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Services Governance and Public Policies

Public Service in the Financial Sector: German Savings Banks and the Effects on Regional Development

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Abstract

Cet article est consacre aux casses d'épargne de l'Allemagne (Sparkassen) regardes dans un contexte régional, en faisant partie de la structure des mesures assurant l'équilibre régional. Ces mesures tendent de coutume assurera plutôt l'équilibre régional, ont actuellement le rôle de promouvoir le potentiel de développement de la région (réplique : Agenda de Lisbonne).

Notre article traite la question quels bénéfices des caisse d'épargne contribuent d'un part au potentiel de développement, d'autre part au mesures de cohésion. Sont-ils un facteur actif pour réaliser l'Agenda de Lisbonne et aussi les exigences de cohésion régionale ?

This paper deals with savings banks in Germany (Sparkassen) from a regional perspective in the context of regional structural and cohesion policy. These policies, traditionally directed towards regional balancing, are nowadays fostering to a greater extend growth-potentials (catchword: Lisbon Agenda). The present paper discuss the question, what benefits do savings banks provide on the one hand in terms of growth agenda and on the other hand in terms of cohesion policy. Are they an asset to reach the Lisbon Agenda as well as cohesion aims?

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Introduction

In recent years a variety of different concepts and ideas for regional development have been developed, which emphasize the role of regions, each with its specific worldwide competitive advantages. They are best known under the term *Cluster concept* (Porter, 1993, 1999; Rehfeld, 1999). These new approaches are well accepted by regional economic scientists and increasingly also by regional, national and European policy-makers. The crucial point of these policies is the claim that competitive competencies in regions do matter for receiving public funding, and as in consequence public money does not go to the poorest regions. The concept even found its way into cohesion policy in order to support disadvantaged regions by promoting "clusters" – even if there are no sustainable potentials to be successful in the international competition of regions.

Therefore, the overall question has to be answered whether these approaches lead to a balance of regional wealth or to increasing regional disparities. Are these concepts appropriate for structural policy, implying cohesion? Or do the back-wash-effects, like already discussed in terms of the polarisation theory (Myrdal, 1969), make poor regions even poorer (Dybe, 2003)?

Germany has a unique system of decentralized public savings banks bounded to the regional level by public law. This means that the reinvestment of the accounted savings (e.g. savings books) has to take place in each banks' own territory – city or region – and they are therefore stabilizing the regional economic development. Thus banks could play a vital role in economic regional development in their own interest and therefore be a part of the spatial innovative system in Germany. But the question arises whether savings banks do promote regional economic development in their daily work: on the one hand their regional ties could lead to negative impacts in concerning a balanced regional development, fostered by a stronger effort in regions with a higher prosperity. On the other hand it might be possible that savings banks are as successful in poor or peripheral regions as in wealthy territories due to stronger relationship to their customer. This leads to the question whether savings banks have an amplifying effect by supporting poorer regions less than in prosperous ones or if they have an effect as a kind of a "perpetuum mobile" in the sense of cohesion policy by supporting the poorest regions without needing public money.

Regional Cohesion Policy

Cohesion, or rather regional structural policy in Germany is a multi-level-policy, executed at national level, the regional (federal) states, as well as sub-regional and local bodies. At the higher levels these actions are motivated by the aim of regional cohesion, like the structural policy of the EU (top-down-policy). But despite this fact all regions, even the prosperous ones, in addition have their own individual economic development policies to promote local economy and to supply the region with workplaces, commercial infrastructures, taxes etc (bottom-up-policy). In Germany regional/local economic support is offered at the city or "Kreis" (similar to the counties in Anglo-Saxon countries) level as a public service.

Structurally weaker regions depend on help from the higher bodies: the federal and the national states as well as the EU. If they want to participate in the offered programs, they have to adapt to the guidelines and to undertake actions at regional level, like regional networking or development of endogenous competencies. Regions or cities which are not able to meet the preconditions become disadvantaged in claiming support (Rehfeld, 1999).

This is important to know, because of a shift in regional structural or cohesion policy from balancing regional development to the "strengthen the strength" approach.

