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The Institutional Foundations of Personal Finance: Innovation in U.S. Savings Banks, 1880s–1920s

The system of personal finance that developed in the United States was more fragmented than comparative arrangements in most industrializing countries, where savings banks had become large, diversified financial institutions. The federalist political structure of the U.S., combined with lobbying by existing intermediaries, inhibited the establishment of a centralized public provider of financial services for households such as emerged elsewhere. Moreover, the United States did not develop strong, diversified savings institutions at the local level, due in part to regulations that stifled innovation by savings banks and in part to the risk-averse organizational culture of the banks themselves. These factors enabled the proliferation of specialized intermediaries that aggressively marketed new financial services to households and facilitated the growth of new patterns of financial behavior among ordinary Americans.

Between the late nineteenth century and the onset of the Great Depression, personal finance—the ways in which households save, borrow, and manage risk—changed dramatically in the United States.¹ A host of new firms and established incumbents, including specialized intermediaries, commercial and investment bankers, and even employers, began to provide financial services for ordinary Americans. A staggering array of new products and services was introduced, including new forms of credit, novel saving and investment vehicles, and new types of insurance and pension plans. And, perhaps most critically, households

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¹On the parameters of “personal finance,” see Peter Tufano, “Consumer Finance,” *Annual Review of Financial Economics* 1 (2009): 227–47; John Campbell, “Household Finance,” *Journal of Finance* 61 (2006): 553–604.

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themselves began to behave differently, moving away from accumulating cash and amassing savings-account balances and toward indebted purchases of homes and consumer durables in order to build assets, while adopting special pension and insurance contracts to manage risks.²

Historians have offered several varieties of explanations to account for these changes. One stream of research has emphasized the cultural dimensions of the change, particularly the shift away from the rhetoric of thrift and toward the legitimization of new forms of borrowing and investing.³ A second stream of research has emphasized macroeconomic conditions, especially the growing affluence of American society and the timing of its economic growth.⁴ Finally, a third body of scholarship has linked these changes to the rise of big business in the United States, particularly to the strategies of large manufacturing firms in their dealings with labor, consumer, and financial markets.⁵

While each of these approaches contributes to our understanding of certain aspects of the changes in consumer finance in the half-century before the Great Depression, they nevertheless tell us relatively little about the broader dynamics of competition and innovation reshaping the sector.⁶ What spurred the wave of experimentation and innovation in personal finance in the decades leading up to the Great Depression? Why did so many new types of organizations find it relatively easy to enter the mass market? And what implications did this competition have for the institutional structure of personal finance and the choices of American households?

Such questions are particularly relevant, given that the institutional

²Herman Krooss and Martin Blyn, *A History of Financial Intermediaries* (New York, 1971), 91–175; Raymond Goldsmith, *Study of Saving in the United States*, vol. 1 (Princeton, 1956), Table T-8, 359–61; Martha Olney, *Buy Now, Pay Later: Advertising, Credit, and Consumer Durables in the 1920s* (Chapel Hill, 1991), 6–56.

³Lendol Calder, *Financing the American Dream: A Cultural History of Consumer Credit* (Princeton, 1999); David Tucker, *The Decline of Thrift in America: Our Cultural Shift from Saving to Spending* (New York, 1990); Julia Ott, “The Free and Open People’s Market: Political Ideology and Retail Brokerage at the New York Stock Exchange, 1913–1933,” *Journal of American History* 96 (2009): 44–71; David Hochfelder, “‘Where the Common People Could Speculate’: The Ticker, Bucket Shops, and the Origins of Popular Participation in Financial Markets, 1880–1920,” *Journal of American History* 93 (Sept. 2006): 335–58.

⁴Angus Maddison, “A Long-run Perspective on Saving,” *Scandinavian Journal of Economics* 94 (June 1992): 181–96.

⁵Steven Sass, *The Promise of Private Pensions* (Cambridge, U.K., 1997); Olney, *Buy Now, Pay Later*; Jennifer Klein, *For All These Rights: Business, Labor and the Shaping of America’s Public-Private Welfare State* (Princeton, 2003); Michael Easterly, “Your Job is Your Credit: Creating a Market for Loans to Salaried Employees in New York City,” *Enterprise and Society* 10 (2009): 651–60.

⁶While the structure and competitive dynamics of personal finance have received little attention, scholars have devoted considerable attention to the structure of commercial banking and enterprise finance. For instance, see Eugene White, *Regulation and Reform of the American Banking System, 1900–1929* (Princeton, 1983); Charles Calomiris, *United States Bank Deregulation in Historical Perspective* (New York, 2000).

structure of personal finance in the United States not only changed in this period but also evolved very differently than in other industrializing countries. Unlike the models presented by the United Kingdom, France, and Japan, where the central state played an expanding role in the direct provision of personal financial services to citizens, or the examples established by Germany and Spain, where existing local financial institutions diversified to provide an array of personal financial services for residents of the local economies, the United States developed a highly fragmented system of personal finance, marked by low barriers to entry and high levels of innovation by specialized intermediaries.

In this article, I take a comparative institutional approach to understanding the factors that shaped the structure of competition and innovation in U.S. personal finance between the late nineteenth century and the Great Depression. Though I primarily examine the institutions shaping competition and innovation in the United States, I compare these developments with trends in other industrializing countries, in order to sharpen our understanding of the institutions that mattered and the roles they played in shaping firm choices and household behavior. My focus, in particular, is on the comparative evolution of savings banks in the period from the 1880s to the 1920s. Savings banks provide an especially useful lens for comparing the development of personal finance across countries, because, although they shared common international origins as the first significant financial intermediary established to serve households, they evolved very differently during the period under consideration in response to economic and political pressures. Thus, I approach the development of savings banking in the United States with the purpose of understanding the factors that underlay and shaped competition and innovation in American personal finance and clarifying their implications for broader developments in institutional structure and household behavior.

I show that American savings banks evolved as they did for a combination of reasons: a federalist political structure that allowed local institutions to forestall centralization and nationalization; a regulatory regime that favored low barriers to entry but also created an uneven patchwork of rules for competition; and the weak entrepreneurial and associational efforts of the country's incumbent savings institutions. These factors pushed new product innovation and marketing out of incumbent firms and into the hands of new entrants, whose success depended on extending local markets for their specialized services. Combined with the relative affluence of the American middle and working classes, these institutional developments contributed to long-term changes in the financial strategies of American households. As a result, by the 1920s, the United States had both a distinct institutional structure of personal finance and an emerging set of household patterns of

saving, borrowing, and insuring that looked different from such arrangements in most other parts of the world.

I begin by describing the transnational role of savings banks in the development of the market for professionally managed household financial services. I then examine the international trend toward the creation of centralized national savings banks and show how local financial interests blocked the creation of such a concentrated institution in the United States. Next, in examining why the United States did not develop broad, diversified institutions of personal finance at the local level either, I find that American savings banks remained narrow intermediaries due to regulatory constraints and a risk-averse organizational culture. In the final section, I draw out the implications of the relative weakness of American savings banks for the institutional structure of personal finance, the financial behavior of households, and the ways in which the competition to serve the financial needs of citizens shaped consumer capitalism in the modern United States.

Savings Banks and the Origins of Modern Personal Finance

In the industrializing regions of nineteenth-century Europe and North America, savings banks emerged as the first professionally managed intermediary established specifically to serve the financial needs of ordinary individuals.⁷ Securities markets, commercial banks, and insurance companies antedated savings banks, and the United Kingdom and United States had developed sophisticated financial systems by the early nineteenth century. However, the primary purpose of these organized markets and intermediaries was to serve the financial needs of enterprises and governments, rather than those of households.⁸ Wealthy individuals, and some of more modest means, did, of course, hold financial assets through these markets and intermediaries.⁹ But broad-based use of the formal financial system was limited by relatively high price barriers to participation, low levels of public trust in impersonal financial markets, and a lack of organizational capabilities for engaging

⁷ Oliver Horne, *A History of Savings Banks* (London, 1947); Jürgen Mura, ed., *History of European Savings Banks*, trans. Margaret Jelbert (Stuttgart, 1996); Michael Moss and Iain Russell, *An Invaluable Treasure: A History of the TSB* (London, 1994); Duncan Ross, "Penny Banks' in Glasgow, 1850–1914," *Financial History Review* 9 (2002): 21–39; Alan Olmstead, *New York Savings Banks in the Antebellum Years, 1819–1861* (Chapel Hill, N.C., 1976); Lance Davis and Peter Payne, *The Savings Bank of Baltimore, 1818–1866* (Baltimore, 1956).

⁸ Robert Wright, *Wealth of Nations Rediscovered* (New York, 2002); Richard Sylla, "Financial Systems and Economic Modernization," *Journal of Economic History* 62 (2002): 277–92.

⁹ Winifred Rothenberg, "The Emergence of a Capital Market in Rural Massachusetts, 1730–1838," *Journal of Economic History* 46 (Dec. 1985): 781–808; Robert Wright, "Bank Ownership and Lending Patterns in New York and Pennsylvania, 1781–1831," *Business History Review* 73 (Spring 1999): 42–48.

in large volumes of the small transactions needed to serve the general public.¹⁰ Instead, ordinary individuals typically relied on direct interpersonal financial transactions, using personal notes, mortgages, or book debt.¹¹ Thus, in 1800, formal financial systems generally lacked distinct institutions and capabilities to provide financial services for ordinary households on a mass scale, and most personal finance was conducted through direct transactions between individuals.

