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national reserve funds (*Betriebsreserve*), and the "general industrial development of Germany" ought not to be entrusted to a "dozen men" (p. 24), the alleged perversity of whose banking policy is repeatedly emphasized.

The substance of the other criticisms which Lansburgh makes is as follows: The capital accumulated in German credit banks through deposits—he insists on nearly every page—is not utilized in *accordance with the wishes of the depositors*. On the contrary, the short-term loans to the banks are to a considerable extent converted into long-time advances to industry, and accordingly into further industrial investments. It is, however, "not a question (p. 17) whether the credit or advances made by the banks are beyond cavil." In this connection the distrustful remark is merely made (p. 16) that it is impossible to tell from the bills what their character is. In another place, however (p. 15), it is expressly admitted that the "banks have up to the present followed sound principles in maintaining the proper liquidity of their resources;" furthermore (p. 11) that "for economic and ethical reasons it is absolutely necessary that promotions and improvements should go on;" that "the banks, as a matter of fact, in determining the amount of capital to be invested in an establishment or branch of industry, are guided by its earning power" (p. 10), and finally that "provided due care is exercised in the make-up of the different classes of investments," we may regard the conditions as sound (p. 15) "so long as the existing practice is continued of investing 40 per cent of the depositors' money in bills and the other 60 per cent in loans to customers." According to the author, however,

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the criticism of a national banking policy should be primarily based upon considerations of general industrial interests rather than of private interests (p. 17). He therefore insists that bill credit and advances be granted only to such enterprises "as would have been granted such credit by the individuals who constitute the banks' creditors, if they had been disposing of their money independently, without the intervention of the banks." This (*ibid.*) would not yet mean that "every interest would come into its own, that agriculture would receive its proper share in the same way as industry, the government in need of funds, as well as the private individual seeking credit. At any rate, however, there would be nothing arbitrary about it." For, as stated in another passage (p. 20), "the depositor may have had in mind buying German bonds or mortgage bonds or acquiring an interest in a business enterprise." In a still more prophetic manner, we are told on page 21, that "without the intervention" of the banks, the deposits "would surely have been devoted to different uses. They would have been invested in government bonds and would have become available to the government for other than purely industrial purposes. A part of the deposits would have gone to the small dealers, craftsmen, and agriculturists."

As to these claims it would really be sufficient to ask, How does the author know? It is, however, necessary to add that the author would surely have arrived at quite different conclusions if he had carefully investigated these points, and likewise his fundamental assumptions which we shall examine now more closely, for upon

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closer examination it is hard to take his contentions seriously.

As the author has properly observed, in an article²³⁸ which appeared almost at the same time his pamphlet was published, the available resources are generally composed of "very many small sums of money, each of which taken alone would remain unproductive." These are made available for productive uses only because the credit banks have for decades persisted in the laborious work of bringing them together. As I have shown elsewhere, the intervention of the banks has made it possible for these small amounts to render to industry in general far greater service than could have been rendered by them singly in the hands of the depositors, each one trying to utilize his amount without the help of any intermediary.²³⁹ Were it not for the intervention of the banks these amounts would have remained idle in the hands of the depositors, their small size making them unsuited for productive investment.

As this money has become available only through the activity of the banks, it is impossible to set up as a principle governing its management and investment that it should be used only for those purposes and undertakings for which the various creditors of the banks might have intended them, "had they acted independently and without the intervention of the banks in the disposition of their funds." It is more than likely that, had it not been for this intervention, they would in most cases have made no use whatever of their money, and least of all used it for industrial investment, but, following tradition, would

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have let it lie idle and yielding no interest, a situation which even Lansburgh would scarcely think ideal.

If nevertheless the "wish of the individual depositors" be accepted as decisive in the matter of investing their deposits, in spite of the fact that this wish is not communicated to the banks, and can scarcely be divined by them, no one would seriously contend that the present situation would be improved and not rather be made much worse. For without being able to do so with absolute certainty the banks with their experience and expert knowledge can ascertain far more correctly than the individual depositors the conditions of the market for different sorts of investments, the general state of industry, the actual condition and the prospects of a given branch of industry, trade, or agriculture, and the trustworthiness of borrowers to whom bill credit or credit on current account is to be granted.²⁴⁰

Moreover, it is evidently wrong to assume that the depositors, if left to their own decision, "might" have or "surely" would have wished a different disposition of their deposits than that actually made by the banks. In the first place by far the larger part of the deposits in German credit banks is made up of the working reserves of business men and of other temporarily available funds of capitalists—in other words, of the funds of persons thoroughly capable of reading a bank balance sheet. In regard to the investment of deposits, these statements convey the information which Lansburgh, too, has been able to get from them. Thus it is certain that the majority of depositors do not object to the way in which their deposits are invested, in particular to the investment

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in industrial credit in the shape of bills or of current accounts. Unless this were so, noting the condition appearing from the bank statement, they would betake themselves with their funds to cooperative credit societies, or to the savings banks in case they wished that the greater part of their deposits be invested in mortgages or if they regarded the savings banks as safer.

It is highly instructive in this connection to note the prevalent opinion among the Federation of German Savings Banks as voiced in the testimony given before the Bank Inquiry Commission by an expert, closely associated with the savings banks, that about one-third of the deposits in the savings banks are temporary in character, intrusted to the savings banks by persons belonging to the middle or even higher classes, "who know exactly why they deposit their money in the savings banks, even if only temporarily." The percentage is particularly interesting because it corresponds almost exactly to the proportion of the deposits in the credit banks which may be designated as "savings deposits." If this be so, and I have no reason to doubt it, it proves that, as a matter of fact, a large number of persons who are thoroughly familiar with financial affairs²⁴¹ prefer to put into the savings banks funds that are only temporarily available pending permanent investment—funds better suited for deposit in credit banks.

From this we may further infer that in intrusting such deposits to the credit banks, or in leaving them there, the class of depositors just mentioned, or those still better situated, do so with a full appreciation of the way in which these funds are invested. Nothing becomes, therefore, of the assertion that were it not for the banks this

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very class of persons would have turned their money over to the small dealers, craftsmen, and farmers, or to "the Government." Lansburgh himself admits it as true in a special case that the classes from which the depositors of the bank are drawn know exactly what they are doing, for elsewhere²⁴² he remarks that "as an immediate result of every boom in industry and trade, part of the money deposited with the banks is withdrawn and invested in the most profitable branches of business." This is another reason why we cannot admit that through the activity of the banks "these savings are forced into investments which they would not have sought of their own accord" (p. 12).

Finally, if it be true that the German credit banks have given their credit predominantly to industry and trade (we must not forget the latter, particularly the export and import trade), it is a question whether, aside from a generous participation in government loans, this after all is not necessarily the chief sphere of operation for the credit banks.

We have seen how mortgage and other land credit, with a constantly increasing specialization, has been widely extended and developed in a "truly exemplary way" (Lansburgh, p. 5) to meet the needs of agricultural and urban real estate. Their credit wants, and particularly those of agriculture, are met by the cooperative credit societies, the land mortgage associations (*Landschaften*),²⁴³ and the banks and other institutions which they have founded, the mortgage banks, and the Central Prussian Bank for Cooperative Societies, and other institutions of the same kind. We have also seen that, thanks to the

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16,000 cooperative societies, almost the same may be said of facilities for credit on personal security (organized for the purpose) of craftsmen and small business men, and that through the postal transfer and check system an urgently needed improvement will be introduced in the facilities for making payments. We have furthermore given the reasons why dealings with the credit banks and bank credit are little adapted to the needs of these classes, and are therefore but little resorted to by them.

What is the inevitable conclusion from all this so far as the banks are concerned? Their domain is industry and trade (Lansburgh, p. 5), though not their exclusive domain, as is evident from the fact that they have lent their credit to the State, the municipalities, etc.

It has been clearly shown that it was not the banks that brought about the industrialization of Germany, but certain elementary economic causes working with irresistible force.

It is equally certain that even under the least favorable circumstances the banks have stood by the Empire and the Federal States in raising funds. This alone proves that another of Lansburgh's contentions is incorrect, namely, that as a result of the credit activities of the banks the reserves of individuals and private establishments are no longer invested in securities yielding a fixed income. The very opposite of this is proved by the appendices to the report on the imperial financial reform bill. Nothing, then, remains of all of Lansburgh's contentions, beyond the fact admitted on all sides that the industrialization of Germany has proceeded too rapidly. This is due to a number of causes (no one can determine in what

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proportion): to the rapid growth of population, the tremendous demand for credit made by trade and industry, occasioned in turn to a large extent by the justifiable struggle against foreign competition, and finally to occasional mistakes by the banks in granting credit.

This may suffice in criticism of Lansburgh's contentions.

I shall now turn to the much better-grounded reasoning and proposals of the late Felix Hecht, whose views, based on sound knowledge of the theory and practice of German banking, were recently made public²⁴⁴ in connection with his earlier treatment²⁴⁵ of the subject.

In this connection a welcome opportunity is offered to supplement these "introductory observations" on industrial credit in a number of points. This at the same time justifies a more careful examination of Hecht's proposals in this part of the book.

Hecht's proposals are in effect that there should be established a *central institution for long-time credit* which should issue debentures indorsed to bearer, and render assistance as nearly as possible to all branches of German industry. These debentures are to be issued either on the basis of securities taken over from the particular industrial establishments, or directly and without such underlying securities. They are to bear the indorsement and guarantee of the central institution. Bearing a higher rate of interest, maturing earlier (an amortization of 7 to 8 per cent as a rule being provided), and being attended with greater publicity,²⁴⁶ the debentures of the central institution would, in Hecht's opinion, have great advantages over existing industrial bonds. Moreover, owing to the wider

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distribution of risks, the security of these obligations would be greater. In the first place the central institution would extend its activities to all kinds of industrial undertakings which might present an assured earning power. Furthermore, the earning capacity of these establishments could be investigated by it more carefully than by the credit banks. Unlike the credit banks, the central institution could have at its command a large staff of technical and commercial experts, who would be in a particularly favorable position to accumulate a very large and valuable stock of specialized experience. The supposed urgent necessity for establishing such an institution is based on the great difficulties which the credit banks encounter to-day in adopting a rational policy as regards the granting of industrial credit.

We must accordingly begin by testing the correctness of these premises. For this purpose it will be necessary to discuss the conditions and the general principles underlying industrial bank credit, particularly as contrasted with commercial bank credit, in so far as these have not been adequately dealt with in these "preliminary considerations," and in my remarks in the *Verhandlungen der Mitteleuropäischen Wirtschaftskonferenz* (Transactions of the Central European Economic Conference) in Berlin (May 17 and 18, 1909)²⁴⁷ to which I refer the reader.

With reference to this the following points may be made:

1. The technique of commercial credit, which has been generally well developed by the German credit banks, is not identical, as Hecht rightly maintains, with the technique of industrial credit. The latter is far from being as well developed by the German banks as the former.

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(a) Whenever industrial credit is given, the creditor is obliged to make sure, throughout the continuance of the loan that the credit allowed has actually been used for the purpose for which it was solicited. This he is seldom in a position to do. In commercial credit, on the contrary, this is not necessary, or at least not to the same extent. Even when short-time industrial credit is given to serve as working capital, the creditor is at all times obliged to keep watch over it and to see that it is not used in a manner at variance with the purpose and character of the loan, by being put into permanent improvements, for this would mean the tying up of an equal amount of the bank's capital. Such supervision can be exercised only with great difficulty.

(b) For this reason, also because of the resulting risk, which is greatly augmented by the lack of technical knowledge on the part of the bank, it is decidedly inadvisable for credit banks to participate directly to any large extent in industrial enterprises. The instances in which the banks became industrial entrepreneurs have for the most part not turned out to their advantage. Direct participation (not always voluntary) in the sense of taking over permanently stocks and bonds of the enterprise, is less objectionable in itself, but even this is likely to prove, under unfavorable conditions, a burden upon the bank's resources and may result in serious impairment of the liquidity of the bank's assets.

(c) In commerce the general practice is to give short-time credit on personal security, well suited to commercial needs. It is necessarily renewed frequently or increased, or if not, a proportionately higher rate of com-

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mission is stipulated. But such credit is in many respects far too costly for industry, and often directly oppressive. In industry such credit is needed only for the transitory purpose of paying wages and salaries and obtaining the working capital required either regularly, at more frequent intervals, or only once a year, for freight and insurance premiums, for the purchase of raw material, and other means of operation. Even this short-term transitory industrial credit to provide for wages and working capital is not entirely conformable to the rules and requirements of short-term commercial credit, for here frequent renewals and increased borrowings are out of question. Still, as a rule it can be repaid more quickly than credit intended for capital outlays. Nevertheless it is objectionable for credit banks, for it often happens that it can not be taken out of current income, and thus tends to develop into permanent credit (*Anlage-Kredit*), contrary to the intention of either party, or at least of the bank. In case payment is defaulted at maturity, a suit-at-law is for the most part out of question; not only for business reasons, but also because such a suit might lead to far more serious consequences.

(d) In view of the need for constant supervision with reference to the stipulated use of the loan (see remarks under section "a") which is far more urgent in industrial credit than in commercial credit, a stipulation that a given industrial establishment should not deal with various banks and bankers would seem particularly proper.

Hecht²⁴⁸ and Ad. Weber²⁴⁹ criticise the German credit banks on this ground, charging them with having frequently violated this principle, and pointing to the Terlingen case, where no fewer than 14 banks and bankers

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had suffered severe losses through ignorance of one another's action. This criticism is, however, unjustified. From personal knowledge of one of the contracts made with the Terlinden Company I know that with a view to supervision in this respect it was expressly agreed that the company should not deal with other banking establishments. Such an agreement, however, is entirely unavailing in the case of a dishonest debtor, and particularly one who falsifies not only the books but also the underlying records (letters, vouchers, etc.). In that particular case the situation would not have been easily revealed, even if the books had been audited, a step for which there was no occasion in the absence of any knowledge that the contract had been violated.

Effective service in this direction could be rendered only by a central credit bureau established by the credit banks themselves to which they might report the names of the borrowers, and the amount and kind of credit granted, without stating the name of the creditor bank. It would, however, be exceedingly difficult to establish such an institution, not only because of the mutual competition among the credit banks but above all on account of the imperative necessity of business secrecy.

2. The lending of short-term commercial credit is, generally speaking, less hazardous than the granting of industrial credit.

(a) Disregarding the cases where unsecured credit is allowed to a manufacturer, in which case the terms and conditions are the same as in commercial credit, and considering the problem of secured loans, we are concerned primarily with secured credit given on the hypothecation of the factory and the grounds belonging to it—property

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on which, as a rule, the mortgage banks will not lend.²⁵⁰ (We may disregard here the comparatively few instances in which policies or securities are pledged.) Even where a first mortgage is offered, which is not always the case, the granting of the loan is not entirely unobjectionable. If it becomes necessary to sell at auction the mortgaged property, together with the machinery, at a time when it is idle, little more is likely to be realized on the factory and plant than the value of the material and the generally low common value of the ground. In any event, the property which serves as security for the loan does not represent the same value to every future purchaser.

Credit ultimately secured by realty (*Realkredit*) may be based further on the issue by the industrial corporation of interest-bearing bonds secured by mortgage. The flotation of such securities is, however, justified only "in the case of a business with an established earning power, which is independent of any particular management that may be in control for the time being".²⁵¹

Loans based on bonds not secured by mortgage represent of course nothing more than credit on personal security (*Personalkredit*), and if no security of any kind is pledged, it is nothing more than unsecured personal credit. Such credit, however, should be granted only under the same conditions under which commercial loans are granted; that is, only after a careful investigation of the trustworthiness and efficiency of the management, the earning capacity of the business, as well as the profitableness and general market prospects of the particular branch of industry.

(b) Industrial credit secured by lien on realty (*Industrieller Realkredit*), is particularly hazardous, when the

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industrial establishment concerned does not fall within the scope of operation and experience of the creditor bank or of its branches. In such cases the investigation into the underlying security of the loan can not be made with an adequate technical knowledge of the business and the lack of it will cause losses much sooner and in larger amount than in the field of commercial credit.