More recent approaches, namely the cluster approach, are directed towards locally available competences and potentials: everyone knows about the local concentration of businesses or small workshops in the old town parts of European or Middle Eastern cities. The spice markets in Istanbul, the textile markets in Montmartre or the craft shops in the old town of Bucharest can be mentioned here, for example. Thus, these represent local concentrations of economic activities, a "geographical cluster" in the area. The essential advantage is that customers find a comprehensive geographically concentrated choice; a place frequented by specific suppliers, where a corresponding infrastructure exists, where the businesses are bound by a certain knowledge network and so possesses specific information. The basic principles of such so-called clusters (e.g. Rehfeld, 1999) are of course founded on advantages and the system has been further developed and have its roots in different regional economic theories (see box). Regional economics are becoming more and more aware, that concentration and specialisation is one requirement for growth. From an overall economic point of view such an approach could bring advantages, but seen from the single regions perspective, you have to take in consideration that regions can mostly benefit from these approaches where internationally competitive potential has reached a critical mass and components of a corresponding value-creating chain are located. Those conditions are most likely to be fulfilled in advanced regions. Inevitably, this is accompanied by a withdrawal from the legally based fundamental equivalence principle of regional development.

Agglomeration Advantages in Regional Development theories: A case of uneven regional development!?

Traditional neo-classical economic theories as well as the demand orientated theories inspired by Keynes, like the export-basis-theory, are growth-theories, which deduce regional development with exogenous economic factors (Hahne et Stackelberg, 1994). Accordingly, development will eventually always lead to a regional balance. New concepts appeared in the middle of the last century, like the polarisation-theory by Mydral, according to which the growth poles are distributed unequally in geographical space (Mydral, 1969, 146). Myrdal assumed that the growth poles would attract the production factors and therefore weaken the poorer regions (back-wash-effects). « A country is poor because it is poor », said Nurske (1993) in the context of underdeveloped countries. Human resources and capital are moving to the centres, where the production factors yield a higher return. Therefore cumulative growth processes will take place in the economic centres. But after a while – if the agglomeration has found its optimum – spread effects will take place, at least from the theoretical perspective, and the surroundings areas can profit through movements from the core to the periphery.

But all these models are not able to explain the economic development of regions, because the reality is much more complex and cannot be captured by theoretical models. Therefore a variety of different concepts and ideas have been developed in recent years, which define the region as an "active socio-economic field and look at the proximity of the players, regional competencies, agglomeration (Laepple, 1999, 7) advantages etc. These concepts are discussed under different names and coming from different academic directions. Krugman e.g., as a representing economist, created the expression "New Economic Geography" (Krugmann, 1991; Schätzl, 2001, 201). Porter called it production cluster (1993). Moulaert and Sekia used the term

„Territorial Innovation Models" as a heading for varying concepts in this context (Moulaert et Sekia, 2003). The common ideas shared by these researchers are concentration and specialisation in a spatial sense or in other words proximity, and an orientation towards endogenous interregional competitive advantages.

A new orientation towards a structural policy directed more strongly towards growth is taking place both in the EU and in Germany (and in many other OECD-States) at the federal and regional levels. Especially the European cohesion policy, which traditionally follows the aim to reduce regional disparities, is starting to shift from helping the poorest regions to an orientation towards regional strengths, which will probably increase according to the budgetary proposals for the period 2007-2013. These policies represent a major shift from traditional structural economic development programs and « places much more stress on the links between cohesion and the Lisbon agenda, arguing (...) that promoting regional competitiveness will boost the growth potential of the EU economy as a whole » (Bachtler et Wishlade, 2004: 12). Bachtler and Wishlade expect, that « there is a potential conflict between the objectives of competitiveness and cohesion » (2004, 50).

Therefore the overall question has to be answered whether these approaches do lead to a balance of regional wealth or to increasing regional disparities. Are these concepts appropriate for structural policy, implying cohesion? Or do the back-wash-effects, make poor regions even poorer? In other words, do the centripetal or the centrifugal forces prevail in regional development? Thinking consequently, it seems to be easy: Clusters need concentration and therefore spread-effects have to be avoided.

Certainly a shift in the cohesion programs in the EU and different national states toward growth agenda can be mentioned, but it is still an open question how consequently this will be applied: Since, politically, the concentration on promoting subsidies in growth regions can only be sustained with difficulty, "cluster instruments" are in reality also partly implemented in a widespread fashion, and are still distributed according to the "everyone gets a slice of the cake" principle which helps nobody at the end of the day. So both is needed: On the one hand, growth potentials should be promoted where they exist and, on the other hand, public services, especially education, should be delivered or maintained with specific instrument in weaker regions, towns and city districts in order to enable the participation in and the fostering of economic development.

