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The Setting

In the 1930s, as now, Deutsche Bank was the largest German bank, whose economic power was the subject of debate and controversy. At that time, its full name was Deutsche Bank und Disconto-Gesellschaft.¹

Deutsche Bank was founded in 1870, in anticipation of a new law that permitted the establishment of joint-stock banks in Prussia. This was a few months before the unification of Germany and the creation of the German Empire. The bank’s founders had a national–patriotic purpose in mind, which was indicated by the (rather ambitious) title they chose for their bank. It was supposed to challenge the preeminence of the London City in the financing of overseas trade.²

In the first years of its existence, it very rapidly emerged as an energetically expanding international bank. It participated first in the establishment of the “German Bank of London” in 1871, and in 1873 it created its own London agency. In 1872 and 1873 it bought into New York and Paris banks, and in 1872 it founded agencies in Shanghai and Yokohama. In 1874 it participated in a South American bank, and in 1886 it created its own institution for South

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America, the Deutsche Übersee Bank (later Deutsche Überseeische Bank or Banco Alemán Transatlántico). Besides trade finance, it carried out a number of important operations for the German government including the sale in Asia of much of the Prussian stock of silver, as the Empire prepared for the transition from a silver to a gold-based currency.³

One of the first managers of the bank was Georg Siemens, who had previously worked for the electrical firm Siemens & Halske, founded by his father's cousin, Werner von Siemens. This enterprise was a major beneficiary of the creation of the new Empire and its demands for communications technology. Georg's bank rapidly became involved in industrial finance.

Another founder of the new bank was a prominent liberal politician, Ludwig Bamberger. As a young man, he was a participant in the abortive revolution of 1848 in the Palatinate, was sentenced to death, and fled to London, where he worked in a bank owned by relatives of his mother. He later moved in the same business to Rotterdam and Paris and learned about the interconnections between economic and national development and between money and politics. In 1868 he was elected to the Customs Union [*Zollverein*] parliament, the predecessor of a German national parliament, and after unification he became a member of the Reichstag. There his major achievement was as rapporteur to the committee, which created the legislation establishing a new central bank (the Reichsbank).⁴

The early years set a pattern in which the new bank moved in the interstices of international finance, industrial finance, and politics. Before World War I, it played a major role in the growth and consolidation of German industry, especially the electro-technical industry. It promoted the formation of syndicates in which businesses were grouped in cooperative partnerships, as well as a wave of mergers, which left the German electrical industry dominated by just two large firms by the beginning of the twentieth century: Siemens and AEG. Deutsche Bank also played a prominent part in financing the great project of extending German power into the Balkans by the construction of a Berlin to Baghdad railway.⁵

Organization of the Bank

At first it was a Berlin-based bank, with branches only in the two port cities (which were not yet members of the German customs area), Bremen and Hamburg. It was only in 1886 that Deutsche Bank opened a branch in Frankfurt, then in Munich in 1892 and in Dresden and Leipzig in 1901. In the first decade of the century, it owned a substantial amount of stock in corporations in the industrial basin of the Rhine–Ruhr. These were amalgamated with the bank only after 1913. In 1914 the bank took over one of the largest regional industrial banks, the Bergisch Märkische Bank. It was only in the 1920s that the bank became a truly multi-branch bank, with tentacles spreading all over Germany. At the time of the merger in 1914, the Deutsche Bank had only 15 branches, whereas the Bergisch Märkische Bank had 35. By the end of 1926, there were 173 branches.⁶ Branches clearly brought the bank into a new sort of business: customer accounts and smaller scale financing of small and medium-sized enterprises. One of the attractions of a larger branch network was that it brought a stable supply of deposits, and the bank tried to develop this business by launching savings accounts. In the 1920s, however, the Deutsche Bank, like the other big joint-stock banks based in Berlin, still dealt mostly with large-scale industrial finance, and with international trade, and was frequently and bitterly criticized for its neglect of small business [*Mittelstand*] customers.⁷ This criticism, which was in the later years of the Weimar Republic most radically expressed by the National Socialist Party (NSDAP), may have been one reason some of the managers of Deutsche Bank believed they should become more involved with the financing of small and medium-sized businesses and hence participated in the “Aryanization” of such enterprises, which is a major theme of this book. Most *Mittelstand* finance, however, was conducted by other sorts of financial institutions, small private banks, regional banks, or the many savings and cooperative banks spread all over Germany.