(c) Having failed to give sufficient attention to the above-mentioned conditions under which industrial credit may be given, the creditor bank is very frequently obliged to urge or bring about the reorganization of an establishment as a stock company in case the latter has not yet assumed that form. This involves risk for both parties, particularly when the change to the corporate form is to be made in the face of conditions which may unfavorably affect the market for the stock and bonds to be issued. Such conditions are the presence of strong or even overwhelming competition on the part of other corporations in the same line of business, the general, political, or economic situation, the immediate industrial outlook in the trade, or the character of the management. Very often the expediency, from the business point of view, of transforming a firm into a corporation does not receive sufficient attention in case of enforced reorganizations effected for the purpose of mobilizing long-term loans, or short-time credit which has gradually been diverted from temporary to capital outlays, contrary to the wishes of both parties, or, at least, of the lender; even less thought is given in such cases to the earning power of the future corporate enterprise, which is bound to be affected by the

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increased expense, or to the question whether the enterprise is at all adapted to the corporate form of organization.

Where the main consideration in the formation of a stock company is the necessity of mobilizing a loan and liquidating or shifting it, the situation is particularly dangerous for the lender. On the one hand, the bank may be obliged to carry the newly issued stock and bonds for a long time, which will diminish its power to realize quickly on its assets and interfere with its freedom of action. On the other hand, if it succeeds in floating the securities it may impair seriously or even permanently its ability to float future issues (*Emissionskredit*). The same objections are present, though not with the same force, whenever a bank, for the purpose of mobilizing a long-term or standing loan, is obliged to urge or assist an existing corporation in the increase of its capital stock or in the issue of additional bonds, since in this case as well the bank is obliged to market the securities without much delay.

On the other hand, there certainly were many cases of industrial enterprises that developed slowly and gradually and by the judicious aid of long-term loans reached a point where the condition of the enterprise, the prospective earning power of the additional plant or improvements, and the general industrial situation afforded sufficient evidence that the organization of a stock company or the issue of new stock or bonds was desirable and feasible.²⁵² In the meantime such an establishment can obtain the funds it may need in the shape of acceptance credit paying interest on no more capital than has actually gone into new construction or improvements.

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3. Under existing requirements for admission to the exchanges in Berlin, Hamburg, and Frankfort-on-the-Main industrial securities to be listed, must be in issues having a minimum par value of 1,000,000 marks (\$250,000). On the smaller exchanges it is sufficient that the issues have a par value of 500,000 marks. As a result small concerns may often be obliged to dispose of their bonds among local circles merely without listing them on any exchange, which is often a difficult task, or else they may be forced to have recourse to short-time credit, which is not adapted to their needs, or even to get along without credit. The latter contingency would, of course, happen only in case the provincial banks or bankers failed to lend their assistance.

Upon careful study of these considerations we must admit that the central institution proposed by Hecht may prove beneficial in many ways. Hecht's view is that such a special institution would not prove a serious competitor to the credit banks, but would on the contrary develop a field of usefulness of its own which would supplement their work in many ways. This is hardly correct, at least not so far as moderate-sized industrial establishments are concerned.

On the other hand we can not admit the *necessity* of such a central institution. During the next decades great progress will undoubtedly be made among the credit banks in the direction of the organic development of long-term industrial credit, which Hecht found wanting. He himself, referring to the past, emphasized at the beginning of his monograph the fact that "during the last three decades the organization of credit in Germany has made unexpected progress." This advance in my opinion has occurred and

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will continue to occur not only in the field of commercial credit, but in that of industrial credit as well.²⁵³ This is particularly true of the latter, for many of the obstacles which have hitherto stood in the way of the development and organization of industrial credit are of a general character, and would have to be met by the proposed central institution in exactly the same way as by the credit banks, and perhaps under far greater difficulties. In the first place such an institution would not have at its command the experience of decades and the far-reaching connections which the credit banks have. The credit banks will undoubtedly be in a position to avail themselves of the same experts whom the central institution might employ. This applies primarily to the trust and auditing companies which the banks have themselves established, and is at least equally true of those other organizations, which, according to Hecht, are to cooperate with the central institution, like the federation and association of electrical engineers, the society of naval engineers, the association of German gas and water engineers, the association of German mechanical and railroad engineers, the federation of German mechanical engineers, the German association of mining engineers, and the association of German chemists. In many important points the central institution would, to say the least, have no advantages over the credit banks in making long-term industrial loans. On the other hand it would be sure to make some of the same mistakes that have been made by the credit banks, and some of these on a much larger scale. If perchance it should avoid some of these mistakes, it is likely to commit other mistakes of possibly far more serious consequences to the industrial community.

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To begin with, it is evident that in the desire to find a market for its obligations and to place them in competition with existing securities it would have to make every effort to show large and continuous dividends.²⁵⁴ It would therefore have to be exceedingly keen for business. As a result, during times of the high tide of prosperity it is likely to proffer loans unsolicited or to thrust funds upon industrial enterprises more often than was the case among the credit banks. Thus the abuse charged to the credit banks will prove still more serious in its effects on general industrial conditions and might lead to the lending of credit to establishments which would never have received it from the credit banks.

A more apparent and graver danger lies in this that a special institution of this character can by no means be as familiar with the general industrial and financial conditions as the credit banks. And yet, in granting credit, this factor must be considered just as carefully as the special conditions obtaining in the industry or the branch of it concerned in the loan. It is to be feared that the central institution will not take the general business situation into consideration or will fail to give it due weight.

Among the reasons assigned to prove the necessity for establishing a special institution of this character it is urged that industrial concerns are now forced by the banks to resort to short-term commercial credit, which is not adapted to their needs. As against this contention, it may be asked whether the effect of such a special institution would not be to force establishments to seek long-term credit for purposes for which only short-term

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loans should be used, as, for example, for the purpose of procuring current working capital. I think this at least possible, and I am convinced that Hecht's charge (unjust in my opinion) of the "mechanical standardization of credit" (*Schablonisierung des Kredits*) brought against the credit banks (see his "Memorial," p. 7) is likely to prove true to a greater extent in the case of a special institution of the kind proposed than it ever was in the case of the credit banks.²⁵⁵

Again, as I shall show later in the course of this book, a special institution would undoubtedly introduce new and strong competition for the local provincial banks and private bankers that make a specialty of extending credit to the small and moderate-sized industrial establishments (in case where they do not obtain such credit from the cooperative societies), particularly credit connected with the issue of sound industrial bonds in amounts of less than 1,000,000 marks or 500,000 marks, issues too small to be listed and dealt in on the exchanges (see p. 248).

Attention is also called to another point—the importance of which Hecht by no means underestimates—the need of having the underlying conditions for industrial credit investigated by persons and officers located where the establishment is situated. This need could not be met by such a central institution nearly as well as by our large banks with their numerous branches, agencies, silent partnerships (*Kommanditen*), deposit banks, and allied institutions. Not having affiliations and subsidiary institutions, the necessity for local investigation would oblige the central institution to establish gradually all over Germany a far more extensive network of local branches

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than those established or ever contemplated by the credit banks. The desirability of such a step is very doubtful, but unless this were done the facilities of the central institution for obtaining accurate information and carrying on its investigations on the spot would be inferior to those of credit banks.

A further point of criticism raised by the *Frankfurter Zeitung* of September 16 and 25, 1908, was that the bonds which it was proposed to issue would in effect have all the characteristics of bonds payable to bearer, without any governmental authorization therefor having been given or even requested. Another just criticism is to the effect that it ought to be shown "that the loans to be made with the proceeds of the sale of securities have back of them sufficient security to justify people to invest their savings therein," before "a new kind of obligation is introduced, which would shift to the public the risk of long-time industrial credit, formerly borne directly by the lender." It is contended that Hecht has not proved this point, for it is not enough to refer to the fact that the same objection was raised at one time against the mortgage banks." The conditions are entirely different, both on account of the difference in the character of the security, and the state supervision to which the mortgage banks are subject, and the complete difference in legal status, a point which will be gone into further below.

To this I may add the following. One of the advantages claimed for the central institution is that its bonds would be issued against loans of the most varied kinds, and resting on different kinds of security. Should this indeed be the case, and were the prospectus to give an account of

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all the industrial enterprises concerned and in all the details demanded by the requirements for listing the securities, the complexity would be so great that it would be as difficult to determine the real value of the bonds as to ascertain the actual condition of the central institution itself.

Baron von Pechman (op. cit., p. 94) has properly called attention to the point that the credit to be given by the central institution would prove the less attractive to industrial concerns the shorter the period of amortization to which they would have to agree besides the 5 per cent interest and a high commission. And yet in enumerating the disadvantages of short-term commercial credit for industry, Hecht lays special stress, and very properly, on its costliness.

Finally it must not be forgotten that Hecht's project has long ago been realized abroad, even though only in the form of a provincial bank. However, that is the form which Hecht himself contemplated, at least at the start. Now this foreign bank has not met with any great degree of success.

About ten years ago (1898) a special institution of the kind contemplated by Hecht was established in Austria—the Bohemian Industrial Bank (*Böhmische Industriebank*) in Prague—a provincial bank with the moderate capital of 12,000,000 kronen (\$2,436,000). Of late (since 1906) it has had as one of its special purposes the flotation of bonds based upon industrial loans repayable in annual instalments. Up to the present the entire volume of its bonds, secured by mortgages, had not exceeded 16,639,000 kronen (\$3,378,000). In September, 1906, it established a branch in Vienna, entering thus into direct

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connection with the money market of Vienna. Lopuzanski, secretary to the Ministry in Vienna, who gives an account of this bank,³⁵⁶ withholds final judgment as to its merits, notwithstanding the reasonable length of time the institution has been in existence.

Moreover in accordance with the provisions of a special enactment in Austria of December 27, 1905,³⁵⁷ governing the issue by the banks of certificates of funded indebtedness, three large institutions were given the privilege of issuing bank bonds (Reichsgesetz-Blatt 85. Stück, Jahrg. 1905), based on industrial loans secured by mortgage. The limitation imposed is that the aggregate amount of the bonds must not exceed the total amount of the mortgages on the industrial property by which the loans are secured. The three institutions referred to are the *Allgemeine Privilegierte Oesterreichische Bodenkreditanstalt*, the *Wiener Bankverein*, and the *Zivnostenská Banka* in Prague. Of these only the latter began to issue such bonds as early as 1908. Although four years have elapsed since the law was enacted it can not be said that there has been any great activity along the new lines.

I do not believe in the practicability of the new venture. In view of our conditions in Germany, at any rate, I would not advocate the adoption of a law which would authorize banks to issue certificates of funded indebtedness, particularly as no great use of such a privilege is likely to be made in Germany, so far as can be foreseen. We may recall in this connection that the issue of such certificates of funded indebtedness was proposed by Pereire, and that provision was made for it more than 50 years ago in the charter of the *Crédit Mobilier* and of the *Darmstädter*

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Bank. Everybody is agreed that it was fortunate that such issues were never made. As it is, the concentration and decentralization of the banks has led to a complexity and obscurity in the bank statements that is constantly increasing. The issue of certificates of funded indebtedness based on diverse industrial undertakings, the standing of which can not be easily found out, would not tend to lessen this obscurity.

Finally, certain weighty objections of a purely legal nature remain to be discussed.²⁵⁸

The following are the only possible forms in which the bonds might be issued:

I. BONDS SECURED BY MORTGAGE.²⁵⁹

1. Supposing the central institution issues its own bonds, two cases are possible:

(a) In consideration of a loan made to an industrial establishment, it might take bonds issued by the latter (and secured by mortgage) made out to the central institution or to its order. On the basis of these bonds the central institution might issue its own bonds, depositing with a trustee as security the bonds of the establishment.

(b) Another way would be this: The establishment issues bonds secured by mortgage in favor of a bank, which would make the loan in the first instance. Against these bonds indorsed by the bank the central institution would in turn issue its own bonds.

In my opinion there can be no doubt that, inasmuch as the purpose of the central institution's "activity" is "directed"²⁶⁰ exclusively or in part to the making of mortgage loans on the real estate of industrial establishments and to

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the issue of bonds on the basis of the mortgages acquired, the institution would be a mortgage bank according to the wording, meaning, and purpose of article 1 of the mortgage-bank act of July 13, 1899. As such it must obtain a charter. As its sphere of business is not to be confined to any one of the Federated States, it must obtain its charter from the federated council (*Bundesrat*). This being so, the central institution would be subject to the limitations of the mortgage-bank act. In this respect it would make no difference whether the mortgage bonds issued by the various establishments receiving loans were bonds secured by a specific property or by the full assets of the institutions. These considerations apply to the two cases, (a) and (b), because article 1 of the mortgage-bank act applies equally, no matter whether the mortgage is originally made out in favor of the central institution or the mortgage is obtained by the central institution from a third party (cf. *Komm. Bericht.*, p. 1, sec. 5; par. 1, No. 1, *ibid.*).

If this view is correct, the purpose of the bank, to make loans to industrial establishments and to issue bonds against them, would in these most important cases be almost completely nullified. Even if we follow Ernest Sontag²⁶¹ in rejecting Hecht's interpretation²⁶² of section 12, paragraph 1, clause 2, of the mortgage-bank act, the policy of the mortgage banks, as shown in note 250, p. 827, would continue unaltered, according to which, with few exceptions, no loans are granted on industrial establishments.

2. Suppose now that the central institution does not issue its own bonds. We might then have a case where the bonds secured by mortgage would be issued by the

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industrial establishment itself to the order of the central institution, and the latter would no more than indorse the bonds. It would make itself liable for them in the same way that a bank assumes liability for a bill.²⁰³ In this case the mortgage-bank act would not apply, for it would not involve the issue of bonds by the central institution against mortgage loans made by it or by some other party. The central institution would be acting only as an intermediary, guaranteeing the bonds issued directly by the various establishments. These securities, to be sure, would gain in value and become more readily marketable, for the reason that they had been passed on and indorsed by the central institution, but scarcely more than the industrial bonds floated by a well-known bank.

On the other hand, so long as the bonds are issued by various borrowers, and merely indorsed by the central institution, it would be impossible to combine and treat as one aggregate loan of 1 million marks the issues of, say, four establishments where each issue was for 250,000 marks. This does away with a second argument advanced in favor of the creation of a central institution, namely, that by combining a number of loans it would enable the securities of smaller establishments whose bond issues were for less than 1,000,000 marks to be listed and dealt in on the exchanges.

II. BONDS NOT SECURED BY MORTGAGE.

It might be thought that this difficulty could be obviated in the following manner: The central institution would have the four establishments each issue in its favor

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bonds for 250,000 marks, unsecured by mortgage. The institution might then in turn deposit these bonds with a trustee, and issue against them its own bonds to the amount of 1,000,000 marks. These could then be listed and traded in. The objection against this plan, however, is that, if one of these establishments should become bankrupt, the claim based on these bonds would entitle the central institution to no greater a share in the assets of the bankrupt firm than would fall to the other non-preferred creditors of the establishment. In other words, if the industrial establishment becomes insolvent, the claims arising from the bonds which it has issued and pledged with the central institution are on a par with all other non-preferred claims against the establishment. There would thus be little inducement to the public to purchase such bonds, even if these should be admitted to the exchange, which is doubtful. Should they be listed, it seems to me that the exchange accepting them would at least insist that, inasmuch as it might be erroneously assumed from the fact that the bonds were pledged to the central institution that they were secured by a preferred lien on the property (*dingliche Sicherheit*), the absence of it should be expressly stated in the prospectus. This would, of course, spoil the market for such securities.

The outcome of these legal considerations is as follows:

1. In the case of an issue of mortgage bonds, the central institution, as such, could be active only in the case described under I 2. Here, however, it would serve primarily only the interests of the larger establishments. These are, as a rule, closely connected with the banks, and

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have hitherto received too much rather than too little credit.

2. As regards the issue of bonds without mortgage security there is no real necessity for adding further to a class of bonds which, contrary to what the purchaser generally believes, do not confer upon him any right of lien on the property (*dingliches Recht*), the more so that it would be of no benefit to the small trader as such.