For both strategies, for the growth agenda as well as the cohesion aim, regional or local actors are needed. In this context a closer look at the specific German system of public savings banks, as they are deeply involved in local and regional economy might be quite interesting. They are not only hidden champions, because of their knowledge of regional economy and the public service they offer, they are also spending the regional savings, only in the region, and are therefore reducing the capital back-wash-effect.

The structure of savings banks

Savings banks are legal public institutes with a long tradition and have developed from the philanthropic necessity to promote the concept of saving within the poorer population into regionally oriented general banks. As legal public institutes they are bound to their responsible body, which are generally local or municipal authorities or specific purpose boards. They fulfill a variety of tasks which can be included under the concept: "public duty". The regional principle is a fundamental principle intended to ensure that the public duty is met. Loans may be allocated only to institutions, businesses and private persons in the region and, branch offices may also only be opened in the region. The objective is that money saved in the region should primarily be invested to promote the local economy and local population. The specific characteristics of savings banks are summarized in the box bellow.

Although savings banks are indeed locally independent, however, at the same time they are linked together as a kind of local system supplier in a complex financial trust based on the voluntary principle, interconnected assets, economic calculation and idealism. The savings bank financial group enables the savings banks to act flexibly and individually way as locally independent institutes and at the same time to offer cost-effective general banking services. The savings bank financial group efficiently provides specialized skills and back office support on the economy of scale principle (Gärtner, 2003, 19 ff). The savings bank financial group consists of savings banks, regional and federal associations, regional banks, public insurance groups etc., and amounts to about 670 businesses and approximately 390,000 employees with a turnover of 3.3 billion Euro and, in its own estimation, is the largest financial group in the world.

A Summary of the German Savings Bank System

Origins: *At the start of the 19th century, they began to provide the poorer population with the possibility to save and earn interest and they supplied traders with capital means.*

Structure: *Savings banks are linked to the communities, local or municipal authorities (responsible bodies) with approximately 470 independent savings banks in a decentralized system.*

Public duty: *Savings banks have a public duty which is regulated at the provincial level by the savings bank laws and their statutes; therefore they cannot focus exclusively on making a profit.*

EU Competition Control proceedings: *In the year 2005 the legal provisions of institutional burden (local authority liability of the municipality in an internal relationship, that is to the savings bank management) and guarantor liability (external liability to third party contractors) were to be terminated.*

Regional principle: *Conduct of business is concentrated in the guarantor region. In principle, this prevents financial means flowing exclusively to growth regions which can offer better prospects for the savings*

Vertical and horizontal division of labour: *The division of labour between savings banks, regional and federal associations, regional banks, public insurances, etc. makes it possible for the savings banks, although small institutions, to act flexibly and independently at the local level, and at the same time to offer a cost-effective general banking service.*

Three column system: *Banking system based on three columns (private commercial banks, and the co-operative savings bank sector).*

Area ***of conflict:*** *Public duty and the orientation towards benefiting the community prevent a profit maximization strategy and enable the business policy to be directed towards the region, and at the same time the savings banks must operate in a very competitive banking market. In addition, those critical of a public banking sector keep calling for the privatization of savings banks.*

(Gartner 2003: 24 ff)

The Significance of the Savings Banks

Liberalization, which is understood as freedom of establishment, does not threaten savings banks. Savings banks do not represent a monopoly but are in competition with private commercial and co-operative retail banks, as well as with private direct banks, internet banks, and niche banks. Instead, savings banks have to fear the political attacks of private banks, the EU Competition Commission and also, sometimes, provincial and municipal politicians. The essence of the criticism is that savings banks are not for sale and so prevent consolidation in die German banking market, the name "Savings Bank" is incorrectly protected and that the regional principle represents a regional cartel (e.g. Deutsche Bundesbank 2004: 20).

The benefits provided by savings banks are diverse and can be roughly divided up into the following four groups. Firstly, savings banks generate high local tax revenue. Secondly, they have considerable significance in providing employment and training. Thirdly, they provide important service by supporting cultural and social activities in the region through sponsorships, donations and payment of foundation dividends. The distribution of profits to local authorities and councils should not be ignored. Fourthly, and this is really their purpose: they perform an important function as financial intermediaries. They provide access to financial services for all sectors of the population and all businesses in all regions. Being nearby and knowing the customer and the market are especially important for the commercial allocation of smaller loans.

