

# *Banking and Industry in Germany in the Interwar Period 1919-1939\**

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## I. *Introduction*

A study of banking and industry in Germany in the inter-war period, as in fact any study of banking and industry in Germany since the Industrial Revolution, is likely to start with the "universal bank". Often considered as the typical German banking institution, the universal bank combined the short-term business of the traditional deposit bank with the long-term business of investment banking; in addition the universal bank provided stock broker services, managed their customers' portfolios and voted their stock. It is generally assumed that the combination of commercial banking and industrial banking made the German banks acquire considerable economic influence by participating directly in industry, promoting new enterprises, organizing mergers and capital reconstruction, gaining representation on supervisory boards (*Aufsichtsrat*), dominating the stock exchange and voting both their own and their customers' stock.

The German universal bank was the historical background to Rudolf Hilferding's theory of "finance capital", published in 1910.<sup>1</sup> Finance capital, in Hilferding's definition, was capital applied in industry but provided and controlled by the banks. According to the theory of finance capital, the financial relations between banking and industry were asymmetrical power relations, with the banks dominating industry.

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<sup>1</sup> R. HILFERDING, *Das Finanzkapital. Eine Studie über die jüngste Entwicklung des Kapitalismus* (1910), Frankfurt 1969.

By their capacity to raise capital, by their widespread interests in every branch of industry and by an ingenious system of interlocking directorships the banks were in Hilferding's view the spearhead of the concentration process and exercised considerable control over the economy. Passing from economic analysis to political perspectives, Hilferding suggested that a future socialist government would only have to take over the six largest Berlin credit banks in order to control the better part of the economy and ensure a smooth transition from capitalism to socialism.<sup>2</sup>

The theory of banking supremacy, however, was not confined to socialist quarters. In 1925, when it fell to the banks to liquidate their interests after the fall of the Stinnes group, the members of the Stinnes family, hitherto unsuspected of socialist inclinations, protested against bank despotism,<sup>3</sup> and during the years of monetary austerity which followed the return to gold complaints about banking power were widespread. Turning to the more positive aspects of banking power, economic historians have attributed to the German banking system a decisive role in fostering the industrial growth and the international competitiveness of German capitalism<sup>4</sup>.

In a century of rapid economic change, social unrest and political turmoil, the universal banks belong seemingly to the few stable institutions in Germany; the three big commercial banks of the 1980's look back to a history of more than one hundred years.<sup>5</sup> This, however, is not an uninterupt tradition. Twice in its history, the German universal bank as an institution was seriously threatened. One was Allied control after the Second World War, which resulted in the liquidation of the universal banks in East Germany and their temporary decentralization in West Germany, until the West German Government permitted a reconcentration and reconstruction of the Big Three in 1956. The other incision, further back in history, was the financial crisis of 1931 which brought some of the major commercial banks on the verge of disaster. Stabilized by massive government intervention, the banking sector came for several years under the control of the state. In the long run, however, state control was only an interlude. When depression gave way to the

<sup>2</sup> *Ibid.* p. 504.

<sup>3</sup> P. BARRETT WHALE, *Joint Stock Banking in Germany*, London 1930, p. 302.

<sup>4</sup> Cf. A. GERSCHENKRON, *Economic Backwardness in Historical Perspective*, Cambridge (Mass.) 1966.

<sup>5</sup> Cf. The centenary volumes: V. MUTHESIUS, H. KURZROCK, H. WOLF, *Hundert Jahre Commerzbank 1870-1970*, Düsseldorf 1970. F. SEIDENZAHL, *Hundert Jahre Deutsche Bank 1870-1970*, Frankfurt 1972. The evolution of the German banking system is described in K.E. BORN, *Geld und Banken im 19. und 20. Jahrhundert*, Stuttgart 1977. M. POHL, *Einführung in die deutsche Bankengeschichte*, Frankfurt 1976.

armament boom of the 1930's and business prospects improved, the nazi government denationalized commercial banking and contented itself with a reform of the legislative framework.

## II. *Inflation and Stabilization*

The Weimar Republic inherited its banking system, like many other economic, social and political institutions, from the Empire. In fact the transition was smoother than might have been expected. In 1910 Rudolf Hilferding had argued that a future socialist government would only have to take over the six largest commercial banks in order to control the better part of the economy. But the socialist government which was swept into power by the revolution of November 1918 refrained from putting this theory to an empirical test; it showed no ambition to socialize the banking sector, nor anything else.<sup>6</sup>

Commercial banking was divided into a small group of metropolitan banks and a large number of provincial banks. There were eight metropolitan Banks in 1919: Berliner Handelsgesellschaft, Commerz- und Discontobank, Darmstädter Bank, Deutsche Bank, Disconto-Gesellschaft, Dresdner Bank, Mitteldeutsche Creditbank, and Nationalbank. The number was reduced by three important mergers in the 1920's: The Nationalbank merged with the Darmstädter Bank in 1921 to form the Darmstädter und Nationalbank; the Mitteldeutsche Creditanstalt, which languished during the 1920's and retained its status as metropolitan bank largely on historical grounds, was amalgamated in early 1929 with the Commerz- und Privatbank (the Commerz- und Disconto-Bank had changed its name after the amalgamation of the Mitteldeutsche Privatbank in 1920); and the Disconto-Gesellschaft merged in October 1929 with the Deutsche Bank and Disconto-Gesellschaft. On the other hand a new metropolitan bank came into existence, the state-owned Reichskreditgesellschaft. Founded during the First World War as an agency to finance war contracts, it survived the demobilization era and was reorganised in 1924 as a credit bank. Its main function was to serve as a house bank for the state-owned industrial firms, but it also did business with private customers. Its capital and volume of business placed it at about the same level as the Berliner Handelsgesellschaft.

The larger metropolitan banks controlled a number of provincial banks,

<sup>6</sup> Cf. Hilferding's moderate position on the General Congress of Workers' and Soldiers' Committees in December 1918: *Allgemeiner Kongress der Arbeiter- und Soldatenräte Deutschlands vom 16. bis 21. Dezember im Abgeordnetenhaus zu Berlin. Stenographische Berichte, Berlin 1919.*

and in the years before the First World War the metropolitan banks, with the exception of the Berliner Handelsgesellschaft, had begun to establish nationwide networks of branches, either by amalgamating affiliated provincial banks or by opening new offices. The expansion of the Deutsche Bank illustrates the new principle; it maintained office in 10 German towns, including Berlin, in 1913, 30 towns in 1918 and 175 towns in 1926.<sup>7</sup> On the average, metropolitan banks had 22 branches in 1913 and 104 branches in 1925.<sup>8</sup>

The regional expansion of metropolitan banking was in the logic of long term concentration, but it was also a reaction to the peculiar monetary conditions of the time. War and inflation, with big-scale government deficit spending and abundant central bank credit, put the economy in a state of extreme liquidity and tended to loosen the ties between industry and banking. It was a sign of this greater independence that some of the larger companies set up their own house banks or tried to get controlling interests in credit banks. Financial intermediation by-passed to some extent the banking system; and this caused the metropolitan banks to develop a more efficient organization and turn their affiliated provincial banks into branches depending directly from Berlin. A dense network of branches would bring the metropolitan banks into closer contact with their industrial clientele and would enable them to gather more efficiently regional funds.

The expansion built on the pre-existing structure of affiliated provincial banks. Turned into branches, the provincial institutions would continue to function with their offices, staff and clientele under the new name. The difference was that the new status brought them under direct control of the metropolitan bank, and major decisions were transferred from the provinces to Berlin. The amalgamation of a provincial bank with its own network of branches gave the metropolitan bank a firm position in a region where it had hitherto not been present. The Deutsche Bank increased its influence in Bavaria through the amalgamation of the Pfälzische Bank in 1921 and in the Ruhr through the amalgamation of the Essener Credit-Anstalt with its 25 branches in 1924; the Commerz- und Discontobank took over the important Mitteldeutsche Privatbank in 1920 and hence changed its name into Commerz- und Privatbank.

The Berliner Handelsgesellschaft and the Reichskreditgesellschaft did not follow the general trend; they were centralized institutions without branches.

Provincial banks varied widely in importance. The largest provincial banks mustered more capital and a greater volume of business than the smaller, centralized metropolitan banks, and such firms as Allgemeine Deutsche Credit-

<sup>7</sup> *Geschäftsberichte der Deutschen Bank* 1913, 1918, 1926.

<sup>8</sup> *Untersuchung des Bankwesens* 1933, pt. 2, Berlin 1934, pp. 9-11.

anstalt in Leipzig, Bayerische Hypotheken- und Wechselbank and Bayerische Vereinsbank in Munich<sup>9</sup>, Barmer Bankverein in the Rhineland or Deutsche Effekten- und Wechselbank in Frankfurt exerted considerable financial influence in their region. At the other end was a great number of insignificant local firms.

The regional expansion of metropolitan banking was a serious challenge for the provincial banks. As far as they could, the provincial banks followed the example of their metropolitan competitors and expanded their organisation; the average number of branches of provincial banks increased from 6 in 1913 to 11 in 1925.<sup>10</sup> And there were some efforts for cooperation among non-metropolitan banks. The Bayerische Vereinsbank concluded in 1922 an agreement with Mendelssonhn & Co., a prestigious private banking firm of international reputation. The idea was that the regional resources of the provincial bank and the financial expertise of the private banker should supplement each other in a non-competitive partnership; but in practice the cooperation proved to be difficult.<sup>11</sup> Three other large provincial banks, the Allgemeine Deutsche Credit-Anstalt, the Barmer Bankverein and the Bayerische Hypotheken- und Wechsel-Bank agreed at the same time a proposal of close cooperation in order to counteract the expansion of metropolitan banking.