First established in western Europe in the late eighteenth century, savings banks were conceived as intermediaries explicitly designed to serve the life-cycle and precautionary saving needs of citizens of modest means. The idea for a financial institution that could serve the prudential needs of the general public had animated Enlightenment writers since the seventeenth century, but was not widely put into practice until it was adopted by early-nineteenth-century policymakers and institutional reformers who viewed such an institution as a way to discourage dependence on charity and public relief by creating stable opportunities for citizens to save for periods of illness, unemployment, and old age.¹² Urbanization, rising public and charitable expenditures on poor relief, and attendant concerns over social and political unrest spurred philanthropic leaders and public officials in industrializing regions of Europe to experiment with establishing such institutions as a way of promoting welfare and maintaining order. These early savings banks were organized as quasi-public local institutions managed by civic and business leaders. The organizations offered small-denomination savings accounts that were pooled and invested by trustees on behalf of depositors, offering the public an opportunity to invest in diversified and relatively liquid funds with low price barriers to participation.¹³

The basic organizational model of the local savings bank spread rapidly in Europe and the Americas between 1810 and the end of the 1840s.¹⁴ In the United States, the first institutions were established

¹⁰ See, for instance, Naomi Lamoreaux's description of commercial-bank capabilities in antebellum New England. *Insider Lending: Banks, Personal Connections, and Economic Development in Industrial New England* (New York, 1994).

¹¹ Rothenberg, "The Emergence of a Capital Market," 787–91; Duane Ball, "Dynamics of Population and Wealth in Eighteenth-Century Chester County, Pennsylvania," *Journal of Interdisciplinary History* 6 (1976): 621–44.

¹² Horne, *A History of Savings Banks*, 28–32; Josef Wysocki, "Introduction," in *History of European Savings Banks*, ed. Jürgen Mura (Stuttgart, 1996), 9–13; Bernard Vogler, ed., *L'Histoire des caisses d'épargne européennes*, vol. 1: *Les Origines* (Paris, 1991).

¹³ Moss and Russell, *An Invaluable Treasure*, 8–33; Wysocki, "Introduction," 9–13.

¹⁴ David Sowell, "La Caja de Ahorros de Bogota, 1846–1865: Artisans, Credit, Development, and Savings in Early National Columbia," *Hispanic American Historical Review* 73 (1993): 615–38; Cormac Ó Gráda, "Savings Banks as an Institutional Import: The Case of Nineteenth-Century Ireland," *Financial History Review* 10 (2003): 31–55; Wysocki, "Introduction," 13–14; Francisco Comin, Angel Pasqual Martínez-Soto, and Ines Roldan, *Las Cajas de Ahorros en Cuba y Puerto Rico* (Madrid, 2011).

Table 1
Growth of Local Savings Banks in Selected Countries
(Number of Institutions)

	<i>Germany</i> ^a	<i>United Kingdom</i>	<i>United States</i>	<i>France</i>	<i>Italy</i>	<i>Spain</i>
First founded	1778	1801	1816	1818	1822	1838
1820	—	317	10	—	—	—
1830	—	469	36	11	—	—
1840	280	535	61	290	25	1
1850	—	581	108	365	60	12
1860	612	623	278	444	91	—
1870	1,141	496	517	514	—	—
1880	2,108	442	629	530	183	33

Sources: *Deutsches Geld- und Bankwesen in Zahlen, 1876–1975* (1975); Albert Fishlow, “The Trustee Savings Banks, 1817–1861” *Journal of Economic History* 21 (1961); Jürgen Mura, ed., *History of European Savings Banks*, trans. Margaret Jelbert (Stuttgart, 1996); U.S. Comptroller of the Currency, *Annual Report* (1900); Daniel Duet, *La Metamorphose des Caisses D’Epargne* (1986), 51.

^aGerman savings banks are estimated based on extrapolation from Prussian numbers; the 1840 German estimate is actually for 1834.

after 1810 in the port cities of the East Coast by social reformers, business leaders, and public officials who learned about savings banks from their counterparts in Great Britain.¹⁵ Like their European counterparts, local civic and business leaders in the United States saw the savings bank as a central institution in promoting welfare among urban wage earners, as well as an increasingly important means of mobilizing capital for the local economy.¹⁶ By the early 1880s, there were approximately six hundred savings banks in the country with over three million depositors and more than one billion dollars under management. (See Table 1.)¹⁷

Over the course of the nineteenth century, savings banks became the predominant intermediary through which “ordinary” working- and middle-class households transacted with the broader financial system. In cities where savings banks developed, large segments of the population, including people of very modest means, held savings accounts by the second half of the nineteenth century.¹⁸ Moreover, analyses of

¹⁵Emerson Keyes, *A History of Savings Banks in the United States*, vol. 1 (New York, 1876); R. Daniel Wadhvani, “Citizen Savers: Family Economy, Financial Institutions, and Public Policy in the United States from the Market Revolution to the Great Depression,” PhD diss., University of Pennsylvania, 2002.

¹⁶Davis and Payne, *Savings Bank*, 26–41, 114–37; Olmstead, *New York Savings Banks in the Antebellum Years*, 74–116.

¹⁷U.S. Comptroller of the Currency, *Annual Report*, vol. 1 (Washington, D.C., 1898), 614.

¹⁸Paul Johnson, *Saving and Spending: The Working-Class Economy in Britain, 1870–1939* (New York, 1985), 87–125; Wadhvani, “Citizen Savers,” ch. 3.

savings-account records show that they played an increasingly prominent role in household economic strategies.¹⁹

Savings banks were not the only nineteenth-century intermediaries to develop financial services specifically for “ordinary” households. As Sharon Murphy has shown, insurance companies followed the lead set by savings banks to introduce life-insurance products for the middle classes in the antebellum period. Moreover, building-and-loan associations first developed in the mid-nineteenth century as a way for middle- and working-class households to attain institutional mortgage-lending services.²⁰ Still, throughout most of the nineteenth century, the services developed by these institutions were adopted to a more limited degree than those provided by savings banks in both the United States and western Europe. As late as the 1880s in the United States, the assets of life-insurance companies were half those of savings banks, and until the introduction of industrial (small-denomination) policies in the late 1870s and 1880s, life-insurance holding was skewed toward more affluent middle-class households.²¹ Membership in building-and-loan associations was likewise negligible until the 1880s.²²

The adoption of savings accounts by the public turned savings banks into major intermediaries in the financial systems of Western countries. In both the United States and Germany, for instance, savings banks held approximately a quarter to a third of the assets under management by major financial intermediaries by 1880, and in Italy they controlled fully half of such assets.²³ The institutions played an especially large role in financing public debt and building infrastructure. And, as an institutional innovation, they had firmly established the viability and profitability of serving the financial needs of ordinary households.

¹⁹ George Alter, Claudia Goldin, and Elyce Rotella, “The Savings of Ordinary Americans: The Philadelphia Saving Fund Society in the Mid-Nineteenth Century,” *Journal of Economic History* 54, no. 4 (Dec. 1994): 735–67; R. Daniel Wadhvani, “Banking from the Bottom Up: The Case of Migrant Savers at the Philadelphia Saving Fund Society During the late Nineteenth Century,” *Financial History Review* 9 (2002): 41–63.

²⁰ Sharon Ann Murphy, *Investing in Life: Insurance in Antebellum America* (Baltimore, 2010); David Mason, *From Building and Loans to Bailouts: A History of the American Savings and Loan Industry* (New York, 2004); E. J. Cleary, *The Building Society Movement* (London, 1965); Johnson, *Saving and Spending*.

²¹ Susan B. Carter, et al., *Historical Statistics of the United States: Millennial Edition* (New York, 2006), Table Cj741–747; U.S. Comptroller of the Currency, *Annual Report* (Washington, D.C., 1898), 614. Similar developments were seen in Britain. See Johnson, *Saving and Spending*.

²² Krooss and Blyn, *A History of Financial Intermediaries*, 125; John Lintner, *Mutual Savings Banks in the Savings and Mortgage Markets* (Andover, Mass., 1948), 107, 129.

²³ Peter Hertner, “Italy,” in *History of European Savings Banks*, ed. Jürgen Mura (Stuttgart, 1996), 223–24, 231; Jeremy Edwards and Sheilah Ogilvie, “Universal Banking and German Industrialization: A Reappraisal,” *Economic History Review* 49 (1996): 431; Eugene White, “Were Banks Special Intermediaries in Late Nineteenth Century America?” *Federal Reserve Bank of St. Louis Review* (May/June 1998): 14.

Despite basic similarities in the origins and early institutional development of local savings banks, certain international variations did develop early in their history. First, the legal form of the organizations varied, both between countries and sometimes within them. Trustee-managed mutual savings banks and municipally owned savings banks predominated in most countries, but private joint-stock savings banks also developed in some places, including the United States.²⁴ Second, though savings-bank advocates agreed in principle that the institutions should be limited to “safe” investments, actual practices varied significantly from country to country and region to region and over time.²⁵ Finally, some countries displayed strong regional patterns in the development of savings banks. In the United States, for instance, savings banks were largely concentrated in the industrial Northeast and Mid-Atlantic, while in France and Italy the institutions were primarily established in the North, with little institutional development in southern regions.²⁶

None of these international variations—in organizational form, investment practices, or regional development—was peculiar to the United States alone. Yet, in the late nineteenth and early twentieth centuries, the institutional structure of savings banks in the United States diverged in marked ways from savings institutions in most other industrializing countries, with significant and broad implications for the country’s system of personal finance. One of the most important reasons for this difference was the greater constraint the American system placed on the role of the central state in the direct provision of financial services to the public.