This article focuses on the application of the last mentioned service of savings banks, since their specific legal form can be justified with respect to allocation in the cases of the market failure and with respect to the precautionary principle of public goods. The other three benefits previously mentioned are positive side-effects which alone, however, would not justify public authority activity in the banking sector. A privatization and a deregulation of the savings bank law in whatever form would eliminate or limit these benefits. The advantages of savings banks as financial intermediaries in terms of banking market and structural policy will now be more extensively elaborated.

Banking Theory, Regional Development and the role of public savings banks

The German banking market is characterized by a strict separation into three columns (private banks, public authority institutes and co-operative banks). The legal reorganization and (partial) privatization of the banking market that was extensively carried out in other European countries has not occurred in Germany (Engerer et Schrooten, 2004, 74). The German financial system is strongly bank-based. Businesses are predominantly financed by bank loans and not – as is usual in Anglo-Saxon countries – by equity or share capital.

In theory, banking and financial systems can be divided into spatial neutral and non-neutral systems (e.g. Klagge et Martin, 2005, 392). Neutral banking and financing systems can be derived from neo-classical theory. According to this, and considered from a model perspective, high competition ensures that every profitable investment receives financing independent of its location. « Thus, all market participants know whether an investment will be profitable. It implies that all profitable investment projects receive funding, and conseqeuntly that investment cannot be prevented from taking place because of a lack of finance» (Klagge et Martin, 2005, 390). Capital moves to the location offering the best possible interest return. Banking systems are efficient if the banking sector concentration is low, that is, many banks compete with each other and competition intensity is high. « This is exactly why indices of market concentration (...) play such an important role in almost all recent assessments of US and European banking markets. They are widely used in empirical work » (Fischer et Pfeil, 2004, 308).

But weaknesses in the classical financial market theories can be seen in relation to allocation efficiency, availability of credit means and the stability of financial systems. The international developments in recent years and the significant number of financial market crises have shown that privatization, liberalization and high competition intensity do not necessarily contribute to high stability in the banking and financial markets. Studies also show that « perfect competition does not inevitably provide the best results for the economy as a whole. At least in parts of their business, banks appear to operate in less than ideal-typical markets » (Deutsche Bundesbank, 2005, 107). According to newer banking theories, banking markets should, in principle, be distinguished from other markets because, firstly, information is asynchronously distributed between depositors and investors and is only incompletely available. Secondly, it is a loan business, the amount of credit, interest payments and repayments take place inter-temporally and, thirdly, it is based on confidence (e.g. Deutsche Bundesbank, 2005; Klagge et Martin, 2005; Fischer et Pfeil, 2004; Engerer et Schrooten, 2004.)

In connection with this, more recent theoretical approaches assume that markets with lower competition intensity and stable customer-bank relationships (typical house bank relationships) can lead to improved credit means availability at lower prices. This particularly applies to smaller credit engagements because usually the checking effort and costs do not correlate with the size of the loan. The allocation of credit to SMBs (small and medium sized businesses) is on average not profitable because of the lower credit volumes, as long as long-term customer relationships and local knowledge do not reduce the checking effort costs and risks. Loans to startup companies bearing more risk and beein quite work-intensive are usually only worthwhile if a long-term customer relationship can be anticipated (Deutsche Bundesbank, 2005, 106). Strong customer-bank-relationships reduce asynchronous information, but competition in banking can induce credit rationing in the sense that potentially high quality entrepreneurs may not get funded, if banks in these markets are not investing in relationship (Cetorelli et Gambera, 2001, 621). Starting out from a banking system which is not regionally neutral, the key to credit allocation to small and medium- sized businesses consequently lies in the proximity. Therefore, for regional development an efficient banking environment is important. However, proximity to borrowers is also of central importance to banks engaged in credit dealings with SMBs in order to enable them to operate successfully.

