be confined to private and decentralised actors in competition with each other? Or was a nexus between money and sovereignty desirable, formed through a central institution with a government mandate? The centralisation of banking and note issuance had been dogmatically opposed by proponents of the so-called free banking (*Bankfreiheit*) movement. In a projection of classic nineteenth-century liberal beliefs onto the evolving banking functions, its advocates challenged

¹²⁹ See BArch R1401/37 fols. 14r. ff. for the original draft. For an overview of the draft bill also see Kroha, 'Die Währungsreform des Deutschen Reiches 1871–76: Eine quantitative und qualitative Untersuchung der Reformwirkungen auf ausgewählte Sektoren', 126 ff.

¹³⁰ Lotz, *Geschichte und Kritik des deutschen Bankgesetzes vom 14. März 1875*, 182.

¹³¹ See for example publication by the *Kölnische Zeitung*, 19 August 1874, in BArch R1401/37 fols. 7r. ff.

¹³² 'Gutachtliche Äußerungen über den Entwurf eines Bankgesetzes', in BArch R1401/41. See also GStAPK I. HA Rep. 120 A X no. 8 vol. 4 (1247).

¹³³ 'Diese doctrinäre Schrulle [...]', in Adolph Wagner, *Die Zettelbankreform im Deutschen Reiche – Kritik des Bankgesetzentwurfs des Reichskanzleramts, nebst formulirtem Gegenvorschlag* (Berlin: Puttkammer & Muhlbrecht, 1874), 6. 'Des Gesetzentwurfs, der [...] von irrthümlichen Voraussetzungen ausgeht und auf unrichtigen Grundlagen beruht', in Leopold Sonnemann, *Reichsbank oder Notensteuer? Bemerkungen zu dem Gesetz-Entwurfe des Reichskanzler-Amtes über die Regelung der Noten-Ausgabe* (Frankfurt a. M.: Baer, 1874), 6.

the idea of governments' attempts to exert control over the issuance of bank notes.¹³⁴ Free banking proponents argued for a banking system that principally relied on free competition and private liability as the most effective safeguards against financial instability and inflationary excesses. In the early 1860s, the liberally minded *Kongreß Deutscher Volkswirthe* served as the primary forum for free banking ideas in Germany.¹³⁵ In 1863, it advanced a proposal on banking that formulated the principle that 'banking operations should be liberalised when there is unlimited liability of the bank's shareholders, and only in the case of limited liability of shareholders should certain legal requirements be met'.¹³⁶ As most issuing banks in Germany were organised as joint-stock banks, free bankers conceded that the introduction of some regulatory measures was necessary but emphasised the importance of market competition. Prior to his appointment at the federal chancellery, Otto Michaelis had stood out as one of the most articulate supporters of free banking within the *Kongreß*.¹³⁷ As late as 1865, he argued that banking had to be placed 'under the regulatory power of free competition' to prevent the 'dangerous structure of central banknote manufacturing facilities placed under the hothouse heat of the monopoly' and avoid a 'local banking system that is crippled under the dominance of the monopolized and privileged competition'.¹³⁸

In Germany and Prussia, free banking views enjoyed widespread sympathy in liberally minded circles and had initially underpinned the early calls for the establishment of private issuing banks as a solution to the pressing economic need to expand the money supply.¹³⁹ Supporters also included prominent economist Adolph Wagner whose writings on the English banking discourse had helped disseminate its key arguments in Germany.¹⁴⁰ Wagner sympathised with the tenets of the British Banking School, which posited that the

¹³⁴ Notable is the work of Otto Hübner, *Die Banken* (Leipzig: Verlag von Heinrich Hübner, 1854).

¹³⁵ Smith, *The Rationale of Central Banking and the Free Banking Alternative*, 119.

¹³⁶ *Ihre Kommission hat [...] sich über den Grundsatz geeinigt, dass der Bankbetrieb bei unbeschränkter Haftbarkeit der Theilhaber freizugeben sei, und nur im Falle der beschränkten Haftbarkeit der Theilhaber gewisse gesetzliche Bedingungen zu erfüllen habe.* In 'Bericht über die Verhandlungen des sechsten Kongresses deutscher Volkswirthe', in *Vierteljahrschrift für Volkswirtschaft und Culturgeschichte*, vol. 3 (Berlin: F. A. Herbig, 1863), 241-42.

¹³⁷ See, for example, his comments on the Austrian Banking Act, in Otto Michaelis, 'Die österreichische Bankakte', in *Vierteljahrschrift für Volkswirtschaft und Culturgeschichte*, vol. 3 (Berlin: F. A. Herbig, 1863), 86-123..

¹³⁸ *Und dennoch ist der [...] Schluss, dass es dringend nothwendig ist, gerade das Bankwesen unter die regelnde Gewalt der freien Konkurrenz zu stellen, in Deutschland praktisch noch nicht gezogen. Wir bleiben [...] in dem vitiösen Zirkel eines Konzessionierungs- und Monopolsystems, und sehen auf der einen Seite ein gefahrbringendes System zentraler Notenfabrikationsanstalten unter die Treibhaushitze des Monopols gestellt, auf der andern Seite ein unter der Übermacht der monopolisirten und privilegierten Konkurrenz verkrüppelndes lokales Bankwesen.* In Otto Michaelis, 'Noten und Depositen (1865)', in *Volkswirthschaftliche Schriften. Zweiter Band*. (Berlin: F. A. Herbig, 1873), 387.

¹³⁹ See for example John Prince-Smith, *Bemerkungen und Entwürfe behufs Errichtung von Aktien-Banken* (Berlin: Julius Springer, 1846).

¹⁴⁰ Adolph Wagner, *Die Geld- und Kredittheorie der Peelschen Bankakte* (Wien: Braumüller, 1862).

quantity of money in circulation ought to be seen as an elastic measure and a function of economic activity. It opposed the so-called Currency School that viewed the creation of money surrogates by banks as an inflationary risk to be reined in by strict issuance limits and specie coverage. This view had inspired the British Banking Act of 1844 (Peel's Act) that centralised note issuance with the Bank of England, imposed an absolute limit on its note issuance, and separated the bank's issuing and banking departments.¹⁴¹ The British debate frequently served as a point of reference to the German free banking tradition. However, while recasting many of the Banking School's arguments, German free bankers had a more political perspective on the matter. They were principally concerned about a system in which centralised banking functions under government control would render ineffective what they viewed as the regulating forces of free competition. As the liberal Frankfurt banker Leopold Sonnemann asserted at the *Kongreß's* 1863 meeting: 'The only thing that saved us was the German fragmentation into small states; it at least had the advantage that our private banks were not all suppressed by a single government.'¹⁴²

4.3. A central banking consensus

As much as free banking ideas continued to enjoy popularity among liberal circles through the 1860s, they ran counter to practical developments that saw central banking functions evolve and gain credibility both in Prussia and abroad. The removal of the Bank of Prussia's note issuance limit in 1856 and the bank's evolution towards the Zollverein's *de facto* central bank was a development broadly welcomed by the commercial sector.¹⁴³ Crucially, the bank derived credibility from its evolving role as a lender of last resort during the crises of 1857 and 1866. By providing liquidity to a market from which the smaller, private banks of issue were quick to withdraw, the Bank of Prussia had provided a potent argument in support of its privileged role.¹⁴⁴ This made the outright rejection of central banking functions look increasingly out of touch with practical realities. From the mid-1860s onwards, pragmatism began to set in among free banking proponents. The *Kongreß Deutscher Volkswirte* now acknowledged the role that central institutions had come to play in the European banking landscape and increasingly focused its free banking arguments on

¹⁴¹ Ziegler, 'Zentralbankpolitische "Steinzeit"?', 479.

¹⁴² 'Das Einzige, was uns noch gerettet hat, das ist die deutsche Kleinstaaterie; sie brachte wenigstens den Vortheil, dass unsere Privatbanken nicht sämmtlich von einer einzigen Regierung niedergedrückt worden sind.' In 'Bericht über die Verhandlungen des sechsten Kongresses deutscher Volkswirthe', 247.

¹⁴³ Lotz mentions the numerous petitions addressed to the Prussian government in support of expanding the Bank of Prussia's branch network across the Zollverein in 1865. In Lotz, *Geschichte und Kritik des deutschen Bankgesetzes vom 14. März 1875*, 106.

¹⁴⁴ See Nasse, 'Die deutschen Zettelbanken während der Krisis von 1866'. This was also recognised by the Prussian executive, as an analysis on the behaviour of various issuing banks shows, see GStAPK I. HA Rep. 120 A X no. 8 Adh. 1 vol. 1 (1246).

the field of deposit banking.¹⁴⁵ Michaelis showed an early pragmatic sense for the political realities: 'Making the development of the banking system contingent on the fight for note freedom would mean postponing it *ad calendas Graecas*', he wrote in 1865.¹⁴⁶ Adolph Wagner acknowledged in 1870 that he had 'through the study of the money and banking systems in various countries gradually come to believe that "absolutist solutions" are untenable'.¹⁴⁷ Four years later, the economist concluded: 'Owing to the [...] great advantages of a powerful central bank, the elevation of the Prussian Bank to a Reichsbank is [...] very much in the public interest of the Reich and its economy.'¹⁴⁸ By 1874, the free banking opposition to centralised note issuance had largely lost its momentum as the *Kongreß Deutscher Volkswirthe* adopted a resolution calling for 'the transfer of the Prussian Bank into a German Reichsbank and the elimination of all private banknotes'.¹⁴⁹ Considering the forceful arguments against central banking that had been voiced at the *Kongreß* until the mid-1860s, this pivot towards pragmatism was remarkable. It again bore testament to how Bismarck's alliance of convenience with liberals was effective in weakening dogmatic opposition.