Limiting Centralization

In 1840, Alexis De Tocqueville wrote of “a philanthropic institution, which will become, if I am not mistaken, one of our most important political institutions.” The Frenchman was commenting on what he saw as a troubling trend in the relations between citizens and modern states, which he identified as the increasingly direct administration

²⁴ Wysocki, “Introduction,” 15–16; Jürgen Mura, “Germany,” in *History of European Savings Banks*, ed. Jürgen Mura (Stuttgart, 1996), 107; R. Daniel Wadhvani, “Organizational Form and Industry Emergence: Mutual and Nonprofit Firms in the Development of the American Personal Finance Industry,” *Business History* (forthcoming).

²⁵ Wysocki, “Introduction,” 17–20; Andrew Beveridge, “Local Lending Practice: Borrowers in a Small Northeastern Industrial City, 1832–1915,” *Journal of Economic History* 45 (1985): 393–403; Sowell, “La Caja de Ahorros de Bogota,” 622–29.

²⁶ Lintner, *Mutual Savings Banks*, 67–102; Antoine Moster and Bernard Vogler, “France,” in *History of European Savings Banks*, ed. Jürgen Mura (Stuttgart, 1996), 77; and Hertner, “Italy,” 194–96.

and use by central governments of ordinary citizens' personal savings. Tocqueville predicted that savings banks would be transformed from private, local financial institutions into instruments of central state planning and control.

In some countries these benevolent associations are still completely distinct from the State; but in almost all they manifestly tend to identify themselves with the government; and in some of them the government has superseded them, taking upon itself the enormous task of centralizing in one place, and putting out at interest on its own responsibility, the daily savings of many millions of the working classes. Thus the State draws to itself the wealth of the rich by loans, and has the poor man's mite at its disposal in the savings-banks.²⁷

Tocqueville was characteristically prescient. Over the course of the nineteenth century, the savings-bank systems of most industrializing countries increasingly came under the direct control of the central state. This movement reached its height in the late nineteenth century, when most wealthy countries established government-run postal savings systems with the aim of promoting thrift and expanding the state's capacity to borrow. By the early twentieth century, many of these national postal savings systems provided to their citizens an array of services, including annuities, life insurance, payment services and basic brokerage services, in addition to savings accounts. One of the most important ways in which personal finance in the United States would develop differently from other industrializing countries was in its stricter limits on the direct central-government provision of household financial services. Proposals for the establishment of postal savings systems repeatedly failed in Congress in the nineteenth century, and when the United States did establish such a system in the clamor following the panic of 1907, its institutional design ensured that it would remain marginal in the country's system of personal finance.

The drift toward central state control began earliest and strongest in Great Britain and France. In 1817, Parliament passed legislation that required all savings banks in England to invest their funds with the Commissioners of the National Debt. The savings banks were, in turn, guaranteed a generous return on their investment, sufficient to cover their expenses and pay attractive dividends. The effective transfer of the investment function to the state and the guaranteed return stimulated the establishment of scores of local trustee savings banks, and largely accounted for the rapid development of the institution in the

²⁷ Alexis De Tocqueville, *Democracy in America: Part the Second, The Social Influence of Democracy* (New York, 1840), 306–7.

country.²⁸ In France, early legislation permitted savings banks to have their deposits invested by the *Caisses des dépôts et consignations*, a central authority that managed public funds held in trust. In 1852, new legislation effectively institutionalized the practice by requiring that funds be transferred to the *Caisses*.²⁹

Despite these early moves toward state centralization, some public officials and business leaders in Great Britain still saw problems with locally managed savings banks and advocated instead for the establishment of a fully national savings system operated through the post offices. Advocates, like British banker Charles Sikes, argued that a government-run postal savings system would be able to better serve the public through its expansive network of offices. Moreover, the need of ordinary citizens for financial protection from loss of their savings, he reasoned, could be better met through public ownership. High-profile cases of trustee fraud in the 1840s and 1850s, combined with the British trustee savings banks' resistance to reform, bolstered popular support for postal savings and, in 1861, with the backing of William Gladstone, the United Kingdom established the first such system. British post offices accepted savings deposits of as little as one pound, paid out two and a half percent interest, and transferred funds to the Treasury for investment in British public debt. The spread between the rates paid to depositors and on the public debt was used to cover expenses and to build a surplus.³⁰

By the end of the nineteenth century, the British model of the postal savings system had been adopted in almost all industrializing countries and in many colonized poorer ones as well. With some modifications, similar systems were established throughout much of Europe over the subsequent three decades, including in Belgium (1870), Italy (1875), the Netherlands (1881), France (1882), Austria (1883), Sweden (1884), Hungary (1886), Finland (1887), Russia (1889), and Bulgaria (1896).³¹ The British also established postal savings banks throughout their empire, including in Australia (1863), Canada (1868), and India (1882). In an especially consequential development, Japan established a postal savings system based on the British model in 1875 as part of its program of institutional adoption, and subsequently implemented the

²⁸ Peter Gosden, "Great Britain," in *History of European Savings Banks*, ed. Jürgen Mura (Stuttgart, 1996), 136–38; Moss and Russell, *An Invaluable Treasure*, 33–37.

²⁹ Moster and Vogler, "France," 76–77.

³⁰ Moss and Russell, *An Invaluable Treasure*, 51–77; Gosden, "Great Britain," 139–41.

³¹ Postal savings systems varied in how their funds were invested. See Henry Wolff, "Savings Banks at Home and Abroad," *Journal of the Royal Statistical Society* 60 (1897): 278–359.

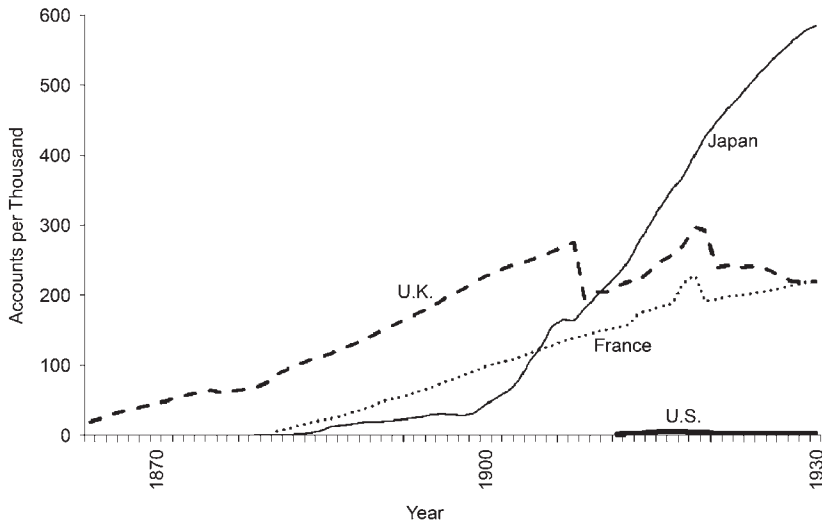


Figure 1. Postal savings-bank accounts per thousand population by country, 1862–1925. French figures for 1909 through 1925 are estimated based on subsequent development. Drop in United Kingdom in 1909 was due to a policy decision to close all accounts deemed “dormant.” (Sources: United States National Monetary Commission, *Notes on the Postal Savings-Bank Systems of the Leading Countries* [Washington, D.C., 1910]; Paul Johnson, *Saving and Spending: The Working-Class Economy in Britain, 1870–1939* [New York, 1985]; Raymond Goldsmith, *The Financial Development of Japan* [New Haven, 1983].)

institution in its own colonies.³² As Figure 1 shows, postal savings accounts were rapidly adopted by the public in many of these countries by the early twentieth century. Moreover, the success of the institution led these governments to expand the range of financial services they offered. Great Britain and Japan, for instance, offered small-denomination life-insurance, annuities, and brokerage services for those interested in government securities.³³ In many cases, the size and reach of the postal savings system outstripped the levels attained by the local savings banks. In the United Kingdom, for instance, the postal savings banks’ deposits surged past those of the trustee savings banks by 1890 and stood at nearly three times those of the trustee banks by 1920.³⁴

³² Wolff, “Savings Banks at Home and Abroad,” 278–359; National Monetary Commission (NMC), *Notes on the Postal Savings-Bank Systems of the Leading Countries* (Washington, D.C., 1910); Eleanor Westney, *Imitation and Innovation: The Transfer of Western Organizational Patterns to Meiji Japan* (Cambridge, Mass., 1987), 100–145.

³³ Edward Heyn, “Postal Savings Banks,” *Annals of the American Academy of Political and Social Science* 8 (1896), and NMC, *Notes on the Postal Savings-Bank Systems*, 10–11; Frances McCall Rosenbluth, *Financial Politics in Contemporary Japan* (Ithaca, N.Y., 1989), 171.

³⁴ Gosden, “Great Britain,” 158.