If these theoretical model-based approaches and findings are now related to the specific German banking market structure, the following scenario results: Germany exhibits high competition intensity at the national level which can primarily be explained by the non-salability of cooperative banks and savings banks. Probably, the concentration in the German bank market will increase if savings banks are privatized. However, the competition intensity and the distribution of banks can differ regionally within a nation state, as is also the case for Germany. All private commercial banks, co-operative banks and savings banks have branches in some regions, whereas only the latter two have any significant representation in other regions. Overall, a higher concentration and lower competition intensity can also be seen at the regional level, since cooperative banks and savings banks as a rule do not compete within the own group.

If one confronts reality with the new and traditional financial theories, the picture is even more complex: on the one hand, there is the thesis that higher competition, leads to higher allocation efficiency. If the concentration indices at the national level and the reasonable bank service prices in comparison to international charges are seen, then this relationship is comprehensible for Germany. At the same time, derivations from the more recent financial and banking market science lead to the thesis that the disadvantages resulting from lower competition in the supply of credit to smaller and medium sized businesses and particularly to founders of new businesses can be (more than) compensated by the advantages of proximity and stable customer-bank relationships. This is also comprehensible considering the favorable conditions with respect to lower competition intensity at the regional level. From the viewpoint of the savings banks, it can be claimed that they ensure high competition intensity at the national level and stable bank relationships at the regional level. Further research in this area is needed, however.

Banking and Regional Development

Without state intervention, a regionally dissimilar development with poorer economic credit supply, i.e. a market failure, can be anticipated in some regions, as is shown by the reality in many countries and can also be shown theoretically. Thus, positive external effects occur in agglomerations that produce self-reinforcing growth at the expense of weaker peripheral regions. This can lead to a regional imbalance if there is no state steering mechanism. This can be established in the context of polarization theory, for instance (Myrdal, 1969), or New Economic Geography (Krugman, 1991), and, particularly in regard to savings banks, by Wengler, (2002, 109ff.). Numerous empirical and theoretical studies also recognise that innovations primarily occur in conurbations, especially in regions where the spread of knowledge encounters favorable conditions (Frey et Zimmermann, 2005, 7 ft).

As already mentioned in the introduction, the regional principle is an essential characteristic of savings banks which curtails capital mobility, promotes an interest in the economic development of the region and thereby contributes to a balanced regional development. Savings banks can therefore be justified in the political order.

However, neo-classical economists assume that more effective free market forces and unrestricted production factor mobility will finally produce a distribution optimum. According to this, a balance between the regions will then occur in the mid to long-term if the state does not intervene. The existence of local authority banks – which slow down capital mobility – is difficult to justify according to this concept. Thus, for example, Nürk, author of a study of the Deutsche Bank, states that (savings) means will always be brought to its most productive use and not artificially kept in a given region by the neglect of efficiency considerations, so to speak (Nürk, 1995, 22).

Therefore, the justification of savings banks is a question of the theoretical economic viewpoint: « if the aim is a policy of balance in the context of regional development, a nationwide complete coverage of the distribution of means definitely makes sense (...). If, however certain growth centers or poles are to be promoted, the means should be (supra-regionally) concentrated « (Wengler, 2001, 299). In the context of a structural policy traditionally directed towards balancing, newer structure-political strategies such as the cluster approach also aim for the concentration of economic activities in a region and thus accept local imbalances.

Does this then mean that savings banks are counterproductive against the background of newer regional structural or cohesion policy approaches? Not at all, from a theoretical point of view. This is because the new approaches can only be successful when they develop growth potential and at the same time are oriented towards balance, as local players require, like already mentioned. Thus, savings banks are also acceptable from the regulatory viewpoint, if a growth-oriented structural policy is stipulation since on the one hand they can recognize local growth potential and play a part in its development; on the other hand, they are able to contribute to a regional policy that is directed towards balance. Thus, in the context of the savings banks, it is not a question of "either or", but "both".

And in fact the results in the research projects demonstrate that savings banks are important promoters for the economically regional development in order to develop growth potentials and to support poorer regions. They know about the specific problems and the endogenous potentials of the local and regional economy. The results from the researched savings banks are:

- Savings Banks are even in prosperous cities and agglomerative regions quite important for the development of SMBs
- In economically underdeveloped and or peripheral regions they have a very important function to guarantee the support of financial service, especially for the supply of loan and in total for the whole regional development.
- Despite the increasing meaning of internet-banking, regional banks are still important for loan-financing of SMBs. (Banking is still not space-less)
- Regional savings banks have a huge knowledge of their clients and have the competence to decide themselves locally (in case of liquidity squeeze of companies they can therefore decide very quickly, to extend the borrowing limit)
- Local branches of regional savings-banks are an important focal point in context of small-scale retail development in weaker city quarters and rural villages.
- The regional structural meaning exceed beyond the core of financial services (e.g. savings banks are involved in regional cluster-activities or supporting projects to enhance the regional identity)
- They are able to adapt the regional development strategies (some regional actors used the expression: “learning institutions”)

The most overseen point is that they are doing this all without public subsidies.

