Distorted Competition and Public Interest in the West German Banking Industry in the 1960s

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This paper analyses competition and public interest in West Germany's banking system in the 1960s, considering the dispute between three banking sectors, the government's inquiry into the banking industry, and the economic experts' input on the liberalization of interest rate. The inquiry commission report of the Federal Government, submitted in 1968, recognized the principle of public interest of savings banks. However, the three-pillar model of the German post-war banking system continued as a bipolar characteristic feature of the system's regulatory market economy framework.

Keywords: banking system; savings banks; competition; liberalization; policy; public interest

1. Introduction

This paper analyses competition and public interest in West Germany's banking system in the 1960s, considering the dispute between three banking sectors, the government's inquiry into the banking industry and the economic experts' input on the liberalization of interest rates.[1]

West Germany's rapid economic growth from the outbreak of the Korean War to the 1967 recession occurred on a background of high production capacity before and during World War II and the post-war economic reform supported by the Allied Forces, making a splendid comeback to the European and the international market. Its high economic growth continued until the recession of 1966/67.

Meanwhile, the banking sector was restored from the dissolution during the occupation. The so-called three-pillar model (*Drei-Säulen Modell*) of the German banking system, which had been built as a historical feature in the Weimar era, took back its figure in the 1950s and the competition within the three groups of the banking industry intensified thereafter.

Fohlin recognizes that the banking industry continued its structural change after World War II and the more important developments in the financial system involved diversification of bank services and the gradual disappearance of differentiation among bank types. Moreover, the work stresses, in particular, the banks' involvement in corporate ownership and control by the proxy voting right of banks to nonfinancial

[1] For this paper, the following two articles written in Japanese are revised: Ikuo Mitsuishi, 1960, Nendai Niokeru Nishi-doitsu Ginkou Sisutem no Kouzouhenka to Kyousoutitujo [Structural Change and the Regulatory Framework of the Banking System in West Germany in the 1960s], *The Annals of Human and Social Sciences, Faculty of Economics, Shiga University*, Vol. 22, 2015, pp. 1–26; Ikuo Mitsuishi, Sengo Nishi-doitsu Koudoseishouki niokeru Ginkougyou no Saiken to Kyousou [Banking Structure between Reconstruction and Competition in West Germany 1948–1968], *Hikone Ronso*, The Economic Society of Shiga University, No. 394, 2012, pp. 174–188.

industries in the post-war era.[2]

The bank's power can be understood in the group of big commercial banks that have been previously destroyed and concentrated again in 1957. As for the bank's assets, the savings banks get a larger part of savings that were increasing along with the economic growth of the late 1950s and 1960s. Savings banks gave credit not only to municipalities but also to individuals and small- and mid-sized enterprises (Mittelständische Unternehmen).

Burghof and Kondova admit that the three-group model of banking is one of the distinctive features of the German banking and finance system in the post-war period, and that the trend of consolidation within each group was growing as was that of competition.[3]

The process of consolidation and competition within and between the three groups was described in the works of Institut für bankhistorische Forschung in Frankfurt am Main. It labels the period 1958–1965 as one of intensive growth for each bank group and the one of 1966–1973 as an increase of competition between the three groups.[4]

Nevertheless, the competition and opposition between the three groups started in the late 1950s. When the credit business law (Kreditwesengesetz) passed the Federal Parliament on March 16, 1961, it required an inquiry into distorted competition in the banking industry, because private banks claimed that the public bank sector had comparative privileges. Thus, the law would introduce the Federal Bank Supervisory Office (*Bundesaufsichtsamt für das Kreditwesen*) to create fair competition.[5]

The inquiry commission report, which was submitted in 1968, acknowledged that the public bank sector had three main competitive privileges in legal and administrative practices over the private sector. First, savings banks were given priority in administrative and personal relations with the municipalities. Second, savings banks and credit cooperatives were allowed tax exemptions or reductions. Third, savings banks and their savings deposits were guaranteed by municipalities. Against the first two privileges, the Federal Government took measures to permit the municipalities to open the practices and transactions in question to private banks and to abolish tax exemptions with the second tax reform in 1967.