3. To allow the issue of bonds in cases I No. 1 a and b, there would be need for amending existing legislation in order to enable the central institution to avoid the necessity of obtaining a charter as a mortgage bank. In view of the existing superabundance of industrial bonds, there is no adequate justification for such amendment.

Should the central institution enter upon a career as such, in spite of all the existing economic and legal objections, it can not, in my opinion, look forward to a rapid or notably successful activity.

(B) THE CURRENT ACCOUNT BUSINESS.²⁶⁴

Current account transactions between the bank and its clients are one of the main sources of the commissions earned by the bank in the general course of business. At the same time the current account is the basis for the various relations by which both parties are gradually drawn into closer union. Through the current account the bank serves in the first place in the capacity of "maid of all work" in the business household of its customers, performing a thousand and one services each for a small consideration. This menial position, as a rule, is, however, only a temporary stepping stone in its progress to

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a position of influence, at times even of dominance, and one offering great advantages of the most diverse kinds.

For this reason the current account more than any other branch of business represents the field in which the various banks fight their competitive battles, particularly the battle for the industrial clientele. Once regular relations are established through the current account, a direct road is opened to power and profit for the bank. This road leads past the various forms of loans, which of themselves, especially the right to close the account, give a certain amount of influence to the bank. It leads further to increased power and profit through reorganizations, promotions, flotations of securities, consolidations and permanent participations in industrial undertakings through stock ownership, or representation on the supervisory board, or both. Through these transactions it leads to the conquest of entire branches of industrial activity, to close affiliation with commanding industrial concerns, cartels, and syndicates, and marks the beginning of the supremacy of groups of banks.

In the systematic development of the current account business in industrial districts, attained only gradually, and after much labor and trouble, we see at the same time a powerful lever in the systematic industrial policy of the banks. The successful carrying out of this policy tends also to establish, strengthen, and extend the supremacy of the banks over the private banking houses usually found in this field.

The essential features of the current account business are the following:

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In the course of the current account transactions, the German credit banks first of all provide their customers with the facilities for making and receiving payments (*Zahlungsverkehr*). They receive payments, and make payments on their account, collect their bills, interest on mortgages, and claims. For such of their customers especially as are engaged in foreign and over-sea trade, they draw bills, checks, drafts, and letters of credit. By putting their signature to the commercial paper of their customers they convert this paper into safe securities, negotiable everywhere.²⁶⁵ They accept bills drawn upon them by their customers or clients of the latter. They place at the disposal of their customers the transfer facilities (*Giroverkehr*) provided by the bank, its branch offices and affiliated banks, though this need is but seldom felt, in view of the giro facilities offered by the Reichsbank.

They also provide foreign bills of exchange for such of their customers as need them for their foreign trade transactions. These have retained the character of instruments of payments to a far greater extent than the domestic bills. These foreign bills are held by the German credit banks not only for the convenience of their customers, but also to maintain the liquidity of their own assets. They keep them in their portfolios not indeed to the same extent as the Reichsbank, but nevertheless in considerable amounts in order to be in a position to draw gold from abroad, in case of a money stringency or a panic. The amount of foreign bills is seldom reported in the statements of the German banks. The annual report of the Dresdner Bank for 1908 states that out of a total in bills of 248,666,816 marks (in 64,951 bills) on

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December 31, 1908, there were bills in foreign currency to the actual value of 24,999,370 marks. In the same way the Disconto-Gesellschaft reports that on the same date, out of a total of 158,928,057 marks held in bills, there were foreign bills to the value of 18,347,484 marks. In 1903 more than half (54.5 per cent) of the bill portfolio of the Berliner Handelsgesellschaft was made up of foreign bills.

To meet the wants of their customers, the German credit banks furnish surety bills (*Wechsel-Avale*) for their customers, more particularly in favor of the customs and railroad authorities to guarantee the payment of customs duties and railroad freight charges, on which deferred payment has been allowed.²⁰⁶

They also undertake to collect foreign and domestic bills, deducting their expense and commission. However, under the terms of the current account, which are nearly always identical on this point, they do not assume responsibility in the case of foreign bills or bills on smaller places in Germany, for presenting them on time, or for having them protested. At the request of their customers they make remittances by telegraph in order to meet outstanding obligations in foreign countries.

In their current account transactions they reduce, for their customers, the risks arising from export and import trade by discounting or loaning on the bills drawn by the exporter upon foreign purchasers. They allow the importer credit against which the foreign merchant may draw, and, on the delivery of the bill of lading, they put their acceptance on the bills of the foreign seller to the amount of the invoice, thus making it possible for these bills to be discounted.

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They allow their customers credit on current account for a considerable period of time, or they give them short-time credit on current account or independently of it, by discounting the bills of their customers or their clients, or by granting them loans on collateral or in the shape of the so-called reports. In a few instances, following the example of the Deutsche Bank, they have begun lately to discount for their customers even outstanding business accounts.

They accept securities and documents of their customers for safe-keeping in their vaults, as a rule gratuitously in case a commission is paid on transactions on current account. In case they undertake at the same time to look after these securities, they charge an exceedingly small commission for this service.

Under the latter head we have the following operations: The cashing of coupons as they become due and the presenting for payment of bonds drawn by lot, or repayable for other reasons; the collection of mortgages and temporary interest (*Genussscheine*) the drawing of incomes (*Geltendmachung von Bezugsrechten*); the exchanging of converted securities or the presenting of such securities for stamping, in compliance with legal requirements. In the case of a reduction of capital they deposit the securities of their customers either for stamping or cancellation. They further secure new sheets of coupons with the talon (or certificate of renewal), they supervise the drawings (with certain reservations), they make additional payments on securities not fully paid up, they pay assessments on mining stock, advance cash for coupons payable in terms of foreign money, etc.

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In accordance with their general and current account regulations, the German great credit banks require a special order of the depositor of securities, in case of conversions, insurance, giving notice in the name of stockholders before the general meeting;²⁶⁷ also in case of instalment payments on account of securities not fully paid, of assessments on account of mining stock, and in case of reductions of capital when an exchange of stock for a smaller amount of new stock is to be made (*Zusammenlegung von Aktien*).

According to Waldemar Müller,²⁶⁸ the Dresdner Bank alone manages securities of customers aggregating in value to nearly 2,000,000,000 marks, not counting the securities held by its deposit offices. The German credit banks or their deposit branches and exchange offices (*Wechselstuben*) take care of sealed deposits in special fire- and burglar-proof boxes and vaults, with keys held by the bank and by the respective depositors, a function performed abroad, and particularly in England and America, by special safe-deposit companies.

In accordance with special rules German credit banks buy and sell securities on commission and make loans thereon, according to terms described more fully below, which are essentially the same for all the large banks. Loans on mining stock, where they are not completely barred, and on American railroad shares, are as a rule subject to special agreements.

Customers having a current account with the credit banks may, if they wish it, open a check account. Balances on such accounts do not bear interest. On the other hand, the bank charges no commission on the turnover of such

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accounts. An accounting is rendered usually each quarter. Deposits of cash to this account, if made before 12 o'clock, are credited as of the date of deposit or the next business day; when made later, they are credited as of the business day next following. Cash paid out on this account is charged to the day on which it is paid.²⁶⁹

German credit banks, mainly through their exchange offices and deposit branches, frequently act as intermediaries for their customers in securing for them mortgage loans, and often obtain for them or lend them directly money for building purposes. They make themselves responsible either in the form of surety or of deposit of so-called "Aval-bills" to the customs or railroad authorities for the payment of customs duties or freight charges, where credit has been allowed to their customers; or for the proper fulfillment on time of contracts entered upon by their clients for supplies or work. At the wish of their customers and on payment of a moderate fee they insure securities left with them for deposit and care against reduction in value in case of drawings.

They finance the reorganization into stock companies of business firms in which their customers are interested; also the organization of new stock companies. They underwrite the issue of newly created shares and bonds in a great variety of forms and on the most diverse terms.

Finally, they supply or secure for their clients necessary or helpful information regarding new business connections which the latter may be contemplating and on the standing of individuals or firms to whom credit is to be extended, also on foreign connections and markets. They grant or

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obtain for their customers various advantages and facilities, both in their commercial relations and in their mutual intercourse, and notably in connection with the flotation of securities.

As a result of the mutual competition of the banks, commissions on German current-account transactions have to-day fallen to a level lower than ever. This is very deplorable, for it may lead to the neglect of what is the mainspring of the banking business, the current-account transactions, and to the preferment of other more speculative branches of banking. A point has been reached where a great many services for which a charge is made abroad are performed in Germany gratuitously, and the commissions, where paid, are so slight that often they do not cover even in part the share of the general expense which these services involve. Thus as a rule the commission for the business done on current account is figured on the larger side of the account, being one-half of 1 per mille for bankers and 1 per mille for others. For bill acceptances the commission is one-fourth of 1 per cent per quarter. As a rule this charge is remitted by most large banks in the case of their regular customers, who are allowed to issue time drafts on the bank. It is exacted only when they have no adequate funds on deposit in the bank on the day when the acceptance is made.²⁷⁰

In the absence of a special understanding, interest is allowed on credit balances normally at a rate 1 per cent below the Reichsbank discount rate, and charged on debit balances at 1 per cent above the Reichsbank discount rate. Usually, however, provision is made for a maximum rate in the one case and a minimum rate in the other.

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Payments on current account are usually credited as of the same day or as of the next business day when they are made after 4 o'clock. Money paid out is always charged as of the day on which the payment is made. Bills collected are entered according to special agreement, bills discounted as of the day on which they are discounted.

Where the debit balance on current account against a customer is not merely temporary or when the customer needs credit either at stated periods (seasonal credit), at irregular intervals, or continuously, terms must be agreed upon as to the amount, the rate of interest, the security, the commission to be charged, etc. These are usually made in writing and mostly as soon as the account is opened.

In the course of time and under the pressure of successive legislative enactments and new legal requirements, the banks have developed fairly uniform forms of contracts²⁷¹ for their "business and current account transactions." Naturally, however, reservations are made in regard to special terms affecting commission, interest, the amount of credit, and the conditions of repayment.

Credit on current account is given only to classes of business to which bank credit is applicable, and is either unsecured (*Blankokredit*) or secured. The bank, however, seeks always to find security against the risk it assumes in the character and extent of its current account transactions and in the differences that naturally appear among its current account clients. The common policy of the banks is to have as nearly as possible an equilibrium between the amounts it must provide for current account customers in the shape of advances or payments and the

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active balances of the deposits of other current account customers, as well as deposits expected from them.²⁷²

Under such conditions, comparatively little of the bank's own capital is tied up in current accounts. This safeguards the bank's ability to realize quickly on its assets and secures to it freedom of action. While this favorable situation is not present every year, or in the case of every bank, yet, on the whole, and on the average for a number of years, the condition has been nearly approximated by the great German banks.

In this connection Müller²⁷² justly says: "For this reason the customers most highly valued are those who, requiring credit during the buying season, not only repay the advances during the selling season, but in addition accumulate balances to their credit. This is true of a large number of commercial firms and of many branches of industry, notably in Berlin. The seasons for various branches of business being different, a large bank with branches and connections in all industrial centers of Germany enjoys the advantage of a proper distribution of its accounts among all branches of industry, and of the best possible adjustment of credit and debit accounts. Moreover, the periodic covering of loans exerts a reassuring influence, whereas loans that are running throughout the year require greater caution and constant vigilance."

The magnitude of current account transactions appears from the following: At the end of 1908 the current accounts in the Deutsche Bank, including accounts in the deposit branches in Berlin and its suburbs, numbered 171,305. At the end of 1907 the Dresdner Bank had 31,631 current account customers at its central office and

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67,212 accounts in its exchange offices (*Wechselstuben*), or, in all, 98,843. At the end of 1908 the number of accounts at the central office had risen to 35,542.

The security for credit on current account, or for credit given on current account through acceptance, collateral loans, or bill discounts, consists as a rule of shares, bonds, merchandise, bills, or the outstanding accounts of the borrower, that is, of claims arising from the sale of merchandise and manufactures, or of raw materials, half-finished or finished products, belonging to the firm receiving credit, or of life-insurance policies, patents, mortgages, dwelling houses, factories, land, or sureties including secondary and counter sureties (*Nach-und Rückbürgschaften*) and the like.

Under normal conditions, whenever the banks exercise due caution—and most of them do—it may be shown that it is not the secured credit on current account but the unsecured credit which has proved the safest.

German credit banks grant unsecured credit (*Blankokredit*) as a rule only after a study of the financial statement of the applicant for credit and a thorough investigation of his trustworthiness, his financial standing, and his business, which must present no obscurities to the inquirer, and when it is established beyond doubt that, so far as it is humanly possible to foresee, the loan will be repaid and repaid on time. This practice of granting unsecured credit is far more extensive in southern and central Germany than in northern Germany, but it is seldom granted to other than business men, at least not in considerable amounts.

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When security is demanded for a loan, it is a sign of some doubt on the part of the bank, excepting the cases when under general or special instructions of the board of supervisors or under orders from the central office, the executive officers of the bank or of the branch are forbidden to make any unsecured loans or to make them beyond certain amounts, or without special permission.

Hence the demand frequently made for a separation in the bank statement of secured and unsecured loans can not be based on the assumption that such data would indicate to what extent the management was complying with the dictates of business prudence in demanding security, as such information would tell nothing regarding the character of the security—which is the all important thing.

Although mistakes have undoubtedly been made in giving unsecured credit,²⁷⁴ the mistakes made in German banking practice, and for that matter also in the practice of foreign banks, in the lending of credit may be traced, so far as my experience goes, far less frequently to improper unsecured loans than to the facts pointed out in our "introductory considerations." Among these have been excessive liberality and eagerness in lending credit, the giving to or even forcing upon establishments of long-time instead of short-time credit, violations of the principle, which should always be observed, of distributing risks, and, under the head of secured credit, the false choice or false distribution of collateral—for which, however, the competition of other banks may often be responsible—accepting, for example, as security second mortgages, mortgages on building lots, unlisted or highly speculative secu-

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rities, or, worst of all, accepting as "security" shares and bonds of the company which was seeking credit. A practice equally dangerous is the accepting of securities as collateral at prices manifestly far higher than what they might be expected to bring at forced sale, and the like.

I believe therefore that in general fewer dangers for the bank are involved in unsecured credit than in secured credit. The most questionable secured loans are those that have developed out of original unsecured loans.²⁷⁵

The subject of unsecured credit arising from acceptances will be dealt with more in detail further on. Such credit is subject to its own rules and considerations. Satisfactory as this form of loan may be to a bank at any given moment, it can not be denied that to give a large or the largest part of its credit to customers, in the form of acceptances, may become a source of danger, for it may happen that just during a crisis when the bank needs all of its resources, it may be called upon to redeem its acceptances owing to the inability of the drawers to redeem the bills.

The current account business, including the credit given on current account, presents considerable advantages for a credit bank, though in promoting this business there is need of the utmost attention and caution. Once developed, however, it gradually yields regular earnings, which are of particular help during adverse times, insuring to the bank certain minimum dividends, and thereby affording the management a certain repose and assurance even when the more speculative branches of its business and more particularly the flotation of securities fail to bring adequate returns.

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While it is true that the stability of dividends increases with the growth of the deposit business, the latter in its turn is influenced by an extension of the current account business. On the other hand, the increase of dividends is dependent mainly upon the expansion of the current business and particularly the business on current accounts.

The proportion which interest ²⁷⁶ and commissions bear to the total gross profits may be seen from the following table. So far as commissions are concerned, only the smallest part is due to transactions on current account; by far the larger part comes from the banks' brokerage business. For 1908 the profit from the bill business is also included. The percentages are as follows:

	1906.	1907.	1908.
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
Deutsche Bank.....	69	73	70.6
Disconto-Gesellschaft.....	64	68	61.4
Dresdner Bank.....	79	88	84.8
A. Schaaffhausen'scher Bankverein.....	77	88	84.4
Darmstädter Bank.....	55	69	66.6
Berliner Handelsgesellschaft.....	73	79	82.9
Nationalbank für Deutschland.....	71	96	94.3

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Moreover, since a regular flow of business on current account can take place only under favorable conditions in trade and industry, the transactions on current account give the credit banks an excellent insight into the economic situation as it presents itself at any moment. At the same time the bank thereby develops a following of customers who are able to take over the securities floated by it.