Central state control of personal finance became a common feature of financial system “modernization” by the late nineteenth century for several reasons.³⁵ Postal savings systems not only promised to reach underserved rural and small-town markets and to guarantee citizens greater security against loss; they also provided a significant source of inexpensive borrowing for the state. In Great Britain, the postal savings system not only insured substantial demand for government securities; it also generated additional revenue from the profits of the postal savings bank.³⁶ It was in Japan, however, that postal savings became an especially important instrument of fiscal policy. After 1878, postal savings funds were administered by the Ministry of Finance, which used them not only to finance the public treasury but also to channel resources to priority industries. Initially of modest size, the Japanese postal savings system’s growth outpaced that of other financial intermediaries beginning shortly after 1910 and continuing through the 1920s.³⁷

The only major economic powers that did not adopt postal savings as a model for the provision of financial services to ordinary citizens by the turn of the century were the United States and Germany. In both countries, postal savings legislation was first introduced as early as the 1870s but repeatedly failed to garner the political support needed for adoption. In each country, local banking interests used the federalist political structure to block efforts to establish a centralized postal savings bank.

In the United States, postal savings actually garnered broad popular support from working-class and agrarian political movements, including the Knights of Labor, the Grange, and the Populist Party. It also gained support from many Progressive Era intellectuals and social reformers.³⁸ But the mainstream political parties remained uncommitted, in large part because of political pressure from local financial interests and local bank regulators, who viewed postal savings as a threat to state-chartered financial institutions and the maintenance of capital in the home regions. Dozens of postal savings-bank bills were introduced between the 1870s and the early twentieth century, and even though most postmasters and several presidents supported the adoption of such an institution, the bills were never reported out of committee.³⁹

³⁵ James Hamilton, *Savings and Savings Institutions* (London, 1902), 300–422.

³⁶ NMC, *Notes on the Postal Savings-Bank Systems*, 8.

³⁷ Rosenbluth, *Financial Politics in Contemporary Japan*, 168–72; Raymond Goldsmith, *The Financial Development of Japan* (New Haven, 1983), 85–87; Stephen Anderson, “The Political Economy of Japanese Saving: How Postal Savings and Public Pensions Support High Rates of Household Saving in Japan,” *Journal of Japanese Studies* 16 (1990): 68–70.

³⁸ H. L. Wayland, “The State and the Savings of the People,” *American Social Science Association Journal* 22 (June 1887): 158–59; Heyn, “Postal Savings Banks,” 487; Edwin Walter Kemmerer, *Postal Savings: An Historical and Critical Study of the Postal Savings Bank System of the United States* (Princeton, 1917), 17–19.

³⁹ Donald Bru Schewe, “A History of the Postal Savings System in America, 1910–1970,” PhD diss., Ohio State University, 1971, 23–54.

Savings and commercial bankers worked together against central state control and used their leverage over state representatives to block legislation. Local bankers rightly worried that competition from a government-run savings bank would drain their coffers. The fear was especially great among the rapidly growing number of small commercial banks that relied on savings deposits from middle- and working-class customers. As one Nebraskan candidly admitted during congressional hearings on a postal savings bill, "The Government is absolutely safe. . . . I hate to admit it, in a sense, but while my bank . . . is as sound and as solvent as a cannon ball, even then it is not so strong as the Government of the United States."⁴⁰

The bankers' successful campaign against the adoption of postal savings faltered momentarily after the panic of 1907, when popular support for a secure postal savings system nudged the mainstream parties toward adoption of the system. In an attempt to stem the political momentum in favor of postal savings, the American Bankers Association launched a large-scale lobbying campaign to rally local authorities and congressional representatives against central government control.⁴¹ An exasperated Iowa senator complained, "I have received the protests of nearly every bank in my State against any such scheme and those protests have usually been accompanied by a very large number of petitions, secured, I have no doubt, through the industry and energy of the bank officers."⁴² But, in the wake of the panic, even the bankers admitted the validity of "the need, and the right to justice, of the American people demanding more protection and safeguard for their deposits," as one of them put it, but they pleaded for "rigid supervision" rather than postal savings.⁴³ Congress passed the Postal Savings Act in 1910, and the system went into operation the following year.

Despite the apparent political victory for the postal savings advocates, the Act in fact was forged through compromises that guaranteed the public system would offer little challenge to the place of local institutions in the provision of financial services for ordinary citizens. First, the maximum that any one individual could deposit in the postal system was set remarkably low: five hundred dollars. The U.S. postmaster general in 1913 indicated that "more money has been refused by the postal savings system than has been accepted," because of the legal

⁴⁰ *Postal Savings Bank Hearings before the Committee on Post-Office and Post-Roads* (Washington, D.C., 1910), 20.

⁴¹ Kemmerer, *Postal Savings*, 13–15, fn 23; Schewe, "A History of the Postal Savings System," 23–54.

⁴² Kemmerer, *Postal Savings*, 13. *Congressional Record*, 20 June 1908, 8811–8812.

⁴³ Statement of Mr. E. R. Gurney, *Postal Savings Bank Hearings*, 33.

ceiling on account size.⁴⁴ Second, the interest rate on postal accounts was set by legislative fiat at 2 percent, compared with an average market rate of approximately 3.5 percent on savings deposits at the time the Act was passed.⁴⁵ The rate was lower than that of any other postal savings system in the world, despite the fact that interest rates were generally higher in the United States than in Europe.⁴⁶ Finally, and most remarkably, the 1910 Act established a system for funneling virtually all the postal savings deposits back into the local banking system. From December 1911 to December 1916, between 90 percent and 95 percent of postal savings deposits were simply redeposited into local financial institutions. Moreover, the law set the interest rate that banks were to pay on these redeposits at 2.25 percent, a lower rate than they would have had to pay if they received deposits directly from the public.⁴⁷

The severe limits placed on the American postal savings system, combined with its relatively late introduction, ensured that it remained peripheral to the institutional structure of personal finance in the United States. As Figure 1 shows, the U.S. postal savings system, unlike that of other countries, was unable to attract depositors. Rather than a service used by a broad cross-section of the public, postal savings became effectively a niche institution, serving immigrants who were familiar with the system from personal experience in their home countries. One study found that over 70 percent of the deposits in the system in its early years belonged to the foreign born.⁴⁸ Later attempts to broaden the institution were opposed by the American Bankers Association, which kept a watch on legislation and mobilized the resources of the lobby against any significant changes in the law.⁴⁹ As a result, the U.S. postal savings system actually lost depositors and deposits in the booming 1920s, when other types of financial institutions made noticeable financial gains. Ironically, postal savings would experience a brief period of rapid growth during the Great Depression as a 2 percent nominal rate and government ownership became extremely attractive to the public in an uncertain, deflationary environment. But with the

⁴⁴ Kemmerer, *Postal Savings*, 89. The amount was estimated to be “not less than \$30,000,000.”

⁴⁵ Maureen O’Hara and David Easley, “The Postal Savings System in the Depression,” *Journal of Economic History* 39 (Sept. 1979): 744; Kemmerer, *Postal Savings*, 33n16.

⁴⁶ Kemmerer, *Postal Savings*, 64. The original nineteenth-century proposals had recommended 4 percent. *Report of the Postmaster General* (Washington, D.C., 1873), xxxv; *Report of the Postmaster General* (Washington, D.C., 1871), xxxvi.

⁴⁷ Kemmerer, *Postal Savings*, 108–16.

⁴⁸ *Ibid.*, 56–65.

⁴⁹ *Statement of Honorable Alexander M. Dockery . . . Relative to the Proposal to Invest Postal Savings Deposits in Federal Farm-Loan Bonds* (Washington, D.C., 1916), 21–22.

implementation of deposit insurance, the postal savings system lost its only competitive advantage once normal market conditions returned after World War II. Recognizing its obsolescence, Congress abolished the institution in 1966.⁵⁰

Without a strong, direct retail presence, U.S. policymakers lacked an organizational tool widely used by other governments to influence household financial behavior. Countries with strong postal savings systems used their retail presence to establish programs promoting household thrift and savings designed to accumulate capital for state-led economic development, as well as to bolster household financial security. In Japan, for instance, the postal savings organization served as a central point from which to organize thrift campaigns and carry out policies designed to encourage a high savings rate.⁵¹ In Great Britain, the national savings campaigns established to finance the government during World War I became a permanent program that operated through the postal and trustee savings banks.⁵² In contrast, such programs were difficult to implement in the United States. Following episodes—such as the two world wars—in which the federal government successfully appealed to citizens to fund public debt, the United States retreated from directly and massively intervening in personal finance under pressure from private intermediaries. After World War I, for instance, the federal government abandoned plans to extend “war savings and thrift savings institutions as a necessary peace initiative,” in response to what social scientist Margaret Schoenfeld described as the “opposition of the commercial banks.”⁵³ National policies and programs designed to influence household financial behavior, cement national identities, and channel resources to state building thus gained much less traction than in countries with a strong government retail presence.

When it came to savings banking, the specter of a public postal savings system represented the main threat of centralization in the eyes of local intermediaries. But these intermediaries acted to undermine concentration among private institutions as well. Community commercial bankers, for instance, blocked efforts to allow branching and concentration in the industry.⁵⁴ Similarly, state-chartered building associations

⁵⁰ Schewe, “A History of the Postal Savings System,” 171.

⁵¹ Anderson, “Japanese Saving,” 69–70; Sheldon Garon, “Fashioning a Culture of Diligence and Thrift: Savings and Frugality Campaigns in Japan, 1900–1931,” in *Japan’s Competing Modernities: Issues in Culture and Democracy*, ed. Sharon Minichiello (Honolulu, 1998).