The framework of economic policy was changing from governmental intervention

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[2] Fohlin, Caroline, *Finance Capitalism and Germany's Rise to Industrial Power*, New York, 2007, pp. 309–328.

[3] Burghof, Hans-Peter und Galia Kondova, Kosolidierung und Wettbewerb – Das Drei-Säulen-Modell nach dem Zweiten Weltkrieg, in: *Geschichte und Perspektiven des Drei- Säulen-Modells der deutschen Kreditwirtschaft* (Bankhistorisches Archiv, Beiheft 46), Stuttgart 2007, p. 41.

[4] Pohl, Hans (ed.), *Geschichte der deutschen Kreditwirtschaft seit 1945*, Frankfurt am Main 1998.

[5] Bundestagsdrucksache V/3500: Bericht der Bundesregierung über die Untersuchung der Wettbewerbsverschiebungen im Kreditgewerbe und über eine Einlagensicherung, 18. November 1968.

and regulation before and after World War II to liberalization of the market economy from the late 1950s to the 1960s, in the banking industry as well. This process was influenced by two reports related to the banking policy and its framework of the 1960s. First, the above-mentioned report of the Federal Government inquiry commission suggested the abolition of tax exemptions or reductions, which were allowed only to savings bank and credit cooperatives to the detriment of the private bank sector since the 1920s. Second, the report that Wolfgang Stützel in Saarbrücken submitted to the Federal Ministry of Economics on July 14, 1964, was of influence to the financial system.[6] He discussed the significance of interest rate liberalization, which had been fixed by the official committee since 1931. This paper aims to understand the structural change and the regulatory framework of the West German banking industry in the post-war era.

2. Dispute between three banking groups

2.1. Background of committee set up

The inquiry started with the requirement of the Federal Parliament to the Federal Government on March 16, 1961 to investigate whether and to what extent the competition between the three bank groups is distorted by legal and administrative privileges, and if necessary, which measures should be taken.

The reason why this investigation was demanded is given by the petition of the Schulze-Delitzsch credit cooperatives on August 23, 1962.[7] It suggests that savings banks distort the competition by their economic relationship with municipalities, such as municipalities' expenses, management of funds and transfer transactions. Personal relationships on both sides would make district inhabitants the customers of savings banks. Moreover, securities of ward asset management and management of public funds should be a special privilege given only to savings banks. Credit cooperatives claimed the equal initial prerequisite for fair competition in the banking services.

Moreover, the private banking group intensively criticized the tax privilege enjoyed completely by savings banks and partly by credit cooperatives.

During the investigation, the dispute between private banks and credit cooperatives, on one side, and savings banks, on the other, became more serious. Bureau chief Hoffmann of the national headquarters of savings banks and giro institutions, Deutscher Sparkassen- und Giroverband (DSGV), defended his organization and business against criticism from the other groups at the savings banks' annual meeting

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[6] Die Aufgaben der Banken in der Wirtschaftsordnung der Bundesrepublik und die demgemäß anzustrebende Organisation des Bankenapparates. Gutachten erstattet dem Bundesminister für Wirtschaft von Dr. Wolfgang Stützel, Saarbrücken 14. Juni 1964, in: BArch, B136/7360. This report was published as a book: W. Stützel, *Bankpolitik heute und morgen. Ein Gutachten*, Frankfurt am Main 1964.

[7] Bundesarchiv (BArch), B102/49216, Letter of Deutscher Genossenschaftsverband vom 23. Aug.1962.

on November 6, 1963. He explained that the savings banks had been criticized for the first time from the late 1920s to 1933 because of their personal credit business. He interpreted that the criticism of early 1960s would involve the principle of public interest on which savings banks had been developing up to that point, to reorganize the savings banks type to 'normal type'.