Business on current account and more particularly industrial loans on current account tend to promote concentration.²⁷⁷ They force credit banks to enter into close

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alliance with the old and established provincial banks in the industrial sections—an alliance of vital importance also to the latter. This was in fact the real reason for the first community of interests effected—the alliance of the Deutsche Bank with the Bergisch-Märkische Bank and the Schlesischer Bankverein in 1897. Again, the provincial banks and private bankers must gradually lose ground in the competitive struggle for supplying industrial credit in proportion as such loans increasingly become long-time loans, which force the lender to tie up large sums for an indefinite period in capital loans and in flotations of securities which often do not allow of immediate realization. With the increasing concentration of industry the situation becomes more acute, as increasingly larger resources are required for industrial development and expansion.

Finally, industrial loans pave the way for the employment of the bank's credit in the reorganization of industrial establishments on a corporate basis, or the flotation of new securities in their behalf. Industrial credit thus naturally ends in drawing the banks into closer relations with all industrial interests, linking the credit banks with industry in a well-nigh indissoluble union for weal or woe. This union finds effective and visible expression both toward outsiders and insiders in the mutual representation on the supervisory boards by the leading directors on both sides.²⁷⁸

Similar remarks apply to commercial credit whenever used merely for the organization of corporations or the reorganization of firms as corporations and the flotation

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of securities. This has been the case in not a few instances, as for example in the case of certain navigation concerns.

The following data for different years in the second period show the amount of loans (*Debitoren*), in the main, though not exclusively, loans on current account, for all banks (numbering 169 at present) having a capital of at least 1,000,000 marks each; also the relation which these loans bear to the share capital of the credit banks:

Year.	Number of banks.	Loans (in 1,000 marks).	Capital of banks (in 1,000 marks).	Ratio of loans to capital.
				<i>Per cent.</i>
1883.....	71	886,360	796,447	111.3
1895.....	94	1,992,660	1,345,445	148.1
1908.....	169	6,604,652	3,253,673	203.0

In the introductory considerations (p. 233 and following) we have dealt with the objections and criticisms urged on the alleged ground that the loans are made primarily in an altogether one-sided and improper manner in the interests of industry (more correctly trade and industry).

For all German credit banks having a capital stock of at least 1,000,000 marks each, the total assets were invested as follows:

	Loans.	Bills.
At the close of—	<i>Per cent.</i>	<i>Per cent.</i>
1895.....	50	19
1906.....	53	21
1907.....	53	20
1908.....	52	21

Thus during a twelve-year period scarcely any change worth mentioning is seen. The assets of the great banks were placed as follows: ²⁷⁹

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	Loans.			Bills.		
	1906.	1907.	1908.	1906.	1907.	1908.
	<i>Per ct.</i>					
Deutsche Bank	43	40	45	29	33	29
Disconto-Gesellschaft	55	59	59	20	18	18
Dresdner Bank	45	51	49	22	19	24
Darmstädter Bank	55	57	48	17	19	22
A. Schaaffhausen'scher Bankverein	67	68	62	11	8	13
Berliner Handelsgesellschaft	45	41	44	17	28	21
Nationalbank für Deutschland	43	45	45	19	25	18

(C) THE ACCEPTANCE BUSINESS.

In the field of credit there are essentially three kinds of bank acceptances in use among German credit banks.

1. In the first place we have the acceptances in domestic and foreign commodity transactions, that is to say, mercantile acceptances (*Warenakzepte*).

We shall describe in another place the use of acceptances in foreign trade and the difficulties which had to be overcome before German bills in terms of marks could attain to the stage of approximate equality with English pound bills, and how long it took before these mark bills, at first unknown and disliked and having but a limited discount market, reached the point where they are no longer subjected everywhere to a higher rate of discount than the pound bills on London.

A condition in which business men support directly the burden of credit transactions and bear unaided the risk involved is in general a sign that industrial organization is as yet undeveloped. This is the situation in which products and commodities are sold on long terms by the manufacturer to the wholesaler, or by the latter to his

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retail customers, the seller drawing a bill on his customer (often running for six months),²⁸⁰ anticipating the maturity of it, by discounting the long-time claim with a bank or banker.

For a long time this was the exclusive procedure in Germany. It involves on the one hand the serious disadvantage that the entire commercial and industrial class becomes accustomed to this very long interval for loans and payments, often of six months' duration. Like an interminable disease, this practice affects also the final link in the commercial chain, the trade of the retailer with his customers. On the other hand this practice imposes unusual hardships on over-sea trade and increases its cost. The exporter has to draw on his foreign customer bills in foreign currency for the latter's acceptance. Owing to the limited market for such notes, he finds it difficult to discount them, and has to pay higher rates of discount. In addition, he has to bear the loss resulting from fluctuations in the rate of foreign exchange which may take place in the interval.²⁸¹

This early phase in the development of industrial organization has been outlived in Germany, at least to the extent that for some time past, though in the main not before the present period, the wholesale trade and large industrial concerns no longer have been the sole and direct grantors of credit, having as a rule given up the practice of accepting the drafts of their customers or of drawing on the latter. It is much more usual for the German wholesale trade and the large industrial establishments to draw upon the banks or bankers with whom they regularly deal. The bank's acceptance is then remitted to the creditor,

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or arrangements are made with the bank whereby the creditor may draw directly on the bank, the latter accepting the draft which is then discounted by the drawer.

This practice which has become common in large-scale industry and the wholesale trade,²⁸² whereby the immediate mercantile bill has gradually been replaced by the bank acceptance, has in the course of time introduced a certain amount of improvement in the direction of shortening the time for credit and payment in the wholesale trade and in industry conducted on a large scale. The circumstance which has done most to bring about this change is that only two- or three-month acceptances of banks and banking houses whose acceptances are regarded as prime discounts (so-called *Privatdiskontos*), can be discounted at the private discount rate.

In England, according to the account of Edgar Jaffé,²⁸³ considerable advance has been made toward dispensing with mercantile bills altogether, transactions between the large firms coming more and more to be on a cash basis. This third stage of development has been arrived at in Germany only by the large cartels and syndicates which may be thus said to undertake the solution of an important economic problem, that of restricting credit transactions between producers and their customers.

Thus, for example, the steel works' union, as stated elsewhere (note 172, p. 819) reduced the terms for payment on domestic purchases to fifteen days, at the same time cutting down to a large degree the trade discounts allowed. To foreign dealers trade discounts are no longer given at all.

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The large German banks have among their holdings a very large number of bills accepted by other banks (great banks or affiliated banks) and discounted or rediscounted by themselves. These bills arise from the above described custom, prevailing among the wholesale trade and large industrial establishments, to draw on the banks, or to make special arrangements with them whereby customers may draw on the banks, the latter accepting the bills which are then discounted. Some recent writers who advocate the strict separation of "mercantile" from "finance" bills have improperly classed the above described bills—true mercantile bills—among the finance bills, on the ground that they are accepted and indorsed by banks.

The following is a good illustration. In order to attract gold to America from abroad in 1908, deliveries of copper, cotton, petroleum, rice, and other raw materials and food-stuffs were effected much more quickly than usual and the equivalent was collected much more promptly by drawing against the shipments. As a result, an unusual number of legitimate American commercial bills were drawn on the leading German banks and accepted by the latter. Other banks were glad to discount this paper. Obviously it would be wrong to follow the customary tradition and call such drafts "finance bills" merely because they were issued with the manifest purpose of attracting gold, or to go further and stigmatize them as kite flying or accommodation paper, as was frequently done at that time and up to very recently in Germany as well as in England. (See p. 213.)

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It would be very easy to multiply examples. They prove that the term "finance bill" may often be a misnomer even when applied to bills which the banks are instrumental in circulating by their acceptance and indorsement in cases where the purpose of the bill is clearly to raise money. It would follow, from what has been stated before, that the term would have to be applied to most bills that circulate in Germany at the present time. Thus for example, according to a statement made before the bank inquiry commission, out of German bills to the amount of about 400,000,000 marks which the Deutsche Bank alone held in Berlin, about 300,000,000 marks' worth consisted of acceptances of German banks—a situation readily understood in view of the foregoing considerations.

What has been said applies not only to bills originating from domestic commercial transactions, but perhaps even more so to commercial paper originating from oversea commerce, and accepted by German banks. According to the statement just cited, 200,000,000 marks of paper of this class had been accepted by the Deutsche Bank alone.

It is clear from the foregoing considerations that the greater part of the bank acceptances are found among the bill holdings of the banks. In 1907 bills to the value of 2,621,630,000 marks were held by all the German credit banks having a capital of at least 1 million marks each, of which acceptances alone amounted to 2,035,290,000 marks or 78 per cent of the total bill holdings. It may therefore be assumed that as a rule between 70 and 75 per cent of the entire bill holdings of German credit banks are made up of bank acceptances, a conclusion that agrees with the data given above.

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Heiligenstadt is justly of the opinion that in order to be regarded as a "legitimate" bill, as distinguished from a finance bill, a bill—i. e. every claim that is presented in the money market in the form of a bill, must have "as its basis an economic good (*Wirtschaftsgut*).” I should discard entirely the expression finance bill and use instead the term nominal bill (*Leerwechsel*). However, the point should be emphasized that this "economic good" need not necessarily be a present or "concrete good" or a present or concrete commodity transaction. It may just as well be an advance given by the bank to domestic or foreign industrial or commercial firms with the view of future production or of a future commodity transaction.

In testifying before the bank inquiry commission, Heiligenstadt himself pointed out another case where even in the absence of such a loan, a bill issued would not be a "finance bill," still less a "nominal bill." Thus a merchant, manufacturer, or provincial banker, who has a balance to his credit in a bank, may draw a bill on the bank in order to convert this deposit into a form most liquid and convenient for him. Under the same head belong the cases mentioned by Lotz.²⁸⁴ Thus a banking house may take over securities from a debtor, and sell them to a third party. It may then draw on the purchaser, who may in turn be a banking firm. Or again, in taking over a loan, a bank may settle for it with its acceptance. As a matter of fact, in both of these instances the transaction involves "as much the circulation of a commodity peculiar to this branch of business as in the case of grain or cotton bills," although all these bills may be found to bear the names of bankers only. It would be impossible to

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deal with all the cases belonging under this head with anything approaching completeness.

In view of the foregoing it would be well to regard as nominal bills only such long- or short-time bills, which are not based on present or future production or on present or future sales of commodities in industry, agriculture or trade, or are not drawn with a view to liquidating credit balances resulting either from these transactions or from other causes. Neither is it material whether such bills have been accepted or issued by banks or by other firms, or drawn by one bank on another. In the case of long-time bills, however, drawn by one bank on another, or on private bankers, the presumption is that they are nominal bills.

As a matter of fact, neither the Reichsbank nor any other discount bank is able to distinguish a "nominal bill" of this kind externally from a "legitimate bill" any more than a legitimate stock-exchange time-transaction can be distinguished from an illegitimate deal of the same class. Hence there will always be cases where even the most expert bill broker will be unable to tell with certainty what kind of bill he is handling.

In connection with the expert testimony before the bank inquiry commission, two members of the commission, Heiligenstadt and Fischel, pointed out cases not at all rare, which show particularly well how little the banks are able, in many cases, to tell the true character of a bill from the instrument itself, which may often come to them from second or third hands, unless they know the character of the business which gave rise to the bill. "Let us take the following example: A spinner imports cotton from America

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and gives his acceptance for it. He spins the purchased cotton into yarn in two weeks, and sells and delivers the yarn to a weaving establishment, drawing on the latter for the goods. The weaving concern makes it into cloth and sells the woven fabric to some print works, drawing on the cotton print concern for the goods delivered. Here we have three bills, each of which must according to every characteristic be classed as the most substantial bill in the world; and yet in the last analysis they are based only on a single commodity" (Fischel).

As a matter of fact, according to the definition we have given above, we could not characterize any of the above bills as a "nominal" bill. The phenomenon in question of one commodity furnishing the economic basis, or being the "economic good" of a series of bills, may in case of a boom period or in times of stress, such as was the case in America in 1908, be intensified by the feverish hurrying of the processes of production characteristic of such periods, as witnessed likewise in our own electrical and other industries.

Let us assume that in consequence of such acceleration a process that normally requires three months is crowded into one month. At the expiration of three months, instead of the usual one bill for three months issued by one producer, there will be in circulation three bills, drawn at the successive stages of the process of production (by the producer of the raw material, the maker of the partly finished product, and the manufacturer of the finished goods). This, by the way, is one of the reasons why we may almost always observe at the height of a boom period a great increase in the number of bills in circulation.²⁸⁵

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2. The second class of German bank acceptances are the industrial acceptances of the bank, particularly those intended to furnish funds for the following purposes:

(a) To provide temporarily for current operating expenses, viz., for salaries, wages, insurance premiums, the purchase of raw material, and the like, purposes for which short-time acceptance credit is in every way appropriate.

(b) To provide necessary working capital not merely for temporary needs. As a rule, for this purpose long-time credit should be resorted to. The use of short-time acceptance credit in such a case, as we saw above (p. 242), involves considerable danger. It is not necessary to dwell here on both these points, as they are treated at length in the introductory considerations and in the discussion of Hecht's proposal of a central institution for long-time industrial credit. What I wish to emphasize particularly here is this: The volume of acceptances of German credit banks in circulation has been swelled, to no slight extent it seems, for the reason that, as abundant experience has shown, acceptance credit, when granted for other purposes than that of supplying temporary deficiencies in operating funds, is often not repaid at maturity, but extended, i. e., the acceptance, before it becomes due, is replaced by a new bill issued by the borrower of industrial credit. This bill is again accepted by the bank, discounted, and with the proceeds the old acceptance is taken up.

The danger involved here is greater for the reason that this form of granting credit is particularly attractive to the banks, for it does not require the immediate tying up of their own funds.

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3. The third category of German bank acceptances occurs when the acceptance credit of the credit banks is made use of by bankers, mainly by provincial bankers, to finance their own stock exchange speculations or those of third parties (so-called speculative acceptances—*Spekulationsakzept*).²⁸⁰

In this case the possible consequences, and the dangers involved, are the same as those described under 2a, where the acceptance credit of the bank is granted to a manufacturer to provide needed working capital. There is no doubt that throughout the second period the use by bankers of short-time credit on the strength of bank acceptances was resorted to on a very large scale and to an ever-increasing extent, partly as a result of the shortcomings of stock exchange legislation. The three-month acceptances of the credit banks are discounted at the private discount rate and the proceeds are deposited by the bankers in the bank in order to give them at once a balance to their credit. On the other hand, the bankers are debited with the acceptance only as per date of its maturity. In this way the bankers attain their end of getting money very much cheaper, for to use bank credit in another form would cost them as a rule 1 per cent more than the official bank rate.

In so far as this practice helps to meet the regular and healthy demands of investment, there can surely be no objection. The procedure becomes, however, objectionable from the point of view of the general economic interests, when it promotes extensive speculation and overstraining of the stock market by the general public. There can be no doubt that this has been indeed the effect to a large extent.

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The fact is that for a long time past one-third of the loans on current account given by the banks has almost regularly been in the form of acceptances.²⁸⁷

For all the German credit banks having a capital of at least 1,000,000 marks each, the ratio between total loans and acceptances according to the *Deutscher Oekonomist* was as follows:

[In millions of marks.]