⁵² Moss and Russell, *An Invaluable Treasure*, 145–65.

⁵³ Margaret Schoenfeld, “Trend in Wage Earners’ Savings in Philadelphia,” *Annals of the American Academy of Political and Social Science* 121, suppl. (Sept. 1925): 341–42.

⁵⁴ Eugene White, “The Political Economy of Bank Regulation, 1864–1933,” *Journal of Economic History* 42 (1982): 33–40.

successfully lobbied state lawmakers to pass legislation preventing the expansion of “national building associations,” which had achieved some early success in the 1880s and 1890s.⁵⁵ In contrast, in the United Kingdom, efforts to create concentrated private nationwide commercial banks and building associations proceeded relatively unhindered, as did the creation of the central public system of postal savings.⁵⁶ The ability of state-chartered intermediaries in the United States to undermine such centralization and concentration, whether in the form of either public or private institutions, thus marked an important distinction in the way the structure of personal finance developed in the United States. Instead, local influences and affiliations prevailed.

The Character of Local Competition

As also occurred in Germany, constraints on the formation of a centralized savings bank in the United States shifted the focus to competition among existing financial institutions as the arena in which the institutional structure of personal finance was forged. In both countries, savings banks and commercial banks cooperated in efforts to defeat postal savings, but they also competed against each other with growing intensity in the market for personal finance. Yet the institutional outcomes of this competition diverged: whereas the German savings-bank group diversified their financial services and expanded their capabilities to become successful “one-stop-shops” for middle-class citizens in their local economies, American savings banks remained comparatively narrow, undiversified institutions, intent on protecting their core savings-account business and permitting commercial banks and a host of other new entrants to move into the market for personal finance.⁵⁷ As a result, German savings banks managed to hold onto their share of the market for financial intermediation, whereas the position of American

⁵⁵ Mason, *From Building and Loans to Bailouts*, 32–29; Josephine Ewalt, *A Business Reborn: The Savings and Loan Story* (Chicago, 1962), 381–85.

⁵⁶ Herbert Ashworth, *Building Society Story* (London, 1980); Peter Scott and Lucy Newton, “Advertising, Promotion, and the Rise of a National Building Society Movement in Interwar Britain,” Henley School of Management, discussion paper 081 (2009).

⁵⁷ Jeffrey Fear and R. Daniel Wadhvani, “Populism and Political Entrepreneurship: The Universalization of German Savings Banks and the Decline of American Savings Banks, 1908–1934,” in *Doing Business in the Age of Extremes*, ed. Jürgen Kocka, Dieter Ziegler, and Hartmut Berghoff (New York, forthcoming). On savings banks in Germany, see Günther Schultz, “The German Savings Banks between State and Market,” in *Savings Banks between State and Market*, ed. Chris DeNoose (Brussels, 2001), 48–65; Günther Schultz, “Savings Banks since 1800: The German Case,” paper given at *Congreso Internacional De Historia de Las Cajas de Ahorros*, Murcia, Spain, 16–18 Oct. 2008; Mura, “Germany”; Timothy Guinane, “Delegated Monitors, Germany’s Banking System, 1800–1914,” *Journal of Economic Literature* 40 (Mar. 2002): 73–124.

Table 2
Savings Banks' Share of Assets Held by Major Financial Institutions (in percent)^a

Year	United States Savings Banks	Germany	
		Sparkassen	Savings-Bank Group
1880	23	32	32
1900	16	29	29
1913	13	27	29
1929	10	20	32

Sources: *Deutsches Geld-und Bankwesen in Zahlen, 1876–1975* (1976); Jeremy Edwards and Sheilah Ogilvie, “Universal Banking and German Industrialization: A Reappraisal,” *Economic History Review* 49 (1996); Susan B. Carter, et al., *Historical Statistics of the United States: Millennial Edition* (New York, 2006), Table Cj741–747.

^a“Major financial institutions” includes commercial banks, savings banks, life insurance companies, and building associations in the United States. It includes credit banks, mortgage banks, savings banks and affiliated organizations, credit cooperatives, and life insurance in Germany.

^bThe German “savings bank group” includes affiliated regional and national institutions, i.e., the *landesbanken* and *girozentralen*.

savings banks steadily deteriorated, even in their core markets.⁵⁸ (See Table 2.)

While preexisting national differences in ownership structure and geographic reach partly explain these outcomes, the primary reasons for the divergence stemmed from differences in the legal and regulatory institutions governing innovation and competition in personal finance in each country.⁵⁹ Whereas German savings banks successfully won the legal right to expand into new products and services in order to compete effectively with credit banks, the strategic actions of American savings banks were increasingly circumscribed by rules that limited their ability to innovate and compete in emerging product and geographic markets for personal finance. These legal constraints, combined with the relative stability of their basic savings business, fostered an organizational

⁵⁸ U.S. savings banks' share of all savings held by major intermediaries declined from 45 percent to 21 percent, while their share of institutional lending on real estate declined from 44 percent to 26 percent between 1900 and 1930. Lintner, *Mutual Savings Banks*, 463; Leo Grebler, David Blank, and Louis Winnick, *Capital Formation in Residential Real Estate* (Princeton, 1956), 468–80. “Savings,” for these statistics, include savings and time deposits in savings banks and commercial banks, the unpledged shares of savings and loan associations, and net equity in life insurance.

⁵⁹ By the turn of the century, savings banks existed throughout Germany, whereas in the United States mutual savings banks were concentrated in the Northeast and Mid-Atlantic. Though stock savings banks were formed in parts of the Midwest and South, these tended to be very small. Also, in Germany, most of the savings banks were linked to local governments, giving them an implicit public guarantee.

culture among savings banks that viewed most innovation as entailing risks that were inappropriate to their underlying mission.

The regulatory environment in the United States led to increasingly vigorous attempts by state and local officials to protect small savers by creating rules and standards for the management of savings banks. While American political institutions and policies fostered the creation of a fragmented system of localized financial institutions that was susceptible to economic instability, state policymakers were nevertheless troubled by the failure of savings banks during the episodic crises that marred nineteenth-century financial markets. Small savers, they reasoned, were in a poor position to monitor these institutions and could be particularly hard hit by the loss of their limited financial assets. In the decades following a wave of savings-bank failures in the 1870s, state courts and legislatures established stricter fiduciary standards, limited the scope of allowable transactions, and steadily raised incorporation requirements for mutual savings banks—restrictions that eventually weakened the ability of American savings banks to expand into diversified local intermediaries.

Judges, for instance, expanded the personal liability of mutual savings-bank trustees for decisions they deemed inappropriately risky for small savers. In the landmark case of *Hun v. Cary*, the New York Supreme Court held the trustees of the Central Savings Bank personally liable for a failed investment in a bank building that had been designed to publicize the institution. The supreme court explained the especially high standards for the duty of care expected of savings-bank trustees: “What would be slight neglect in the care exercised in the affairs of a turnpike corporation or even of a manufacturing corporation, might be gross neglect in the care exercised in the management of a savings bank intrusted with the savings of a multitude of poor people.” The judges emphasized that savings banks “[were] not to engage in speculations or money-making in a business sense.”⁶⁰ Savings-bank managers and their legal counselors in turn understood that they lacked the authority to take the kinds of risks that other intermediaries could bear. “By reason of the trust relation, the managers of Savings Banks are properly held to a much stricter accountability than the directors of discount banks and trust companies,” explained J. H. Manning, the president of the Savings Bank Association of New York. “When trustees lose sight of this,” he continued, “they are in imminent danger of crossing the line of safety.”⁶¹

Legislatures likewise imposed regulations designed to limit the risks to which savings banks were exposed. In particular, they restricted

⁶⁰ *Hun v. Cary* 82 N.Y. (1880), 65, 71, 78; Arthur Sedgwick, “Trustees as Tort-Feasors,” *American Law Review* 10 (1880); R. Daniel Wadhvani, “Protecting Small Savers: The Political Economy of Economic Security,” *Journal of Policy History* 18 (2006): 136–39.

⁶¹ James Manning, *Century of American Savings Banks* (New York, 1917), 234.

the kinds of investments mutual savings banks could make, typically limiting them to certain classes of public debt and loans on secured property. Savings-bank laws also explicitly restricted the kinds of funds the institutions could accept, prohibiting in most states liabilities other than small savings accounts.⁶² Moreover, many states imposed increasingly strict capitalization and incorporation requirements on mutual savings banks in order to prohibit the establishment of smaller, riskier institutions. New York, for instance, sharply raised the financial requirements for establishing a mutual savings bank, despite the earlier prohibition imposed on such institutions against incorporators reaping any financial benefit from their investment because of the banks' non-profit status.⁶³

These legal developments fostered an organizational culture and environment that prioritized caution and conservatism above all. William Kniffin, an authority on savings banks, explained that "the principal features of a savings bank are that they offer safe security with no profit to the managers, as contradistinguished from a larger rate of interest and less security."⁶⁴ Savings-bank officials even repeatedly described themselves as extremely conservative in their management of the institutions, a stance they believed reinforced the public impressions of the safety of the institutions. "A more conservative lot of men do not exist in this state than those who are at the head of the Savings Banks of the State," explained New York's bank superintendent in 1897.⁶⁵

As a result, American savings banks, unlike their German counterparts, failed to expand into the fastest-growing geographic and product markets. The German savings banks (known as *sparkassen*) aggressively expanded their local branch networks, establishing a critical geographic advantage over their commercial bank rivals. They also "universalized" their activities by engaging in commercial and investment banking activities, such as payments services, small-business lending, and securities underwriting, in addition to expanding the scope of services they offered to middle-class households. In 1919, they introduced life-insurance products, and, in a strategic move initiated by the national association in the 1920s, they moved actively into consumer mortgage loans by establishing group-level "building associations" that offered second-mortgage lending in syndication with first mortgages from the *sparkassen*. These moves helped ensure that middle-class households

⁶² Wadhvani, "Protecting Small Savers," 126–45.