While concentration and expansion reduced the number of established independent banks, there was on the other hand an inflationary bank promotion boom.<sup>12</sup> The inflation gave rise to speculative transactions of various kinds; huge profits were made by foreign exchange speculation and stock exchange speculation. New banks were opened which lived on speculative business rather than regular banking activities. Most of these newcomers' however, fell victim to the currency stabilization of 1923-1924 and the return to normal conditions; after 1923, banks were liquidated as fast as they had been created.<sup>13</sup>

After the currency stabilization of 1923-24 the organizational expansion of metropolitan banking came to a halt. The emphasis in the late twenties was on organizational consolidation. The branch networks were no longer expanded, the number of branches of metropolitan and provincial banks remained practi-

<sup>9</sup> Cf. F. STEFFAN, *Bayerische Vereinsbank 1869-1969*, München 1969.

<sup>10</sup> *Untersuchung des Bankwesens*, pt. 2, pp. 9-11.

<sup>11</sup> F. STEFFAN, *Bayerische Vereinsbank*, pp. 203-205.

<sup>12</sup> A. WEBER, *Depositenbanken und Spekulationsbanken*, München/Leipzig 1938, pp. 146-147. F. GRÜGER, "Die Wirkungen des Krieges und der Kriegsfolgen auf das deutsche Bankwesen mit einem Rückblick auf die Vorkriegszeit", in *Untersuchung des Bankwesens*, pt. 1, vol. 1, Berlin 1933, p. 54.

<sup>13</sup> The number of provincial banks with branches was 110 in 1913, 70 in 1925 and 60 in 1929; provincial banks without branches 198 in 1913, 236 in 1925 and 151 in 1929. *Untersuchung des Bankwesens*, pt. 2, p. 9.

cally unchanged between 1925 and 1929. The high employment of the inflation years was dramatically reduced, and thousands of bank employees joined the army of the unemployed. The Deutsche Bank had 40,000 employees in 1923 and 16,000 in 1925;<sup>14</sup> the Dresdner Bank had 19,000 employees in 1922 and 8,600 in 1926.<sup>15</sup> Nevertheless costs continued to take a higher share of gross profits in banking than they had done before the war. This was due to the general level of wages and taxes, but also to decreasing returns inherent in organizational expansion. The additional business which the banks acquired through an extensive network of branches could not yield the same profit margins as big credit operations with selected customers had done. Thus the Berliner Handelsgesellschaft and the Reichskreditgesellschaft had a much higher margin of net profits than the bigger metropolitan banks with branches.<sup>16</sup>

The large-scale combinations and mergers of the late 1920's aimed at both expansion and consolidation. Profits were to be raised by increasing the market power of industrial or financial corporations and also by reducing costs when competing organizations were fused. Incessant activities to structure firms, branches and the economy at large were the essence of the rationalization movement of the 1920's.<sup>17</sup> Industrial capital led the pace in the concentration process, while finance capital followed relatively late; the Mitteldeutsche Creditbank merged with the Commerz- und Privatbank in early 1929,<sup>18</sup> and the Disconto-Gesellschaft merged with the Deutsche Bank in October 1929.<sup>19</sup> The affiliated Norddeutsche Bank, Rheinische Creditbank, Schaaffhausen'scher Bankverein and Süddeutsche Disconto-Gesellschaft were amalgamated into the new Deutsche Bank und Discontogesellschaft. With a capital of 285 million RM the Deutsche Bank und Disconto-Gesellschaft became one of the big international banks and was by far the biggest German bank; the Dresdner Bank had at that time a capital of 134 million RM and the Commerz- und Privatbank 113 million RM.<sup>20</sup>

<sup>14</sup> DEUTSCHE BANK, *Geschäftsbericht 1925*. Pohl mentions 37,000 Deutsche Bank employees in 1923; M. POHL, "Die Situation der Banken in der Inflationszeit", in O. BÜSCH, G. FELDMAN, eds., *Historische Prozesse der deutschen Inflation*, Berlin 1978, p. 93.

<sup>15</sup> DRESDNER BANK, *Geschäftsberichte 1922, 1926*.

<sup>16</sup> Cf. H. RUMMEL, "Die Rentabilitätsfrage der Banken, ihre Unkosten und die Kalkulation", in *Untersuchung des Bankwesens*, pt. 1 vol. 1, Berlin 1933. *Untersuchung des Bankwesens*, pt. 2, p. 287.

<sup>17</sup> Cf. R.A. BRADY, *The Rationalization Movement in German Industry. A Study in the Evolution of Economic Planning*, Berkeley 1933.

<sup>18</sup> MUTHESIUS, KURZROCK, WOLF, *Hundert Jahre Commerzbank*, pp. 107-108.

<sup>19</sup> Cf. M. POHL, "Der Zusammenschluß der Deutschen Bank und der Disconto-Gesellschaft im Oktober 1929", in DEUTSCHE BANK, ed., *Beiträge zu Wirtschafts- und Währungsfragen und zur Bankgeschichte* 18, Frankfurt 1980.

<sup>20</sup> SEIDENZAHL, *Hundert Jahre Deutsche Bank*, p. 316.

Though the universal bank was the most important institution in industrial finance, there was some competition from other financial intermediaries.<sup>21</sup> Private banking firms differed from commercial banks, generally speaking, by legal status rather than their range of business or their size. Though the general tendency was towards joint-stock banks, important private banking houses like Bleichröder, Delbrück-Schickler, Dreyfus, Medelssohn in Berlin, Deichmann in Cologne, and Warburg in Hamburg rivalled in prestige the big Berlin banks. They participated in the big financial syndicates of the time, had access to international capital markets and were appreciated as "first addresses" by the Reichsbank and by the Berlin money market. On the other hand there were scores of small firms registered as private banks which in fact had their business outside banking as brokers, agents, estate managers etc.; according to an official estimate, not more than 250 out of the 1500 private banking firms registered in 1925 were banks in the sense that they took deposits and gave credit.<sup>22</sup>

Saving banks and cooperative banks filled to some extent the gap when concentration reduced the number of local commercial banks and private banking firms. As legal restrictions that had formerly existed were gradually removed, savings banks and cooperative banks became a kind of local universal bank, and they built a system of regional and national institutions to coordinate their efforts and pool their resources. There were various state banks which took deposits and gave industrial credits, competing in that line of business with the provincial banks. On the national level was the new Reichskreditgesellschaft, which was owned by the Reich but was in fact regarded as a metropolitan universal bank. To some extent the Reichsbank competed with the commercial banks; it discounted bills of large industrial and commercial companies without the intermediation of the credit banks and gave credits to industry and agriculture through its subsidiary, the Deutsche Gold- und Diskontbank.<sup>23</sup>

Reconstruction after the First World War began with the inflation of 1919-1923. Inflation was a heritage of the war, but it accelerated under the weak and inefficient early governments of the new republic. Taking the last year of peace as a basis (1913=1), the index of wholesale prices stood in 1922 at 1.5 in Britain, 4.2 in France, 5.8 in Italy and 342.0 in Germany.<sup>24</sup> Then followed

<sup>21</sup> Cf. "Ausschuß zur Untersuchung der Erzeugungs- und Absatzbedingungen der deutschen Wirtschaft" (= Enquete-Ausschuß), *Der Bankkredit*, Berlin 1930. E. WALB, "Übersetzung und Konkurrenz im deutschen Kreditapparat", in: *Untersuchung des Bankwesens*, pt. 1 vol. 1, Berlin 1933.

<sup>22</sup> WEBER, *Depositenbanken*, p. 148.

<sup>23</sup> Cf. "Enquete-Ausschuß, *Die Reichsbank*", Berlin 1929.

<sup>24</sup> P. CZADA, "Ursachen und Folgen der großen Inflation", in H. WINKEL, ed., *Währungs- und finanzpolitische Fragen der Zwischenkriegszeit*, Berlin 1973, p. 41.

the hyper-inflation of 1923 where government debt, money supply, foreign exchange rates and the price level reached astronomic figures.<sup>25</sup> In November 1923, the German currency was stabilized at the impressive dollar exchange rate of 4.2 billion (=10<sup>12</sup>) mark or 1 billion prewar gold mark. For one year the stabilized Billmark, as it was conveniently called, and a newly issued stable Rentenmark circulated side by side, until the German currency returned to the gold standard in August 1924 in connection with the Dawes Plan for reparation settlement.

Opinion on the German inflation is still divided, as the contemporary debate has a sequel in the protracted discussion of pro-inflationist and anti-inflationist economic historians.<sup>26</sup> For a while inflation stimulated production and employment, and specifically it sheltered German from the world crisis of 1921. But the runaway inflation of 1923 led to a serious decline of economic activity, followed by an equally serious stabilization crisis in the winter of 1923-24. In the end, inflation had delayed the return to normal economic conditions in Germany by several years compared to other countries. This left only few years for the economic system to operate under more or less normal conditions before the crisis brought new disaster. In the reconstruction period which was initiated by the currency reform, the Dawes Plan and the return to gold, lost ground was recovered quickly. National income at constant price attained its prewar (1913) level in 1927. But the boom did not last long. According to net social product estimates, the peak was reached in 1928, with real product 3 per cent higher than it had been in 1913. If one accepts the more optimistic estimate for real income, the peak was reached in 1929, with real income 11 per cent higher than it had been in 1913.<sup>27</sup> Other indicators confirm that the German economy had not yet returned to its equilibrium growth path; unemployment was high even in the boom years of 1925 and 1927, capital utilization was low and the investment ratio was much smaller than it had been before the war.

Among the various obstacles that may have hindered a fuller utilization of resources, the restrictive monetary policy was the most conspicuous. Since the currency stabilization of late 1923 and the return to gold in 1924, the Reichsbank was pledged both by its own decision and by the spirit of the Dawes Plan to a restrictive policy. The only exception were a short credit expansion in early

<sup>25</sup> C.L. HOLTFRERICH, *Die deutsche Inflation 1914-1923*, Berlin/New York 1980.

<sup>26</sup> Cf. CHARLES S. MAIER, "The Two Postwar Eras and the Conditions for Stability in Twentieth-Century Western Europe", in *American Historical Review*, 86 (1981); and the comment by CHARLES KINDLEBERGER, *ibid.*, p. 360.

<sup>27</sup> W.G. HOFFMANN, F. GRUMBACH, H. HESSE, *Das Wachstum der deutschen Wirtschaft seit der Mitte des 19. Jahrhunderts*, Berlin/Heidelberg/New York 1963, pp. 454-455, 827-828.