	Number of banks.	Loans, including acceptances.	Acceptances.	Per cent of acceptances in total loans.
At the close of—				
1895.....	94	1,992	706	35.4
1896.....	98	2,127	752	35.4
1897.....	102	2,351	825	35.1
1898.....	108	2,847	984	34.6
1899.....	116	3,295	1,153	35
1900.....	118	3,602	1,294	35.9
1901.....	125	3,356	1,136	33.9
1902.....	122	3,550	1,176	33.1
1903.....	124	3,929	1,300	33
1904.....	129	4,396	1,400	33
1905.....	137	5,238	1,601	30
1906.....	143	6,073	1,848	30
1907.....	158	6,437	2,035	33
1908.....	169	6,605	1,891	28

For all the great Berlin banks, taken in the aggregate, the ratio at the end of 1909 was 33 per cent; at the end of 1907, 34.5 per cent; at the end of 1908, 31 per cent. For the individual banks this ratio was as follows:

	1906.	1907.	1908.
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
Deutsche Bank.....	28	34	28
Disconto-Gesellschaft.....	47	38	33
Dresdner Bank.....	42	40	37
Darmstädter Bank.....	24	22	27
Berliner Handels-Gesellschaft.....	34	41	39
A. Schaaffhausen'scher Bankverein.....	30	36	22

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The amount of acceptances of the six Berlin great banks (including their branches) outstanding at the end of each year was as follows:

[In million marks.]

	Deutsche Bank.	Dresdner Bank.	Disconto-Gesellschaft.	Darmstädter Bank.	A. Schaaffhausen'scher Bankverein.	Berliner Handelsgesellschaft.
At the end of—						
1895	122	75	49	41	32	41
1896	116	76	44	36	33	41
1897	130	99	47	35	31	43
1898	128	117	53	34	40	46
1899	142	122	61	34	41	55
1900	141	131	89	37	60	56
1901	142	104	85	37	57	62
1902	145	114	103	54	46	57
1903	180	129	101	59	49	62
1904	185	149	142	70	81	64
1905	197	170	162	89	82	64
1907	264	209	194	78	149	74
1908	232	189	171	89	79	76

Acceptance credit increased almost continuously, notably in the eighties and nineties, even as compared with the capital of the banks.²⁸⁸ On this point reference may be made to the table printed on page 288. The differences as compared with the figures reported by Ad. Weber (*Depositenbanken*, p. 117) are explained by the fact that in this table surety bills (*Avale*) furnished by the banks, are included with acceptances.

Large as the share of the mercantile acceptances must have been, there can be no doubt that relatively, as well as absolutely, a very large proportion of the total acceptance credit given by bankers in this period was made up of credit in the form of industrial acceptances of the doubtful sort described under 2b, and of the no less doubt-

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ful "speculative" acceptances described under 3. Least objectionable was the steady and by no means slight increase of German bank acceptances in oversea trade. Here they were used to provide reimbursement for advances on merchandise in transit, the bank in these cases receiving documentary security, viz, bills of lading. For the Hamburg, Bremen, and London branches of the great banks, devoted primarily to oversea business, a regular correlation can be traced between the growth of that branch of business and the growth of acceptances.

A diminution in speculative acceptances can be expected only as a result of self-education in the banking profession. This, I feel sure, will be effectively aided by the voluntary publication, at regular intervals, of summary balance sheets. In my opinion the view that credit in the form of acceptances and "reports," could be made "subject to certain rules"²⁸⁹ through legislation is not tenable.

The table printed below (p. 288), shows the amount of acceptances for the eight great banks of Berlin (the Commerz- und Disconto Bank and the Nationalbank are added), and the amount of the acceptances of these eight banks relative to that in 1883, which is taken as 100. It also shows the relation of acceptances to their capital stock, their own business capital (*das eigene werbende Kapital*, capital plus surplus funds) and finally to their entire earning resources (*das gesammte werbende Kapital*), i. e. their capital stock, surplus, deposits and credits on current account.

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Amount of bills outstanding (acceptances including "avals" and checks). ²⁶⁰					
Year.	In marks.	In percent- ages of the figures of 1883.	In percent- ages of the aggregate capital of the 8 great banks.	In percent- ages of the aggregate capital and surplus funds of the 8 great banks.	In percent- ages of the aggregate capital, sur- plus funds, deposits, and credits on current account of the 8 great banks.
1883	189,795,100	100.0	61.2	53.3	26.6
1884	220,532,000	116.2	68.5	59.7	26.9
1885	227,229,700	119.7	70.4	61.2	26.5
1886	234,412,800	123.5	70.4	60.4	26.6
1887	245,569,000	129.4	69.2	58.8	27.8
1888	254,347,500	134.0	69.3	58.5	25.1
1889	274,778,100	144.8	63.5	52.1	23.2
1890	254,338,000	134.0	57.5	46.8	22.7
1891	248,280,300	130.8	52.9	43.1	21.7
1892	299,049,800	157.6	62.4	50.9	25.8
1893	301,806,600	159.0	63.0	51.2	25.4
1894	354,241,200	186.6	74.0	60.0	25.8
1895	452,919,300	238.6	78.1	63.6	28.6
1896	441,416,900	232.6	74.2	59.9	26.7
1897	488,521,000	257.4	70.8	57.4	26.9
1898	535,649,400	282.2	70.5	57.0	25.1
1899	597,832,100	315.0	73.4	59.0	25.9
1900	670,299,500	353.2	82.2	66.0	27.8
1901	627,917,300	330.8	77.0	61.7	25.2
1902	673,741,800	355.0	77.3	62.7	24.9
1903	745,542,000	392.8	84.5	67.3	24.4
1904	885,733,300	466.7	88.7	69.8	24.0
1905	1,052,922,800	554.8	99.9	78.8	24.6
1906	1,162,922,900	612.7	104.4	81.1	23.9
1907	1,275,564,600	672.1	114.5	88.4	26.5
1908	1,188,077,900	626.0	105.7	81.4	23.5

The table reveals the same development which was noticeable with regard to the bill circulation, namely, that the amount of acceptances in 1903 had not only risen again to a point reached in 1889, but had even largely gone beyond it. In 1908 there was a considerable decline in the amount of acceptances of these eight Berlin banks.

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In conclusion it is of interest to note the ratio of bank acceptances issued by all German credit banks (with a capital of at least one million marks each) to the average bill circulation (in millions of marks).²⁹¹

Year.	Average bill circulation, assuming an average period between date and maturity of 75 days.	Bank acceptances on December 31.	
		Millions of marks.	Per cent.
1895	3,050	706	23
1896	3,275	752	23
1897	3,505	825	23
1898	3,875	984	25
1899	4,187	1,153	28
1900	4,660	1,294	28
1901	4,595	1,136	25
1902	4,301	1,176	27
1903	4,453	1,300	29
1904	4,640	1,400	30
1905	5,140	1,600	31

(D) THE DISCOUNT BUSINESS.²⁹²

German credit banks, like others of the same class, have a special motive for investing their own and their depositor's funds in the bill discounting business, since they are at the same time banks of deposit, and thus are obliged to invest a large part of their deposits in securities maturing at an early date. As the various bills discounted become due on different dates, the outflow of cash is balanced by an assured inflow of cash to redeem bills, with a resulting increase in the cash reserve and the opportunity for new investments.

The first rank in this line of investment is held by those bills that are regarded as prime discount bills *throughout the German discount market*. Such are the acceptances of the six foremost Berlin banks, namely, the Deutsche Bank,

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Disconto-Gesellschaft, Darmstädter Bank, Dresdner Bank, Berliner Handelsgesellschaft, and the A. Schaaffhausen'scher Bankverein, as well as two private banks in Berlin, Mendelssohn & Co. and S. Bleichröder.

In a general way, bills of the above description are regarded as representative generic values, in the sense that the standing of the seller who places them on the market in any particular case has no effect on the terms of discount, that is to say, the rate and the commission, as would be the case with other bills offered for discount. However, since in the case of these prime bills the rate of private discount forms only the upper, not the lower limit, the statement just made does not imply that they may not occasionally be discounted below that rate.

The second rank is held by those bills which are regarded as prime bills in the *local markets* of Berlin, Hamburg, and Frankfort-on-the-Main (in addition to those of the preceding class) and are discounted at the private rate, provided they fulfil the existing conditions of the bourse as regards time and amount, a condition which applies also to those of the preceding class.

According to the regulations of the Berlin Bourse (similar ones prevail in Frankfurt-on-the-Main), these prime bills (or private discounts) must be payable in Berlin or at a place where there is a branch of the Reichsbank, must be at least 5,000 marks in amount, and run not less than two nor more than three months. However, in fixing and quoting actual market rates of private discount, no difference is made between sixty-day and ninety-day bills and between "representative" and "nonrepresentative" private discounts, a practice which to my mind is

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not correct. This quotation of the private discount rate is made in Berlin, not officially, indeed, but yet after a uniform fashion, by a private central agency, solely interested in the discount business and acting under instructions from those engaged in the business.²⁰³ The rate of private discount prevailing at the bourse is occasionally underbid, as a result of competition, in the bill-discounting operations which take place outside of the bourse. The Reichsbank, however, does not buy bills in Berlin below the Reichsbank rate of discount.

The acceptances of the largest mercantile establishments and industrial undertakings are not regarded as prime discounts. However, as noted in the previous chapter (p. 276), these firms do not generally regulate their obligations by means of their own acceptances, but, as a rule, by those of their banks.²⁰⁴

Aside from these acceptances of the leading commercial and industrial firms just mentioned, which are of rare occurrence, the acceptances of most of the first-class and second-class provincial banks and bankers, while regarded as nonrepresentative bills in the above sense, are admitted to the benefits of the private rate of discount. In this case the terms of discount are fixed in accordance with personal and objective considerations, often quite incommensurable in their nature. If, for example, one of these banks, or even a bank not belonging to this class, allows—in the opinion of the bourse, which is specially sensitive in this matter—its credit to be unduly strained it is apt to be promptly reminded of this fact by finding the rate of private discount of its acceptances raised, even though but by one-sixteenth of 1 per cent, which thus occasionally

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constitutes a very effective means of checking the overloading of credit in the form of excessive acceptances.²⁹⁵

Furthermore, with regard to this class of paper, and still more with regard to other discount material reaching the bourse and not admitted to the privilege of the private rate of discount, the principle holds that only those bills are discountable at private discount that would pass as "prime bills" even without the acceptance of a bank. Such, in fact, ought to be the policy of the banks themselves in deciding whether a discount is to be made.²⁹⁶

Though there be ample reason for recognizing the best commercial and industrial acceptances as "prime bills," yet the general discount trade gives a decided preference to the bank acceptance as being easier to negotiate, with the result that the commercial and industrial acceptances are being more and more displaced by bank acceptances. This is one of the factors that concurred in producing the result noted above under C (p. 279), that some 70 to 75 per cent of all the acceptances discounted by German credit banks and forming part of their bill holdings are bank acceptances, discounted by the banks at the rate of private discount. As these acceptances are payable in gold, they are in demand even among foreign firms and banks, especially note banks. These acceptances represent the amounts granted by the credit banks on discounted bills, either to customers having a current account or to outsiders having no such account, as well as the foreign bills. Here also the policy is "to take care that the terms of settlement, never exceeding three months in duration, shall be distributed over all the months of the year, and, in particular, that relatively large amounts

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shall become due at the end of each quarter, when settlements are heavier" (*die schweren Quartalstermine.*)²⁹⁷ The material in the shape of bills available for discounting is very large in Germany.

The sum total of bills of exchange in Germany, put into circulation in the course of any one year, was calculated by W. Prion²⁹⁸ for twenty-one years, from the proceeds of the stamp tax on bills of exchange as follows:

[In millions of marks.]

1885 12,060	1890 14,020	1895 15,241	1900 23,204
1886 11,826	1891 14,606	1896 16,386	1901 22,965
1887 12,065	1892 14,284	1897 17,526	1902 21,505
1888 12,198	1893 14,585	1898 19,374	1903 22,266
1889 13,206	1894 14,748	1899 20,937	1904 23,201

For 1905 the estimate was 25,506,000,000 marks, that is to say, the formidable figure of 25½ billion marks, of which the Reichsbank bought 9,175,000,000 marks' worth, or 35.9 per cent.

For 1905, on the basis of the stamp tax of 14,100,000 marks and a total amount of bills of 25,500,000 marks (deducting 10 per cent for rounding off), and assuming an average of seventy-five days for the circulation period of the bills, it is found that the average bill circulation was 5,100,000,000 marks (31 per cent of which were bank acceptances).²⁹⁹ Accordingly for 1907 (stamp tax 19,700,000 marks, total amount of bills, less 10 per cent, in round numbers 31,500,000,000 marks) we get in round numbers the sum of 6 billion marks.

It may be well, however, to caution the reader against drawing any general conclusions regarding the higher or lower economic development of a country from the larger or smaller amount of bills circulating in it. Such con-

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clusions, though not infrequently made, are bound to be in most cases deceptive. The amount of bills circulating in a country is determined by an infinite variety of factors, such as the more or less pronounced "industrialization," the greater or less degree to which industry and commerce are habituated to bill credit, or to its complete or partial replacement by cash payments; the higher development and greater refinement or the greater or less costliness of the other forms of credit, such as the collateral and report business; the favorable or unfavorable state of the balance of international payments; the greater or less degree to which the population is habituated to the use of bank notes, etc.

Were it not so, one would have to infer that the United States with its relatively small bill circulation, is backward in its economic development. On the other hand, from the fact that in France from 1876 to 1907 the average per capita bill circulation has increased considerably more than in Germany, one would have to infer that in France there had been an enormous and rapid economic development. Both conclusions would be wrong.

France, for example, being a creditor nation (while Germany is a debtor nation), has a large favorable balance of payments, since both the number of her population and her industrial activity, especially her export industry, have for some time been stationary, and the available resources of the nation are in large part invested in the form of savings deposits and government bonds, while commercial and industrial enterprises and stock companies attract them far less than in Germany. The favorable balance of payments is reenforced by the far

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greater amount of foreign securities in the possession of France, and by the receipts from the enormous influx of foreigners, especially in Paris and on the Riviera.

Hence, before drawing general conclusions regarding any country, after ascertaining the amount of bills circulating in it, we shall have to examine its peculiar economic conditions and the peculiar organization of its systems of payment and credit, as we are trying to do in this book for Germany.

This being premised, let us note the following:

The amount of bills held by all the German banks, including note banks³⁰⁰ and mortgage banks,³⁰¹ was as follows:³⁰²

Business year.	Number of banks.	Amount of bills (in millions of marks).	Business year.	Number of banks.	Amount of bills (in millions of marks).
1883.....	113	1,203	1896.....	146	1,970
1884.....	113	1,246	1897.....	150	2,190
1885.....	113	1,248	1898.....	156	2,360
1886.....	116	1,277	1899.....	164	2,946
1887.....	115	1,364	1900.....	165	3,087
1888.....	114	1,307	1901.....	171	2,776
1889.....	137	1,583	1902.....	167	2,812
1890.....	136	1,670	1903.....	170	2,972
1891.....	135	1,661	1904.....	175	3,081
1892.....	134	1,650	1905.....	182	3,507
1893.....	133	1,611	1906.....	188	4,074
1894.....	137	1,736	1907.....	203	4,459
1895.....	135	1,857	1908.....	214	4,310

We see from this that in the boom year 1899 the amount of bills in all the banks (including note banks and mortgage banks) rose to 2,946,000,000 marks; that in 1900, immediately before the crisis, it even rose to 3,087,000,000 marks and that during the crisis of 1901 it fell to 2,776,000,000 marks.

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However, as early as 1903, as noted when speaking of the acceptance circulation of the banks, the amount of bills had again risen to 2,972,000,000 marks, having thus not merely equaled but even exceeded the amount of the greatest boom year, 1899. This was on the whole a normal and satisfactory development. Only an unhealthy increase in the amount of bills, not accompanied by a quiet and steady progress in economic development, would be a matter of regret.