⁶³ Frank Bennett, *The Story of Mutual Savings Banks* (Boston, 1924), 104–5. There were variations in these trends by region as some midwestern states relaxed rules on stock savings banks. Howard H. Preston, *History of Banking in Iowa* (Des Moines, 1922), 155. On state and regional variation, see Wadhvani, "Organizational Form."

⁶⁴ William Kniffin, *The Savings Bank and Its Practical Work* (New York, 1912), 24.

⁶⁵ Frederic Bliss Stevens, *History of the Savings Banks Association of the State of New York* (Garden City, N.Y., 1915), 78; Manning, *Century of American Savings Banks*, 21.

would maintain their long-standing relations with the institutions, even in the face of competition and the introduction of new products by competing intermediaries.⁶⁶ U.S. savings banks, in contrast, maintained a remarkably conservative stance on geographic and product expansion. They refused to move into second mortgages or to develop amortized loans, despite competition from building associations, and they allowed commercial banks to creep into the market for first mortgages. Their ability to expand geographically into fast-growing outlying urban neighborhoods in the 1910s and 1920s was undermined in many states by antibranching laws and increasingly strict incorporation requirements. As a result, the number of mutual savings banks in the United States actually declined from 668 to 606 between 1905 and 1930, at a time when the number of commercial banks and building associations was increasing rapidly.⁶⁷

By the early twentieth century, the combination of legal restrictions and organizational culture led savings-bank trustees and managers to develop an especially narrow conception of their place in the market. The anemic development of savings-bank life insurance (SBLI) illustrates this narrow strategic vision well. The concept of SBLI was promoted not by the savings banks but rather by Progressive-Era reformers, especially Louis Brandeis. Brandeis, who had been pivotal in bringing charges of unscrupulous business practices against the life-insurance companies in the Armstrong Investigation of 1905, argued that mass-market industrial life insurance had taken advantage of working-class households through the use of the door-to-door agency system to market the product. Forty percent of premium payments, he calculated, went directly into agents' commissions. Brandeis reasoned that the public could be offered more cost-effective, over-the-counter life insurance through the existing system of savings banks, whose management costs he calculated accounted for only 1.47 percent of deposits. Moreover, he pointed out, savings banks already had the infrastructure and capabilities to provide over-the-counter industrial insurance to the public.⁶⁸ Rallying leading businessmen and lawmakers to the cause, he successfully lobbied the Massachusetts legislature to pass enabling legislation for SBLI in 1907.

Most Massachusetts savings banks, however, not only opposed the measure but also fought its adoption once it was passed. Henry Parkman, the treasurer of the venerable Provident Institution for Savings in

⁶⁶ Mura, "Germany," 121–22; Fear and Wadhvani, "Populism and Political Entrepreneurship."

⁶⁷ U.S. Comptroller of the Currency, *Annual Report* (1945), 49.

⁶⁸ Louis Brandeis, "Why Not Savings-Bank Life Insurance for Wage Earners?" *American Monthly Review of Reviews* 35 (1907): 339; Weldon Welpling, *Mutual Savings Banks* (Cleveland, 1968), 188; Alpheus Thomas Mason, *The Brandeis Way* (Princeton, 1938); Donald Johnson, *Savings Bank Life Insurance* (Homewood, Ill., 1963).

Boston, explained at a hearing that a survey he had conducted of the treasurers of Massachusetts savings banks revealed that only six of the 153 who responded supported SBLI.⁶⁹ Parkman captured the sentiments of his counterparts in explaining that “nothing experimental should be done that may in the least be hurtful to the confidence of the community in the savings banks.”⁷⁰ Even after the enabling legislation was passed and major employers like Edward Filene made efforts to publicize SBLI, most savings banks showed little interest in the product. As late as 1922, fifteen years after the enabling legislation was passed, only four savings banks in the state offered SBLI. The product subsequently grew more rapidly, but this trend occurred largely because of the efforts of employers and unions, rather than as a result of any actions taken by the savings banks. Outside Massachusetts, SBLI was not adopted until the late 1930s and 1940s, by which time the major life-insurance companies had once again regained their reputations and re-established their dominance over the product.⁷¹

Over time, the conservatism of American savings-bank managers fundamentally limited the development of their institutions’ capabilities. This was evident not only in their narrow product scope and geographic reach, but also in their associational and collective action capabilities. In Germany, savings banks associated not only to engage in political action but also to create group-level capabilities that were crucial to competing effectively with the large credit banks. They formed joint regional and national institutions that offered liquidity, facilitated interregional payments, and syndicated large loans. The regional and national associations also helped establish standardized financial and accounting standards, offered professional development and training for local staffs, and transferred strategic information and best practices to the local savings banks. Though the collective capabilities and institutions developed by the German sparkassen were more advanced than those of savings banks in other countries, they were hardly unique. Similar collective regional and national institutions were established by savings banks in Spain, Italy, Finland, Norway, Sweden, Austria and Switzerland in order to provide liquidity, training, scale advantages, risk sharing, and enhanced investment opportunities to local savings banks.⁷²

⁶⁹ Mason, *Brandeis Way*, 187.

⁷⁰ *Ibid.*

⁷¹ Johnson, *Savings Bank Life Insurance*, 24–26.

⁷² Bernardo Bátiz-Lazo, “Strategic Alliances and Competitive Edge: Insights from Spanish and U.K. Banking Histories,” *Business History* 46, no. 1 (2004): 23–56. See also Hans Pfisterer and Bernard Vogler, “Introduction,” 13–14; Christian Dirnger, “Austria,” 17–62; Antti Kuusterä, “Finland,” 131–36; and Ingvar Körberg, “Sweden,” 325–44, all in *History of European Savings Banks*, vol. 2, ed. Jürgen Mura (Stuttgart, 2000); Manuel Titos Martínez, “Spain,” 288, and Hertner, “Italy,” 202, 207–8, in *History of European Savings Banks*, ed. Jürgen Mura (Stuttgart, 1996).

In contrast, American savings banks developed far weaker collective institutions. State-level associations were established in New York and Massachusetts in 1894 and 1919, respectively, in order to influence legislation on the scope of investment savings that banks could undertake, and a national association was eventually formed in the 1920s.⁷³ However, even then, individual savings banks remained reticent about collective action, for fear of relinquishing control of trustee authority.⁷⁴ As a result, the associations remained focused on a modest agenda, rather than developing significant collective strategic and operational capabilities.⁷⁵ Nor did the associations try to make fundamental changes to the rules restricting the scope of savings-bank activities. Even though trust companies and commercial banks were actively gaining expanded legal rights to move into the traditional markets served by savings banks, the American savings-bank associations responded by calling for each institution to take its “proper place,” rather than demanding equal scope for competitive action, as the German savings-bank associations had successfully done. “Each class of banking institutions has its own particular field and lines of demarcation are entirely clear,” insisted James Hilton Manning, president of the Savings Bank Association of the state of New York in 1917. “Neither [savings banks nor commercial banks] should encroach in the slightest degree upon the domain of the other.”⁷⁶

The inability of American savings banks to respond collectively to competition and to diversify into locations and services that were becoming crucial to households and local businesses also undermined their ability to position and market themselves. By expanding their services and developing regional and national group capabilities, German savings banks were able to position themselves as one-stop shops for the urban middle classes in their local economies. They could effectively compete with the large Berlin banks, both in their range of services and in the sophistication of their operations, while still legitimately claiming to know local markets and customers better than their rivals. American savings banks, in contrast, slowly lost a clear position in the

⁷³ Stevens, *History of the Savings Banks Association of the State of New York*, 3–29; Mutual Savings Banks Association Records, Burns Library, Boston, Massachusetts.

⁷⁴ See the discussion in Stevens, *History of the Savings Banks Association of the State of New York*, 21–22.

⁷⁵ The Savings Bank Association of New York did briefly establish institutions to provide members with liquidity, a guaranty fund, and joint investment opportunities and advice in reaction to the crisis of the Great Depression, but members subsequently opted out of participating in this system. W. H. Steiner, “The New York Mutual Savings Banks Fund,” *Journal of Political Economy* 52 (1944): 74–79.