In the early 1870s, the emerging consensus around central banking also drew substance from Germany's new political economy within the international gold standard. The old silver specie had, to some degree, insulated Germany from international specie metal movements, mainly owing to the high cost of exporting sufficiently large quantities of silver to benefit from the arbitrage. This changed with the new gold-based mark currency. When the period of speculative growth during the Reich's early years ended abruptly with the crash of 1873 (*Gründerkrach*), lower market discount rates in combination with a continued large trade deficit led to persistent outflows of gold in 1874.¹⁵⁰ While the severity of the problem was strongly exaggerated at the time and vastly overstated numbers on the outflow of gold circulated, it nevertheless

¹⁴⁵ Smith, *The Rationale of Central Banking and the Free Banking Alternative*, 66-67. As an example for the increasing emphasis on deposit banking see Leopold Sonnemann's contribution at the 1865 *Kongreß Deutscher Volkswirthe* in 'Bericht über die Verhandlungen des achten Kongresses deutscher Volkswirthe', in *Vierteljahrschrift für Volkswirtschaft und Culturgeschichte*, vol. 3 (Berlin: F. A. Herbig, 1865), 207 ff.

¹⁴⁶ *Die Entwicklung des Bankwesens von der Erkämpfung der Notenfreiheit abhängig machen, heißt Sie ad graecas calendas vertagen.* In Michaelis, 'Noten und Depositen', 323.

¹⁴⁷ *in meiner erst allmählig, aber ganz objectiv beim Studium des Geld- und Bankwesens mancfach verschiedener Länder gewonnen Überzeugung, dass in der That der „Absolutismus der Lösungen“ auch hier unhaltbarer sei, als man gemeininglich annimmt.* In Adolph Wagner, *System der Deutschen Zettelbankgesetzgebung, unter Vergleichung mit der ausländischen – Zugleich ein Handbuch des Zettelbankwesens* (Freiburg i. Br.: Fr. Wagner'sche Buchhandlung, 1870), V.

¹⁴⁸ *Die Erhebung der Preußischen Bank zur Reichsbank ist wegen der [...] großen Vorteile einer mächtigen Zentralbank [...] in hohem Masse im öffentlichen Interesse des Reichs und seiner Volkswirtschaft gelegen.* In Wagner, *Zettelbankreform*, 144.

¹⁴⁹ *Dagegen ist die Überführung der Preußischen Bank in eine Deutsche Reichsbank und die Beseitigung aller Privatbanknoten anzustreben.* As printed in Soetbeer, 'Deutsche Münz- und Bankverfassung', 237-38.

¹⁵⁰ See James, 'Monetary and Fiscal Unification', 13.

became clear that Germany's integration into the international gold standard required new forms of monetary management.¹⁵¹ Specifically, a harmonised discount policy was needed to counter the outflow of specie metal in line with the gold standard's 'rules of the game'.¹⁵² While the outflow of gold lasted for only about a year, it solidified the consensus that a 'guardian of the currency' was needed.¹⁵³

Finally, and crucially for the political dynamics within the German federal state, there was also general support for a central bank in the southern German states. A memorandum by the Handelstag addressed to the Bundesrat emphasised that 'in Bavaria, Württemberg, and Baden, the call for the establishment of a Reichsbank is as strong as in Prussia'.¹⁵⁴ Bamberger confirmed that '[in Bavarian government circles] one saw the advantage of such an institution in the resolution of all differences related to the issuance of state and private bank notes'.¹⁵⁵ The southern states had come to recognise that the Bank of Prussia's predominance across the Zollverein could not be challenged by their own issuing banks and saw in a Reichsbank a way of partaking and gaining influence over the monetary decision-making at the federal level. James has highlighted the interesting parallel to the formation of the eurozone and similar arguments in support of the European Central Bank voiced by France and Mediterranean Europe.¹⁵⁶

Consensus is never all-encompassing and there remained dissenting views on central banking. A noteworthy angle of criticism came from the conservative agrarian right, whose monetary arguments formed part of a wider protectionist agenda that opposed Germany's integration into international markets.¹⁵⁷ East Elbian conservatives viewed in a gold currency and a central bank the hallmarks of an international financial system which they opposed on the basis of both personal economic interests and cultural grounds.¹⁵⁸ In the wake of the crash of 1873, the debate also took a new turn when protectionist views and fears towards the economy's increasing financialization combined forcefully with antisemitic narratives. A notable example

¹⁵¹ See Helfferich's description of the public perception on gold outflows, in Helfferich, *Ausgewählte Reden und Aufsätze von Bamberger*, 85.

¹⁵² For a description, see for example Arthur I. Bloomfield, *Monetary Policy under the International Gold Standard: 1880–1914* (New York: Federal Reserve Bank of New York, 1959).

¹⁵³ James, 'Monetary and Fiscal Unification', 13.

¹⁵⁴ 'und wir müssen betonen, dass in Baiern, Württemberg und Baden der Ruf nach Errichtung einer Reichsbank ebenso lebhaft ist, als in Preussen.' Letter by the Handelstag to the Bundesrat, 28 September 1874, in BArch R1401/41 fol. 102r.

¹⁵⁵ 'in der Betheiligung Bayerns an den Vortheilen eines solchen Instituts erblickte man [in bayrischen Regierungskreisen] die richtige Ausgleichung aller über die Ausgabe von Staats- und Privat-Noten obschwebenden Differenzen.' In Bamberger, 'Zur Embryologie des Bankgesetzes', 116.

¹⁵⁶ James, 'Monetary and Fiscal Unification', 14.

¹⁵⁷ Nipperdey, *Deutsche Geschichte, 1866–1918*, 331 ff.

¹⁵⁸ Otto, *Die Entstehung eines nationalen Geldes*, 426.

were the pamphlets of journalist Franz Perrot who claimed the Reichsbank was a 'privileged corporation by and for the Jews'.¹⁵⁹ Following Bismarck's conservative turn in the late 1870s, when the alliance of convenience with liberal parliamentarians fell apart over the introduction of protectionist tariffs, such views became more mainstream and also manifested in revisionist debates over Germany's monetary legislation.¹⁶⁰ In the Reich's liberal era in the early 1870s, however, these perspectives remained largely irrelevant for the broader debate and for policymaking.

4.4. Political disconnect

Considering the broad consensus on central banking that had emerged by 1874, the omission of a Reichsbank from the chancellery's draft bill merits some further thought. Camphausen's focus on Prussian financial interests notwithstanding, the Reichsbank debate seemed too important to be inhibited by what amounted to a contribution to the Prussian treasury of around 1 per cent of the government's budget. And although Otto Michaelis had previously been a fervent opponent of central banking, there is very little evidence to suggest that his free banking views had much tangible influence on the draft bill. Delbrück and Michaelis had provisioned for a central bank in their earlier draft in 1872 and, according to Bamberger, it was without doubt that the chancellery had favoured a central banking institution.¹⁶¹ This was not an instance of what James has called the 'interesting but odd coalition comprising the Prussian government [...] and laissez-faire liberals on the far left of the liberal movement' that opposed a central bank.¹⁶²

Instead, a closer look at the record of the Prussian state ministry's meeting on 14 September 1874 provides clues as to the dynamics at play. With Bismarck absent, the state ministry was chaired by Camphausen who led the discussion on the chancellery's draft bill on banking. Delbrück, Michaelis and the Bank of Prussia's president Dechend all attended the meeting as external participants. Dechend argued passionately that 'it was a disaster if the current draft became law' and that 'the regulation of banking in Germany required the creation of a central bank, the role of which could only be filled by the Bank of Prussia [...]' ¹⁶³ Delbrück

¹⁵⁹ Hilarius Bankberger (Franz Perrot), *Die sogenannte deutsche 'Reichs-Bank', eine privilegierte Aktien-Gesellschaft von und für Juden: nebst Betrachtungen über Lasker'hafte und Bamberger'sche Politik*, 1877.

¹⁶⁰ Stanley Zucker, 'Ludwig Bamberger and the Rise of Anti-Semitism in Germany, 1848-1893', *Central European History* 3, no. 4 (December 1970): 339 ff.

¹⁶¹ See Bamberger, 'Zur Embryologie des Bankgesetzes', 119.

¹⁶² James, 'Monetary and Fiscal Unification', 14.

¹⁶³ *Nunmehr äußerte sich zunächst der Hr. Präsident des Preuß. Hauptbankdirectoriums dahin, daß er es für ein Unglück ansehen würde, wenn der vorliegende Entwurf Gesetzeskraft erlangen sollte [...] Die Regelung des Bankwesens in Deutschland überhaupt*

reminded the attendees of the chancellery's earlier draft that had provisioned for a Reichsbank but was shut down by the finance ministry. Achenbach, now perhaps pressured by his subordinate Dechend, appeared to have changed his mind and presented an alternative draft bill that he had also sent directly to Camphausen a few days prior. Camphausen, however, appeared indifferent to these requests. After only a 'cursory review of the new draft that he had received from the trade minister', Camphausen judged it as 'unacceptable owing to its financial impact on the Prussian treasury'.¹⁶⁴ In the subsequent vote, the state ministry followed Camphausen and agreed to retain the previous draft bill on banking, isolating Achenbach who was the sole dissenter.