Table 1. Market share of each banking group in %, 1950–1966

1950				
		credit banks	savings banks	cooperatives
credit	short term	48.1	24.0	15.8
	middle / long	5.1	33.1	3.6
debit	sight deposit	40.2	30.4	12.1
	saving	8.2	63.6	22.3
asset		29.8	31.3	12.5
1958				
		credit banks	savings banks	cooperatives
credit	short term	49.1	19.3	18.4
	middle / long	6.0	39.2	5.0
debit	sight deposit	39.9	30.9	14.5
	saving	11.1	60.2	19.2
asset		21.2	37.0	10.7
1966				
		credit banks	savings banks	cooperatives
credit	short term	45.8	22.0	19.3
	middle / long	7.4	40.6	8.5
debit	sight deposit	37.3	34.4	17.2
	saving	13.0	59.1	20.2
asset		18.6	38.5	12.9

(Bundestagsdrucksache V/3500: Bericht der Wettbewerbsverschiebungen, p. 206f., 210f., 216f.)

At the beginning of the remarkable economic growth between 1950 and 1966, credit, savings banks and cooperatives held 29.8%, 31.3% and 12.5% of all the bank asset, respectively, as shown in Table 1. Regarding credit and debit services, credit banks accepted mainly sight deposits and gave short-term credits, but, on the other hand, savings banks held the saving accounts and the long-term services. While credit banks expanded their business into savings and to small private customers, particularly after 1959, saving banks and credit cooperatives focused more on the classical business of universal or credit banks. This development in the financial structure resulted in the gradual disappearance of differentiation and the dispute among bank types.[8]

2.2. Dispute concerning the savings bank's principle of public interest

DSGV acknowledges in its 1961 annual report that the savings bank's principle of public interest is understood as renunciation of profit acquisition and surplus accumulation, which go through requirement for the necessary building of a reserve fund.[9]

Weisser argued, in a magazine article[10], how the public interest principle of the savings banks should be defined. First, democracy and its political practice would need an organization with the principle and mandate of public interest in the market economy, where the private enterprises seek profit. Second, the principle and mandate of public interest would not be legally prescribed in a timeless and general manner. Finally, savings banks would be institutions upholding the principle and implementation of public interest. Nevertheless, they would need to pursue profit and, therefore, expand business.

Private banks criticized Weisser's point of view through a letter to the Federal Ministry of Economy on November 20, 1964. They claimed that savings banks made profit on advantageous terms of tax privilege and got almost 30% of the market share. It would be unfair and dangerous that savings banks have privileges that allow them to expand on a free market of free in which private banks follow its rules.[11]

Moreover, Raiffeisen cooperatives also attacked Weisser's paper, in which he claimed that the savings banks and cooperatives increased the habit of savings and of economic promotion for small and medium-sized businesses and industries. Raiffeisen judged the free competition of the financial market in West Germany to be threatened because of savings banks' privileges, such as guardian's guarantee, business relationship with municipalities and institutional guarantee by municipalities.[12]

2.3. Report of the Federal Government

Along with this dispute, the Federal Ministry of Domestic Affairs gave a report on the subject of public interest in the banking industry in February 1965, which discuss three main themes.[13]

First, it discusses whether the concept of public interest could be standardized in the

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8 Fohlin, ibid., p. 310.

9 *DSGV annual report 1961*, p. 56.

10 Weisser, Gerhard, Gemeinnützigkeit und Paritätspostulat, in: *Sparkasse*, 81. Jg., Ht.22, 1964, pp. 343–361.

11 BArch, B102/72150, Letter of Bundesverband des Privaten Bankgewerbes vom 20. Nov. 1964.

12 BArch, B102/72151, Band 12, Letter of Deutscher Raiffeisenverband vom 9. März 1965.

13 BArch, B102/72151, Band 12. Der Bundesminister der Innern, Erbringung gemein-nütziger Leistungen vom 12. Feb. 1965.

interpretation of German laws. The result was that its concept is prescribed only in tax law and that the public interest should promote and contribute to the whole society and public good, if satisfied in a material, spiritual and moral sense. However, there were not any frameworks of rules in other federal or state government laws. The report concludes, there would be no clear definition of 'public interest'.