1924 between the stabilization and the return gold, and another short credit expansion from January to June 1927 when the Reichsbank lowered the discount rate and let its reserves run down in order to get the transfer protection of the Dawes Plan working. The vigorous boom in 1927 may have to do something with this switch in monetary policy, but when the note coverage approached its lower limit, the Reichsbank had to return to a restrictive policy in June 1927 even though it had not attained its aim. Banks and industry had to cope with the new situation that after the years of inflationary abundance the pendulum had swung to the other extreme; money became scarce and German interest rates were very high by international standards.<sup>28</sup>

Table 1. NATIONAL INCOME, 1913-1937

	1913	1925	1928	1932	1937
Net national product, current prices (milliard mark)	52.4	67.3	84.0	50.8	87.9
Net national product, 1913 prices (1913 = 100)	100	89	103	80	140

Source: W.G. HOFFMANN, F. GRUMBACH, H. HESSE, *Das Wachstum der deutschen Wirtschaft seit der Mitte des 19. Jahrhunderts*, Berlin/Heidelberg/New York 1965, pp. 825-828.

Thus the development of banks and industry between world war and world depression falls, as far as Germany is concerned, into two distinct periods, inflation from 1919-1923 and deflation 1924-1928. The inflation was a time of hectic activity for the banks, and there was a considerable expansion of employment; thousands of new employees were recruited for the expanding bank organizations.<sup>29</sup> But in real terms the banks experienced a sharp fall in business and profits. This was necessarily so, as the demand for money, while increasing fantastically in nominal terms, decreased equally fantastically in real term. The

<sup>28</sup> Cf. G. HARDACH, *Weltmarktorientierung und relative Stagnation. Währungspolitik in Deutschland 1924-1931*, Berlin 1976.

<sup>29</sup> The Deutsche Bank increased its staff from 9,600 in 1913 to 37,000 in 1923 to cope with the additional work, but the increase had also to do with the regional expansion of the bank; the Deutsche Bank maintained a much larger network of branches in 1923 than in 1913. Cf. POHL, *Banken in der Inflationszeit*, p. 93.

gold value of the note circulation went down from 6,500 million GM in 1913 to only 300 million GM in October 1923.<sup>30</sup> Bank deposits decreased even more in real terms, at least until 1922.<sup>31</sup>

Thus much of the increased activity was unproductive paper work: huge and quickly changing figures had to be calculated, loads of worthless paper money had to be handled, the swollen volume of accounts and stock exchange orders represented to a large extent only trifling values in real terms. This meant that costs weighed more heavily on gross earnings than they had done before the war. Banks complained that many accounts and stock exchange orders became so trifling in real value that they were not worth keeping any more. Small customers were rebuked and shoved off to the savings banks, they had no longer "bank status". This policy, it may be noted in passing, fell back on the banks in later years when they complained about increasing competition from savings banks and cooperative banks. To some extent the difficulties of the banks were compensated by the fact that they borrowed cheap; the rate of inflation was higher than the rate of interest on the bank deposits. The same mechanism worked on the credits which the banks extended. But some assets represented real valued and were thus sheltered from inflation; banks bought industrial shares or real estate, and they also circumvented the exchange controls and invested in stable currencies.

No effort has as yet been made to put the gains and losses of the inflation years beyond more or less palusible hypotheses into exact figures, and it may be difficult to do so. The banks continued to draw up balances, but they admitted that this became a meaningless routine as the pace of inflation quickened; it does not make sense to add indiscriminately flow figures, say for January 1923 and July 1923, which represented quite different real transactions, and there was no yardstick available for a realistic evaluation of assets and liabilities. The financial erosion became visible after the stabilization when accounting was resumed on a gold basis.<sup>32</sup> In the gold mark opening balances of January 1924, the total assets of all commercial banks together were evaluated at only 21 per cent of their 1913 level.<sup>33</sup>

<sup>30</sup> Deutsche Bundesbank, ed., *Deutsches Geld- und Bankwesen in Zahlen 1876-1975*, Frankfurt 1976, pp. 14-15. The gold mark (GM), a standard unit of account in those days, was in fact a dollar mark, as current prices etc. were deflated by the dollar exchange rate. 1 GM was by definition 0,24 US-dollar.

<sup>31</sup> HOLTFRERICH, *Die deutsche Inflation*, pp. 47-61.

<sup>32</sup> Cf. RAIMUND W. GOLDSCHMIDT, *Das deutsche Großbankkapital in seiner neueren Entwicklung*, Diss. Berlin, 1928.

<sup>33</sup> "Die Deutschen Banken 1924 bis 1926" (*Einzelschriften zur Statistik des Deutschen Reichs*, Nr. 3), Berlin 1927.

Obviously banks were not in the favourable position of the inflation profiteers from industry who borrowed depreciating money and invested in real assets such as plants, equipment, stocks. However, the big metropolitan banks fared relatively well in so far as their assets depreciated not as fast as their creditors. As a result of this their gold mark opening balances of 1st January 1924 showed a relatively high capital ratio (capital in relation to total liabilities) of 37 per cent, as against 19 per cent in 1913.<sup>34</sup> This provided a comfortable cushion for future expansion.

After the currency stabilization of 1923-24 the reconstruction of financial assets began with a fulminant start in 1924 and 1925, followed by a steady growth until 1929. The total assets of all commercial banks attained 10.0 milliard RM or 49 per cent of their prewar (1913) level in 1925 and 20.9 milliard RM or 102 per cent in 1929. This was largely the success of metropolitan banking, and financial power shifted decisively towards the big Berlin banks.

The metropolitan banks attained 75 per cent of their prewar (1913) total assets in 1925 and 164 per cent in 1929. Thereby their share in the total assets of commercial banks increased considerably. In 1913, nine metropolitan banks out of 352 commercial banks controlled 41 per cent of all assets; in 1929, six metropolitan banks out of 296 commercial banks controlled 66 per cent of all assets.<sup>35</sup>

Taken by itself, the financial reconstruction of the late 1920's has the appearance of a rapid and perhaps somewhat reckless growth period. This, however, is only part of the story. The high growth rates of the banking system from 1924 to 1929, 40 per cent per year for the total assets of metropolitan banks, are substantially explained by the fact that financial reconstruction started in 1924 at an abnormally low level. Historians tend to regard the inflation of 1919-1923 and the stabilization of 1924-28 as strictly separate phases of the Weimer Republic. But in fact there was a direct link; the high growth rates of the financial sector in the later 1920's were a reaction to the enormous real depreciation of the early 1920's. In real terms, the financial reconstruction failed to attain the prewar level. The price index of the net social product in 1929 was 50-55 per cent above its 1913 basis;<sup>36</sup> thus a nominal increase of 2 per cent for all commercial banks together meant a real loss, and even the impressive nominal increase of 64 per cent for the metropolitan banks yielded only a small real gain.

<sup>34</sup> *Deutsches Geld- und Bankwesen in Zahlen*, pp. 78-79. Cf. also C.L. HOLTFRERICH, "Die Eigenkapitalausstattung deutscher Kreditinstitute 1871-1945", in *Bankhistorisches Archiv*, 5. Beiheft, Frankfurt 1981, pp. 15-29.

<sup>35</sup> *Untersuchung des Bankwesens 1933*, pt. 2, pp. 112-114.

<sup>36</sup> HOFFMANN, GRUMBACH, HESSE, *Das Wachstum der deutschen Wirtschaft*, pp. 598-601.

The increasing gap between metropolitan banks and provincial banks had several reasons. Obviously, the organizational expansion of metropolitan banking implied a redistribution of assets between the two banks groups as provincial banks were amalgamated into the metropolitan banks. It also seems that, generally speaking, the competitive power of metropolitan banks was bigger than that of provincial banks. And then, the metropolitan banks had access to the international capital markets. German banks borrowed heavily abroad to circumvent the restrictive credit policy of the Reichsbank. Due to the interest differential, credits were eagerly given by foreign investors once the confidence in the German currency and economy had been restored. "I am conscious of the fact that Germany has been somewhat overrun with representatives of American banks eagerly seeking and competing for business", wrote Governor Strong of the Federal Reserve Bank of New York as early as 1925 to the Agent General for Reparation Payments in Berlin Parker Gilbert.<sup>37</sup> It has been estimated that 40 per cent of all creditors of the German banks in 1929 came from foreign investors, mostly — though not exclusively — banks.<sup>38</sup> Foreign creditors were usually due within three months, but might be renewed and were in fact often used as a substitute for long term funds.<sup>39</sup> This policy created a liquidity problem not only for the banking system, but also for the German currency. By the end of 1930, German banks had accumulated a short term foreign debt of 7.0 milliard RM, and it was quite predictable that this debt together with the 7.5–8.0 milliard RM short term foreign debt of non-bank borrowers could easily force Germany off the gold standard in a currency crisis.<sup>40</sup> Access to foreign money markets was a monopoly of the big Berlin banks and some large private banking firms, and this gave metropolitan banking an important competitive advantage over provincial banks and other financial intermediaries that were confined to domestic resources.

The heavy dependence from foreign capital was not the only weakness of the German banking system. In the drive for financial reconstruction, the commercial banks reduced their liquidity in favour of less liquid, but more remunerative assets. Liquidity did not nearly keep in pace with the expansion of creditors since 1924, but also in comparison with 1913.<sup>41</sup> The liquidity ratio

<sup>37</sup> Strong to Gilbert, 30 September 1925. Federal Reserve Bank of New York, Strong Papers 1012.

<sup>38</sup> O.C. FISCHER, "Die fehlerhafte Kreditpolitik", in *Untersuchung des Bankwesens*, pt. 1, vol. 1, p. 512.

<sup>39</sup> Enquete-Ausschuss, *Der Bankkredit*, p. 83.

<sup>40</sup> *Untersuchung des Bankwesens 1933*, pt. 2, pp. 462–463.

<sup>41</sup> Cf. F.W. HENNING, "Die Liquidität der Banken in der Weimarer Republik", in H. WINKEL, ed., *Währungs- und finanzpolitische Fragen der Zwischenkriegszeit*, Berlin 1973.