The state ministry's meeting, however, was particularly notable for what participants did *not* discuss. There was no debate over the economic benefits and drawbacks of a central bank. Camphausen's vague mention of the 'considerable dangers of monopolisation' can only be considered a red herring and there was no further argument about the consequences of centralised note issuance.¹⁶⁵ Despite Dechend's pleas, the monetary and economic implications of a central bank played no role in the decision-making. This was remarkable, not least considering the widespread public concerns over the gold drain. It reflected a disconnect between the Prussian government and the prevailing monetary debates at the time. Particularly noteworthy was the complete absence of wider political and geostrategic considerations from the debate at the state ministry and in earlier communications between the Prussian ministers. Under Bismarck's leadership, decisions rarely escaped the primacy of power politics. The establishment of Deutsche Bank in 1870, for example, was a highly strategic endeavour to reduce reliance on British financing of overseas trade.¹⁶⁶ Similarly, the Reich's industrial policy was driven by an acute awareness of the growing geostrategic rivalry with the British Empire.¹⁶⁷ And, as Schneider has argued, the move towards gold was at least partially motivated by 'the prospect of establishing the mark as a key international trade currency: one that could challenge sterling's

erfordere aber die Herstellung einer Centralbank, deren Funktionen zu übernehmen allein die Preuß. Bank geeignet sei [...]; Protocol of the State Ministry's meeting from 14 September 1874 in BArch R1401/37 fols. 49r. ff.

¹⁶⁴ *„Der Hr. Finanzminister führte noch an, dass er nach flüchtiger Durchsicht des ihm heute vom Herrn Handelsminister zugegangenen neuen Entwurfs denselben wegen zu starker Beeinträchtigung des preuß. Fiskus finanziell für unannehmbar erklären müsse.“* In BArch R1401/37 fol. 53v.

¹⁶⁵ BArch R1401/37 fol. 54r.

¹⁶⁶ Lothar Gall, 'Die Deutsche Bank von ihrer Gründung bis zum Ersten Weltkrieg', in *Die Deutsche Bank, 1870–1995* (München: C.H. Beck, 1995), 8–9.

¹⁶⁷ Markus Brunnermeier, Rush Doshi, and Harold James, 'Beijing's Bismarckian Ghosts: How Great Powers Compete Economically', *The Washington Quarterly* Fall/2018 (n.d.): 161–76.

predominance in the world economy'.¹⁶⁸ In contrast, in the debate on central banking no such considerations played a role at the Prussian ministerial level.

In 1874, the Prussian executive did not see in a central bank a tool of strategic or even economic policymaking. No one better exemplified this disconnect than finance minister Camphausen. Considering his uncooperative stance, one may be tempted to readily dismiss him as a conservative Prussian minister with little regard for the needs of a fast growing and increasingly export oriented economy. Yet Camphausen, a native of the industrialising Rhineland, was a liberal figure within Bismarck's cabinet who frequently clashed with his agrarian Juncker counterparts and ultimately left government in disagreement over Bismarck's conservative turn and the introduction of protectionist tariffs in the late 1870s.¹⁶⁹ His refusal to seriously entertain the idea of a centralisation of banking and note issuance functions bore testament not to dogmatic opposition, but to a failure to grasp the economic and political relevance of a central banking institution.

With free banking adherents and agrarian protectionists largely marginalised within the discourse on central banking, the debate had thus turned entirely pragmatic. There was no political, cultural, or economic dogma on either side of the argument. There was also no advanced economic or monetary theory that the proponents of a central bank relied on.¹⁷⁰ Dechend, Bamberger and others argued on the basis of practicality with a central bank seen as an institution to fulfil functions in the public interest. These included the orderly issuance of bank notes, the management of specie metal flows, and the ability to serve as a backstop to the banking system. The Prussian ministerial executive's ignorance towards these concerns was frustrating to the proponents of a Reichsbank, leading Dechend to address the Kaiser directly and urging him to refuse imperial assent to the bill.¹⁷¹ On the other hand, the practical nature of the debate and the fact that a political disconnect rather than dogmatic opposition stood in the way of a Reichsbank meant that there was hope to win the argument through insight. This was Ludwig Bamberger's intention when he rushed to publish a book in time for the Reichstag debate on the banking bill. Titled *The banking discussion in the Reichstag - an attempt at a generally accessible explanation*, the book is perhaps best described as a German equivalent to Bagehot's *Lombard Street*.¹⁷² In its foreword, Bamberger highlighted what he had understood

¹⁶⁸ Schneider, 'Imperial Germany', 128.

¹⁶⁹ Erich Angermann, 'Otto von Camphausen', in *Neue Deutsche Biographie 3* (Berlin: Duncker & Humblot, 1957), 115.

¹⁷⁰ For the dire state of the German economics profession at the time see Häuser, 'Dogmengeschichtliche Betrachtungen zur deutschen Währungsunion von 1871 –1876'; Rieter, 'Deutsche Geldtheorie im 19. Jahrhundert – mehr als nur ein Echo englischer Debatten?'

¹⁷¹ Otto, *Die Entstehung eines nationalen Geldes*, 488–89.

¹⁷² 'Versuch einer gemeinverständlichen Darstellung'. In Ludwig Bamberger, *Die Zettelbank vor dem Reichstag*. (Leipzig: Brockhaus, 1874).

to be the crux of the debate: 'Drafting a banking law without a Reichsbank! [...] It is bad having to make detours for political considerations in order to achieve economic goals; but doing bad economics in tandem with *bad politics* is unforgivable (emphasis added).'¹⁷³ By the summer of 1874, the discourse on central banking had reached an impasse because its political dimensions were not recognised by the Prussian government. The task for Bamberger and his allies in the legislative was to turn the debate on the Reichsbank into an argument about politics.

4.5. The silent victory of free banking

In closing the chapter, some remarks on the evolution of the central banking discourse are warranted. In retrospective, the emerging consensus on central banking in Germany and the eventual establishment of the Reichsbank may seem like a natural, perhaps obvious development. As the history of the Bank of Prussia throughout the nineteenth century has shown, there were structural forces that favoured the emergence of centralised banking functions.¹⁷⁴ The evolution from the government's house bank (the *Königliche Bank*) towards the Zollverein's main bank of issue and lender of last resort was driven by the need to increase the supply of money and to respond more effectively to recurring banking crises. One may see in this a validation of Goodhart's hypothesis on the *natural evolution* of central banks.¹⁷⁵ Yet an overly structural perspective runs the risk of a teleology that blinds our view as historians towards legitimate and potentially important alternative viewpoints that surfaced at the time. The free banking tradition and more specifically Otto Michaelis's perspective on the mechanisms of money creation are one example of such viewpoints that merit our attention.

The banking discourse in Germany was focused on note issuance as the mechanism by which banks expanded the supply of money. Conversely, other types of credit provision such as bank deposits were long neglected, echoing the naïve view of money surrogates that had also characterised Britain's 1844 Peel's Act. The Bank of England's strict limit on note issuance had led to a disproportionate growth of bills and cheques as a means of payment, suggesting that the demand for money could be met by means other than bank notes.¹⁷⁶ As the Frankfurt banker Sonnemann argued in front of the *Kongreß Deutscher Volkswirte* in 1863: 'While

¹⁷³ 'Ein Bankgesetz zu machen ohne Einsetzung der deutschen Reichsbank - nun wohl! [...] Es ist schon schlimm, wenn man politischen Rücksichten zu Liebe zu den wirtschaftlichen Zielen über Umwege führen muß; aber zugleich mit schlechter Wirtschaft schlechte Politik zu machen, ist unverzeihlich.' Bamberger, VII.

¹⁷⁴ Ziegler, 'Der "Latecomer" lernt'.

¹⁷⁵ Ziegler, 'Zentralbankpolitische "Steinzeit"?', 499 ff.

¹⁷⁶ Ziegler, 479.

e.g., in England there circulate 500 million pounds in deposits and bills, and about 100 million in gold, but only 35 million in bank notes are available, these bank notes alone have been made the scapegoat for all crises.'¹⁷⁷ Two years later, Otto Michaelis plainly rejected the purported difference between bank notes and bank deposits when he wrote in an essay titled *Noten und Depositen*: 'As with notes, the bank can look to satisfy the increasing demand for capital [...] through deposits, which - just like bank notes - are not disposable capital but rather open credit.'¹⁷⁸

Michaelis was not the first to point to the mechanism of money creation through the provision of credit, yet the connection he drew between his insight and the legislation on banking was remarkable.¹⁷⁹ 'Regarding deposit banks', he continued to argue in *Noten und Depositen*, 'the "banking question" comes up again. That is, the question of where the forces lie that make the banks keep to the necessary limits [...] when engaging in the artificial creation of money through the extension of credit'.¹⁸⁰ The 'forces' that limited the 'artificial creation of money' were to be found in a bank's private financial liability for the credit that it provided. In turn, the centralisation of banking functions through a more or less explicit government mandate was seen as carrying the inherent risk of an inflationary expansion. Michaelis's realisation that notes and deposits were birds of a feather and therefore should equally form part of the 'banking question' was a central insight that did not surface elsewhere in the debate on the Banking Act. For instance, neither the resolutions of the more practically minded Handelstag, nor Ludwig Bamberger's extensive writings on the subject mention deposit banking as a function that ought to be within the scope of the banking legislation. This was perhaps not surprising for deposit banking remained a comparatively subdued activity in Germany. As an example, the Reichsbank's published statistics for 1876 recorded about 19 million mark of giro deposits compared to a note circulation of around 685 million mark.¹⁸¹ This, however, was about to change. Michaelis noted early that 'the bank note is becoming less popular while deposits are gaining in popularity'.¹⁸²

¹⁷⁷ 'Während aber z.B. in England 500 Millionen £ in Depositen und Wechseln, und etwa 100 Millionen in Gold zirkuliren, dagegen nur 35 Millionen in Banknoten vorhanden sind, hat man doch diese 35 Millionen Banknoten allein zum Sündenbock für alle Krisen gemacht.' In 'Bericht über die Verhandlungen des sechsten Kongresses deutscher Volkswirthe', 245.