The biggest of the bank mergers took place in 1929, with the Disconto–Gesellschaft, one of the four so-called D-banks (besides

Deutsche, the others were the Dresdner and the Darmstädter-und Nationalbank). The Disconto was more conservatively managed than the Deutsche had become, and its high-level management regarded itself as less tainted by expansion. The complexities of the merger had not been fully digested before the full fury of the world Depression hit Germany.

How was an institution as complex as Deutsche Bank managed, and how did it do business? The immediate executive responsibility lay, as with all German companies, with a management board [*Vorstand*], composed in 1932 of 10 members. Each had responsibilities for a particular region and for some particular function of the bank. This was a body of equals, though one member might be designated as the speaker [*Sprecher*].

A supervisory board [*Aufsichtsrat*] was chaired by convention by a former member of the management board. Its other members were prominent business figures, usually from major companies with which Deutsche Bank had had a longstanding business relationship. In 1932, this board had 102 members, in addition to two representatives from the Works Council. This was clearly a very unwieldy institution, which met infrequently and could not exercise any real control. As with almost all German supervisory boards at that time, its function was as much social as it was operational. A committee of this board, however, met more frequently, and this committee's role was strengthened in the course of institutional redesign during the Depression. It then became known as the credit committee, and its major function was to supervise large credits, which had been one of the problematical areas of bank policy before 1931.

In the course of this redesign during the Depression, the number of members of the supervisory board was reduced dramatically to fourteen plus the two members of the works council by the beginning of 1933. But later, as it was important to accommodate politically influential figures in the new regime, such as the tobacco magnate Philipp Reemtsma, the number increased again, so that there were twenty-nine members of the supervisory board by 1936.

Another way for the bank to expand its business contacts was through the institution of a large “main committee” [*Hauptausschuss*], which took over from the larger, pre-1932 supervisory board. This was complemented by a nationwide pattern of regional advisory committees [*Beiräte*].

Members of the management board were members of the supervisory boards of industrial enterprises and derived a substantial amount of their income from their remuneration as members of those supervisory boards (these fees were called *Tantiemen*). From this resulted a deep relationship between banks and industry, in which a bank would characteristically first give loans to an enterprise, sometimes secured, sometimes in the form of a current account overdraft [*Kontokorrentkredit*].⁸ When there was a favorable moment on the stock market, banks would organize new issues, of shares or bonds, and would use their customer base as a market for the newly issued securities. Many customers kept their securities with the bank, in custody or *Depot* accounts, and the bank would then use these securities to vote in company general meetings. It was the mixture of financial instruments that gave the German “universal” banks their particular power, a power which probably reached its height in the first decade of the century, at the time of the great wave of mergers and the establishment of many large trusts, and which was analyzed by the pre-war Marxist economist Rudolf Hilferding in his classic work *Finanzkapital*.

Such a board system worked well at a time when most of the business was Berlin-based or foreign oriented. It did not really fit well with the organizational structure required by an extensive branching system. There was a central Berlin office that dealt with branches [*Filialbüro*], supervised by one member of the management board. In addition, each member of the management board had general responsibility for a particular region. But some of the large companies had a particular relationship with another managing director.

The branches behaved in many ways as if they were miniature versions of the bank. Between one and three leading managers were called directors and they served on the supervisory boards of

companies smaller than those on which the bank’s managing directors served.