Finally, the amount of bills in the German credit banks alone (with a capital of at least 1,000,000 marks each) and the total amount of bills in the great Berlin banks alone, during the last eleven years, was as follows (according to the *Deutscher Ökonomist*:³⁰³

Year.	Amount of bills in German credit banks (in million marks).	Amount of bills in the 6 great Berlin banks (in million marks).
1898.....	1,055	660
1899.....	1,327	716
1900.....	1,583	867
1901.....	1,462	828
1902.....	1,483	859
1903.....	1,518	865
1904.....	1,773	1,075
1905.....	1,995	1,231
1906.....	2,447	1,466
1907.....	2,621	1,509
1908.....	2,742	1,422

In 1908 all the German banks together held bills to the amount of 4,300,000,000 marks, the German credit banks together more than 2,700,000,000, the six great Berlin banks in round numbers 1,500,000,000.³⁰⁴ Assuming, for 1905, a total bill circulation of 5,100,000,000 marks

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and the bill holdings of the six great Berlin banks in the same year at about 1,000,000,000 (1,064,000,000)—as against 1,231,000,000 marks, given in the above table, Prion estimates the share of those six great banks in the total bill circulation for 1905 at 20.8 per cent. On page 279 we noted that as a rule about 70 to 75 per cent of the bill holdings of the German credit banks consists of bank acceptances. In that connection we also discussed the various classes of these bank acceptances.

In the Reichsbank the average amount of domestic bills was as follows: 1905, 775,723,000 marks; 1906, 946,201,000 marks; 1907, 1,060,076,000 marks.

The latter amount was classified as follows:

	Amount.	Per cent.
	<i>Marks.</i>	
(a) Commerce, transportation, and insurance	187,948,000	17.73
(b) Banking and credit institutions (as central agencies for the credit demand of business)	559,975,000	52.82
(c) Trade and industry	284,376,000	26.83
(d) Agriculture and allied trades	11,130,000	1.05
(e) All other credit users	16,647,000	1.57
Total	1,060,076,000	100.00

The profits from the bill brokerage business, that is to say, first and foremost the profits obtained from discount transactions, have not hitherto been always separately stated in the balance sheets of the German credit banks, but have in many cases been combined with the interest earnings, or with the profits gained from trading in foreign bills and specie. (*Devisen und Sorten*). Such, for example, is the practice of the Berliner Handelsgesellschaft.

In England, on the contrary, according to Edgar Jaffé's investigations,³⁰⁵ the amount of bills at the disposal of

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banks for the purpose of discounting has shown an almost continuous decline.

One reason for this is that the English deposit banks, which discount only for their customers, receive from them only a part of their bills for discounting and as a rule the less desirable part, while the larger part of the best bills is turned over by these customers directly to the bill brokers, so that the deposit banks are even obliged to buy from these brokers a part of the bills necessary for the investment of their funds. The deposit banks themselves also sell to the bill brokers all bills on foreign countries, as the banks themselves do not discount these.

Another reason, already mentioned, why the amount of bills circulating in England has declined is, because, owing to the more advanced organization of the system of payment and credit in that country, cash payment, at least among the largest firms, is tending more and more to take the place of bills, so that the very best commercial bills are progressively disappearing from the English money market.

Similarly bills drawn by importers of raw material on the selling commission merchant, the so-called brokers' paper, are gradually dropping out of use, being in large measure replaced by collateral loans on the strength of warrants on merchandise stored.

Finally, the number of bills drawn in England on foreign countries is very small compared to the number of bills drawn by foreign countries on England (about 1 to 9), because the prices of goods exported from England, owing to the larger market for London pound bills, are calculated in pounds sterling, and payment accordingly is ordinarily made in the shape of a bill on London.

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As a result of all these conditions, the English banker wishing to invest his funds is limited in the main to the "domestic bills, steadily declining in number and quality, while his main interest in foreign bills lies in the acceptance business." ³⁰⁶

As regards the English deposit banks, there was formerly a great abuse in the granting of credit by acceptance of drafts, and as a consequence the acceptance business, too, has declined to such extent that it is to-day conducted only on a very modest scale and under the safeguard of securities. Thus the acceptance business, even in so far as it is carried on against shipped goods—that is to say, against bills of lading, etc.—rests almost entirely in the hands of the so-called merchant bankers ³⁰⁷ and of the foreign banks, ³⁰⁸ while secured or unsecured loans in current account (loans or advances) constitute to-day the principal form of credit of the English deposit banks, which is granted exclusively to their regular customers. However, owing to the easy transition from short-term to long-term credit and the danger of tying up funds in the latter, the same difficulties and complaints arise in England as in the granting of industrial credit by our own credit banks. ³⁰⁹

In contrast with these English conditions, we saw that in Germany the bill circulation and the bill holdings of the banks, especially the credit banks, are very large, and that of the total assets of the German credit banks in 1907 (as well as in 1895 and 1896), in round numbers, 53 per cent appeared under the head of loans (*Debitoren*) and 20 per cent under the head of bills.

The rate of private discount resulting from supply and demand of short-term credit at home and abroad—that

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is to say, the rate of interest to be paid for short-term credit in the way of discounting of private bills—is, of course, subject to frequent and wide oscillations. From it, in conjunction with other factors, especially the Reichsbank discount and the exchange rates, important conclusions may be drawn regarding the business conditions, especially the state of trade and industry. This is undoubtedly true, even though, as we have seen, the bill acceptance is not merely a means of granting credit to trade and industry but serves also to a large extent to procure the means for bourse speculation. But while the rate of private discount corresponds in a general way to the condition of the money market at any given moment, the Reichsbank discount rate is determined not only by that consideration but also by the general economic situation and by the task, incumbent on the Reichsbank, of regulating credit and protecting the money standard.

It has been pointed out, and it must be admitted, that the difference between the official rate of discount established by the Reichsbank for short-term bill credit and the rate of private discount quoted in the open market in Berlin for short-term private bills has been almost uniformly greater during this period than at any other European money center.

The differences were as follows:

Year.	Berlin.	Paris.	London.	Vienna.
1876-1880.....	1.19	0.51	0.51	0.36
1881-1885.....	.98	.43	.64	.51
1886-1890.....	1.04	.50	.93	.50
1891-1895.....	1.11	.55	1.03	.38
1896-1900.....	.71	.09	.60	.26
1901-1905.....	1.01	.60	.43	.50
1906.....	1.11	.28	.22	.21
1907.....	.91	.06	.40	.22

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It is also true that a difference of over 2 per cent between official and private discount occurred in Berlin seven times in the period 1895-1900 and nineteen times in the period 1903-1907, while no such difference was ever recorded in London and Paris.³¹⁰ In explanation of this phenomenon it was stated that this low rate of private discount, occurring in part simultaneously with a high rate of bank discount, was due to deliberate endeavors on the part of banking circles to lower the rate and to keep it low, for their sole benefit, in plain opposition to the official discount policy of the Reichsbank, even in cases where the Reichsbank raised the rate of bank discount, either to prevent an outflow of gold abroad or to draw foreign gold into Germany.

It is not difficult to prove that the above-mentioned great difference between the rates of private discount and Reichsbank discount is not due to the cause alleged, though it is much more difficult to assign the true reasons for that phenomenon with even a comparative degree of probability.

First of all, it is not true that the banks, and especially the great banks, are essentially interested in keeping the rate of private discount low by artificial means; on the contrary, being buyers of bills, in which they invest their funds, they are interested, like every buyer, in being able to deduct the largest possible amount of interest on these bills.³¹¹ As a matter of fact, very large amounts of private bills are held not only by the great banks and the other credit banks but also by the Reichsbank and the other four note banks as well as by the mortgage banks, cooperative credit societies (*Genossenschaften*),

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savings banks, insurance companies, commercial and industrial enterprises, etc.

This extensive participation of other buyers of bills clearly proves that a low rate of private discount does not always nor exclusively "benefit" the credit banks, let alone the great banks. On the contrary, it benefits, first and foremost, the commercial and industrial firms, which, profiting by that low rate, draw on the banks, while the banks are benefited only when, either in response to demand or of their own accord, they pass the bills on among their customers or into foreign countries.

Thus a deliberate or intentional "thwarting" of the discount policy of the Reichsbank by the large banks by way of an artificial lowering of the rate of private discount is out of the question, especially since they may be in the market both as buyers and sellers of bills, the latter especially in case of orders on commission (*Kommissionsaufträgen*). As a general rule, the large banks, having regard to the interest which they have to pay on the deposits held by them and the interest which they in turn draw for the credit which they grant on bills, collateral loans, and contango (Reports), are essentially interested in making the rate of private discount conform as closely as possible to the rate of bank discount, since their outlay on account of interest depends on the rate of bank discount, while the receipts in the way of interest depend on the rate of interest prevailing in the market. Prion³¹² justly points out that the great banks, in calculating the interest on the advances granted by them, charge the lombard rate of interest of the Reichsbank, and that when the difference between bank dis-

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count and private discount greatly exceeds the average, the customers have a strong incentive to profit by the cheaper acceptance credit, which would lead to an unwelcome increase both in the offer of bills and in the acceptance obligations of the banks.

On the other hand, it is not to be denied that the great banks and other large discounting concerns exercise a certain influence on the fluctuations of the rate of private discount and its quotation at the bourse, seeing that in this field, as in others, they are in a position to compensate more or less the orders for the purchase or sale of private bills by means of the sums which they themselves invest in or withdraw from the private-bill business, and to bring only the remainder on the market.

There are also exceptional cases in which the great banks, as well as governmental and municipal offices in Germany and abroad, are decidedly interested in keeping the rate of discount as low as possible, and may attempt, at any rate, by heavy offerings of cash or other measures, perhaps with the cooperation of all the large discount dealers (*Grossdiskonteuere*), to lower the rate of private discount or to keep it low, for example when the issue of public bonds, domestic or foreign, bearing a higher rate of interest is in contemplation. However, the success of such attempts will not depend solely on the power of the large discount dealers, even if acting in concert, since the discount market is intimately connected with the entire money market, and consequently the rate of private discount depends on a number of other factors, such as the rate of bank discount and its probable development, the foreign exchange rates, the rates of interest for call money and

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monthly settlement loans, etc. In view of this, and the usually very large amounts of the bills marketed, a notable or long-continued artificial lowering of the rate of bank discount will be found impracticable, even with the cooperation of all the large discount dealers. In fact, if it were practicable, it would prove a very serious matter, especially on those occasions when it is above all desirable that the great banks should go hand in hand with the Reichsbank and lend their energetic support to measures which it deems requisite in the interest of the general economic well-being.

If, for example, as a necessary and natural consequence of an unfavorable turn in the balance of international payments, the foreign exchange rates (*Devisenkurse*) are so high that there is danger of an outflow of gold, especially of a withdrawal of foreign gold held on deposit in Germany, the raising of the official rate of bank discount will as a rule suffice to stave off for the time being or postpone the coming of the moment at which the exportation of gold begins to pay, unless indeed there be a demand for gold at any price, as from America in 1907. This precaution, however, can accomplish its object only when, as is usually the case, the rate of private discount is simultaneously raised to, or maintained at a correspondingly high level, as indeed generally happens.

If in such cases the raised rate of bank discount considerably exceeds that of foreign bank discount, foreign countries, as a rule, in order to share in the advantage of the high rate of discount in Germany, will temporarily increase their gold deposits in Germany, independently of the state of the balance of payments, so that in such case the

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raising of the bank discount rate may lead to a temporary gold importation from abroad; again, however, on the supposition that the private discount rate, too, rises to or is maintained at a correspondingly higher level.³¹³

In these cases, however, in which the prevention of a rise or of the maintenance of a high level of private discount rate would be especially dangerous, the great banks and other large discount dealers, as a rule, have no motive even to attempt the exercise of such an influence, because the probability is that, when the raising of the bank discount rate is desirable in order to stimulate the importation of gold from abroad or to prevent the exportation of gold, the situation will generally be such that security issues are out of question.

The real reason for the great difference between the rate of private discount and the rate of bank discount in Germany is probably to be sought, first and foremost, in the fact that in Germany, as contrasted with France, there is a relatively much larger number of persons or establishments, seeking to discount, whose competition in taking up good bills prevents the formation of a rate of private discount corresponding more closely to that of the Reichsbank. A further reason may be found in the fact that the rate of private discount is made, at least in a general way, in conformity with the ratio of supply and demand existing in the market. On the other hand, the rate of bank discount, while fixed by the Reichsbank with an eye to the regulation of credit transactions and the maintenance of the gold standard, depends in the foremost place on the favorable or unfavorable condition of our total

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balance of payments, whose primary expression is to be seen in low or high exchange rates.

However, another important factor must be considered. In Germany, whose trade and industry make far larger credit demands than is the case in France, this demand is satisfied, in the first instance, by a great multitude of credit banks, in the most diverse forms, a feature in which Germany again differs from France. Thus trade and industry in Germany, as regards their demand for credit, especially in so far as that demand is to be satisfied by the discounting of short-term bills, depend on the Reichsbank only in the second place. As soon as this condition changes—that is to say, as soon as the absorbing power of the credit banks is exhausted, as may happen especially in boom periods—the offer of short-term prime bills on the market will not be balanced by a corresponding number of discount dealers. As a result, the rate of private discount will rise and thus the difference between it and the Reichsbank rate will grow less. This, it is true, will be the case only so long as the Reichsbank in its turn is not compelled to raise its rate of discount in order to restrict the demand for credit made on it, especially active in boom times.

In so far, however, as the credit banks, especially the great banks, do exercise an influence on the rate of private discount and the difference between it and that of bank discount, it is indeed their duty to aim at lessening this difference and to give their unstinted support to the discount policy of the Reichsbank, whose influence on the private discount market, one of the most important fields of credit granting, has doubtless been considerably dimin-

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ished through the concentration of the great banks. This is the very field in which it is desirable, in the interest of the general public, that the strict policy of dividends—that is to say, of purely private interests—be subordinated to public economic policy in cooperation with the Reichsbank, the more so, as in this field some of the functions of the Reichsbank, viz, the regulation of credit, have to a considerable extent been transferred to the great banks.

It must be acknowledged that the great banks and other great discount dealers have hitherto shown a decided disposition to be in the closest possible touch with the management of the Reichsbank. Even Prion bears witness that these banks occasionally are reluctant to buy treasury bills (*Schatzanweisungen*), “especially when the Reichsbank, from motives of discount policy, desires to throw considerable sums on the market in order to influence the rate of private discount.”³¹⁴

(E) THE LOMBARD AND REPORT BUSINESS.³¹⁵

The lombard loan (loan on collateral), like the bill discount, affords to trade, agriculture, industry, and private capital the opportunity of personal credit, for short terms, sometimes also for longer terms, but it differs from the discounting of bills in this, that this personal credit is only granted on security.

The collateral may consist of merchandise, which in the import and export trade is replaced by bills of lading. These the merchant or manufacturer pledges in order to obtain bank credit, which, as a rule, is cheaper than merchandise credit (*Warenkredit*). This bank credit he thereupon uses for a great variety of purposes. His object in

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pledging the security and taking the loan may be, as we have seen, either to diminish his personal risk in over-sea transactions or to increase temporarily or anticipate the realisation of the working capital tied up in certain industrial or mercantile transactions. This form of credit-granting by the banks may give rise to the same dangers that we described above, in connection with the acceptance and discount credit (transformation of the original short-term working credit (*Betriebskredit*) into investment credit (*Anlagekredit*). Another purpose for which security is pledged is to avoid loss through the sale of merchandise at low prices at an unfavorable moment.

The collateral may also consist of securities or bills, the latter being in fact the only kind of pledges admitted in the lombard business of the bourse.

Lombard loans may also be secured by insurance policies (at surrender value) or mortgages, the latter being the most common form in the case of lombard credit in the building trade, although involving some risk, since it is not always possible to realize on mortgages at any given time. Finally the collateral may consist of any other kind of paper and claims of all kinds.

In all these forms of secured credit the first thing to be considered is the value of the collateral, the person of the borrower being only of secondary importance, which is not the case in ordinary discount credit. However, even in the case of lombard loans the person of the borrower plays some part at the bourse, inasmuch as the amount of the loan, the amounts to be put up (*Einschuss*), the interest to be paid, and the other conditions of the lombard business, in a word, the acceptance or rejection

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tion of the paper offered, are not decided without reference to the property of the borrower, his solvency and trustworthiness. On the other hand, in the lombard business of the banks, with their regular customers, aside from the value and quality of the pledge, and the duration of the loan, sometimes extending to as much as three months, the terms of the loan are mainly determined by the longer or shorter duration and degree of intimacy of the business connection, the amounts involved in past business transactions, and the commissions paid, as well as the other advantages which the bank has derived or expects to derive from this connection.