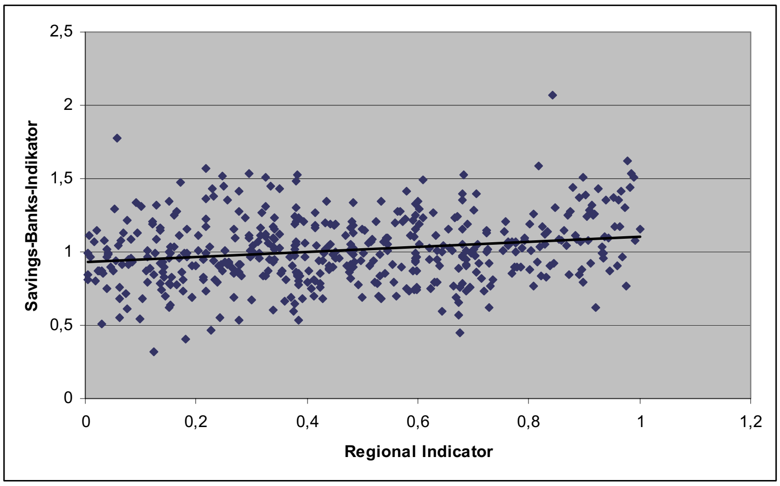
Regional Banks and Lock-In Effect: The Weakness of Strong Ties

On the first view it is for both, for the regional development in context of growth agenda and cohesion policy, as well as for the savings banks a big asset to be regional bounded, but the question arises if this principle can cause problems. For instance it could be mentioned that regional savings are kept unproductive in the region if there is not a balance between regional capital offer (savings) and demand (loans), or that undiversified investments in regional economies can amount to a particularly risky venture which, « can leave the banks vulnerable to bankruptcy. Centre banks are better placed, by reason of their size and their better diversified loan portfolios, to lend to the periphery « (Chick et Dow, 1988, 240). Because of some mechanism (e.g. inter-institutional risk swap, or proprietary position in financial instruments) of the savings banks financial group this argument can be neglected. More virulent is the thought that regional banks in poorer regions cannot be as successful as in regions with a higher prosperity, so that they eventually have negative impacts in concerning a balanced regional development. If savings banks financially are less prosperous in economically disadvantaged regions they cannot be an important promoter of regional cohesion.

In the classical economic thinking it seems logical that regional bounded banks are less successful in poorer regions than in wealthy regions, but if you take the modern banking-theory in consideration (c. chapter Banking Theory) some arguments could be find against this thinking, due to less banking competition and therefore stable customer-bank relationships.

Empirical Results

To answer the question if region savings banks in Germany can support a balanced regional development we examine the context between regional wealth and the economic success of the approximately 470 regions and savings banks. The first results are really meaningful: Like shown in the following chart savings banks in poorer regions are from the perspective of all of Germany a bit more successful than in wealthier regions.



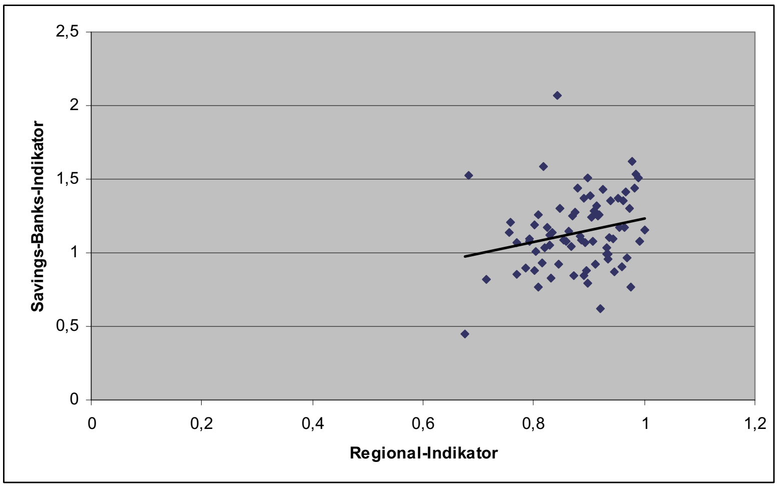
Source: Statistische Ämter der Länder 2004 and 2005, BBR 2004 and 2005, own calculation