The existence of a quite dense network of branches meant that the bank had much greater contact with a variety of regional and local sub-economies. This meant too that it had substantial business interests in those areas of Germany where there was a considerable amount of Jewish-owned business: in Saxony, where there were many Jewish-owned textiles, leather, and fur firms; in Silesia, where Jewish owners worked in textiles and also in heavy industry; in southwestern Germany with its craft traditions, where there were also extensive Jewish-owned manufacturing enterprises and where by coincidence the Deutsche Bank had acquired a particularly dense network of branches as a result of mergers with other banks.⁹

At the beginning of the 1930s, then, the Deutsche Bank was not a perfectly centralized institution but rather had an imperfectly articulated hierarchy: it might even be termed “polyarchy.” It looked in some ways like a mirror of the republican state, which the legal and political theorist Carl Schmitt described as “polycratic” (a term many historians have used to analyze the amorphous distribution of power in the post-1933 Nazi state).¹⁰

Depression and Financial Crisis

The enterprise itself, and the business and political culture within which it functioned, were both quite radically transformed in the early 1930s, first by the general economic and financial crisis, and then by the political revolution of National Socialism (which would have been unthinkable without the background of the economic crisis). Because the banking system had historically been a transmission mechanism for market signals, in the 1930s it faced potential redundancy as the enthusiasts of new forms of economic organization took over. Banks were especially vulnerable because of the disaster of 1931.

The reputation and influence of all German banks had been considerably weakened by the great banking crisis of July 1931. The one most affected was the Darmstädter und Nationalbank (Danat

or Danatbank), led by the charismatic Jakob Goldschmidt, who had appeared to Germans as well as to foreign observers to be the incarnation of the power and attraction of the German mixed banking model. The report of the British Macmillan Committee, which held Goldschmidt up as a model, was by an odd coincidence published on July 13, 1931, the day the Danat closed its doors. The basic weakness of the Danat lay in a combination of a massive overextension of loans to a single borrower, the apparently very successful and dynamic Bremen firm of Nordwolfe, with large-scale purchases of its own shares to support its price in a weakening market. The firm was then swept away by an international wave of panic that followed the collapse in May of the Viennese Creditanstalt. The Danat was merged in the course of a state rescue operation with the almost equally damaged Dresdner Bank, and the old management of both banks was replaced. The fact that the state de facto owned the new Dresdner Bank, and that the replacement of the board was not complete by January 30, 1933, almost inevitably later gave the Nazi party a substantial influence on the bank.

Danat was the weakest German bank, but it was not the only bank affected. There was in fact a general weakness of German universal banking, which had originated in the aftermath of war and inflation. Banks had lost most of their capital and were reestablished in 1924 on a precariously narrow capital basis. Competitive pressures, in large measure the result of Goldschmidt's aggressive management of Danat, forced them to borrow (largely abroad) and extend loans on a small capitalization, and with liquidity ratios substantially below the prewar levels. In addition, they were exposed to a substantial currency risk, as their liabilities (the foreign loans) were in dollars or pounds or Swiss francs, whereas their assets were largely German and denominated in Reichsmark (RM). So any doubt about the currency, such as developed in the aftermath of the protracted reparations negotiations of 1929–30 and then as a consequence of the political crisis of the Weimar Republic, would quickly translate into a lack of confidence in banks. Banking weakness and doubts about the currency were in fact intertwined in a way that presaged some of the currency crises of the 1990s, in

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particular the Asian crisis of 1997, and which are now discussed in the economics literature as “twin crises.”¹¹ If investors were worried about banks (as they were after the Austrian Creditanstalt crisis), they might make withdrawals of short-term deposits from banks, but they would also withdraw Reichsmark deposits and convert them into foreign exchange; and if investors were worried about the currency, they would withdraw Reichsmark deposits, which would weaken the banks. So currency doubts as well as specific bank problems meant that all the major banks, which were involved in international business, lost deposits (smaller banks were less internationally exposed and thus more secure).