¹⁷⁸ 'Wie mit Noten kann die Bank mit diesem sich bildenden eisernen Bestande an Guthaben, die nicht disponibles Kapital, sondern eröffneter Kredit sind, agiren, sie kann steigende Kapitalnachfrage [...] zu befriedigen suchen [...]' in Michaelis, 'Noten und Depositen', 380.

¹⁷⁹ See notably Henry Dunning Macleod, *The Theory and Practice of Banking* (London, 1855).

¹⁸⁰ 'Also auch der Depositenbank gegenüber wiederholt sich die „Bankfrage“, die Frage nämlich, wo die Kräfte liegen, welche die Banken zwingen, in solcher durch die Kreditertheilung vermittelten künstlichen Geldschaffung die im Interesse der Solidität des Verkehrs und des Bankwesens nothwendigen Grenzen innezuhalten?' In Michaelis, 'Noten und Depositen', 380.

¹⁸¹ Statistical tables 17 and 32 in *Die Reichsbank 1876–1900*, 289, 319.

¹⁸² 'Die Note beginnt unpopulärer, das Depositum [...] populärer zu werden.' In Michaelis, 'Noten und Depositen', 324.

The absence of deposit banking from the wider discourse on monetary legislation thus presented an opportunity for the adherents of free banking ideas. Realising that the calls for decentralised note issuance (*note freedom*) were likely a lost cause given the emerging consensus on central banking, the key to advancing decentralised money creation lay in keeping deposit banking outside the purview of the banking legislation. And indeed, Michaelis's draft bill did not include restrictions on deposit and giro banking. On the contrary, and as we shall see in the next chapter, the provisions of the later Banking Act were designed to encourage private banks to limit their note issuance activity in favour of deposit banking.¹⁸³ Herein lay, perhaps, the silent victory of the free banking movement. Just as Michaelis had declared in 1865, the task was 'to break free from the spell [of a monopolised banking system] and, through the creation of deposit banks, bring to life a banking system that can shatter the chains of regulation and achieve banking freedom'.¹⁸⁴

In subsequent decades, the growth of deposit banking indeed began to outpace note issuance as the primary mechanism of money creation. By 1883, bank deposits had grown to nearly match the total value of bank notes in circulation, by 1930 bank deposits surpassed the value of bank notes by a factor of three.¹⁸⁵ As the Reichsbank sought to gain control over the creation of money, there were considerations to centralise deposit banking and cashless payments in the 1920s, but those ideas were never put into practice.¹⁸⁶ Eventually, it was in 1948 that the Bundesbank's predecessor, the *Bank Deutscher Länder*, introduced a reserve requirement on deposits as a tool to indirectly influence the supply of credit. The monetarist belief that the quantity of money could be controlled through reserve requirements, however, lost its practical relevance at most Western central banks towards the end of the twentieth century, arguably culminating in the Federal Reserve's decision to eventually abolish reserve requirements in 2020.¹⁸⁷ Otto Michaelis would likely have seen in this a validation of his view that the 'artificial creation of money' was a task that could and should not be controlled by the central bank.

¹⁸³ Helfferich, *Beiträge zur Geschichte der deutschen Geldreform*, 285.

¹⁸⁴ ,aus diesem Bann [des Monopolsystems] herauszutreten und durch Schöpfung von Depositenbanken ein Bankwesen ins Leben zu rufen, dessen eigne Kraft die Fesseln der Reglementierung zu sprengen und Bankfreiheit zu erobern berufen ist.' In Michaelis, 'Noten und Depositen', 387.

¹⁸⁵ Dieter Lindenlaub, 'Auf der Suche nach einem Instrumentarium zur Kontrolle der Geldschöpfung. Notenbank und Banken in Deutschland im ersten Drittel des 20. Jahrhunderts', *Bankhistorisches Archiv. Zeitschrift zur Bankengeschichte* 26, no. 2 (2000): 129.

¹⁸⁶ Lindenlaub, 147.

¹⁸⁷ John Cochrane, *The Fiscal Theory of the Price Level* (Princeton: Princeton University Press, 2023), 326 ff.

5. The Banking Act: 1874–76

With the Prussian executive unwilling to reconsider the chancellery's draft bill on banking, the stage was set for a political confrontation with the proponents of a central bank. This final chapter discusses how an assertive Reichstag led by Ludwig Bamberger solved the impasse that had stalled the inclusion of a Reichsbank within the draft bill. In the swift legislative process that followed, the bill was revised to include a central bank, subsequently passed through parliament, and was enacted in early 1875. A brief overview of the Banking Act's core provisions is given and international influences on the legislation are discussed. The chapter closes with a brief outlook on the Reichsbank's operations and the legacy of the banking discourse throughout the remainder of the nineteenth century.

5.1. Bamberger's breakthrough

Following the Prussian state ministry's meeting on 14 September, the chancellery's draft bill entered the legislative process unaltered. In late September, it was discussed in the Bundesrat's committees where the absence of a Reichsbank from the bill featured as a point of concern.¹⁸⁸ In the Bundesrat's main session on 31 October, several state governments including Württemberg, Hesse, and Baden all voiced concerns over the lack of a central bank and declared that their approval to the bill was predicated on the assumption that this was a merely provisional arrangement.¹⁸⁹ Here again the southern states' broad consensus in support of a central bank became apparent. The bill was passed by the Bundesrat with only minor amendments to private banks' individual issuance quotas and was submitted to the Reichstag where it was scheduled for general debate on 16 November.

On the day of the debate, Bismarck's presence in the Reichstag was perhaps the clearest indication that this was not expected to be an ordinary plenary session on monetary matters. With Camphausen, Delbrück, and Michaelis, all of the draft bill's architects were present in parliament. On behalf of the chancellery, Delbrück gave the opening remarks. Fully aware of what he knew to be the most contentious topic, Delbrück assured the Reichstag factions that care had been taken to ensure 'the law would not contain anything that may

¹⁸⁸ *Drucksachen zu den Verhandlungen des Bundesraths des Deutschen Reichs. Session 1873. Band I+II.* (Berlin: Königliche Geheime Ober-Hofbuchdruckerei, 1874), no. 129.

¹⁸⁹ *Protokolle über die Verhandlungen des Bundesraths des Deutschen Reichs. Session 1873* (Berlin: Königliche Geheime Ober-Hofbuchdruckerei, 1873), 301–4.

constitute a hindrance to the establishment of a central bank in the future or even in the very near future'.¹⁹⁰ It was the unconvincing speech of someone arguing a case that was not their own.

Bamberger then was the first parliamentarian to speak, addressing the Reichstag with a speech that set the tone for the remainder of the debate. He began by rebuking Delbrück's half-hearted claim that there remained ambiguity over the parliament's or the public's opinion regarding a Reichsbank. 'You will admit that anyone who followed the debates here in the Reichstag over the last three years, anyone who had some knowledge of the debates in the journals and of public opinion must have been very embarrassed by [this draft bill]'.¹⁹¹ Bamberger went on to declare the establishment of a central bank the '*conditio sine qua non* of the bill':¹⁹² 'I will not accept any law without a Reichsbank, and I accept any law with a Reichsbank.'¹⁹³ This reflected both the degree of pragmatism that characterised Bamberger's approach but equally his view that the specific modalities of the legislation on banking were ultimately of secondary nature. 'One is being asked: do you believe in issuing quotas? Almost in the same tone as: do you believe in God? I must confess to you that I believe one can find salvation with quotas, and one can also find salvation without quotas, one can find salvation with and without one-third coverage'.¹⁹⁴ The banking practitioner Bamberger was experienced enough to recognise that, in times of crisis, rules could (and would) be moulded while institutional limitations were generally difficult to overcome. The Peel's Act's suspensions in 1847, 1857, and 1866 served as a case in point. Here, however, Bamberger underestimated the degree to which a majority of his contemporaries were fixated on a set of clearly defined rules which they viewed as a guarantee for the stability of the banking system. The Reichstag's session protocol noted 'lively disagreement' and exclamations of 'No! no!' in response to Bamberger's confession about issuing quotas, in sharp contrast with

¹⁹⁰ *Es kam hiernach daraus an, an die bestehenden Verhältnisse anzuknüpfen, das Gesetz den bestehenden Verhältnissen entsprechend zu gestalten, zugleich aber dafür zu sorgen, daß das Gesetz nichts enthalte, was der Ausführung einer Reichsbank für die Zukunft und selbst auch in einer nahen Zukunft unübersteigliche Hindernisse bereiten könnte.* In *Stenographische Berichte über die Verhandlungen des Deutschen Reichstages. 2. Legislatur-Periode. II. Session 1874/75. Erster Band.* (Berlin: Verlag der Buchdruckerei der Norddeutschen Allgemeinen Zeitung, 1875), 152.

¹⁹¹ *Sie werden mir gestehen, daß, wer auch nur drei Jahre hier im Reichstage den Verhandlungen gefolgt ist, wer einigermaßen Kenntniß von der Bewegung in den Fachblättern und der öffentlichen Meinung hatte, schon dadurch sehr betreten sein mußte.* In *Reichstag Session 1874/75. Erster Band*, 155.