For obvious reasons, even short-term lombard obligations can not be regarded as liquid short-term investments to the same extent as ninety-day bills, and accordingly article 17 (44, No. 3) of the bank act prohibits the Reichsbank and the other four note banks from using these lombard obligations for their note reserve. They bear no indorsements, but only the name of the debtor, and in case of nonpayment at maturity they necessitate a forced sale of the objects pledged, which, in the case of merchandise, and even of securities, according to the state of the market, may lead to poor results or none at all, if there happens to be a simultaneous sale of the same kind of merchandise or securities, or a slack demand, or a general unfavorable condition of the market.³¹⁶

The fact that money thus advanced is tied up for the period agreed on is another circumstance tending to make it inadvisable for banks to invest large amounts of their depositors' funds in the lombard business. Furthermore, the objects pledged can not be repledged, except

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by special agreement, which is not customary. On the other hand, bills, or at any rate private bills, being readily transferable at any time at the bourse or elsewhere, represent a method of short-term investment which is much more liquid, that is to say, more easily realizable.

This difference must not be lost sight of in considering and estimating the liquid assets of banks. At any rate the investment of money in the lombard business as a rule is only for a short time, limited, in the practice of the German credit banks, to days, weeks, or a month, while credit in the way of bill discounting is as a rule granted for a longer period, since bank acceptances, in order to pass as private bills, must run two to three months.

At the bourse three forms of lombard loans are distinguished:

1. Call money (*Tägliches Geld*), payment of which may be required at any time. These loans are mostly made by great banks or bankers, on collateral of securities or bills, and the rate of interest on them is determined by supply and demand of available call money and published each day. As a rule this rate of interest is below the rate of private discount charged on two-months' or three-months' loans, except at the end of the month and on other occasions of strong demand for money, for example, when instalments on securities issued become due. However, despite the difference of periods for which money is loaned, the amounts invested in lombard call money and in short-term private bills may constantly alternate and interchange, according as the lender finds the rate of interest in the one or the other field more favorable for his purpose, thus making the rates interdependent.

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2. Ultimo loans (*Ultimogeld*), granted from the end of one month to the end of the next, usually at a rate of interest varying with the existing conditions of the money market, being as a rule lower than the rate of contango money and below the Reichsbank rate of interest on collateral loans, but higher than the rate of private discount.

3. Money loaned for a longer but fixed term, which at the Berlin bourse is as a rule furnished, first and foremost, by the *Seehandlung* (Prussian State Bank). That institution, as a rule, grants lower rates of interest than the bourse. When the time the bills have to run agrees with the duration of the lombard loan, the *Seehandlung*, in discounting bills, charges the same rate of interest as in case of the fixed-term lombard loan—that is to say, as a rule in both cases the rate of private discount. In this point, again, it differs from the bourse. On the other hand, the *Seehandlung* is more exacting than the bourse as regards the quality of the securities pledged and the standing of the borrowers. At the bourse, on the other hand, the rate of interest for ultimo collateral loans is as a rule higher than the rate of private discount, but, except in case of strong demand, lower than the Reichsbank rate of interest on collateral loans. The latter, too, makes loans only on certain classes of paper (art. 13, No. 3b, of the bank act), and the limit to which loans are allowed is considerably lower than at the bourse.

The opportunity thus offered by the *Seehandlung* of obtaining favorable rates of interest is taken advantage of by the great banks, which are able to comply with the severe requirements of the *Seehandlung* as regards the standing of the borrower and the quality of the collateral.

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The usual requirement is that this collateral shall consist of domestic or foreign government bonds, or of mortgage bonds, but it may also consist of prime bills, which, having already been indorsed in blank by the banks or their customers when discounted, do not have to be indorsed again. Thus in the latter case, through a wholly unostentatious use of bills as collateral, a form of credit is created which the great banks normally use in preference to rediscounting private bills in the open market; normally, as we have seen, the great banks, when they cannot avoid a step of this sort, prefer to rediscount long-term private bills in foreign markets or among their own customers.

Aside from the above-mentioned forms, in vogue in the lombard business at the bourse, the banks grant lombard loans for longer terms, up to three months, in which the lombard rate of interest is fixed by agreement, usually higher than the rate of private discount.

The ultimo money loaned in the lombard business of the bourse, against collateral in securities or bills, is used to a very large extent by speculators in securities, either to terminate or to prolong a speculation, provided, of course, that they possess such securities. If such is not the case, and the bull speculator (*Haussier*) is nevertheless willing to continue the prolongation, he accepts the securities bought as per ultimo, obtaining the funds for the purchase price by a loan on collateral repayable on the last of the following month, for which he has to pay the usual rate of interest for ultimo loans on collateral, pledging the securities accepted and buying again the same securities as per next ultimo. This lombard rate

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of interest will, of course, be the higher the more active the bull speculation at the bourse.

The bull speculator may use another method. Having to take up certain securities on the last of the month, he sells them to a third party (his bank) for delivery on the last of the month, receiving payment or being credited at the so-called settlement price (*Liquidationskursus*). At the same time he buys back the same securities from the third party at the same price, plus the so-called report money, as per ultimo of the next month. The amount of this charge has to be such that the bank shall be compensated for the month's delay in receiving back the purchase price of the securities pledged, so that it has to receive the interest for the intervening period. The rate of interest—that is to say, the rate of the report money—is determined by the market value of each individual security or in percentages of the face value (according as the security itself is quoted in one way or in the other).

On the other hand, the bear speculator—that is to say, the person who, expecting a fall in quotations, has sold securities which he does not own, for delivery on the last of the month, but does not wish to procure them on the last of the month because the market, instead of falling, has risen, or is not in position to procure them because he has no money, proceeds as follows: He procures the securities to be delivered on the last of the month by buying them from a third party that owns such securities (his bank), to be delivered to him on the same date. The bank thereupon debits him with the purchase price and at the same time buys the papers

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back from him for delivery on the last of next month, at the same price, with deduction of the monthly interest to be calculated according to the method above indicated (the so-called *deport*). The greater the scarcity of securities on the last of the month, and the greater therefore the need for them on the part of the bear speculators, the higher will be, as a rule, the interest which the owners of the securities will require to be deducted (*deport*), which in such cases may thus be lower than the rate of lombard interest for ultimo loans prevailing at the same time.

To the speculator, all these cases represent, economically, a prolongation of his speculation; juridically, in the last two cases (report business) the combination of a cash sale with a purchase for delivery (report) or a cash purchase with a sale for delivery (deport).

The lender in such case is simply dealing with two different methods of granting credit, that is to say, of investing such money as he may have at his disposal for the time being. In the report business he runs somewhat greater risk, because he has to furnish a sum of money exactly equal to the quoted value of the security, but then, as a rule, he draws somewhat higher interest, for as a rule the report money is higher than the rate for ultimo money in the lombard business, because the former includes a premium for risk.

On the other hand, if the lender furnishes ultimo money on collateral in the shape of securities, he runs less risk—a matter of special importance to the owner of investment-seeking funds—because he is able to fix the amount of the loan on the securities according to their quality, not being

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required to stake his money on them to the full amount of the market value. However, since the rate for ultimo money as a rule is lower than the rate of report money, he usually draws less interest than in the report business.

From the point of view of both the speculator and the lender, either case represents either intentionally or at any rate in effect a fostering of speculation in securities, through the taking or granting of short-term credit.

Hence the increase of the report business, especially in case of a boom, is as a rule a grave symptom of a decided increase in speculation. Accordingly, a writer in the "Frankfurter Zeitung" justly finds no cause for congratulation in the fact that in the case of 10 banks in Berlin and Frankfurt the sums invested in the report business rose from 148,550,000 marks at the end of 1892 to 284,590,000 marks at the end of 1894, an increase of nearly 100 per cent, while from 1888 to 1889 the increase was only 55 per cent (from 344,760,000 to 533,240,000 marks).

The great banks as a rule will not act as brokers for those of their customers who wish to invest money in reports, because that would diminish the amount held in current account on which they have to pay but slight interest, while they themselves, as a rule, are able to make better use of their depositors' money in the way of the lombard, discounting or report business.

On the other hand, so far as their own temporarily available resources are concerned, the great banks invest heavily in the two forms of short-term credit, that is to say, in ultimo loans, whose rate of interest influences also the rate of private discount,³¹⁷ and in report money. In particular, when the domestic rate of interest is higher

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than abroad, the banks often invest very large sums of foreign capital in report loans, although in such cases the borrower has to assume the risk of a variation in the exchange rates.

The tax on the report business to the full amount of the transaction stamp (*Umsatzstempel*), based on the combined amounts of sale and purchase, led to the result that at the German bourses the ultimo loans have declined in importance in the lombard business, as compared with the report loan, especially since the rate of tax applying to the report business might also be applied to the case of the ultimo loan.

This result was rather regrettable, all the more because lombard loans, unlike report loans, have not one and the same date of repayment, and because the pledges by which they are secured cannot as a rule be realized as easily as the securities of the report loans. Finally, the conditions of the report loans are typical, established once for all by the terms of the bourse, while the terms of lombard loans, as we have seen, have to be fixed by special agreement applying only to each individual transaction.

Recently similar factors have been operative in the same direction. By the federal stamp tax law of June 3, 1906 (schedule 4a, sec. 4), the stamp tax on the report business has been reduced to one-half of the former rate, the tax being based on the more highly appraised of the two transactions into which the report business is juridically divided. On the other hand, the so-called improper lombard business (*uneigentliches Lombardgeschäft*), in which the recipient of the securities may return other securities of the same kind, is, according to the practice of

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the revenue authorities, subject to the full tax according to the schedule. Only the taxing of the lombard business proper, of little importance at the bourse, in which the recipient does not enjoy the right referred to, is subject to the law of the individual States. In Prussia, according to the exemption clause to schedule 58 of the stamp-tax law of July 31, 1895, the documents certifying such lombard loans are exempt from tax, provided that they are repayable within at most a year and that the value of the security given is at least equal to the loan granted.

Lombard loans on the security of bills (which thereupon are not further indorsable) with the view of granting but not of securing credit play a very unimportant part among the operations of the great banks.

The former bourse law having absolutely prohibited the dealing in futures in the case of certain securities and greatly hampered it in the case of others, the cash business (*Kassageschäft*) has for years been the favorite sphere of speculation in securities at the bourse, the bankers of the medium and smaller class having to resort for that purpose extensively to call money in the lombard business in speculating either on their own or their customers' account.

The terms usually charged on lombard business by the great banks are about the same as those of the Berliner Handelsgesellschaft, reprinted below from W. Prion's work.³¹⁸ They may, of course, be more or less modified in individual cases, the lender enjoying considerable latitude in this respect, since these terms merely state the maximum amounts of loans ("up to").

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If the market value of the securities no longer shows the margin agreed on as compared with the loanable value, a corresponding additional deposit (*Einschuss*) is to be furnished, either in cash or in securities. The declaration to be signed by customers in the case of a lombard loan (unless the conditions of the current account are deemed sufficient) has been reprinted by Friedr. Leitner³¹⁹ and others.

MAXIMUM AMOUNTS LOANABLE ON SECURITIES QUOTED AT THE BERLIN BOURSE.

I. Up to nine-tenths of the quotation of the day: Bonds of the German Empire and of the German Federated States; mortgage bonds issued by Prussian mortgage banks and cooperative credit associations, as well as the bonds of German cities and Prussian counties (*Kreise*); bonds of German (other than Prussian) mortgage banks; stock and debentures of nationalized railways; bank notes of foreign states; gold and silver, in coin and in bars; debentures of German railways.

II. Up to four-fifths of the quotation of the day: Bonds of foreign governments and cities; foreign railway bonds; foreign farm and real estate mortgage bonds; German railway shares.

III. Up to three-fourths of the quotation of the day: Foreign railway shares; bank shares.

IV. Up to two-thirds of the quotation of the day: Debentures of industrial concerns quoted at not less than 90 per cent. Shares of industrial concerns quoted at not less than 150 per cent; if the quotation is higher, the excess above 150 per cent is loaned on only to one-half the

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amount and with the restriction that the loan is not in any case to exceed 150 per cent of the face value. Securities quoted more than 20 per cent below par are not accepted as collateral. Mining shares and securities not quoted at the Berlin Bourse are loaned on only under special agreement.

According to the official statement submitted to the Bank Inquiry Commission under date of March 31, 1908, the sum total of lombard loans of the Reichsbank (on 5,650 pledge receipts) amounted to 255,687,100 marks, distributed as follows:

	Marks.
1. Agriculture and allied industries (249 receipts).....	1,803,300
2. Industry and trades.....	17,853,600
3. Commerce, transportation, and insurance.....	21,562,800
4. Banking and finance, viz.:	
(a) Joint-stock banks ³²⁰	99,618,900
(b) Other financial institutions.....	88,422,000
5. Public savings banks.....	12,620,500
6. Cooperative credit societies of all kinds.....	5,108,900
7. Private persons.....	5,788,700
8. All others (corporations, foundations, etc.).....	2,908,400
Total.....	255,687,100

The exhibit shows also how greatly, in the transactions of the Reichsbank, the lombard business is eclipsed by the discount business, a result due, no doubt, in part to the fact that lombard loans are not permitted to be used as reserve for notes.

In 1907, as was shown (p. 297), the average of domestic bills held by the Reichsbank was 1,060,076,000 marks, while during the time from December 31, 1907, to April 7, 1908, the Reichsbank bought 1,389,357 domestic bills to the amount of 2,897,985,044 marks.

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Unfortunately, in the German bank balances lombards have hitherto been for the most part combined with "reports" (under the head "lombards and reports" or merely "lombards" or "reports") in one total. This is all the more incorrect, because, although both kinds of investment represent as a rule forms of short-term credit, lombards occasionally run for longer periods (up to three months). Furthermore, although in many respects the two kinds of investment serve the same purposes, yet, as we saw, there are essential differences in these purposes as well as in the nature of the investments.

As regards the composition of the "reports," such an expert as Felix Hecht³²¹ has justly pointed out that they may include securities not easily realized, and furthermore securities issued by the banks themselves and sold on credit to their customers. However, the same may be true of the lombards.

Again, in the balance sheets and reports of the credit banks (with the exception of some great banks) it has hitherto to a large extent been the practice to make no difference between lombard loans on merchandise relating almost exclusively to articles the prices of which are quoted in the market or at the bourse and lombard loans on securities, the latter including also securities not quoted at the bourse or securities issued by banks but not yet listed at the bourse. However, in the bimonthly summary balances since published by the great banks (beginning with February 28, 1909), the "advances on merchandise and shipments" are separately stated, and hence it may be assumed that the same will be done hereafter in the annual balance statements. At the same time the combination of

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“reports and lombards” into one item has been retained, probably on account of the practical difficulties that would be involved in their separation.

Finally, some credit banks were accustomed formerly to record advances on merchandise under the head of “secured loans in current account” (*gedeckte Debitoren*).

Thus, in studying past records, we have to bear in mind that in the balance sheets of most banks the two items were lumped, and thus the growth of lombards and reports for the four great Berlin banks stated below (in millions of marks) can be traced only for the two items combined:

DEUTSCHE BANK.

1870.....	2.7	1880.....	26.2	1890....	40.7	1900....	69.4
1871.....	13.2	1881.....	32.5	1891....	26.1	1901....	98.3
1872.....	19.9	1882.....	29.8	1892....	43.6	1902....	184.6
1873.....	8.7	1883.....	30.6	1893....	34.3	1903....	184.0
1874.....	14.5	1884.....	34.8	1894....	69.8	1904....	190.4
1875.....	16.4	1885.....	11.2	1895....	60.8	1905....	238.7
1876.....	32.2	1886.....	33.1	1896....	68.9	1906....	227.3
1877.....	11.0	1887.....	30.8	1897....	101.2	1907....	154.9
1878.....	15.5	1888.....	47.1	1898....	114.1	1908....	222.1
1879.....	34.8	1889.....	66.1	1899....	103.5		

DISCONTO-GESELLSCHAFT.