Second, the report gives five criteria for understanding the public interest in literature and judicial precedent: giving credit to low income earners, asset building and management for the middle class, renounce profit gains and surplus accumulation beyond reserve funds, operating business with low prospects, and implementation, which public institutions do for the public interest.

Third, the report inquires why the concept of public interest has no clear definition. It points out that the meaning has changed historically as being utilized by the government of the day. For example, one could find the principle of public interest in a savings bank regulation to promote the habit of saving for low income earners in the 19th century. Nevertheless, the economically developed modern society needs a new way of interpreting this concept. The report admits that public interest is necessary in post-war Germany in the field of social policy, middle class policy, saving policy, and credit policy, and that the savings bank is also necessary for putting its policy into practice.

Hitherto, from this general survey of the dispute and discussion, we can understand that the contents of the concept of public interest have changed historically, and that the savings banks have been expanding their businesses to universal banks, and that, in the post-war era, the difference between the three banking groups has disappeared in the late 1950s. This structural change led to a dispute on distorted competition.

Even more than the dispute, of influence to the financial system was the report submitted by W. Stützel to the Federal Ministry of Economics. He discussed not only the problem of banking policy, but also that of external market, including distorted competition.

3. Stützel's bank policy

3.1. Special position of banking industry

The academic society of Verein für Socialpolitik held its annual congress in Lutzern on September 18, 1962, where Stützel gave a presentation that the banking industry structurally changed in the early 1960s, from both the viewpoints of regulation and recovery. According to Stützel, while the bank management was under governmental control because of its legal form of business enterprise in the 19th and the early 20th century, establishment of a branch office, diversification of bank services, structure of credit and debit and the interest rate were liberalized. After the bank crisis of 1931, government intervention started to regulate the financial system, and it continued through the Nazi-era until the late 1950s.[14]

In his report, submitted two years later, he insists that the idea of a special position of the banking industry was expanding after the governmental intervention around the advent of the 20th century for three reasons.[15]

First, he points out the spread of the quantity theory of money at that time. According to this theory, money supply should be regarded as a major determinant for national economic activity, commodity trade, expenditure, employment, and price. Moreover, it should be managed by government through banks as suppliers. Therefore, banks are different from other business, transforming into huge money suppliers.

Second, after World War I, as the credit regulation brought about a financial market imbalance, especially a lack of funds, banks were compelled to allocate the limited funds to other demanding industries. As a result, banks were regarded as the regulators of economic structure and economic growth.

Finally, after World War II, bank deposits were considered to be an officially guaranteed special real right, not a private law claim by the currency reform in 1948. With this reform, a special position was actually to be given to banks in West Germany's economic framework.

Stützel asked again about the position and problem of the banking industry in West Germany in the early 1960s. For that purpose, he examined three functions of banking industry: payment services such as transfer transaction, finance services to business and household such as discount on a bill and fund management like deposits and bond issue. In conclusion, there should be no ground for the special position of bank industry anymore and the Federal Bank (Bundesbank) should promote currency policy as a framework policy to maintain all the functions of the banking industry and the financial system.[16]

3.2. Liberalization of interest rate

As an important currency policy, Stützel insists on the liberalization of interest rate, because he thought that it was necessary for financial markets to function better for a rational formation of banking industry and for the benefit of consumers.[17]

Governmental regulation of credit and deposit interest rate was introduced by the presidential emergency order on December 8, 1931, after the bank crisis. A voluntary agreement on interest rate has been thus concluded within banks in Berlin in 1913. Fifteen years later, a new competition agreement framework (Wettbewerbsabkommen)

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[14] Stützel, Wolfgang, Banken, Kapital und Kredit in der zweiten Hälfte des zwanzigsten Jahrhunderts, in: Fritz Neumark (ed.), *Strukturwandlungen einer wachsenden Wirtschaft, II. Bd. (Schrften des Vereins für Socialpolitik, N.F. Bd.30/II)*, Berlin 1964, pp. 527–575.