¹⁹² As the deputy Wilhelm von Kardorff termed it in *Reichstag Session 1874/75. Erster Band.*, 206. Also noted in Otto, *Die Entstehung eines nationalen Geldes*, 495.

¹⁹³ *Ich nehme kein Gesetz an ohne eine Reichsbank, und ich nehme jedes Gesetz an mit einer Reichsbank.* In *Reichstag Session 1874/75. Erster Band*, 161.

¹⁹⁴ *Es wird gefragt: glaubst du an Kontingentirung? Grade in einem Tone wie: glaubst du an Gott? Ich will Ihnen das Bekenntniß ablegen, daß ich glaube, man kann mit Kontingentirung selig werden, man kann auch ohne Kontingentirung selig werden, man kann mit und ohne Dritteldeckung selig werden.* In *Reichstag Session 1874/75. Erster Band.*, 161.

the otherwise enthusiastic support that his speech received.¹⁹⁵ It needed his colleague and ally within the National Liberal Party, Eduard Lasker, to assure the Reichstag factions in a subsequent speech that Bamberger's 'very lax principles around issuing quotas' were not the line of the party and that such quotas remained a crucial aspect of the legislation.¹⁹⁶

Bamberger's most important rhetorical accomplishment, however, was to broaden the horizon and turn the debate on banking into a political matter. With Bismarck present in parliament, he knew that this presented an opportunity to stress the central bank's political dimensions that had previously not been recognised within the Prussian state ministry. Towards the end of his speech, Bamberger addressed Bismarck directly: 'I am pleased that today we have the honour to have the chancellor attend this debate in person; he has not always graced us with his presence at debates of this kind.'¹⁹⁷ Bamberger then urged Bismarck to take interest in the critical political aspects of the bill:

Since it cannot be expected of a minister to understand all the details [...], there must at least be an awareness for the relevance of specific matters as they pertain to the national interest[...] and evolve from purely technical questions to major political issues. I would urgently like to ask the chancellor [...] to familiarize himself to the greatest possible extent with the political implications of this law.¹⁹⁸

By emphasising the political nature of a debate that was perceived by many to be a monetary technicality, Bamberger changed the premise of the argument. In declaring the Reichsbank a matter of the Reich's national interest, he knew that Bismarck could no longer remain indifferent. It was Bamberger's achievement to recognise that the Prussian executive was not dogmatically opposed to a Reichsbank but that it had simply failed to view in a central bank an institution of major political significance. By skilfully articulating this disconnect, Bamberger succeeded in getting the Prussian cabinet's attention for his cause - something that Delbrück, Dechend, and Michaelis had failed to achieve when bringing the matter to Camphausen at the state ministry's meeting two months earlier. 'If I am not mistaken', Bamberger later reflected on the episode, 'then

¹⁹⁵ *Reichstag Session 1874/75. Erster Band*, 161.

¹⁹⁶ *Der Herr Abgeordnete Bamberger hat [...] sehr laxe Principien über die Kontingentirung [...].* 'In *Reichstag Session 1874/75. Erster Band*, 176.

¹⁹⁷ *Ich freue mich, daß wir heute die Ehre haben, den Herrn Reichskanzler in Person dieser Debatte beiwohnen zu sehen; er hat uns nicht immer bei Verhandlungen dieser Art mit seiner Gegenwart beehrt [...].* 'In *Reichstag Session 1874/75. Erster Band*, 164.

¹⁹⁸ *Es muß, da von einem Minister nicht verlangt werden kann, daß er alle Details seines Ressorts versteht, wenigstens eine Föhlung bestehen für die Wichtigkeit, welche gewisse specielle Angelegenheiten des Reiches haben, indem sie von rein fachlichen Interessen zu großen politischen werden, und diese Föhlung, daß die der Herr Reichskanzler sich im höchstmöglichen Maße für dieses Gesetz aneigne, darum möchte ich ihn dringend [...] gebeten haben.* 'In *Reichstag Session 1874/75. Erster Band*, 164.

the swift success achieved during the Banking Act's first reading in parliament [...] was owed to the barely timely awakening of this interest [for the power dynamics].'¹⁹⁹

The Reichstag debate on the Banking Act continued over three days until 18 November and the direction of travel became increasingly clear as a strong parliamentary majority in support of a Reichsbank emerged. There were dissenting views, notably represented by the liberal Progress Party's leader Eugen Richter whose passionate speech illustrated that the free banking argument against central banking remained part of the discourse. Nevertheless, a broad coalition of speakers defended the general consensus that a lender of last resort and an institution to manage the gold currency was needed. When Otto Michaelis addressed the Reichstag towards the end of the debate, his arguments were little more than an almost apologetic justification for why a Reichsbank had been omitted from the draft. The Reichstag concluded the debate with the appointment of a commission whose task was to revise the draft bill on behalf of the parliament.²⁰⁰ The *8th Commission on the Draft of a Banking Act* began its work only three days later.²⁰¹ It was constituted of twenty-one members with Bamberger acting as rapporteur, while Delbrück, Michaelis and six representatives of the state governments also attended the commission's sessions. In its first resolution, and reflecting the Reichstag's assertive approach, the commission decided to suspend all further work until confirmation was obtained by the state governments of the Bundesrat that a new draft bill including a Reichsbank would be presented.

5.2. Legislating the Banking Act

On 22 November, the Reichstag debate on the Banking Act became the main topic at the meeting of the Prussian state ministry.²⁰² In the presence of Bismarck, who chaired the meeting, Camphausen acknowledged that the parliamentary debate had shown a clear preference for the establishment of a Reichsbank. In a remarkable change of course, the finance minister now suggested that the Prussian government should endorse the establishment of a central bank, provided the Prussian treasury received adequate financial compensation. Trade minister Achenbach reiterated the support he had previously given to the idea of a central bank, and Bismarck expressed his satisfaction that the ministers had at last come to

¹⁹⁹ *„Irre ich nicht, so ist der rasche Erfolg, welchen die erste Lesung des Bankgesetzes [...] erzielt hat, dem noch rechtzeitigen Erwachen dieses Interesses [für die Machtfactoren] zuzuschreiben.“* Bamberger, 'Zur Embryologie des Bankgesetzes', 114.

²⁰⁰ *Reichstag Session 1874/75. Erster Band*, 234.

²⁰¹ *Stenographische Berichte über die Verhandlungen des Deutschen Reichstages. 2. Legislatur-Periode. II. Session 1874/75. Vierter Band.* (Berlin: Verlag der Buchdruckerei der Norddeutschen Allgemeinen Zeitung, 1875), 1147 ff.

²⁰² *GStAPK B III 2b Nr. 6 Bd. 86, fols. 254–57, also Kocka and Wolfgang Neugebauer, eds. Die Protokolle des Preußischen Staatsministeriums 1817–1934/38, 6:366–67.*

an agreement. The chancellor then referred to the future Reichsbank as 'a new unifying element for the Reich' in a sign that he had at last come to recognise the political relevance of a central bank.²⁰³ The state ministry instructed Delbrück to notify the Bundesrat of the Prussian government's change of heart. The note that was sent to the Bundesrat on 25 November accordingly laid out the modalities of the Bank of Prussia's transformation into a federal Reichsbank. Camphausen had compiled a list of demands including compensation for the bank's future expected profits as well as the reimbursement of the Prussian state's share capital invested in the bank.²⁰⁴ These demands were reasonable and generated little controversy in the Bundesrat where they were discussed and approved on 5 December.²⁰⁵ Within just ten days, the Bundesrat's committees then revised the banking bill to incorporate a Reichsbank into Michaelis's previous draft and the amended version passed the Bundesrat on 16 December.²⁰⁶ The draft bill's prompt revision reflected the clear majority among state governments that backed the establishment of a Reichsbank, unimpeded by the opposition voiced by some of the smaller principalities.

With its main demand now fulfilled, the Reichstag's commission resumed its work again on 17 December as the Bundesrat submitted the revised draft bill. The commission addressed a number of legislative adjustments which the inclusion of a Reichsbank had made necessary. Both the Bundesrat's and the Reichstag's commissions were mindful to embed the Reichsbank within a similar regulatory framework as all other private issuing banks. However, and as we shall see, what looked like an equal footing *de jure* was a construct that *de facto* encouraged the centralisation of issuance and discounting functions with the Reichsbank. Two important changes were effected by the Reichstag commission: First, the blanket 1 per cent tax on all uncovered note issuance was removed for it was considered too restrictive, leaving in place only the 5 per cent tax for notes issued beyond each bank's statutory quota. Second, on Bamberger's initiative a new provision was added requiring the future Reichsbank to exchange its notes for gold at the set price of 1,392 mark per pound of gold.²⁰⁷ This was to firmly anchor the mark within the international gold standard. The commission's draft was finalised on 19 January 1875 and presented to the Reichstag, where it was

²⁰³ *„die Reichsbank als ein neues Bindeglied für das Reich zu betrachten“*, in Kocka and Wolfgang Neugebauer, eds. *Die Protokolle des Preußischen Staatsministeriums 1817–1934/38*, 6:367.

²⁰⁴ BArch R1401/37 fols. 289r. ff.

²⁰⁵ *Protokolle über die Verhandlungen des Bundesraths des Deutschen Reichs. Session 1874* (Berlin: Königliche Geheime Ober-Hofbuchdruckerei, 1874), 365.

²⁰⁶ *Protokolle über die Verhandlungen des Bundesraths des Deutschen Reichs. Session 1874*, 406–13.