— cash and central bank deposits to creditors — declined from 7.3 per cent in 1913 to only 3.8 per cent in 1929 for all commercial banks. The liquidity of the metropolitan banks was slightly above the average in 1913 with 7.4 per cent and slightly below the average in 1929 with 3.5 per cent, and though the difference is small it suggests again that the metropolitan banks were the leaders in the expansion of the late 1920's. It aggravated the situation that the stability of bank creditors had deteriorated. The share of long term creditors due after three month had declined from 14 per cent in 1913 to 7 per cent in 1929 for all credit banks.<sup>42</sup>

Another consequence of the expansive philosophy of the banks was that the increase of risk bearing capital did not keep pace with the volume of business. At the height of expansion in 1929, the risk bearing capital (nominal capital and reserves) attained for the metropolitan banks 56 per cent of its 1913 level and for the provincial banks only 23 per cent. The initially very high ratio of capital and reserves to total assets in the gold mark opening balances of January 1924 had already much deteriorated by 1925 and was further reduced in the following years. For all commercial banks together the ratio was 22 per cent in 1913 and 9 per cent in 1929; for the metropolitan banks it was 19 per cent in 1923 and 7 per cent in 1929.<sup>43</sup>

Even if one allows for secret reserves which the banks accumulated to write off losses and stabilize their dividend, it is evident that the German universal banks operated from a very small capital basis. At first sight other European banks did the same. According to a German estimate, the capital ratio of English joint stock banks had deteriorated from 9 per cent in 1913 to 7 per cent in 1929, and that of the three largest French banks from 20 per cent in 1913 to 8 per cent in 1929.<sup>44</sup> But the comfort that comparisons of this kind offered was treacherous, for the universal bank with its varied engagements incurred greater risks than a deposit bank, and consequently should have had a higher capital ratio.

The dependence from foreign capital, the deteriorating liquidity and the widening gap between risk bearing capital and total assets made the German banking system extremely vulnerable, and the banking crisis of 1931 suggests that the bankers had become somewhat careless in their drive for financial reconstruction. Any alternative, however, would have had its price. The expansive policy of the credit banks cushioned to some extent the restrictive policy of the

<sup>42</sup> *Untersuchung des Bankwesens*, pt. 2, pp. 88-91 and 56-61.

<sup>43</sup> *Ibid.*, and *Deutsches Geld- und Bankwesen in Zahlen*, pp. 78-79.

<sup>44</sup> W.M. VON BISSING, "Die Schrumpfung des Kapitals und seine Surrogate", in *Untersuchung des Bankwesens*, pt. 1, vol. 1, p. 77.

Reichsbank. A more conservative credit policy of the banking system might have aggravated the macroeconomic consequences in term of employment and production. Even with historical hindsight it is difficult to design an optimal bank policy which would under the prevailing conditions have satisfied both the need to maintain financial stability under the gold standard, and the need to finance economic reconstruction.<sup>45</sup>

Table 2. STRUCTURE OF ASSETS OF ALL  
COMMERCIAL BANKS 1913-1929  
(per cent)

	1913	1925	1929
Cash and balances with banks	7	16	11
Bills and advances	68	72	73
Securities and participations	10	5	5
Long-term credits	12	7	10

Source: *Untersuchung des Bankwesens 1933*, pt. 2, Berlin 1934, pp. 77-115.

In practice the distinction between the german "universal bank" and the traditional "deposit bank" was less fundamental than in theory. By far the largest part of the assets of the German commercial banks, varying between 80 and 90 per cent in the late 1920's, were short term business: cash, balances with banks, bills and advances. Long term credits, securities and participations accounted for only a small part of assets. For practical purposes the contribution of the banks to long term finance may have been somewhat more important, as short term credit was used not only for circulating capital, but also for long term investment in construction, machinery etc., sometime in anticipation of recourse to the capital market, sometimes in the understanding that the short term credits would be repeatedly renewed. The use of short term credit to finance long term investment in anticipation of subsequent consolidation had a tradition in German banking,<sup>46</sup> but its extensive use proved to be dangerous from 1928 on when business conditions deteriorated and the recourse to the German or international capital markets became increasingly difficult.

Thus the German universal bank was essentially a credit bank, not an

<sup>45</sup> G. HARDACH, "Reichsbankpolitik und wirtschaftliche Entwicklung 1924-1931", in *Schmollers Jahrbuch*, 90 (1970).

<sup>46</sup> WHALE, *Joint Stock Banking in Germany*, p. 38.

investment or holding company.<sup>47</sup> As far as economic power was implied in the credit connection, it fluctuated with the conditions of demand and supply and the extent to which alternate sources of finance — retained profits, government, or financial intermediaries other than banks — were available. It has been observed that there was a tendency before the First World War for the larger industrialists to become less dependent on the banks.<sup>48</sup> War finance and the inflation of 1919-23 seem to have increased the financial independence of industry. Then, the stabilization of 1923-24 brought back a certain extent of banking power. The general shortage of capital made industry and commerce dependent on those institutions that had money to lend or could mediate the access to capital markets. The economic difficulties of the reconstruction period left little scope for capital accumulation through retained profits. Industry relied more heavily on borrowing than it had done before the war, and much of this was short term credit provided by the banking system. According to Hoffmann's estimates, the share of the banking system in the total volume of finance provided by financial intermediaries, share issue and government increased from 52 per cent in the years 1910-13 to 68 per cent in the years 1925-29.<sup>49</sup> These are total figures, not only for industrial finance, but industry was the most important client of the banking system. According to a representative inquiry made by the Federation of Banks and Bankers, 61 per cent of all bank credits went to industry (including some trade) in 1931, 8 per cent to banks and insurance companies, 3 per cent to agriculture, 3 per cent to department stores and foreign trade, 2 per cent to government, 9 per cent to households (including stock exchange speculation).<sup>50</sup>

While war and inflation had loosened the ties between banks and industry, stabilization in the late 1920's substantiated the position of finance capital. The big commercial banks influenced visibly the structure and growth of the economy. The inflation had led to somewhat fortuitous and consequently instable industrial agglomerations. German industry was recasted in the late 1920's in a series of combinations and mergers that aimed at some kind of rationally planned and "organized" capitalism.<sup>51</sup> The big credit banks, both metropoli-

<sup>47</sup> *Ibid.*, pp. 162-163.

<sup>48</sup> *Ibid.*, pp. 64-65.

<sup>49</sup> HOFFMANN, GRUMBACH, HESSE, *Wachstum der deutschen Wirtschaft*, pp. 812-813.

<sup>50</sup> CENTRALVERBAND DES DEUTSCHEN BANK- UND BANKIERGEWERBERS, ed., *Materialien zur Vorbereitung der Banken-Enquête 1933*, n.p., n.d. (1933), p. 143.

<sup>51</sup> Here again, Hilferding caught the spirit of the time with his theory of "organized capitalism", first published in 1916 and reformulated in 1924. The concept of organized capitalism has had a renaissance in recent historical writings. Cf. U. NÖCKEN, "Korporatistische Theorien und Strukturen in der deutschen Geschichte des 19. und frühen 20. Jahrhunderts", in U. VON ALEMANN, ed., *Neokorporatismus*, Frankfurt 1981.

tan and provincial, and some private bankers played an active part in this general reorganization of German industry. Here perhaps finance capital was at its height, reshuffling and reorganizing a wide range of industrial and commercial interests.<sup>52</sup> A battalion of 1,300 bankers occupying 5,800 seats in the boards of industrial, commercial and other companies was the visible expression of banking influence; the champion assembled as many as 37 directorial seats.<sup>53</sup>

However, the influence of the banks on industry had its limits. The banks embarked deliberately on the concentration movement, but the result may nevertheless have contributed in some instances to a greater autonomy of industry. Concentration proceeded faster in industry than it did in banking.

Before the war credit banks had been prominent among the largest joint stock companies of the time, but in the late 1920's they were surpassed by the big chemical, coal, steel, electrical equipment and public utilities companies. In 1927 the German companies with the biggest capital were ten industrial companies from the IG Farben (1,100 million RM) to the Rheinisch Westfälische Elektrizitätswerke (155 million RM) before the Deutsche Bank (150 million RM) as no. 11, Disconto-Gesellschaft (135 million RM) as no. 12, Dresdner Bank (100 million RM) as no. 20 and Commerz und Privatbank (60 million RM) as no. 41.<sup>54</sup> The industrial giants of the late 1920's escaped banking control by their sheer size. Their reputation gave them independent access to the international capital markets and the big banks competed with each other to obtain their patronage. The IG Farbenindustrie would not even have a banker on its board.<sup>55</sup>

Concentration had reduced competition among German banks, but international competition was keener than it had been before the First World War. Large industrial and commercial companies of international reputation addressed themselves directly to bank houses in New York, London, Amsterdam and other financial centres without the intermediation of German banks. As long as the reconstruction boom lasted there was a keen competition from foreign

<sup>52</sup> Cf. K. GOSSWEILER, *Großbanken, Industriemonopole, Staat. Ökonomie und Politik des staatsmonopolistischen Kapitalismus in Deutschland 1914-1932*, Berlin (DDR) 1971. W. HAGEMANN, *Das Verhältnis der deutschen Großbanken zur Industrie*, Diss. Handelshochschule Berlin s.d. (1930). M. GEHR, *Das Verhältnis zwischen Banken und Industrie in Deutschland seit der Mitte des 19. Jahrhunderts bis zur Bankenerise von 1931 unter besonderer Berücksichtigung des industriellen Großkredits*, Diss. Tübingen 1959.

<sup>53</sup> *Untersuchung des Bankwesens*, pt. 2, pp. 167-168.

<sup>54</sup> *Wirtschaft und Statistik*, (1928), p. 252.