⁷⁶ Manning, *Century of American Savings Banks*, 234.

market as competitors outflanked them in convenience, product features, service, and customer segment specialization. Commercial banks and trust companies offered a broader range of services for local business customers, while specialized intermediaries, such as building-and-loans and insurance companies, offered greater depth of capabilities in the fastest-growing financial products for households. Institutions that specialized by neighborhood or ethnic group also increasingly peeled off niche markets. Hence, while some local savings banks in the United States maintained strong individual reputations based on their history and longevity, in contrast to their equivalent institutions in Germany they never developed a clear position, identity, or brand as a group in the face of new competition.⁷⁷

Ironically, a final reason for the conservatism of American savings-bank managers and trustees may well have been the relative stability of their core business in the first three decades of the twentieth century. Though American savings banks faced increasing competition and suffered declining market share, their main business continued to grow in absolute terms. In fact, the assets under management by American savings banks doubled in inflation-adjusted terms between 1900 and 1929, even as their market share deteriorated.⁷⁸ As a result, American savings-bank managers experienced little urgency to change strategic direction and expand their scope, and they faced considerable legal and normative costs had they chosen to do so. German savings banks, in contrast, were up against a more dire situation, especially after the country's defeat in World War I and the onset of hyperinflation in the 1920s. The inflation made savings banks' main business of maintaining long-term investments in fixed-rate bonds and mortgage loans unsustainable and hastened the diversification that had already begun. The sparkassen had to embrace a more "banklike" business and assume a more aggressive strategic stance, because their core product markets had become obsolete virtually overnight, and change was necessary for survival.⁷⁹

⁷⁷ Wilfried Feldenkirchen, "When It Comes Down to Money: History and Corporate Culture of the Savings Banks in Germany," in *Savings Banks: A Dynamic Strategy Based on a Strong Identity* (Stuttgart, 2004), 19–31; Fear and Wadhvani, "Populism and Political Entrepreneurship;" Elizabeth Cohen, *Making a New Deal: Industrial Workers in Chicago, 1919–1939* (New York, 1990), 75–83; "Flurry of October 1931," 1, Banking Crises of the 1930s Record Group, Philadelphia Saving Fund Society Collection, Hagley Museum and Library, Wilmington, Del.; *Immigrant Banks*, vol. 37 of *The Reports of the Immigration Commission* (Washington, D.C., 1911).

⁷⁸ Carter, *Historical Statistics*, Table Cj362–374.

⁷⁹ Schultz, "German Savings Banks," 53; Gerald Feldman, *The Great Disorder: Politics, Economic, and Society in the German Inflation, 1914–1924* (New York, 1993), 846.

Impact

The absence of a competitive, diversified savings banking system in the United States shaped the development of personal finance in a number of ways.

Fragmentation and Innovation. First, it contributed to the fragmentation of the institutional structure that supported ordinary Americans' ability to save, borrow, and manage risk. In the absence of a dominant incumbent institution serving households, and faced with increasingly affluent middle and working classes, the market for personal finance became both attractive and relatively easy for other institutions to enter. Many of the commercial banks that were established after the turn of the century, especially in the fast-growing outlying residential neighborhoods of cities, thrived in large part by offering savings or time accounts and by investing in mortgages, the markets that had traditionally been served by savings banks.⁸⁰ Building-and-loan associations flourished by drawing away business that otherwise might have gone to savings banks. By targeting specific social and ethnic groups, by locating within growing residential neighborhoods, and by offering amortized mortgage loans rather than traditional ones, building associations grew considerably faster than savings banks during this period.⁸¹ Securities brokers and investment companies also flooded into the market for middle-class saving and investing in the 1910s and 1920s.⁸² Even large employers established a presence in the personal finance sector by introducing investment plans and pensions systems for employees.⁸³ In contrast, in countries with large, diversified savings banks, these newer entrants typically had more limited success.⁸⁴ (See Table 3.)

This proliferation of specialized intermediaries heightened compe-

⁸⁰ Carter, *Historical Statistics*, Tables Cj 265–272 and Cj 251–264; Krooss and Blyn, *A History of Financial Intermediaries*, 152–56.

⁸¹ Mason, *From Building and Loans to Bailouts*, 40–68. Building societies were also successful in the United Kingdom by the 1920s and 1930s. Johnson, *Saving and Spending*, 116–25; Peter Scott, “Marketing Mass Home Ownership and the Creation of the Modern Working-Class Consumer in Interwar Britain,” *Business History* 50 (2008): 4–25.

⁸² Ott, “The Free and Open People’s Market,” 45; Krooss and Blyn, *A History of Financial Intermediaries*, 167; Gardiner Means, “Diffusion of Stock Ownership in the United States,” *Quarterly Journal of Economics* 44 (1930): 561–600.

⁸³ Schoenfeld, “Trend in Wage Earners’ Savings in Philadelphia,” 18–25, shows that five of the nineteen industrial concerns she surveyed offered stock purchase plans; Sass, *The Promise of Private Pensions*.

⁸⁴ In these countries, commercial banks often did not actively develop services for middle- and working-class households until the post-World War II era. Alan Booth and Mark Billings, “Contested and Contestable Markets in British Retail Banking, 1945–1970,” paper presented at the Economic and Business Historical Society Conference, Columbus, Oh., 15 Apr. 2011; Moster and Vogler, “France,” 84–85; Goldsmith, *Financial Development*, 85–87. To some extent Great Britain, where insurance companies and building associations expanded rapidly, was an exception.

Table 3
 Number of Various Types of Intermediaries
 in the United States

<i>Year</i>	<i>Mutual Savings Banks</i>	<i>Commercial Banks</i>	<i>Building Associations</i>
1880	629	3,355	na ^a
1885	646	4,350	na
1890	637	8,201	na
1895	664	9,818	na
1900	652	12,427	5,356
1905	668	18,152	5,291
1910	638	24,514	5,869
1915	630	27,390	6,443
1920	620	30,291	8,633
1925	611	28,442	12,626
1930	606	23,679	11,777

Sources: Susan B. Carter, et al., *Historical Statistics of the United States: Millennial Edition* (New York, 2006), Table Cj741–747; John Lintner, *Mutual Savings Banks in the Savings and Mortgage Markets* (Andover, Mass., 1948).

^ana, not applicable.

tion for middle- and working-class customers, spurring price changes, innovation, and aggressive marketing of new financial services to households. By the 1920s, interest-rate competition and marketing expenditures designed to attract small savers and borrowers increased considerably as new entrants tried to draw customers away from traditional savings banks. The spread between the interest rate on “time accounts” offered by commercial banks and the rate paid by the mutual savings banks increased from 0.53 percent in 1922 to 1.16 percent in 1929. The interest rate on building-and-loan deposits in the late 1920s was actually more than two percentage points higher than that paid by commercial banks.⁸⁵

Heightened competition also stimulated innovation in products and terms, not only for personal saving and investing but also for borrowing. Building-and-loan associations in Philadelphia and Baltimore, for instance, offered second mortgages beginning shortly after 1910 and continuing through the 1920s, decreasing down-payment needs and stimulating a strong increase in mortgaged home ownership.⁸⁶ Mainstream

⁸⁵ *Response to Change: A Century of Commercial Bank Activity in the Savings Field* (New York, 1965), 37. Schoenfeld, “Trend in Wage Earners’ Savings in Philadelphia,” 57–58.

⁸⁶ William Loucks, *The Philadelphia Plan of Home Financing* (Chicago, 1929), 1–24; Samuel Reep, *Second Mortgages and Land Contracts in Real Estate Financing* (New York, 1928), 90–108.

institutional lenders also began offering unsecured consumer loans for the first time. Though private, unregulated small-loan companies were not new, the product was first exploited on a large institutional scale by Arthur Morris, who established a chain of “Morris Plan Companies,” or industrial banks, beginning in 1910. By the eve of the Great Depression, several of the larger New York City commercial banks had established consumer-loan departments.⁸⁷ Competition also led to more aggressive marketing to households. Commercial banks and building associations, for instance, established promotional offers for opening accounts and provided incentives to employees for bringing in new customers.⁸⁸

Changes in Household Financial Behavior. The United States’ weak savings-bank system, combined with price competition, new product introductions, and intensive marketing by specialized intermediaries, contributed to a noticeable shift in household financial strategies and lifecycle asset holding patterns. Between the 1890s and the 1920s, ordinary Americans moved away from older forms of financial asset accumulation, replacing the amassing of cash balances and savings-bank accounts with financial strategies that hinged on the newly introduced financial products. The shift is illustrated in Figure 2, which displays annual saving and borrowing of various financial assets and liabilities by individuals in the United States who were not engaged in agriculture. Savings-bank deposits remained steady in real terms, but other forms of financial saving and borrowing grew considerably. From representing only a fraction of the amount entrusted to savings banks in the late 1890s, building-and-loan and life-insurance deposits grew to the point of surpassing those made to savings banks by the late 1920s. Securities holding boomed and, though their adoption was still very limited, private and public pensions started to become an alternative way to save for old age. Most notably, saving in the form of home ownership and consumer durables became a primary form of asset accumulation, fueled in large part by the rapid growth in mortgage and consumer debt. In particular, the growing availability of low-down-payment mortgage credit in many cities by the 1920s allowed an increasing number of Americans to acquire homes (and consumer durables) earlier in their lives, shifting traditional life-cycle saving patterns.⁸⁹ (See Figure 2.)

⁸⁷ Calder, *Financing the American Dream*, 111–55; Krooss and Blyn, *A History of Financial Intermediaries*, 154; Easterly, “Your Job is Your Credit,” 206–44.

⁸⁸ See, for instance, Mason, *From Building and Loans*, 46–47; Cohen, *Making a New Deal*, 79; Harvey Alvaro Blodgett, *Double Your Savings* (St. Paul, 1921). On the United Kingdom, see Lucy Newton, “Branding, Marketing, and Product Innovation: The Attempts of British Banks to Reach Consumers in the Interwar Period,” Henley School of Management Discussion Paper 2008-55 (2008).