²⁰⁷ *Reichstag Session 1874/75. Vierter Band*, 1161.

debated for a second time between 25 January and 28 January 1875.²⁰⁸ Despite a number of requests for amendment, the revised draft remained largely unchanged and was passed in the Reichstag's last reading on the matter on 30 January.²⁰⁹ The Banking Act received imperial assent on 14 March and was due to come into force on 1 January 1876. A separate bilateral treaty between Prussia and the Reich, enacted by the Prussian House of Representatives on 18 May 1875, regulated the transformation of the Bank of Prussia into the federal Reichsbank.²¹⁰ This concluded the legislative path towards the establishment of Germany's first central bank.

A brief summary of the Banking Act's core provisions in their final form shall be given. First, and largely following Michaelis's original draft, the bill laid out general clauses concerning the issuance of bank notes. By stipulating that note issuance fell under the exclusive purview of the federal state, the Banking Act made permanent the earlier blocking statutes that had seen continuous extensions since first being introduced in 1870.²¹¹ Bank notes were limited to denominations of at least one hundred mark and were not considered legal currency, but banks were mandated to redeem their notes in legal tender at all of their branches. Retaining Michaelis's initial construct, the Banking Act imposed a tax of 5 per cent on all note issuance exceeding specific statutory quotas that were assigned to each issuing bank. Importantly, note issuing banks were restricted in their ability to trade bills and other securities.

The Banking Act then laid out the institutional setup of the new Reichsbank which retained many of the Bank of Prussia's features including its mixed structure containing elements of both a public and a private institution. Licensed for fifteen years initially, the Reichsbank was managed by a directorate (*Reichsbank-Direktorium*) and led by a president (initially Dechend). The bank's council (*Bank-Kuratorium*) was appointed jointly by the Bundesrat and the Kaiser and chaired by the federal chancellor who had formal oversight over the Reichsbank. In contrast to these political ties, the bank was privately owned by shareholders who were represented in the bank's central committee (*Zentralausschuss*). There was a high degree of operational continuity between the Bank of Prussia and the Reichsbank which, for example, retained the large branch network across the country and continued to pursue some of its commercial business, notably discounting of short-term bills and Lombard lending. The Reichsbank was assigned an issuance quota for unbacked notes set at 250 million mark and was required to cover one third of the value of issued bank notes by legal tender

²⁰⁸ *Stenographische Berichte über die Verhandlungen des Deutschen Reichstages. 2. Legislatur-Periode. II. Session 1874/75. Zweiter Band.* (Berlin: Verlag der Buchdruckerei der Norddeutschen Allgemeinen Zeitung, 1875), 1261 ff.

²⁰⁹ *Reichstag Session 1874/75. Zweiter Band*, 1435 ff.

²¹⁰ See BArch R1401/52 fols. 275r. ff.

²¹¹ *Reichs-Gesetzblatt 1875* (Berlin: Kaiserliches Post-Zeitungsamt, 1875), 177-98.

(coins), imperial treasury notes, or gold. The remaining two thirds had to be covered by commercial bills with a maximum maturity of three months.

Alongside the Reichsbank, thirty-two private banks were also recognised as note-issuing institutions and assigned issuance quotas amounting to a combined total of 135 million mark.²¹² Private banks that sought to expand the distribution of their notes beyond their state of origin and across the Reich were subjected to requirements that resembled the Reichsbank's obligations. This notably included the provision for one-third coverage and the obligation to redeem notes in legal tender in either Berlin or Frankfurt.²¹³ In practice, these conditions were difficult to meet for many of the smaller issuing banks that lacked the means to set up additional branches. While the Reichsbank and private issuing banks were placed on a similar legal footing, only the Reichsbank with its large branch network and sizeable note issuance quota possessed the scale to fulfil the Banking Act's provisions comparatively effortlessly and in a commercially viable manner. For most private banks, compliance with the Banking Act and the restrictions to their commercial business was too high a price to pay.²¹⁴ Within a year of the act's passage, fifteen private issuing banks relinquished their licenses, unwilling or unable to submit themselves to the stricter requirements of the new legislation.²¹⁵ The issuance quotas of banks that relinquished their licenses were reallocated to the Reichsbank.

The legislative process through which the Reichsbank came into existence was noteworthy and stood example for the complex relationship between Bismarck and the liberal movement that characterised many of the political initiatives in the Reich's early years. The chancellor continued to offer liberals a 'promising junior partnership' with considerable freedom to manoeuvre in those areas that he deemed secondary to the implementation of power politics.²¹⁶ In the context of the Banking Act, this was both a challenge and an opportunity. It was a challenge for the lack of interest on the part of the Prussian executive prolonged and complicated the establishment of a central bank. But, and as James has argued, it also presented considerable opportunity as 'the parliamentary discussion on banking law proved to be a striking example of institutional design being shaped by the legislature, rather than from above as a stereotypical view of

²¹² For a full list of licensed banks see *Reichs-Gesetzblatt 1875*, 198.

²¹³ See paragraph 44 of the Banking Act, in *Reichs-Gesetzblatt 1875*, 190.

²¹⁴ An insightful case study detailing the commercial implications of the Banking Act on several private banks is given in Kroha, 'Die Währungsreform des Deutschen Reiches 1871–76: Eine quantitative und qualitative Untersuchung der Reformwirkungen auf ausgewählte Sektoren', 223 ff.

²¹⁵ Deutsche Bundesbank, *Das Papiergeld im Deutschen Reich: 1871–1948* (Frankfurt am Main: Deutsche Bundesbank, 1965), 160–61.

²¹⁶ 'entwicklungsfähige Juniorpartnerschaft', in Nipperdey, *Deutsche Geschichte, 1866–1918*, 45.

imperial Germany as an authoritarian system would suggest'.²¹⁷ The technical expertise that the Reichstag was able to bring to the legislative process arguably led to a better and more robust policy outcome. Or in the words of a pleased Ludwig Bamberger: 'In the end, parliamentarism is not that fifth wheel on the cart which hackneyed critics like to mock it as.'²¹⁸

5.3. A German Peel's Act?

As the pre-eminent economic and financial power of the time, Britain and its 'enlightened institutional practice' featured prominently within the discourse surrounding the German monetary reforms.²¹⁹ Britain was both an example to follow and a rival to compete with.²²⁰ As Bamberger had expressed it facetiously, the adoption of the gold standard was warranted 'not because gold is gold, but because England is England'.²²¹ In the discourse on banking, comparisons to the British 1844 Peel's Act and the organisation of the Bank of England were ubiquitous.²²² But how relevant was the English example in practice? Was the 1875 Banking Act, as Lotz argued, an 'elastic version' of Peel's Act?²²³

There is, in fact, little evidence to suggest that the British legislation served as a model to German policymakers. The Handelstag's initial legislative proposal, the chancellery's 1873 memorandum on banking, the 1874 draft bill, and ultimately the final form of the 1875 Banking Act were all consistent in their rejection of Peel's Act's core tenets of a fixed issuance limit and a separation between issuance and discounting functions. The British legislation was also not seen as a viable alternative in the debates of the Bundesrat, the Reichstag or their respective commissions. As Bamberger noted later, 'initially, Michaelis [...] naturally had the Peel's Act in mind. But since he was all too aware of its dangers, he did not want to imitate it.'²²⁴ The 1875 Banking Act reintroduced an indirect and flexible issuance limit (after the Bank of Prussia had faced no issuance limit since 1856), but this should not be seen as a move towards an elastic version of Peel's Act. Instead, it was building on an earlier tradition of relative coverage requirements in Germany and,

²¹⁷ James, 'Monetary and Fiscal Unification'.

²¹⁸ *Die Moral von der Geschichte – Der Parlamentarismus ist am Ende doch nicht jenes fünfte Rad am Wagen, als welches eine wohlfeile Kritik ihn zu verspotten beliebt.* 'In Bamberger, 'Zur Embryologie des Bankgesetzes', 122.

²¹⁹ James, 'Monetary and Fiscal Unification', 16.

²²⁰ Schneider, 'Imperial Germany', 128.

²²¹ As quoted in Schneider, 133.

²²² See for example Wagner, *Die Geld- und Kredittheorie der Peelschen Bankakte*; Bamberger, *Die Zettelbank vor dem Reichstag*, 56 ff.; Lotz, *Geschichte und Kritik des deutschen Bankgesetzes vom 14. März 1875*, 331 ff.

²²³ Lotz, 169.

²²⁴ Helfferich, *Ausgewählte Reden und Aufsätze von Bamberger*, 73.

as the Handelstag's 1869 proposal recognised, 'the main argument for maintaining a one-third coverage requirement was that the public is used to it' and 'would not understand if one was to move away from this principle'.²²⁵ This should also make us sceptical of claims that the English debate around a reform of Peel's Act in June of 1873 influenced German policymakers.²²⁶

Juxtaposing the genesis and form of the Peel's Act with the German Banking Act may, however, reveal another interesting aspect of the banking legislation. British monetary governance was characterised by a pragmatic and, when necessary, flexible stance towards written rules. In the words of the economist Herbert Foxwell, 'the Bank of England, like most really English institutions, was case-made; it owed its form and functions not to systematic planning, but to attempts to meet emergencies as they from time to time arose'.²²⁷ While the repeated suspensions of Peel's Act had plainly exposed its architectural flaws, there seemed little urgency to address these shortcomings through legislative reform.²²⁸ Pragmatic deviations from the rule at times of crisis were expected rather than feared. This frequently puzzled German commentators who questioned the relevance of a law that could, and even was expected to, be suspended at the most crucial moments.²²⁹ German policymakers sought to avoid a 'case-made' central banking institution, instead looking to craft legislation that could be upheld in times of crisis. The result was Michaelis's carefully designed bill that aimed at balancing both restrictive and flexible elements and which Bamberger described as 'a draft that is, as much as I reject it, a masterpiece of acumen and ingenuity'.²³⁰ We may view in this a reflection of the differing legal mentalities between the English case law tradition and the German codified law tradition. As we have seen, Ludwig Bamberger's lax views on issuance limits, perhaps explained by his experiences in the City of London, were an exception in the German discourse that caused great consternation in the Reichstag.