<sup>55</sup> WHALE, *Joint Stock Banking in Germany*, p. 304. For Vereinigte Stahlwerke, cf. K. GOSSWEILER, "Die Vereinigten Stahlwerke und die Großbanken. Eine Studie über das Verhältnis von Bank- und Industriekapital in der Weimarer Republik und unter der faschistischen Diktatur (1926-1936)", in *Jahrbuch für Wirtschaftsgeschichte*, 1965, pt. 4.

banks seeking business in Germany. By the end of 1930 a foreign debt of 25.3-25.8 milliard RM had been accumulated. The debtors were government (Reich, states and municipalities) with 4.9 milliard RM, banks with 8.9 milliard RM, industry, trade and agriculture with 10.6 milliard RM and other debtors with 0.9-1.4 milliard RM. In addition to this debt it was estimated that foreigners owned 4.0 milliard RM in shares and other direct investment, 2.0 milliard RM in real estate and 0.8 milliard RM in German securities.<sup>56</sup>

### III. *The Banking Crisis of 1931*

As early as 1928 a recession in Germany foreshadowed the Great Depression. The growth rate of net national product declined from 13.3 per cent in 1927 to 1.5 per cent in 1928, net investment was 15 per cent lower in 1928 than in the preceding year. Domestic private demand faltered, and it was due only to public expenditure and increased export that economic activity was continued on a relatively high level. From 1929 onwards there was a drastic decline in production and employment. In 1932 net national product had fallen to 77 per cent of its 1928 level in real terms, and more than six million people were unemployed in early 1933.<sup>57</sup> In international comparison German industry was particularly hit by the depression, and the effect was the more dramatic as Germany had not experienced a prosperity period before the crisis; the fall was from a relatively low level, to start with, so that industrial activity in 1932 was far below its pre-war level.

Constrained by the gold standard, the Reichsbank did little to combat recession and depression, though the economic situation was evaluated quite realistically from the beginning.<sup>58</sup> The balance of payments improved as all German export offensive enforced a trade surplus, but the short term foreign debt had escalated into a nightmare of instability. Foreign investors became more risk conscious and the Reichsbank had to maintain a high bank rate to prevent an outflow of capital. When the negotiations for a new reparation settlement stagnated in early 1929, large withdrawals of capital brought the Reichsbank in serious difficulties so that it had to introduce temporary credit controls; and there were again large withdrawals when the success of the right-wing nationalists in the Reichstag elections of September 1930 scared foreign investors.<sup>59</sup> The economic crisis and the currency problem were interre-

<sup>56</sup> *Untersuchung des Bankwesens*, pt. 2, pp. 462-463.

<sup>57</sup> HOFFMANN, GRUMBACH, HESSE, *Wachstum der deutschen Wirtschaft*, pp. 827-828. *Konjunkturstatistisches Handbuch 1936*, p. 16.

<sup>58</sup> *Verwaltungsbericht der Reichsbank 1928*, p. 6.

<sup>59</sup> Cf. G. HARDACH, *Weltmarktorientierung und relative Stagnation*, pp. 111-126.

lated in a fatal way; the Reichsbank was so preoccupied with the defence of the currency that its capacity to act as a lender of last resort was seriously impaired.

Table 3. WORLD INDUSTRIAL PRODUCTION (change per cent)

	1929-1932	1914-1932
World	- 29	+ 8
USA	- 48	- 6
Germany	- 40	- 30
Italy	- 32	+ 23
France	- 26	+ 5
United Kingdom	- 18	- 17
Japan	- 5	+ 209
USSR	+ 85	+ 263

Source: LEAGUE OF NATIONS, *Industrialization and Foreign Trade*, 1945, p. 134.

The banking system felt the repercussions of the crisis from 1928 on. Secret reserves were dissolved in 1928 to write off losses and again in 1929 to cover losses and to maintain a steady dividend.<sup>60</sup> It was pretended that a steady dividend was important for the credit standing of the banks, but this window dressing at the expense of reserves in the beginning of the crisis was certainly precarious. When the situation deteriorated in 1930, the secret reserves that had been accumulated from 1924 to 1927 were exhausted. Further losses reduced capital and reserves in 1930 and 1931. In June 1931 the financial situation headed rapidly towards disaster. The Darmstädter und Nationalbank which had led the expansive drive of the 1920's had incurred enormous losses through the default of the Norddeutsche Wolkämmerei and other engagements, and became insolvent. In early July Reichsbank and Reich government were officially informed that the Darmstädter Bank was in serious difficulties, and the cabinet discussed on July 4 the eventuality that this might lead to a general banking crisis.<sup>61</sup>

<sup>60</sup> BISSING, "Die Schrumpfung des Kapitals", p. 65. *Untersuchung des Bankwesens*, pt. 2, pp. 284-285.

<sup>61</sup> Kabinettsitzung vom 4. Juli 1931. Institut für Zeitgeschichte, München, MA 149/15.

At this point the imminent banking crisis met with a foreign exchange crisis that was already well under way. In how far the crash of the Österreichische Creditanstalt in May 1931 affected Germany is not quite clear. The commercial banks lost apparently some foreign creditors, but the Reichsbank's reserves in gold and foreign exchange were unimpaired at 2.8 milliard RM at the end of April, the same 2.8 milliard RM at the end of May and only slightly lower at 2.6 milliard RM on June 6.<sup>62</sup>

The event that definitely initiated the foreign exchange crisis, which had long been pending, was the announcement by the Brüning government on June 5 that Germany was unable to fulfill the Young Plan and needed a new reparation settlement.<sup>63</sup> To many an observer this looked like a blunder, an ill-chosen effort to make the tax increases and wage cuts decreed at the same time more palatable to the German public. But in fact the announced was part of a deliberate strategy. The Brüning government had come to the conclusion that the depression provided a unique opportunity to obtain a considerable reduction, if not total repudiation, of the reparation debt.<sup>64</sup> In October 1930 Brüning had already declared that the economic crisis had changed the situation so much that the Young Plan had become obsolete and a new reparation settlement should be negotiated. In March 1931 the cabinet decided that the German government should take the initiative with a public declaration that the situation had become intolerable.<sup>65</sup>

Thus the general agitation which followed the declaration of June 5 did not upset the government; it had been taken into account. The Reichsbank, however, was alarmed, as it felt immediately the repercussion on its reserves. The Reichsbank lost 0.7 milliard RM in foreign exchange within a week, one third of its reserves, and withdrawals continued, so that the ratio of reserves to note circulation came close to its legal minimum of 40 per cent. The Reichsbank reacted conforming to the rules of the gold standard, it raised the bank rate on June 13 from 5 to 7 per cent. It was well aware of a dilemma, and feared that monetary restrictions which were imperative under the gold standard, would further aggravate the depression; there were already 4 million registered unem-

<sup>62</sup> *Die wichtigsten Ausweispositionen der Reichsbank seit 1913*. Bundesarchiv (= BA) Koblenz, Nachlaß Luther 358.

<sup>63</sup> Aufruf der Reichsregierung zur Notverordnung vom 5. Juni 1931. H. MICHAELIS, E. SCHRAEPLER, ed., *Ursachen und Folgen*, Berlin o.J. vol. 8, pp. 160-161.

<sup>64</sup> H. BRÜNING, *Memoiren*, 2 vols., München 1972, vol. 1, pp. 294-300. E.W. BENNETT, *Germany and the Diplomacy of the Financial Crisis, 1931*, Cambridge (Mass.) 1962.

<sup>65</sup> TAGEBUCH SCHÄFFER, 6. März und 9. März 1931. Institut für Zeitgeschichte München, ED 93. H. PÜNDER, *Politik in der Reichskanzlei. Aufzeichnungen aus den Jahren 1929-1932*, Stuttgart 1961, p. 93.

ployed in the summer of 1931.<sup>66</sup> The Reichsbank hoped that some kind of international central bank cooperation might save the situation without too many sacrifices at home. But the high tide of central bank cooperation in the 1920's was long since gone.<sup>67</sup> There was more than one reason for that. The traditional partners of the Reichsbank, the Bank of England and the Federal Reserve Bank of New York, were both preoccupied with domestic problems. They thought that the Reichsbank should first of all rely on its own efforts, especially against German capital flight which they considered more dangerous than the withdrawals of foreign credits; the hesitant Luther compared unfavourably with the energetic Schacht of the 1920's. Thus the Bank of England, to which the Reichsbank turned first, ruled out any large-scale credit operation and recommended further restrictions.<sup>68</sup> Thereupon the Reichsbank decided on June 20 to introduce direct credit controls.<sup>69</sup>

Hoover's proposal of a moratorium for political debts, declared on June 20, was a ray of hope; on Monday, June 22, the demand for foreign exchange slackened. But the next day the withdrawals continued, and the Reichsbank could maintain its note cover only with the help of a 5 million \$ overnight deposit from the Bank of England. Its reserves were down to 1.6 milliard RM, bills and collateral loans had risen to 2.4 milliard RM.<sup>70</sup> On June 24 the Reichsbank obtained an international stand-by credit of 100 million \$, brought up in equal parts by the Bank of England, Banque de France, Federal Reserve Bank of New York and Bank for International Settlements. This helped the Reichsbank over the end of the June, but it was not enough to stop the crisis. On July 5, the Golddiskontbank, a subsidiary of the Reichsbank, obtained another 50 million \$ by using its old credit lines with American banks. But then the Reichsbank's resources of international aid had dried up. This became apparent when Luther made his spectacular trip to London and Paris on July 9-10, conferring first with Norman, who was en route to the Bank of International Settlements meeting at Basle, on the train and then in Paris with Moret and other representative of the Banque de France. Norman declared that the Bank of England was already burdened with the Austrian stabilization, that he could grant no credit as long as the reparation problem was unsolved, and that, generally speaking, the German

<sup>66</sup> *Konjunkturstatistisches Handbuch 1936*, p. 16.

<sup>67</sup> S.V.O. CLARKE, *Central Bank Cooperation 1924-1931*, New York 1967, p. 193.

<sup>68</sup> TAGEBUCH SCHÄFFER, 20. Juni 1931. Notiz über ein Gespräch mit Luther. IfZ München ED 93. Aktennotiz von Luther über ein Gespräch mit Siepmann, 20. Juni 1931. BA Koblenz, Nachlaß Luther 365.

<sup>69</sup> Kabinettsitzung vom 23. Juni 1931. IfZ München, MA 149/15.