⁸⁹ Wadhvani, “Citizen Savers,” 265–83; Olney, *Buy Now*, 57–85; Goldsmith, *Study of Saving in the United States*, 359–61; Schoenfeld, “Trend in Wage Earners’ Savings in Philadelphia,” 57–59.

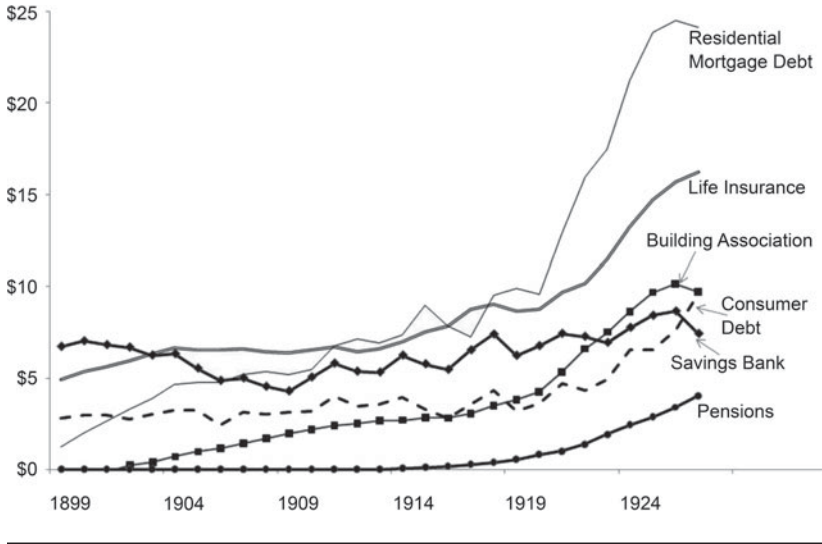


Figure 2. Selected forms of annual saving and borrowing per capita for nonagricultural individuals (1929 dollars, five-year moving average). Excludes saving in the form of currency, demand deposits, securities, mortgage holding and borrowing on securities. Residential mortgage debt is on one- to four-family homes only. (Sources: Raymond Goldsmith, *Study of Saving in the United States*, vol. 1 [Princeton, 1956], Table T-8, 359–61; Paul David and Peter Solar, “A Bicentenary Contribution to the History of the Cost of Living in America,” *Research in Economic History* 2 [1977]: 16–17.)

These new patterns of household saving, borrowing, and managing risk were not fully institutionalized, as some parts of the country still lacked many of these financial services. But by the 1920s, a shift in household financial planning was underway, prompted by the availability of attractive new financial products and terms for households. Though some of these products and services were also available in other developed countries, they were not typically as widespread as they were in the United States. The dominance of savings banks and policies that encouraged saving in the form of deposit accounts bolstered older patterns of financial asset accumulation and slowed the adoption of new services and terms in Europe and the United Kingdom.⁹⁰

Risk and Failure. While heightened competition stimulated innovation, it also left American institutions particularly susceptible to

⁹⁰ Schoenfeld, “Trend in Wage Earners’ Savings in Philadelphia.” On persistent international differences in the allocation of financial assets by households later in the twentieth century, see Raymond Goldsmith, *Comparative National Balance Sheets* (Chicago, 1985), 179–85. The United Kingdom, like the United States, did experience the popularization of insurance, annuities, and mortgage loans. Johnson, *Saving and Spending*; Scott, “Marketing.”

failure. Competition increased the cost of funds and decreased the return on assets for most institutions, leaving them with slim margins even in good times.⁹¹ Moreover, unlike the large, diversified savings banks that were developing in other countries, the newer financial intermediaries in the United States were much more limited in their ability to manage risk. Due to constraints on expansion, many survived on a single product, at a single location, delivered to a niche demographic. The narrow scope made them especially susceptible to shocks affecting their core business.⁹² During the extended boom of the 1920s, most of these newer institutions were buoyed by rising asset values. But as real estate and other asset values declined after 1929, an enormous number of the newer commercial banks, building associations, and investment companies failed. In contrast, savings banks in the United States and in other countries remained quite stable, even in the midst of upheaval. Between 1930 and 1933, 36 percent of commercial banks suspended operations and 4.4 percent of building associations failed outright, but only 1.7 percent of savings banks suspended operations.⁹³ But absent a large savings-bank sector, the stabilizing effects of the institutions in the United States were modest.

Conclusion

By the 1920s, personal finance in the United States was characterized by high levels of fragmentation and localization, intense competition and innovation, and secular changes in the financial behavior of households. The pattern of development was different in countries that maintained strong, diversified savings banks. In countries with centralized and nationalized savings-bank systems, for instance, personal thrift continued to be promoted as paramount, and new entrants into the market faced high barriers in the form of the singular security of state-owned institutions, the extensive network of retail outlets provided by the postal savings systems, and the often attractive terms for saving and investing and for insurance and annuities provided by the state. Likewise, in countries where strong, diversified regional savings banks developed, opportunities for specialized intermediaries or commercial banks to expand aggressively into household finance also remained more limited than in the United States. These centralized and regional

⁹¹ "Flurry of October 1931," 1, Banking Crises of the 1930s Record Group, Philadelphia Saving Fund Society Collection, Hagley Museum and Library, Wilmington, Del.

⁹² Calomiris, *United States Bank Deregulation in Historical Perspective*, 93–163, 212–79.

⁹³ George Benston, "Savings Banking and the Public Interest," *Journal of Money, Credit, and Banking* 4 (1972): 144–45; Welfling, *Mutual Savings Banks*, 84.

organizational structures tended to funnel capital into state building, infrastructure development, and regional enterprise development, rather than into financing home ownership and consumption.

The United States' fragmented institutional structure, in turn, held broader implications for the role of personal finance in shaping consumer capitalism in modern America. First, it helped establish boundaries on the role of the central state in the modern American consumer financial system. In the late nineteenth and early twentieth centuries, most modern states embraced a range of new roles vis-à-vis the personal financial decisions of their citizens: they developed regulations to govern transactions between intermediaries and households; they themselves became important direct providers of financial services for individuals; and they became large, permanent borrowers in the mass market for financial services. Personal finance, in other words, became an arena reshaping the economic relations between citizens and their central state. The boundaries placed on the state's role were, in turn, critical in defining the scope of possibilities open to other organizations in the market, including intermediaries, brokers, and employers. The international trend among wealthy countries in the period was toward the expansion of all three of these roles for the state: as regulator, as intermediary, and as borrower. While the United States developed a vigorous regulatory role for the state at the local level, it did not become a major direct intermediary to the public, and its role as a borrower in the mass market was episodic rather than permanent. Understanding the development of personal finance in the United States requires recognition of the degree to which the country's federalist political structure placed strong limitations on the role played by the central state in the financial affairs of its citizens and of the power these restrictions gave to state-chartered intermediaries. Many of the basic terms of the state's role in modern American personal finance had thus already been forged before the 1930s.

Second, the fragmented structure of the industry in the United States stimulated innovation in personal finance while leaving unanswered the question of how the attendant risks of innovation would be handled. Encountering low barriers to entry and few large incumbent providers of financial services to households, financial entrepreneurs faced few obstacles in introducing innovations that promised easier terms, better services, and higher returns. By the late 1920s, newer entrants into the market offered, among other tantalizing products, amortized mortgages, consumer loans, small-denomination life insurance, unfunded pensions, second mortgages requiring low down payments, investment trusts, and employer-backed stock purchase plans. The challenges presented by such innovations were the difficulties entailed in

judging their long-term value and deciphering their attendant risks in an expanding economy. The risks inherent in these innovations were compounded by the undiversified and localized nature of the businesses of most of the financial entrepreneurs who created them. The industry structure thus shaped a system that fostered both considerable innovation and considerable risk in the kinds of financial services households received. The problem of who exactly would bear the higher risks of such a fragmented system, and how they would do so, would remain a critical question throughout the twentieth century.⁹⁴

Finally, the fragmentation of the sector also had implications for the role of personal finance in shaping contests over the social and political identities of American citizens. Absent institutions that strongly linked personal finance to national identity, or even to broad regional or class interests, the United States' fragmented system of saving, borrowing, and managing risk became a crucial arena in local contests for control of citizens' social and political loyalties. Employers tried to cement the fidelity of employees through the provision of pensions and insurance. Building-and-loans tried to tie their interests to particular neighborhoods. And in many urban areas, local intermediaries and their services were often linked to specific ethnic, racial, or class affiliations. Differences in access to such services would in turn become important points of political friction in modern America. Fragmentation in the institutional structure of personal finance henceforth laid the foundations for contests over social and political identities and rights, as well as for control over pocketbooks.⁹⁵

These broader economic, political, and social implications of the fragmented U.S. system of personal finance would take decades to play out. Their foundations, however, were laid by the dynamics shaping competition and institutional structure in the half-century before the Great Depression.

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⁹⁴ Deposit insurance and the Pension Benefits Guarantee Corporation, for instance, can both be seen as attempts to deal with such risks. On the shifting risk burden in the last few decades, see Andrea Ryan, Gunnar Trumbull, and Peter Tufano, "A Brief Postwar History of U.S. Consumer Finance," in this issue.

⁹⁵ See, for instance, Helena Flam, "Democracy in Debt: Credit and Politics in Patterson, N.J., 1890–1930," *Journal of Social History* 18 (Spring 1985): 439–62; Cohen, *Making a New Deal*, 75–83.