²²⁵ *Dennoch wurde als wichtiges Argument für die Beibehaltung der Drittelsdeckung geltend gemacht, daß das Publikum einmal daran gewöhnt sei. [...] Das Publikum werde es nicht verstehen, wenn man jetzt von diesem Grundsatz ohne Weiteres abgehe [...]*, in BArch R1401/34 fol. 163, 21.

²²⁶ For this argument see Ziegler, 'Der "Latecomer" lernt', 93.

²²⁷ Herbert S. Foxwell, 'Introduction', in *History of the Bank of England and Its Financial Services to the State* (Washington D.C.: National Monetary Commission, 1911), 6.

²²⁸ William P. Kennedy, 'Die Rezeption des deutschen Bankensystems in England. Vom belächelten "Unsinn" zum Vorbild?', in *Pionier und Nachzügler? Vergleichende Studien zur Geschichte Großbritanniens und Deutschlands im Zeitalter der Industrialisierung. Festschrift für Sidney Pollard zum 70. Geburtstag*, eds. Hartmut Berghoff, Dieter Ziegler (Bochum: Studienverlag Dr. N. Brockmeyer, 1995), 117.

²²⁹ See for example Sonnemann, *Reichsbank*, 12.

²³⁰ *Der Entwurf [...] ist in meinen Augen, so wenig ich ihm beistimme, ein Meisterwerk von Scharfsinn und Erfindungsgabe*, in *Reichstag Session 1874/75. Erster Band*, 155.

Looking past the English example for institutional models for the Banking Act and the Reichsbank, Bamberger's years in exile may offer another clue. In 1850, when Bamberger moved to Antwerp to join his family's Belgian banking branch, his uncle Jonathan–Raphaël Bischoffsheim was a key figure in the creation of the National Bank of Belgium (NBB), the country's central bank. As Bamberger later noted in his memoirs: 'When it was time to establish a state bank, it was Bischoffsheim who worked out the basics and served as the main advisor to the bank throughout his life. A memorandum that he completed at that time provided me with rich information many years later about the right aspects to keep in mind when setting up a central bank.'²³¹ There were several similarities between the Reichsbank and the National Bank of Belgium. The NBB had characteristics of both a private and a public institution. It was organised as a private joint-stock company, but its governor was appointed by the Belgian government and the bank had a government commissioner.²³² The NBB was required to hold specie reserves amounting to at least one third of the combined value of its note issuance and, interestingly, its current account deposits. There was no fixed statutory limit on its note issuance although a tax of one half of a per cent was introduced on the amount of notes issued above 275 million francs when the NBB's charter was renewed in May 1872.²³³ A core policy tool of the NBB became its discounting function through which it guided interest rates.²³⁴

There is no direct evidence in the primary sources from the federal chancellery to prove that the Belgian model served as an example to Michaelis when drafting the proposal for the Banking Act. Yet some parallels between the Reichsbank and the NBB are noteworthy. In particular, the tax on note issuance that Michaelis devised and that first appeared in the federal chancellery's memorandum in January 1873 may have been inspired by the Belgian counterpart where it was introduced only a few months prior.²³⁵ 'The organization of the National Bank of Belgium is not unlike that of the Banks of France and Germany', noted Charles Conant when surveying the NBB on behalf of the United States' National Monetary Commission in 1910.²³⁶ While we can only speculate about the details behind Michaelis's draft bill, the German Banking Act arguably stood in a

²³¹ *„Als es galt, eine Landesbank zu gründen, war es Bischoffsheim, der die Grundalgen ausarbeitete und zeitlebens als Hauptberater der Bankleitung zur Seite stand. Eine Denkschrift, die er damals fertig stellte, bot mir noch viele Jahre später reiche Belehrung über die richtigen Gesichtspunkte, die bei einer Notenbank im Auge zu behalten sind.“* In Bamberger, *Erinnerungen*, 227.

²³² Erik Buyst and Ivo Maes, 'Central Banking in Nineteenth-Century Belgium: Was the NBB a Lender of Last Resort?', *Financial History Review* 15, no. 2 (October 2008): 161.

²³³ Charles A Conant, *The National Bank of Belgium* (Washington: Government Printing Office, 1910), 24 ff.

²³⁴ Buyst and Maes, 'Central Banking in Nineteenth-Century Belgium', 163 ff.

²³⁵ Memorandum, 6 January 1873, in BArch R1401/35 fol. 95v.

²³⁶ Conant, *The National Bank of Belgium*, 7.

continental European tradition of central banking legislation. For the architects of the Reichsbank, the Bank of England's monetary prowess was the benchmark, but the tools to emulate it were found elsewhere.

5.4. The Banking Act's legacy

In closing the chapter, a brief outlook on the Reichsbank's operations and the legacy of the banking discourse shall be given. The Reichsbank came into being on 1 January 1876 and, according to the Banking Act's statutes, its role was to 'to regulate the monetary circulation of the whole Empire, to facilitate clearings, and to see to it that available capital is productively employed'.²³⁷ This was a rather vague description of the central bank's functions, reflective of what was initially a 'strikingly incomplete' setup.²³⁸ The Banking Act created a pathway for the Reichsbank to evolve, but it remained up to the bank to cement its position and practical function within the banking system. Bank note issuance was centralised with the Reichsbank comparatively swiftly, building upon the Bank of Prussia's already dominant position across the Reich. The share of bank notes issued by the Reichsbank increased from 77 per cent in 1876 to 94 per cent in 1913 as more private issuing banks continued to relinquish their licenses and just four private issuing banks remained in operation by 1906.²³⁹ The harmonisation of interest rates and the emergence of the Reichsbank as the dominant rate setting institution initially was a more protracted process. Money markets remained highly fragmented well into the 1880s until the Reichsbank gradually displaced competition from private banks through the targeted use of flexible discounting policies.²⁴⁰ Finally, the Reichsbank appears to have been successful in its approach to managing the gold currency, firmly anchoring the mark within the international gold standard while also enjoying some flexibility to employ the discount rate as a means of supporting the economy.²⁴¹ By the mid-1890s, the Reichsbank had thus found a stable *modus operandi* through which it acted as the main issuing bank across the Reich, set interest rates via bill discounting and Lombard lending, and maintained the mark's convertibility.

Despite this arguably successful record, Germany's new monetary order was not immune to the debates that accompanied the Reich's economic policy shift towards protectionism from 1879 onwards. In a revisionist challenge, conservative agrarians flanked by several leading economists began questioning the gold

²³⁷ English translation as in Bopp, *Reichsbank Operations, 1876–1914*, 3. From the original: *„den Geldumlauf im gesamten Reichsgebiete zu regeln, die Zahlungsausgleichungen zu erleichtern und für die Nutzbarmachung verfügbaren Kapitals zu sorgen*‘, in *Reichs-Gesetzblatt 1875*, 180.

²³⁸ James, 'Monetary and Fiscal Unification', 17.

²³⁹ Morys, 'Goldstandard und Reichsbank: Der Wandel des monetären Regimes', 190.

²⁴⁰ Bopp, *Reichsbank Operations, 1876–1914*, 17 ff.

²⁴¹ Morys, 'Goldstandard und Reichsbank: Der Wandel des monetären Regimes', 192.

standard and sparked extended political debates throughout the 1880s and 1890s.²⁴² However, the gold currency and the Reich's monetary framework ultimately prevailed unchanged. The Reichsbank's role was further cemented when its charter was renewed in 1890, when private banks were mandated to follow its discount rate in 1899, and when Reichsbank notes became legal tender across the Reich in 1910.²⁴³

Although the Prussian government had initially been slow to recognise the political dimension of central banking, once established, the Reichsbank became an instrument of politics.²⁴⁴ Directly subordinated to the chancellor, it was subject to occasional interventions by the federal government, for example, in the form of directives on discount rates. No one better personified the connection between power politics and finance than Bismarck's banker Gerson Bleichröder who was appointed to the bank's central committee from 1876 onwards and gave the chancellor a direct line into the central bank's inner workings.²⁴⁵ The Reichsbank's role as an instrument of government politics was perhaps most prominently displayed when Bismarck ordered the suspension of Russian securities as eligible collateral for the Reichsbank's Lombard transactions in 1887.²⁴⁶

In the decades following the Reichsbank's establishment, the 1875 Banking Act proved successful in engineering a political compromise between centralistic and particularistic interests. The evolution of the Reichsbank's operations, the centralisation of note issuance, and the harmonisation of money markets demonstrated the practical functioning of a federal monetary framework that broadly developed in alignment with policymakers' intentions. The Banking Act's legal framework proved resilient in the face of revisionist challenges that arose during the 1880s and represented an adequate foundation for the Reichsbank's arguably successful monetary management that lasted until the eve of the First World War.²⁴⁷

²⁴² Knut Borchardt, 'Währung und Wirtschaft', in *Währung und Wirtschaft in Deutschland 1876–1975* (Frankfurt a.M.: Deutsche Bundesbank, 1976), 38–39.