[15] Stützel, *Bankpolitik,* p.9–12.

[16] Ibid., pp. 12–26.

[17] Ibid., p. 96f.

was agreed upon, which included savings banks and credit cooperatives, on May 11, 1928. The government carried on this framework in 1931, and the Credit Business Act in 1934 provided a new national committee that prescribed business rules, decided by a majority vote of the board of central bank directors. This committee and interest agreement were maintained in the post-war era.[18]

In order to reform endogenous factors that prevented bank groups from promoting free competition in the financial market in West Germany, the Federal Government and the Federal Bank abolished the regulation act of interest rate on April 1, 1967.[19] This means a realization of Stützel's concept of financial markets, which played an important role in the money policy of West Germany.[20]

However, he considered the West German bank deposit market to be different from that of the other countries: savings banks have a price leadership, which is an ability to determine the interest rate oneself in the market. Moreover, savings banks are not sensitive to market change and competitiveness, because they have a relatively fixed customer base. In order to get results from the policy, it was needed to abolish the privileges of savings banks.[21]

3.3. Stützel's proposal for savings banks and its reaction

Among bank groups, mortgage banks expanded their assets 13 times in 1960 compared to 1950, savings banks 7 times, credit cooperatives 6 times, and private banks 5 times.[22]

It was not acceptable for Stützel to explain this trend of bank groups in the post-war era by the privilege and competitive supremacy of the savings banks. As such, he puts the problem of privileges the savings banks have, the profit they earn, and who gains that profit.[23]

First of all, he listed seven privileges of savings banks: tax exemption, responsibility of guarantee holder for deposit (Gewährträgerhaftung), deposit of public funds, quota of public bonds, guiding customers from municipalities, bonds privilege, and priority of ward assets.

From the profit calculation, he pointed out that a part of the profit would move to customers and municipalities, but the rest of it remains in the savings banks. He estimated it to be 10% to 15% of owner's equity in case of bigger banks and 2% to 5% for

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[18] Looff, Rüdiger, *Die Auswirkungen der Zinsliberalisierung in Deutschland*, Berlin 1973, S.12, 16; Reichsgesetz über das Kreditwesen vom 5. Dezember 1934, in: *Reichs-gesetzbelatt*, 1934, Teil I, Nr.132, p. 1211.

[19] *Geschäftsbericht der Deutschen Bundesbank für das Jahr 1967*, pp. 62f.

[20] Richter, Rudolf, German Monetary Policy as Reflected in the Academic Debate, in Deutsche Bundesbank (ed.), *Fifty years of the Deutsche Mark. Central Bank and the Currency in Germany since 1948*, New York, 1999, p. 560.

[21] Stützel, ibid., pp. 97–101.

[22] Ibid., p. 60.

[23] Ibid., p. 65.

smaller ones. Among the privileges, the first two were related to the middle and lower classes to cultivate the spirit of saving. These privileges had been formerly regulated only to these classes by the upper limit of amount of saving money until the early 20th century. However, in the post-war era, this limit was removed, leading to the competitive advantage of savings banks.[24]

Therefore, he proposed the 'redevelopment of arable land' as the saving banks reform. Although it admits a continuity of savings banks, savings banks should shrink their businesses only to small saving business and municipality business. Main points of Stützel's proposal are reconstruction of savings banks as municipality banks on one hand and liberalization of financial market on the other.[25]

Hoffmann of DSGV criticized Stützel for his proposal, mentioning that it was too theoretical and model building to fit in the reality of savings banks.[26] On the contrary, the private bank group declared itself in favour of abolishing the privileges of savings banks.[27]

Considering these disputes and academic discussions, the Federal Ministry of Economy reached the last stage to bringing the inquiry to a conclusion.