The Deutsche Bank was not as badly affected by the crisis, but it also depended on government money to continue in business and had to deposit 72 m. RM of its shares with the Deutsche Golddiskontbank, a subsidiary of the central bank, the Reichsbank, in return for a government loan. The speaker of the management board, Oscar Wassermann (Figure 1), had been responsible for the problematical loans to a bankrupt large brewery, Schultheiss Patzenhofer, and had failed to check the creditworthiness of Schultheiss. There was also a bitter controversy – stimulated by the management of the failed banks – as to whether Deutsche Bank had deliberately worsened the crisis to hurt its competitors. This version, actively propagated at the time by Jakob Goldschmidt, was later repeated by the then-Chancellor Heinrich Brüning, in his posthumously published memoirs. (Brüning apparently found it hard to write the section on the banking crisis. Whereas most of the manuscript was complete in the 1930s, Brüning wrote the banking section in the 1950s, while consulting Goldschmidt, who had fled from the Nazis to New York.)¹²

The essence of the criticism was that Deutsche Bank had frustrated a rescue that might have prevented a generalized banking crisis (and thus the worsening of the business depression). Very late in the development of the bank crisis, on July 8, Goldschmidt had proposed a merger of the Danat with the Deutsche. Wassermann had refused, wisely, as it was impossible to gauge the extent of the Danat’s losses (and a similar takeover of a problematical bank,

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Figure 1. Oscar Wassermann: Member of management board 1912–33, Speaker 1923–33.

Source: Courtesy of Deutsche Bank AG.

the Bodenkreditanstalt, had been responsible for the losses and then the failure of the greatest Viennese bank, the Creditanstalt). But Wassermann also disparaged individual banks and thus heightened the general climate of nervousness. A few days before July 8, Wassermann spoke repeatedly at a meeting of industrialists and bankers about a specific “Danat problem,” whereas in reality all banks were vulnerable because of withdrawals and the unwillingness or inability of the Reichsbank to support the commercial banks by discounting bills. Later, Wassermann told the government that the Danat could not be saved, and on July 10 he informed Chancellor Brüning that the other banks were not threatened. On July 11 the Deutsche Bank’s directors refused to provide credit to the Danat; and indeed, Wassermann began to insist that the Dresdner Bank was tottering.¹³

After the banking crisis, in October 1931, Deutsche Bank drew up a lengthy memorandum defending itself against the accusation

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that its lack of solidarity with the other big banks had brought about a general crisis. The memorandum attributed the responsibility for the banking crisis to the international environment; it also criticized very strongly the Reichsbank’s policy of restricting credit (rediscounting) to the commercial banks. Indeed the Reichsbank’s actions did not conform to the classic central banking recommendations of Walter Bagehot (who believed that in the face of a panic the central bank should lend freely but at a penalty rate). But the Deutsche Bank’s memorandum did not take into account the way in which the Reichsbank had been forced into this course by other central banks, in particular the Federal Reserve Bank of New York and the Bank of England, which had made such credit restrictions a precondition for any international assistance.¹⁴ Throughout the subsequent months, Deutsche Bank remained quite critical of the Reichsbank and its President, Hans Luther. The issue remained sensitive after the war, as in the 1950s former Deutsche Bankers feared that their work would be presented in a hostile light in Brüning’s imminent memoirs, and the bank’s dossier on the 1931 crisis was kept with Hermann Josef Abs’s personal papers.

It is easy to see how such an attack could be mounted. Whoever was responsible for the banking crisis had significantly worsened the German depression; and without that worsening, it is quite conceivable that Brüning might have survived longer and that Hitler and his movement might have faded into “complete oblivion” (as a former British Ambassador to Germany stated rather prematurely in his memoirs published in 1929).¹⁵ In 1953, Brüning had a long conversation about the crisis with the past (and future) star of the Deutsche Bank, Hermann Abs. A note of this talk records that: “Abs has the impression that Brüning believes this crisis to be the root of all subsequent ills, and has from somewhere gained the impression that the events were very influenced by competition between the banks, and that the Deutsche Bank’s unwillingness to support the Danatbank aggravated the situation.”¹⁶

Certainly in the eighteen months that followed the banking crisis, Deutsche Bank’s senior management remained frightened and vulnerable to attack and denunciation, as well as commercially weakened. The crisis of 1931 seemed to teach the general lesson