<sup>70</sup> Die wichtigsten Ausweispositionen der Reichsbank seit 1913. BA Koblenz, Nachlaß Luther 358.

situation had grown out the hands of the central banks and could only be solved on a government level.<sup>71</sup> The Banque de France was even less accessible. Moret reminded his visitor that the German crisis had started not with the Österreichische Creditanstalt, as Luther would have it, but with the German government's reparation initiative; any possible solution of the crisis would depend on a German declaration not to change the political status quo.<sup>72</sup> This precisely was the sore spot; for Luther had left Berlin under strict orders from the Brüning government that his financial negotiations should not interfere with politics.<sup>73</sup> Brüning was not willing to trade his new political manoeuvrability for a stabilization of the financial crisis. Harrison of the Federal Reserve Bank of New York suggested that Luther should present a stabilization plan at the meeting of the Bank for International Settlements in Basle on July 12-13 as a basis for joint action. When Luther arrived on July 13, the German banking crisis had already broken out and hectic deliberations had taken place in Berlin. The Basle meeting brought no solution. Luther failed to convince his partners that the Reichsbank did its best. Fraser, vice president of the B.I.S., found him "quite helpless" throughout the meeting,<sup>74</sup> Mc Garrah that "Luther had no programme whatever".<sup>75</sup> Moreover, Norman and Moret insisted that the problem was too big for the central banks and should be handled on government level. A political solution, however, was unacceptable for the German side, for it would have meant a retreat in the reparations question. Meanwhile, the situation was changing fundamentally, for Germany was heading towards exchange controls and was for practical purposes leaving the gold standard.

The effect on the rapidly deteriorating currency situation was that the Reichsbank had few possibilities to intervene in the banking crisis, unless it were prepared to deviate from the gold standard. On July 8, the Darmstädter Bank had exhausted its portfolio of eligible bills.<sup>76</sup> In a desperate move, the Darmstädter und Nationalbank offered on July 8 to fusion with the Deutsche Bank und Disconto-Gesellschaft, but this latter declined as the risk involved seemed to great. The Reichsbank agreed to finance the Darmstädter Bank for

<sup>71</sup> *Telegramm Luthers aus Paris an das Reichsbank-Direktorium, 9. Juli 1931.* BA Koblenz, Nachlaß Luther 336.

<sup>72</sup> *Aktennotiz von Luther über seinen Besuch bei Moret, 10. Juli 1931.* BA Koblenz, Nachlaß Luther 336.

<sup>73</sup> BRÜNING, *Memoiren*, vol. 1, 324.

<sup>74</sup> CLARKE, *Central Bank Cooperation*, p. 197.

<sup>75</sup> Harrison conversation with Mc Garrah on July 13. FRB New York, Austria, Germany, Hungary 1931-1932.

<sup>76</sup> TAGEBUCH SCHÄFFER, 8. Juli 1931. *Notiz über Gespräch mit Goldschmidt (Darmstädter Bank) und Dreyse (Reichsbank).* IfZ München ED 93.

the present under the double condition that the government assumed the responsibility and that the Reichsbank's own position were consolidated by a foreign stand-by credit. When the efforts to obtain an international credit failed, the Reichsbank ceased on July 9 to support the Darmstädter Bank. Thereupon the Darmstädter und Nationalbank sought government assistance on July 9 to avoid its collapse, and the government accepted to get involved.<sup>77</sup> This was a move of historical consequences. The government took over the direct responsibility first for the Darmstädter und Nationalbank, then for the other big credit banks. When it gave back this direct responsibility and reprivatized the credit banks in 1936-1937, the German banking system was completely reorganized.

Deliberations concentrated first on the Darmstädter und Nationalbank.<sup>78</sup>

The government suggested that the other credit banks should issue a joint guarantee for the Darmstädter Bank, but this they refused. Rivalry persisted among bankers in spite of the common crisis, and those who were better off thought that a guarantee would strengthen an unwelcome competitor. The only help that was available as a business proposition were 30 million RM which the Deutsche Bank und Disconto-Gesellschaft offered in exchange for some large detbors, and this was not enough. The bankers suggested that the government should guarantee the creditors and liquidate the Darmstädter und Nationalbank. The government hesitated, as the Reichsbank argued that it could not finance such a guarantee under the prevailing monetary conditions.

On Saturday, July 11 the Darmstädter und Nationalbank announced that it had to suspend payments. The government thought, in harmony with its advisors from banking, that the crisis of the Darmstädter und Nationalbank might be isolated; it did agree now to take over a guarantee and kept the Darmstädter Bank closed on Monday, July 13.

However, the hope to contain the crisis was disappointed. There was a general run on banks and savings banks of all kinds, and the government had to declare two bank holidays. All domestic and international payments were suspended. Before the banks reopened, the Dresdner Bank had to admit that it was insolvent, too. The crisis paralyzed financial intermediaries of all kinds for several weeks, until the banking system was stabilized and reorganized with strong government intervention.

<sup>77</sup> TAGEBUCH SCHÄFFER, 9. Juli 1931. IfZ München ED 93. *Entwicklung der Bankenkrise*. Memorandum der Reichskanzlei vom 12. Oktober 1931. BA Koblenz, Nachlaß Luther 337.

<sup>78</sup> Cf. K.E. BORN, *Die deutsche Bankenkrise 1931*, München 1967. G. HARDACH, "Währungs- und Finanzpolitische Fragen der Zwischenkriegszeit", in H. WINKEL, ed., *Währungs- und finanzpolitische Fragen der Zwischenkriegszeit*, Berlin 1973. H. HABEDANK, *Die Reichsbank in der Weimarer Republik*, Berlin (DDR) 1981.

The crisis of 1931 had been a banking crisis as well as a foreign exchange crisis. Under the gold standard, both crises were fatally interwoven. Rumours about a German bank moratorium aggravated the foreign exchange crisis, and the foreign pressure paralyzed the Reichsbank and prevented it from supporting the banking system.

After the bank holidays, the ways of external and internal reconstruction, reorganization and reform parted. The exchange controls, introduced as a temporary measure, persisted and grew ever more intensive until the Nazi regime developed the elaborate control system of the "new plan".<sup>79</sup> The foreign debt was stabilized and frozen in by the various standstill agreements of the 1930's. Nominally, however, Germany continued to be on the gold standard after 1931 and even after the Nazi seizure of power.<sup>80</sup> Internal monetary policy did pay regard to international conditions in the early thirties, and the early exchange controls were quite different from the tight system of the late thirties. To the contemporary observer, the turning point was in the middle of the thirties rather than 1931. "Germany is turning the gold standard into a farce", said an article in the "Economist" in 1935.<sup>81</sup>

International payments were gradually resumed until August 1931, and the stock exchange was reopened in September 1931. As exchange controls and standstill agreements eased the external pressure, the Reichsbank relaxed its restrictions and lowered the bank rate in December 1931. But Luther, much less versatile than Schacht, was a man of deflation rather than inflation and held the Reichsbank at distance from the countercyclical policy that developed in the last year of the Weimar Republic.

The biggest task was the reorganization of the banking system. The crisis had afflicted practically every segment of the financial sector, the big commercial banks, provincial banks, savings banks, state banks and others. The Brüning government had not sought control of the banks. Its intervention came from the conviction that the government had to guarantee the capitalist system and repair its deficiencies wherever they threatened to destabilize the system as a whole. This was more or less what the economic establishment expected from the government, though later on disagreement arose about the scope and measures of intervention. Luther, president of the Reichsbank, favoured a

<sup>79</sup> J. SCHIEMANN, *Die deutsche Währung in der Weltwirtschaftskrise 1929-1933*, Bern/Stuttgart 1931. H. IRMLER, "Bankenkrise und Vollbeschäftigungspolitik (1931-1936)", in DEUTSCHE BUNDESBANK, ed., *Währung und Wirtschaft in Deutschland 1876-1975*, Frankfurt 1976.

<sup>80</sup> *Zur Stellung und Lage der Reichsbank. Memorandum der Volkswirtschaftlichen und Statistischen Abteilung der Reichsbank vom 6. März 1933.* BA Koblenz, Nachlaß Luther 358.

<sup>81</sup> *The Economist*, 16 March 1935.

dissolution of the universal bank and an institutional dissociation of deposit banks and investment banks.<sup>82</sup> This, however, met vivid opposition from the bankers' side. The bankers defended the existing system; they contended that the banking crisis was due not to structural flaws of the banking system, but to the economic situation in general and to individual faults of some bankers.<sup>83</sup>

The government agreed with the bankers to preserve the universal bank as institution, but it insisted on other reforms. The company law was amended to achieve better publicity and security of joint stock companies in September 1931, and at the same time a banking control was instituted, consisting of a commissioner on banking (*Reichskommissar für das Bankgewerbe*) and a committee which was to coordinate the control competences of the *Reichskommissar* and the Reichsbank.<sup>84</sup> After tedious negotiations a major reorganization of the credit banks was introduced by emergency decree in February 1932.<sup>85</sup> The Darmstädter und Nationalbank was fused with the Dresdner Bank. The reconstituted Dresdner Bank and also the Deutsche Bank und Disconto-Gesellschaft, the Commerz- und Privatbank and two major provincial banks, the Allgemeine Deutsche Credit-Anstalt and the Norddeutsche Kreditanstalt (Schröder-Bank) were reconstructed with funds from government and Reichsbank. The Commerz- und Privatbank took over on a voluntary basis an important provincial bank, the Barmer Bankverein. Government and Reichsbank — the latter through its subsidiary, the Golddiskontbank — together owned 91 per cent of the new Dresdner Bank, 70 per cent of the Commerz- und Privatbank, 35 per cent of the Deutsche Bank und Disconto-Gesellschaft, 70 per cent of the Allgemeine Deutsche Credit-Anstalt, 67 per cent of the Norddeutsche Kreditbank.

The smaller provincial banks in distress were usually left alone, a discrimination which gave rise to vigorous protests. The milliard-mark-deal for the big banks led inevitably to a degeneration of business morals and it was taken for granted that the government should come to the support of every banking business in default.<sup>86</sup>

<sup>82</sup> *Sitzung des Wirtschaftsausschusses des Reichskabinetts vom 18. August 1931*, BA Koblenz, R 43 I/647.