4. Submission of the inquiry report and financial reform

4.1. Outline of the report

Schreihage, head of section VI A3, the Federal Ministry of Economy, presented an outline of the report in the letter of May 28, 1965:[28]

a. While the market share of the private bank group in assets decreased from 36.4% to 24.6% in the period from 1950 to 1964, that of the savings banks group increased from 30.8% to 36.7% in the same period. Schreihage argued that this change was mainly caused by the endogenous factors within the market, which was affected by economic growth; reconstruction of short, middle, and long-term credit; and structural change of capital formation in the 1950s. The privilege of the savings banks seemed to affect the market share, but it could not be quantitatively proven.

b. He argued, moreover, that Germany's banking system was legally divided and each of the groups had their respective principles. Credit banks were the private banks, which, based on the profit maximization principle, set up financial and credit business to get profit on the free market. On the contrary, savings banks were the banks under public law, which, closely connected with municipalities, set up the financial and credit business to implement the public and regional interest. He emphasized that the purpose

[24] Ibid., pp. 62–73.
[25] Ibid., pp. 79–83.
[26] BArch, B102/ 72150. Stellungsnahme zum Gutachten von Prof. Dr. Stützel vom Deutschen Sparkassen- und Giroverband am 28. Oktober 1964.
[27] BArch, B102/72150. Letter of Bundesverband des privaten Bankgewerbes an das Bundesministerium für Wirtschaft am 7. Oktober 1964.
[28] BArch B102/72152. Letter of das Ministerium für Wirtschaft am 28. 5. 1965.

of the inquiry report was to remove the unfair treatment from the legal and administrative point of view, not to change the banking system, and that the privilege of savings banks was offset by the obligation and the burden imposed to them.

c. Nevertheless, he admitted that the tax privilege, only allowed to savings banks and partly also to credit cooperatives, would affect negatively credit banks in market competition. This privilege was considered to be abolished as an exogenous factor in the market competition.

The regulatory framework of economic and financial policy of the Federal Ministry of Economy in the 1960s is presented next. Maier, bank assessor of the Federal Ministry of Economy, announced the ministerial viewpoint on that matter in an article, where he said, citing Müller-Armack, "Even in the economy, that recognized the market area of public activity, we must respect that this area of public activity is permitted according to subsidiary principle, only when the free initiative and free competition is not enough."[29]

4.2. Main issues of the report

The inquiry commission report was finally submitted to the Federal Parliament on November 18, 1968, acknowledging that the public bank sector had four main competitive privileges in the legal and administrative practices over the private sector.

First, savings banks were given priority, institutional responsibility, and guarantee holder liability by municipalities, so that their savings deposits were safer than their competitors'. Despite this recognition, the report denied abolishing the priority, because it was closely tied with the savings banks.[30]

Second, as the savings banks would need not to earn and distribute their profit, they would have an advantage over other groups. However, the report judged it to be only the difference of both business policies, because savings banks renounce the profit gain.[31]

Third, savings banks have priority in administrative and personnel relations with municipalities, a complaint of credit banks and cooperatives. The report acknowledged this priority and suggested a plan, which would let the local government choose any banks from the three types.[32]

As a result, the problem was tax exemption or reduction for the savings banks and credit cooperatives. As a tax privilege of savings banks, corporation tax, trade tax, and wealth tax were criticized by credit banks. Usually, the rate of corporate tax was 49% of profit, also applied to credit banks, but savings banks were exempt from this taxation as well as from trade and wealth taxation. This taxation system should be reformed.

4.3. Tax reform of 1967

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[29] Maier, Manfred, Marktanteil und Gewinn als 'Privilegien'-Kriterium?, in: *Zeitschrift für das gesamte Kreditwesen*, 20.Jg., 3.Heft, 1967, pp. 99–101.
[30] Bericht der Wettbewerbsverschiebungen, pp. 47–50.
[31] Ibid., pp. 50–54.
[32] Ibid., pp. 90–100.

The preferential taxation system dates back to the German Reich tax law from 1918 to 1922. At that time, basic thought of public economy propelled savings services, namely the main service of savings banks and credit cooperatives. In addition, it was needed to provide long-term credit to promote housing construction. Moreover, a financial institution under public law with preferential tax was desirable for municipalities to carry out particular economic measures.