FIG. 1

Correlation between economic success of regional savings banks in germany and the regional prosperity

The x-axis of the sclatterplot shows the regional economic situation (measured with 6 different variables) and the y-axis demonstrates the success of savings banks (measured with the operation profit of the savings banks). If the region is poorer the regional indicator (x-axis) is increasing, so that a linear relationship shows that savings banks are more successful in poorer regions.

If you divide the main unit into eastern (former German Democratic Republic) and western regions, which is indicated due to the different economic and structural situation, you get for East-Germany an even more significant result, as shown in the next slide. To interpret the results you have to take in consideration that in East-Germany, especially in peripheral and economically undeveloped regions, the banking-competition is rather low. The higher banking-profits in these regions derive indirectly from the greater incentives of banks in these regions to establish lending relationships. The relationships between banks and customers are more and more meaningful in the newer banking theory. « Long-term relationships between banks and firms may be an important instrument for counteracting informational asymmetries » (Harhoff et Körting, 1998, 1318). In additional these banks are profiting from the better knowledge of the local or regional market as well as from less competition, which can be explained by classical economic theories. These regional information advantages lead to success of savings banks because of their affiliation in the savings bank financial group, which enables them to act highly flexibly and individually way as locally independent institutes and at the same time to offer cost-effective general banking services.



Source: Statistische Ämter der Länder 2004 and 2005, BBR 2004 and 2005, own calculation

FIG. 2

Correlation between economic success of regional savings banks in Eastern Germany and the regional prosperity

The empirical results show that savings banks are at least equally successful in poorer regions and therefore able to promote a balanced regional development. You have to take in consideration that these findings are quite stable due to the reason that we examined the total main unit and not a sample.

Some Final Remarks

By international comparison, the return on investment of German credit institutions is indeed rather low. But this is not necessarily because the bank market is too fragmented and the credit institutions are inefficient because of the high proportion of local authority public law banks and the rigid three column system, as many critics repeatedly claim. Low returns on capital can also result from a high level of competition, which leads to low cost bank services or they can also be the consequence of bad business decisions and depreciation adjustments. A current study of the KFW Bank Group (Kreditanstalt fur Wiederaufbau, Reconstruction Loan Corporation) demonstrates the high efficiency and low price structure of the German bank market (KfW Bankengruppe, 2005).

If private banks had access to savings banks and could get rid of this competition; their return on capital would surely be higher, which probably would have a positive effect on the stock market quotation. Thus, finally, the existence of savings banks is a political question. I believe this article has provided sufficient arguments for the reader to form his own opinion.

The fact that there is a potential for improvement of savings banks should under no circumstances be ignored. Thus, for example, they could more strongly adapt new financing instruments common in other countries, such as participation and venture capital, and also high risk small loan instruments (Micro Lending) to the German market with widespread supply. In this way, they would play the pioneering role they have so often assumed in the past.

Perhaps the listing of the advantages of the German savings bank system provides inspiration for bank systems in other countries, just as German savings banks and other banks in turn have learned from experiences from abroad. It would actually be a platitude to note that a one-to-one transfer would not make sense because of different conditions and cultures. But this occurs repeatedly in the reverse direction: the development in Germany is frequently discussed in relation to the deregulation of banks and privatization of state owned banks world-wide, and that other countries have done their "homework" unlike Germany. Here, the fact that savings banks are not state banks and do not enjoy a monopoly in any line of business is overlooked. A bank under public law also means something completely different in different nation states; therefore, no internationally valid procedure can be created and certainly not be applied to the very specific German bank market.

And it should not be ignored, that savings banks are an very important asset to reach targets of the EU: We could evidence that savings banks are an important actor to support a balanced regional development. And as we have shown they are helping as well the successful regions to develop their competitive strengths. Therefore the unique system of savings banks in Germany has a tendency to support the Lisbon Agenda as well as supporting the objective of Cohesion Policy without needing public subsidies.

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