<sup>83</sup> Dernberg criticized the reluctance of the banks to accept structural reforms; cf. DERNBURG, *Memorandum vom 9. September 1931*. BA Koblenz R 43 I/648.

<sup>84</sup> *Notverordnung vom 19. September 1931*. RGBl. 1931 I, pp. 493-503.

<sup>85</sup> *Notverordnung über die Sanierung von Bankunternehmen vom 20. Februar 1932*. RGBl. 1932 I, p. 83.

<sup>86</sup> The number of provincial banks with branches decreased from 60 in 1929 to 43 in 1932, provincial banks without branches from 151 in 1929 to 114 in 1932; *Untersuchung des Bankwesens*, pt. 2, p. 9. Several cases of insolvent banks are documented in *Privatbanken*, BA Koblenz R 43 I, 648-649.

Altogether the government spent roughly 1.3 milliard RM for subsidies, advances and the purchase of shares at artificially highprice. Of this, 224 million RM were definitely lost, 845 million RM were advances, 187 million RM shares with an uncertain future. The Reichsbank contributed 175 million RM to the rescue operation through its Golddiskontbank; of this, the direct loss through overpriced shares has been estimated at 38 million RM. Part of this money was used to take losses off the shoulders of the owners of the distressed banks, the famous "socialization of losses". Another part was used to invest the commercial banks with new capital. Under the prevailing conditions private capitalists showed little inclination to contribute financially to the reorganization of banking. In spite of large-scale government intervention the financial status of the credit banks was much reduced by the crisis. Capital and reserves of the metropolitan banks were reduced by 43 per cent from 780 million RM in 1930 to 444 million RM in 1932, capital and reserves of all credit banks together by 33 per cent from 1,736 million RM in 1930 to 1,166 million RM in 1932.<sup>87</sup>

As a result of the banking crisis, the conservative Brüning government had obtained formal control over the leading commercial banks to a degree which recalls Hilferding's dictum that the control of finance capital would be tantamount to the control of the economy, and it has been argued that historically public ownership of the commercial banks prepared the way to the controlled economy of the nazi era. But this is wrong. The purchase of bank shares by the government and the Reichsbank was an instrument of financial reconstruction, not of control. The intention from the beginning was to reprivatise the banks as soon as they were sound enough to earn a dividend and became attractive for private investors; and this was what the nazi regime did later on. Meanwhile the bank shares were held by special trust organizations, and neither government or Reichsbank intervened in the current bank management. To the bankers, even the appearance of public control was irksome and they tried to get rid of it as soon as possible. The reorganization activities of the Brüning government were viewed with suspicion; in fact every state intervention other than the cash nexus of subsidies was repudiated. The bankers joined the industrialists in their attack on Brüning in spite of the services he had rendered to the banking system. Brüning's successor, von Papen, was confronted with a resolution of the Centralverband des Deutsche Bank- und Bankiergewerbes in September 1932 in which the government was exhorted not to intervene in private business.<sup>88</sup> This

<sup>87</sup> BORN, *Geld und Banken im 20. Jahrhundert*, p. 499. *Untersuchung des Bankwesens*, pt. 2, pp. 112-115.

<sup>88</sup> *Sitzung des Vorstandes und Ausschusses des Centralverbandes des Deutschen Bank- und Bankiergewerbes, am 29. September 1932, in Bank-Archiv, 1. Oktober 1932.*

was a surprising document in view of the fact that the big credit banks owed their existence to government intervention. Schleicher, who was suspected to favour state intervention and public control, was similarly admonished to foster private initiative in banking. The German universal bank was described as the only appropriate institution. Any banking control other than that exercised by the Reichsbank was denounced as detrimental to financial reconstruction and to the restoration of confidence.<sup>89</sup>

The somewhat exaggerated self-assurance of the bankers was apparently due to the fact that banking recovered relatively fast once the immediate impact of the crisis was over, and after the government and the Reichsbank had covered the losses and endowed the banks with new capital. The bulk of the depreciation of assets had been in 1931, when the net losses of metropolitan and provincial commercial banks were evaluated at 683 million RM. In 1932, losses were reduced to 83 million RM.<sup>90</sup>

The Akzept- und Garantiebank, founded in July 1931, provided guarantees for financial bills of commercial banks and savings banks and thus made them eligible for Reichsbank discount. The capital of the Akzeptbank was raised by the government (40 per cent) and a consortium of eleven private and state-owned banks (60 per cent). The Akzeptbank opened access to central bank credit in a critical period for those financial intermediaries which were basically sound, but were temporarily illiquid as their credits were frozen. Essentially, this was a passive function. With the recovery of business in 1932, the Akzeptbank sought a more active role, proposing various schemes to finance new investments at preferential terms. This, however, met with resistance from the banking community which apprehended the rise of an unwelcome competitor; in 1934 the government took full possession of the Akzeptbank and decided to liquidate it. The Deutsches Finanzierungsinstitut and the Tilgungskasse für gewerbliche Kredite were founded in December 1932: their function was to unburden the banks of illiquid assets. They would have been useful if founded earlier, but in 1932 recovery was already under way.<sup>91</sup>

#### IV. *The Impact of Fascism*

The installation of the Hitler government confronted the banks with a new situation. The Nazi movement had pledged itself to the principle of private

<sup>89</sup> *Centralverbandes des Deutschen Bank- und Bankiergewerbes, Memorandum vom 28. Dezember 1932*. BA R 43 I/649.

<sup>90</sup> *Untersuchung des Bankwesens*, pt. 2, p. 288.

<sup>91</sup> *Akzept- und Garantiebank*, BA Koblenz R 2/13606-13609. K. FRIEDRICH, "Finanzierungsinstitut und Tilgungskasse", in *Bank-Archiv*, 1. Januar 1933.

ownership before 1933; but this pledge left much room for interpretation and intervention. The reorganization of banking, which was still in progress when the change of government occurred, was controversial within the nazi movement and within the new regime, mainly for ideological reasons. An important item in the nazi programme of 1920 had been the "breaking of interest slavery", meaning somewhat vaguely that the independent farmer and craftsman ought not to be in the grip of finance capital.<sup>92</sup> Gottfried Feder, the inventor of this slogan, was still influential enough in 1933 to become a high ranking civil servant, secretary of state, and he intended to implement this "breaking of interest slavery" by nationalizing banking. Feder pressed the government to transform the existing formal public ownership of the big commercial banks into real control. And as this of course met with resistance from the bankers, Feder relied on the saving banks organization which he recommended as an alternative to commercial banking. The savings banks, being exposed to political pressure, had come under nazi control quite early. Economic rivalries between savings banks and credit banks were easily translated into a ideological issue when the savings banks claimed that they represented the populist and nationalist element in banking as against the Jewish and internationalist element represented by the big joint stock banks and private banking firms. Feder was supported by some nazi leaders of the old guard, and it seems that his position was quite popular among the rank-and-file of the nazi movement.

The government, however, preferred to rely on the existing banking system which seemed indispensable for the major policy objectives of the regime: economic recovery, internal and external consolidation, and rearmament. To avoid an open confrontation with disillusioned followers in the early months of the new regime, an investigation committee was promised and instituted in September 1933 in order to study the reorganization of banking and prepare a draft bill. Judiciously staffed with chosen experts from banking, politics and university, and carefully managed by returned Reichsbankpräsident Schacht, the committee soon reached the unanimous conclusion that the existing banking system was basically legitimate and efficient. Feder tried to mobilize political support from outside the committee when he perceived the direction which the deliberations took. But this had only the consequence that he was excluded from further discussions on the charge that he had passed on secret information to outsiders.<sup>93</sup>

<sup>92</sup> Cf. A. BARKAI, "Das Wirtschaftssystem des Nationalsozialismus", Köln 1977, pp. 161-168. R. KÜHNLE, ed., *Der deutsche Faschismus in Quellen und Dokumenten*, Köln 1975, pp. 105-108.

<sup>93</sup> Cf. the proceeding of the committee in BA Koblenz, R 2/13682. The principal source on the political background of the investigation committee is an internal report which C.O. Fischer gave on 7 December 1933 before iron and steel industrialists. BA Koblenz, R 13 I/106.

Besides the principal issue of private versus nationalized banking the committee discussed several other problems: competition between commercial banks and savings banks, rationalization of the banking system, government control of banking, security and liquidity of banks and savings banks. The result of the deliberations were a report and a draft bill of a new banking law. The law was eventually enacted in December 1934.<sup>94</sup> The banking law created a new government agency to control the banking system (Aufsichtsamt für das Kreditwesen) together with the commissioner on banking (Reichskommissar).

Banks and savings banks were to hold minimum reserves both in cash and negotiable assets (commercial bills and gilt edged securities); the reserve ratios were to be fixed by the new control agency. The credit policy of the banks was subjected to certain rules in order to avoid overspeculation and overcommitment in illiquid assets. The law reflected lessons from the banking crisis of 1931. It reorganized the banking system and provided controls against speculative abuses, and together with the bank law amendment act of October 1933<sup>95</sup> it extended the aims and instruments of monetary policy. It improved the banking system where guarantees against private abuses were concerned; but in so far as it made the banking system more subject to government control it fostered state abuses.

That the new regime meant to build on the principles of capitalist property rather than destroy them was corroborated by the reprivatization of the big commercial banks. Debts were repaid, and bank shares out of the portfolio of the government and the Golddiskontbank were sold in small amounts to private investors. In 1936, the public was surprised with the news that this silent denationalization had been going on for some time for the Deutsche Bank and Dresdner Bank, and that a major parcel of Commerzbank shares was to be sold, through the intermediation of Delbrück, Schickler & Co., to a select circle of capitalists at preferential terms.<sup>96</sup> One year later, the Commerzbank and Dresdner Bank announced that they were completely reprivatized; and this was by then certainly also true for the Deutsche Bank where the public (Golddiskontbank) interest had been relatively small from the beginning.<sup>97</sup>

The reprivatization of banking was fostered on the side of the bankers by their formal promise to support in every respect the policy of the new regime. Shortly after the emergency law of March 1933 which gave the government

<sup>94</sup> *Reichsgesetz über das Kreditwesen. Vom 5. Dezember 1934.* RGBl. 1934 I, p. 1203. Cf. R. STUCKEN, *Deutsche Geld- und Kreditpolitik 1914-1963*, Tübingen 1964, pp. 104-115.