²⁴³ Ousmène Jacques Mandeng, 'Central Bank Reform, Spatial Diversity and Monetary Policy in Germany, 1876–1890' (London School of Economics, 2019), 38; Sprenger, *Das Geld der Deutschen: Geldgeschichte Deutschlands von den Anfängen bis zur Gegenwart*, 192.

²⁴⁴ Otto, *Die Entstehung eines nationalen Geldes*, 510–12.

²⁴⁵ Stern, *Gold und Eisen: Bismarck und sein Bankier Bleichröder*, 428 ff. For members of the central committee (*Zentralausschuss*) see *Die Reichsbank 1876–1900*, 230.

²⁴⁶ Otto, *Die Entstehung eines nationalen Geldes*, 511.

²⁴⁷ James, 'The Mark and the Kaiserreich', 20–25.

6. Conclusion

The genesis of Germany's 1875 Banking Act and the emergence of a monetary and banking framework between 1866 and 1876 was, at heart, a political process. Political change enabled the monetary reform when, from 1866 onwards, the North German Confederation's constitution placed the regulation of monetary matters under federal authority. A widespread sense of political renewal mobilised key actors to partake in the process of monetary reform and the new federal institutions provided a governance structure through which monetary legislation could be advanced. Political constraints then shaped the legislative path towards a monetary framework. Following the Franco-German war, the federal chancellery began to advance regulation to address the intertwined aspects of coinage, note issuance, and banking. Navigating political controversies and sensibilities within the still fractious federal state, the chancellery made progress by focusing on small yet irreversible steps towards a federal monetary framework. The 1871 and 1873 Coinage Acts gradually introduced the gold-based mark as a federal currency and the subsequent 1874 Law on Imperial Treasury Notes centralised the issuance of state government notes. As the federal monetary framework began to take shape, legislation did not emerge by policy design but through a pragmatic process that followed the path of least political resistance.

By 1874, the legislative discourse began focusing on the regulation of banking and note issuance as the final and most controversial aspect of the reform. A consensus in support of a central bank had emerged in Germany yet the establishment of a federal Reichsbank proved challenging. The Prussian government opposed the transformation of the Bank of Prussia into a Reichsbank, ostensibly for financial reasons. The true obstacle, however, was the Prussian leadership's failure to view in a Reichsbank an institution of political significance. It required an assertive Reichstag and the rhetorical talents of Ludwig Bamberger to frame the central banking debate in political terms and gain the Prussian government's support for a Reichsbank. Following a swift legislative process, the Banking Act was enacted in early 1875, concluding the regulation of bank note issuance and establishing the Reichsbank as Germany's first central bank.

Germany's monetary reform was a pragmatic project that sought to solve practical problems within the political constraints of its time. Importantly, and as we seek to understand how monetary functions developed between 1866 and 1876, we should resist the temptation to think about the legislative genesis of Germany's Banking Act as a debate about *monetary policy* in a modern sense. We must avoid setting out in quest of modern economic concepts and risk that we are 'readily led to speak as if the fully developed form

of the doctrine was always in some sense immanent in history.²⁴⁸ The objectives of the banking reform were not to control the *money supply*, to achieve *price stability*, or to guide *interest rates* through a harmonised policy. While some of those concepts developed in the decades following the Reichsbank's establishment, they played no role in the discourse surrounding the Banking Act. Between 1866 and 1876, the debate was centred around the practical risks and opportunities of coinage reform, note issuance, and (central) banking functions. Crucially, it reflected the search for a political compromise between centralism and particularism in the monetary domain.

Seeking to avoid anachronistic preconceptions, our analysis of the Banking Act has offered an interesting perspective on the free banking school and its ideas on money creation. From a monetarist viewpoint, the establishment of the Reichsbank justifiably looks like the starting point of a multi-decade effort to establish an appropriate toolset to control the *money supply*.²⁴⁹ Yet with regards to the Banking Act this view runs the risk of teleology. As we have argued, more holistic perspectives on the 'artificial creation of money' were largely absent from the mainstream discourse on central banking at the time, owing to a rather naïve distinction between note issuance and deposit banking.²⁵⁰ An exception were free banking economists who were early to recognise the relevance of deposit banking in the context of money creation and championed a decentralised approach towards it. That deposit banking ultimately remained outside the purview of the banking legislation may be viewed as a silent victory of the free banking school, laying the foundation for a decentralised framework of money creation by the private banking sector.

Several aspects that have surfaced in this study lend themselves to further research. As we have argued, the emergence of Germany's monetary governance structure between 1866 and 1876 was a political process. After 1876, however, the Reichsbank's operations suggest that a form of monetary policy, loosely defined as a set of strategic responses to exogenous macro-economic factors, did develop.²⁵¹ The details of this process remain largely unexplored.²⁵² How did the Reichsbank develop a strategic approach to its banking operations over time? Were there any theoretical underpinnings to guide the bank's decision-making? And

²⁴⁸ Quentin Skinner, 'Meaning and Understanding in the History of Ideas', *History and Theory: Studies in the Philosophy of History* 8, no. 1 (1969): 10.

²⁴⁹ See for example Lindenlaub, 'Auf der Suche nach einem Instrumentarium zur Kontrolle der Geldschöpfung. Notenbank und Banken in Deutschland im ersten Drittel des 20. Jahrhunderts'.

²⁵⁰ Michaelis, 'Noten und Depositen', 380.

²⁵¹ Bopp, *Reichsbank Operations, 1876–1914*; Michael D. Bordo and Ronald MacDonald, 'Interest Rate Interactions in the Classical Gold Standard, 1880–1914: Was There Any Monetary Independence?', *Journal of Monetary Economics* 52, no. 2 (March 2005): 307–27; Matthias Morys, 'Discount Rate Policy under the Classical Gold Standard: Core versus Periphery (1870s–1914)', *Explorations in Economic History* 50, no. 2 (April 2013): 205–26.

²⁵² Morys, 'Goldstandard und Reichsbank: Der Wandel des monetären Regimes', 188.

how did politics interfere with the Reichsbank's monetary operations? Researching these questions is complicated by the lack of primary source material from within the Reichsbank which was likely destroyed during the Second World War.²⁵³ Nevertheless, some insights can be drawn from indirect sources such as testimonies in the Reichstag, written communication with other banks, or reports by international observers.²⁵⁴

The story of the Banking Act is not least the story of a society in search of financial stability amidst rapid economic change. To contemporaries, paper money was an everyday reminder that monetary value was not a physical and objective attribute but a cultural construct, in Clifford Geertz's sense the 'webs of significance that [man] himself has spun'.²⁵⁵ It stood example for the perceived fragility associated with increasing financial abstraction. As much as the debates on gold convertibility, note issuance limits, and central banking were about the political economy of the young federal state, they were also an attempt at a narrative of monetary stability. This cultural dimension of Germany's monetary reform merits further research. How were the Reichsbank and the gold currency perceived by the general public?²⁵⁶ Did the move to gold and the regulation of note issuance create a sense of stability? One particularly intriguing aspect is the connection between cultural fears that surrounded Germany's monetary development and the increasing prevalence of antisemitism in late nineteenth-century Germany. As we have highlighted, antisemitism manifested in the central banking debate, especially from the late 1870s onwards. But was the monetary discourse itself a driver of antisemitic sentiment? A hint is given by Trivellato's work that has shown the profound impact which the erroneous myth of bills of exchange as a Jewish invention had on late nineteenth-century German intellectual life.²⁵⁷ Such avenues for further research indicate that the 1875 Banking Act and its legacy represent much more than a seemingly narrow aspect of financial history.

In conclusion, is there much to learn from the German example of nineteenth-century monetary integration for our own times? When, in January 2020, Mario Draghi was presented with Germany's Federal Order of Merit upon completion of his term at the ECB, president Frank-Walter Steinmeier remarked: 'I, for one, believe that the Order of Merit is a much more fitting honour than the Pickelhaube - the spiked helmet - presented to you at the start of your term of office. [...] You had to act using the instruments of a central

²⁵³ Mandeng, 'Central Bank Reform, Spatial Diversity and Monetary Policy in Germany, 1876–1890', 59.

²⁵⁴ For some examples see Mandeng, 147 ff.

²⁵⁵ Clifford Geertz, *The Interpretation of Cultures: Selected Essays* (New York: Basic Books, 1973), 5.

²⁵⁶ Morys, 'Goldstandard und Reichsbank: Der Wandel des monetären Regimes', 194.

²⁵⁷ Francesca Trivellato, *The Promise and Peril of Credit: What a Forgotten Legend about Jews and Finance Tells Us about the Making of European Commercial Society*, 1st ed., vol. 8 (Princeton ; Oxford Princeton University Press, 2019), 197–215.

bank at a time when there was no tried and tested European toolkit for intervening in crises.²⁵⁸ Steinmeier alluded to Draghi's role during the European debt crisis and the extraordinary measures the ECB had introduced in support of indebted countries. These measures remained highly controversial in Germany and had made the ECB the subject of intense public and political criticism. Herein lies, perhaps, the cue that Draghi could have taken from the Prussian example: Within a fragmented and incomplete political union, monetary matters are always destined to turn political.

²⁵⁸ 'Federal President Frank-Walter Steinmeier at the presentation of the Grand Cross 1st class of the Order of Merit of the Federal Republic of Germany to Mario Draghi at Schloss Bellevue', Bundespräsidialamt, 31 January 2020, [https://www.bundespraesident.de/SharedDocs/Downloads/DE/Reden/2020/01/200131-Verdienstorden-Draghi-Englisch2.pdf?__blob=publicationFile&v=2, accessed 14 April 2024].

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