However, the report admitted that the intention to introduce the preferential taxation system was going away in the post-war era, and that the competitive market raised an issue of unfairness regarding taxation.[33]

The Federal Ministry of Economy discussed the abolition of a part of tax privileges for savings banks with the other Ministry, the Federal Bank and the Supervisory Office. At the same time, a law of promotion for stability and growth (Gesetz zur Förderung der Stabilität und des Wachstums der Wirtschaft) was approved on July 8, which marked a turning point from the high economic growth of the post-war era and set up four aims (i.e. price, employment, foreign trade, and economic growth) while regarding the fiscal balance as most important.[34] As for the tax reform, imposing a tax on savings banks was instituted by this law, which led to the Law of Realization of Federal Medium-Range Fiscal Plan (Gesetz zur Verwirklichung der mehrjährigen Finanzplanung des Bundes). In its second tax reform law, a new 35% corporation tax on savings banks was introduced, as well as trade tax and wealth tax.[35]

Although it was far from perfect, the abolition of the exogenous obstacle for market competition, namely the privileges of savings banks, was to be expected before the inquiry report was submitted to the Parliament on November 1968.

5. Conclusions

The inquiry commission finally admitted the principle of public interest and its practice of savings bank in its report. However, they called public interest not a term of *Gemeinnützigkeit* but of *öffenticher Auftrag* or *besonderer Auftrag* (public or special task). The report, moreover, justified the credit guarantee of savings banks by municipalities and regarded the competitive conditions among sectors in the banking industry as right.

The three-pillar model of German post-war banking system was recognized as the regulatory framework of economic policy by the Federal authorities. Flachmann, governmental assessor of the Federal Ministry of Economy, argued that the inquiry clarified the problems that West Germany's economy and banking industry confronted in the 1960s, and that Germany's banking system had competitive advantage comparative to other countries. He emphasized that the confrontational public and private bank groups had been aligned to the general interest of economy and society in

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33 Ibid., pp. 101–103, Anlage 5, pp. 170–173.
34 *Die Kabinettsprotokolle der Bundesregierung*, Bd.20, 1967, p. 24.
35 *Bundesgesetzblatt* 1967, T. I, pp. 1245–1258.

West Germany.[36]

Savings banks were originally founded as philanthoropical institution attached to municipalities, local communities and charitable societies in northwest Germany (such as Hamburg, Oldenburg and Kiel) in the late 18th century, in order to support the poor or orphans of the lower classes.[37] At that time, this principle expressed a local or regional public interest, but after the Bank Crisis in 1931, Federal Government intervened in savings banks. Moreover, in the 1960s, it tried to manage the financial market by evaluating the public interest of savings banks and liberalization of interest rate, with the help of the Federal Bank and the Federal Bank Supervisory Office. What the Federal Ministry of Economy changed in terms of public interest shows the change of its meaning from the interest of local community to that of central government.

It would lead to a new regulatory framework of economic and financial policy. Although the remaining privileges of savings banks were abolished by agreement with the EU Commission in the early 21st century, a bipolar characteristic features of the regulatory framework of the Germany's banking system, the private bank's profit principle and credit cooperatives' principle, on one hand, and savings banks' principle of public interest, on the other hand, is keeping and partly modifying its original concept until now under the current global economic competition.

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[36] Flachmann, Klaus, Die Wettbewerbsuntersuchung im Kreditgewerbe vor dem Abschluß, in: *Zeitschrift für das gesamte Kreditwesen*, 21.Jg., 15.Heft, 1968, p.766f.

[37] Trende, Adolf, *Geschichte der deutschen Sparkassen bis zum Anfang des 20. Jahrhunders*, München 1957, p.19ff.; Wysocki, Josef, *Untersuchungen zur Wirtschafts- und Sozialgeschichte der deutschen Sparkassen im 19. Jahrhundert*, Stuttgart 1980, p.16ff.