<sup>95</sup> *Bankgesetznovelle vom 27. Oktober 1933.* RGBl. 1933 II, p. 827.

<sup>96</sup> "Commerzbank-privat", in *Die Bank*, 4. November 1936.

<sup>97</sup> "Der Schlußstrich", in *Die Bank*, 6. Oktober 1937.

dictatorial powers, the executive committee (Ausschuß) of the Centralverband des Deutschen Bank- und Bankiergewerbes passed a formal resolution in April 1933 in support of the nazi regime. An extraordinary plenary session of that organization in May 1933 confirmed this decision and commissioned O.C. Fischer, a director of the Reichskreditgesellschaft and early nazi adherent, to adapt the organization to the exigencies of the new political structure.<sup>98</sup>

The Jewish element in banking was from 1933 on exposed to official and unofficial pressure. The reaction of the affected directors and private bankers was not unanimous. Some resigned early. Other tried to hold out, but were eventually forced to give up their directorships and liquidate their banking firms or "Aryanize" them, i.e. sell them to non-Jewish owners who were to continue the firms under a new name. Thus prominent bankers like Wassermann and Solmssen of the Deutsche Bank, Jeidels and Hans Fürstenberg of the Berliner Handelsgesellschaft had to retire. The traditional private banking firms of Bleichöder, Mendelssonhn, Lazard Speyer-Elissen and others were liquidated, Warburg in Hamburg was transformed into Brinkmann und Wirtz in 1938, Oppenheim in Cologne into Pferdmeiges, Hirschland in Essen into Burckhardt. Private banking, still important in the 1920's, received a definite blow through these measures. From 1932 to 1938 the number of private bankers was reduced from 700 to 500, their total assets from 2.1 milliard RM to 1.3 milliard RM.<sup>99</sup>

When the reprivatization of the large credit banks was in progress, the Deutsche Bank und Disconto-Gesellschaft assured in its annual report for 1936, "that the German banking structure, which combines the functions of the deposit bank with those of the investment bank, met most perfectly the requirements of the German economy".<sup>100</sup> With some surprise, however, the bankers realized that in the armament boom of the 1930's their services were less sought-after than they had expected. 1933 brought no revival in commercial banking, on the contrary, the contraction of business continued through 1935 when the total assets of the joint stock banks reached a minimum of 8.5 milliard RM or 54 per cent of the 1929 level. It was only with the Four-Year-Plan of 1936 and the acceleration of the armament boom that the business of the commercial banks began to rise again, so that total assets reached 10.4 milliard RM in 1938. This increase was due only to the expansion of government

<sup>98</sup> *Bankarchiv*, 15. Mai 1933. The reorganization of banking interests under nazi rule is described in O.C. FISCHER, "Reichsgruppe Banken. Die Selbstverwaltung des Kreditwesens" (*Schriften zum Staatsaufbau* 52), Berlin 1940.

<sup>99</sup> G. HENSCHEL, *Die Verdrängung der Juden aus der Wirtschaft im Dritten Reich*, Göttingen 1966. Figures from *Deutsches Geld- und Bankwesen in Zahlen*, p. 118.

<sup>100</sup> *Deutsche Bank und Diskontogesellschaft*, Jahresbericht 1936.

finance. Bank holdings of treasury bills and government bonds rose from 1.1 milliard RM in 1935 to 2.0 milliard RM in 1938, plus an unknown amount of disguised treasury bills, while commercial credit continued to decline from 4.0 milliard RM to 3.9 milliard RM in the same period.<sup>101</sup> The stagnation of commercial banking was an obvious contrast to the expansion of other financial intermediaries. While the total assets of the commercial banks in 1938 were not far from the crisis level of 9.8 milliard RM in 1932, other financial intermediaries experienced a steep increase during the same period: the savings banks from 13.8 milliard RM to 22.5 milliard RM and the "special and house banks" from 3.0 milliard RM to 7.3 milliard RM.<sup>102</sup> Thus in quantitative terms the relative importance of the commercial banks was definitely smaller in the 1930's than it had been during the Weimar Republic or the Empire. The capital of the credit banks remained unchanged during the 1930's; recourse to the capital market was only made for the reprivatization. As business recovered, the banks began to replenish their open reserves and probably also secret reserves, but these were relatively small amounts.

The relative decline of the credit banks was due to inherent characteristics of the armaments boom. The boom of the German economy in the 1930's which contrasted sharply with the protracted depression in other countries, relied on heavy government deficit spending for general employment programmes and above all for the huge armament programme of the Nazi regime. It has been estimated that the general employment programmes (many of which were for military use) cost 5-6 milliard RM from 1933-1939, while armament cost 63-64 milliard RM.<sup>103</sup> Government expenditure for goods and services, without transfers and subsidies, amounted to 26 per cent of net national income in the years 1935/38 as against 14 per cent in 1925/29.<sup>104</sup> The German economy developed rapidly towards a controlled economy where political decisions competed with the market mechanism in the allocation of resources.<sup>105</sup> This meant that though the existence of private banking as such was not questioned, the functions of finance capital were to some extent substituted by the government. Government activities included loans at preferential terms, direct subsidies, and above all a price and income policy which fostered self financing of

<sup>101</sup> Figures for big Berlin Banks and provincial joint stock banks with branches. *Deutsches Geld- und Bankwesen in Zahlen*, pp. 78-81.

<sup>102</sup> *Ibid.*, p. 121.

<sup>103</sup> Cf. W. FISCHER, *Deutsche Wirtschaftspolitik 1918-1945*, Opladen 1968, pp. 67-68.

<sup>104</sup> HOFFMANN, GRUMBACH, HESSE, *Wachstum der deutschen Wirtschaft*, p. 108.

<sup>105</sup> D. PETZINA, *Autarkiepolitik im Dritten Reich. Der Nationalsozialistische Vierjahresplan*, Stuttgart 1968. R. ERBE, *Die nationalsozialistische Wirtschaftspolitik 1933-1939 im Lichte der modernen Theorie*, Zürich 1958.

industry. While wages stagnated at the low depression level of 1933, prices and profits were allowed to rise. Thus in 1938 total wages were 3 per cent lower than in 1928, while profits were 105 per cent higher than in 1928.<sup>106</sup> The government decreed a ceiling for dividends and thus favoured retained profits.

The profit inflation and the consequent financial self sufficiency of industry were frequently discussed in the financial literature of the time. It was estimated that the retained profits contributed 7 milliard RM and the issue of new shares 4 milliard RM to the increase of industrial capital in 1933-1938. The new shares, which resulted mainly from the investment programmes of the Four-Year-Plan, were not placed on the capital market but were sold en bloc to industrial corporations and may be regarded as an indirect form of industrial self-financing.<sup>107</sup>

There was, according to a pertinent expression of Wagemann, a growing "financial autarky" of industry.<sup>108</sup> Industry invested temporary surpluses in government bonds and treasury bills rather than bank deposits. Insurance companies circumvented the banking system and negotiated credits directly with industrial firms.<sup>109</sup> All this had much to do with government intervention. Industrial credit was made safer when the debtor worked for the government, with long term contracts and guarantees. The careful evaluation of a potential debtors financial standing, a professional skill on which the bankers' prestige and income depended, lost in importance. And in the background was always the growing government debt which provided investment opportunities of all kinds, long term or temporary, with flexible and negotiable instruments.

In so far as the government substituted bank credits by advances, subsidies and high prices for armament products, the credit problem was transferred from industry to government, for the government embarked on heavy deficit spending. Government finance had a profound impact on financial intermediation in the 1930's. The capital market was reserved for government loans, and private issue of shares or securities needed special authorization. Essentially, however, the government relied not on loans but on less conspicuous methods of placing bonds and treasury bills with financial intermediaries. For the savings banks, where the savings of the general public were concentrated, a special type of

<sup>106</sup> HOFFMANN, GRUMBACH, HESSE, *Wachstum der deutschen Wirtschaft*, pp. 506-509. G. BRY, *Wages in Germany 1871-1945*, Ann Arbor 1967.

<sup>107</sup> Cf. F. REINHARD and M. VON ZABERN, "Die Eigenkapitalbildung gewerblicher Unternehmungen", in *Probleme des deutschen Geld- und Kreditwesens*, Berlin 1942.

<sup>108</sup> *Vierteljahreshefte zur Konjunkturforschung*, 11 (1936/37), p. 383; WEBER, *Depositenbanken und Spekulationsbanken*, pp. 381-382.

<sup>109</sup> W. BÖTZKES, K. KREBS, "Fragen der Industriefinanzierung", in *Probleme des deutschen Geld- und Kreditwesens*, Berlin 1942.

government bonds was created and sold in large amounts. The commercial banks received mainly bills. Various devices were invented to give short term papers which were in fact treasury bills the appearance of commercial bills (*MEFO Wechsel*).

The general impression is that financial intermediation in the 1930's in Germany differed profoundly from earlier periods and from other, less militarized economies during the same period. Due to the overwhelming impact of rearmament, financial intermediation approached the model of the war economy where the military-industrial complex controlled investment and production, and finance came in only second. Finance capital was not expropriated, but it seems to have been reduced to the secondary role of setting financial questions, mostly in response to government demand, while the strategic decisions were made else-where.

Table 4. STRUCTURE OF ASSETS OF MAJOR  
COMMERCIAL BANKS 1913-1938  
(per cent)

	1913	1929	1938
Cash and balances with banks	8	13	7
Bills and advances	78	79	62
Securities and participations	10	4	7
Long-term credits	—	—	1
Government, short term and long term	1	3	20

Source: Deutsche Bundesbank, ed., *Deutsches Geld- und Bankwesen in Zahlen 1876-1975*, Frankfurt 1976, pp. 78-81. Metropolitan and major provincial banks with branches. The available figures do not permit an extension of table 2 (p. 218) to 1938.