1870.....	7.6	1880.....	24.8	1890....	31.9	1900....	31.5
1871.....	8.4	1881.....	29.5	1891....	14.9	1901....	31.4
1872.....	37.8	1882.....	12.5	1892....	11.4	1902....	49.9
1873.....	16.1	1883.....	18.2	1893....	18.6	1903....	58.2
1874.....	14.5	1884.....	45.1	1894....	48.6	1904....	73.7
1875.....	.6	1885.....	26.8	1895....	36.0	1905....	38.5
1876.....	1.5	1886.....	31.3	1896....	23.3	1906....	57.7
1877.....	2.1	1887.....	10.2	1897....	27.4	1907....	49.5
1878.....	5.3	1888.....	35.3	1898....	31.7	1908....	58.0
1879.....	14.7	1889.....	34.7	1899....	40.6		

DRESDNER BANK.

1873.....	0.4	1882.....	12.0	1891....	21.6	1900....	40.03
1874.....	.7	1883.....	15.1	1892....	33.0	1901....	34.8
1875.....	1.1	1884.....	19.1	1893....	28.9	1902....	73.0
1876.....	1.6	1885.....	5.9	1894....	54.2	1903....	62.1
1877.....	1.9	1886.....	15.3	1895....	49.9	1904....	96.5
1878.....	2.7	1887.....	9.6	1896....	42.3	1905....	103.0
1879.....	5.4	1888.....	37.8	1897....	51.8	1906....	119.5
1880.....	4.1	1889.....	59.6	1898....	57.6	1907....	56.6
1881.....	22.5	1890.....	38.2	1899....	73.8	1908....	113.8

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DARMSTÄDTER BANK.

1870..... 2.0	1880..... 30.3	1890..... 27.6	1900..... 27.6
1871..... 7.9	1881..... 25.3	1891..... 22.7	1901..... 19.0
1872..... 14.7	1882..... 24.8	1892..... 27.6	1902..... 38.9
1873..... 15.3	1883..... 31.3	1893..... 24.1	1903..... 37.9
1874..... 9.6	1884..... 34.9	1894..... 30.5	1904..... 45.7
1875..... 10.3	1885..... 24.6	1895..... 31.4	1905..... 72.2
1876..... 7.6	1886..... 22.9	1896..... 30.5	1906..... 73.3
1877..... 8.9	1887..... 26.8	1897..... 23.1	1907..... 48.5
1878..... 18.5	1888..... 39.7	1898..... 32.3	1908..... 65.2
1879..... 28.0	1889..... 41.0	1899..... 31.0	

For all the German credit banks (with a capital of at least 1,000,000 marks each), the lombards and reports during the last eleven years amounted to the following sums (in millions of marks):

1898..... 668.8	1902..... 691.5	1906..... 1,099.4
1899..... 736.8	1903..... 708.2	1907..... 1,162.6
1900..... 597.7	1904..... 773.9	1908..... 1,348.5
1901..... 594.0	1905..... 970.9	

At the six great Berlin banks the lombards and reports during the last eleven years amounted to the following sums (in millions of marks):

1898..... 415.6	1901..... 294.3	1904..... 477.8	1907..... 594.4
1899..... 463.1	1902..... 432.0	1905..... 588.3	1908..... 660.8
1900..... 302.0	1903..... 443.0	1906..... 679.3	

Of the total assets the following amounts (in millions of marks) were invested in lombards and reports:

	1894.		1895.		1908.	
	Amount.	Per cent.	Amount.	Per cent.	Amount.	Per cent.
In the Deutsche Bank.....	69.7	15.19	60.7	10.50	222.12	12.00
In the Disconto-Gesellschaft..	48.5	15.20	36.0	9.67	58.10	6.5
In the Dresdner Bank.....	54.0	20.08	49.8	14.77	113.8	10.9
In the Darmstädter Bank....	30.4	15.20	31.4	15.09	65.29	9.6
In the Berliner Handelsgesellschaft.....	21.1	12.93	25.0	12.50	53.40	12

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(F) THE BROKERAGE BUSINESS (*Kommissionsgeschäft*).

The brokerage business of the German credit banks, especially of the great banks, has never remained confined within the narrow scope assigned to the broker (*Kommissionär*) by paragraph 383 of the Commercial Code (*Handelsgesetzbuch*), according to which the term broker (*Kommissionär*) designates exclusively a person who makes a business of buying and selling, in his own name but for another's account, merchandise and securities.

On the contrary, the German credit banks have from the beginning also engaged, in their own name and for other persons' accounts, in business not consisting of the purchase and sale of merchandise or securities, but which are nevertheless subject to the legal provisions regulating the brokerage business, according to the present Commercial Code (art. 406).

As instances of such operations, the following may be enumerated: The payment of the indemnity to Spain by the United States for the cession of the Philippines, effected through the mediation of the Deutsche Bank, as set forth by Ad. Weber;³²² the cooperation of various great German banks in the preparation and execution of the nationalization of the private railways, first those of Prussia and later those of other German States, begun in 1879 and continued for several years, a cooperation which was very extensive and not confined to the purchase of shares; the cooperation of the Dresdner Bank and the A. Schaaffhausen'scher Bankverein in the acquisition of an adequate amount of stock of the Hibernia-Gesellschaft, undertaken at the instance of the Prussian

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Government, and again not limited to the purchase of stock; the cooperation of the Disconto-Gesellschaft in the settlement of the French war indemnity in 1871-72; the mediation of the Disconto-Gesellschaft in the conversion of the stock of the Roumanian Railway Company into Roumanian government bonds (1879-1881); the reorganization of the Northern Pacific Railroad Company effected by the Deutsche Bank, partly on account of third parties, etc. In the main, however, the business carried on by the credit banks and especially the great banks is the brokerage business proper, conducted on the bourse. The scope of this business has been enlarged by all the numerous factors tending toward an increase of power and concentration, some of which we have already mentioned, while others yet remain to be discussed. Such are especially the relations to industry, constantly growing more intimate, and the deposit offices established gradually in large numbers by all the great banks, with the exception of the strictly centralized Berliner Handelsgesellschaft. For although Waldemar Müller³²³ may be right in stating that the business of the deposit and exchange offices (*Wechselstuben*), "so long as it was confined to the use of interest and the commission business in securities, did not cover the considerable expenses for rent, personnel, etc.," yet the originators of these deposit offices acted on the expectation that the makers of the deposits and the users of their safes would little by little tend to utilize the other facilities of the offices for arranging all their business and property matters, especially investments of capital, that is to say, entrust them with the brokerage of their bourse transac-

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tions. This assumption, founded on the desires and wants of their clientele, has in the main proved well founded, as well as the further expectation that the clients of the deposit branches would also little by little become habitual and trustworthy customers for the securities issued by the central offices, their financial standing and solvency being well known to the local offices.

The deposit branches have often been criticised as tending to encourage to a considerable extent speculation in securities on the part of their customers, and to urge the participation of customers in bourse speculations, after the manner of "touting bankers" (*Animierbankiers*). It would be difficult to prove the justice of this criticism. As a matter of fact, the central authorities of the great banks and of the other credit banks, in view of article 94 of the bourse law, as well as from an intelligent regard for their own interest, have from time to time issued the strictest instructions to the managers of their deposit branches and exchange offices to refrain from encouraging bourse speculation on the part of their customers or others. These instructions are periodically repeated. It can not be doubted, however, that, notwithstanding all instructions and warnings, certain managers of deposit branches have offended in this respect. This is likely to occur again, especially in the case of those managers who, besides their salary, draw a commission merely from the net profits of their deposit branches, a practice which it would be well to discontinue. It must not be forgotten, however, that the public and the customers themselves often dictate to the managers, and not only resent every exhortation or warning, but issue their orders in peremp-

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tory form. It may also happen that the speculators, without the knowledge of the manager of one deposit branch, enter into speculative enterprises with other deposit branches and use the knowledge gained at one branch either to check the other or for conclusive action, beyond the control of the first manager.

Withal, the aim of these deposit branches and exchange offices must be to minister solely to the legitimate investment of funds and to the other needs of their customers, as they arise in the course of business, and to cultivate all the branches of the regular (current) bank business, with the exception of the security issue business and the security business for own account. To their credit it must be said that a growing portion of these establishments, especially the older ones, have been following the policy just commended.

Extreme caution must be practiced in the investment business, both as regards the securities issued by the banks themselves and other securities. It can not be maintained that this caution has always been sufficiently observed in the past. In particular it ought to be laid down as a principle that those persons who are compelled by their financial situation to follow anxiously every oscillation in quotations and who are severely affected by every diminution in interest income should not be advised to invest in dividend-paying securities, because these are subject to great fluctuations not only as to dividends but also as to the market value, corresponding to the fluctuating rate of dividends. On the other hand, those persons who insist on acquiring dividend-paying paper, either because of speculative tendencies or of their

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needs of seeking higher returns than are usually offered by government bonds and other securities bearing a fixed rate of interest, would do well at any rate to "mix," that is to say, to buy small amounts of safe stock of various industrial enterprises, in order not to stake everything on one card. The better returns in one branch of industry or in one company will then offer them a kind of insurance against diminished returns in other companies. The principle of the distribution of risk applies also to the private capitalist, and it is the duty of managers of deposit branches to exert their influence in this direction, whenever their advice is asked.

Aside from these cases, it is the practice among the managers of the great banks, so far as I know, to instruct the managers of deposit branches and exchange offices, though not always with success, to abstain from all recommendations and advice beyond a mere statement of facts within their knowledge regarding the securities to be bought or sold, especially when such securities have been issued by the great banks themselves, since in such case the very fact of issue expresses the favorable opinion of the issuing bank. When customers ask for information, it is the branch bank manager's duty to point out to them, to the best of his knowledge, those factors which, after careful examination, he thinks will be apt to determine the intrinsic value, safety, prospective yield and market of the securities to be purchased or sold, including in the appropriate case, the conditions under which they are admitted to trading at the bourses at home or abroad. He should on principle decline to utter any prognostications regarding the future development of the market value, no

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matter how urgent the questions which are almost always addressed to him on this point. This caution is especially demanded in view of the fact that the very shrewdest experts in the money market, possessing the most minute knowledge of the innumerable factors that influence the market value, profess to be unable to lay down any rule as the result of their experience, except that, as they say at the bourse, "it always turns out the other way."

In the brokerage business at the bourse, the Berlin great banks³²⁴ and a wide circle of other establishments are guided by certain "business regulations," which in the main are identical, as shown by the printed blanks. They embody the following principles:

1. All orders given to the bank for the purchase or sale of bills, foreign bills of exchange (*Valuten*), or securities are executed by the bank in its own name, unless the contrary is expressly agreed on, or unless the bank itself in the individual case makes an express statement to the contrary.³²⁵ Any phrases used in the transaction, such as "I bought or sold for you," that might indicate an agreement with a third party, do not alter this rule. In each instance the bank has the right to charge, in addition to the commission, the regular expenses, especially the usual brokerage (*Kurtage*) and stamp tax.³²⁶

2. Any bourse transaction undertaken by the bank for its customers is subject to the rules in force at the time in that kind of business at the domestic or foreign bourse where the transaction is to be executed, even when the business is transacted by the bank in its own name. The bank has the right to prolong term engagements

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made at the bourse, if it sees fit, or to cancel them entirely or in part, unless the customer gives explicit modifying orders regarding the pending engagement, which order must be received at the latest on the last but one extension day—the so-called day of premium declaration (*Prämienerklärungstag*). The bank has the same right of cancellation before this term, if the person giving the order fails, on demand, to pay such supplementary margin (*Einschuss*) as may be required (see No. 3, below, second paragraph).³²⁷

3. In order to safeguard all claims against the customer through the current business connection,³²⁸ as well as for any bill obligation that may be pending (unless a special arrangement has been made), the bank has the right of pledge or retention in regard to any securities, including interest coupons, annuity (*Rentenscheine*) and profit-share certificates, and all other valuable paper which may have come into its possession or keeping in the course of business or in any other way.³²⁹ However, if such securities are turned over to the bank expressly in the name or on account of other persons, the bank possesses the right of pledge or retention in virtue of those claims only which may have arisen in connection with the respective securities.³³⁰ Securities deposited in German banks without being provided with a German stamp are not subject to the right of pledge and retention.³³¹

If the margin (*Einschuss*) or the balance due the bank, including any pending bill obligations, is not paid when due, a written demand for it is sent by registered mail. If this remains without effect, the bank, in order to satisfy its claims, has the right, without further warrant or period

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of grace, to sell the pledges at any time and place in accordance with the provisions of articles 1221 and 1235 of the civil code.³³² Article 1237, section 2, and article 1238 of the civil code are not applicable to this case. Neither has the customer the right, according to article 1246 of the civil code,³³³ to require any departure from the regular form of sale of the pledge.

The demand just mentioned is deemed to have been delivered if it is sent by registered mail to the last address known to the bank, even if the letter comes back marked "Can not be delivered."

The acquisition of the pledged object by the broker himself is permitted, according to article 400 of the commercial code, only in the case of goods which have a market or exchange price and in the case of securities which are officially quoted; the broker has to prove that the price which he charged to the client is the market price prevailing at the time of the execution of the order; this time is the date "at which the broker delivered the notice of the execution for forwarding to the client" (art. 400, sec. 2, paragraph 2 of the commercial code), a provision which, like a number of others (articles 387, 400, secs. 3b and 5; articles 401, 405, sec. 2), is intended to prevent the so-called "*Kursschnitt*"—that is to say, speculation by the broker to the detriment of the client.

As a wilful contravention of article 400, section 2, paragraph 2, is subject to penalty (according to article 95, sec. 1, No. 2 of the bourse law), most of the great banks have established a special bureau whose duty it is to see that the law is strictly observed by their representatives at

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the bourse. This or some other bureau also makes sure that the proper stamps are used.

According to articles 3 and 4 of the law "relating to the duties of business men (*Kaufleute*) in the safe-keeping of securities belonging to third parties" of July 5, 1896 (the so-called bank deposit law), the broker who carries out an order for the purchase of securities (of the kind specified in art. 1) is bound to send to his client within three days a list of the items purchased, with indication of the nominal value, the numbers, and any other marks of distinction (*Stückeverzeichnis*—itemized statement). According to the business regulations of the great banks, and most of the German credit banks, however, the banks as a rule require of their clients a written waiver of the sending of the itemized statement in case the securities purchased have not been fully paid, and the client remains indebted to the broker for the rest, the purchased paper being left as pledge in the custody of the broker. The business regulations expressly state that the object of this waiver is to prevent the passing of legal title in the purchased securities to the client, which, according to article 4 of the bank deposit law, would be the effect (at the latest) of the sending of the itemized statement. As it is, however, the broker—that is to say the bank—retains title until the purchase price has been fully paid. Until this is done, the items purchased are not credited to the deposit account of the client and do not become his property. Accordingly they are not kept, on behalf of the client, separate from the bank's own holdings or those of third parties, and are not entered in the deposit book according to their distinctive marks (art. 1 of the bank deposit law). On the contrary, they are booked

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by the piece without indication of number, this record being often known in the great banks by the name of Account C (*Konto C*), in contradistinction to the custody account, pure and simple, of the items belonging to the client (provincial banker) himself (Deposit Account A), and Deposit Account B. The latter comprises the items in regard to which the provincial banker (the client of the great bank) making the deposit or transmitting an order for purchase has made the declaration (in compliance with art. 8 of the bank deposit law) that the items are the property of others or that the purchase is to take place for the account of others. This Deposit B, therefore, is "not free;" that is to say, it does not serve the bank as security for all its claims against the provincial banker. In order that the broker (the central banker) may dispose of items booked under Deposit Account B, it is necessary in all cases, according to legal decision, that the client (the provincial banker) shall have declared, that he in turn had been given express consent to such disposition.

According to article 3, section 2 of the banking law, the waiving of the requirement of an itemized statement (*Stückverzeichnis*) may be done by bankers in any form, even verbally, and once for all, but in the case of persons who are not bankers only expressly³³⁴ in writing and only for each individual case.

Only when the remainder of the purchase money has been paid, the purchased items, on demand of the client, are transferred from the item account (Account C) to the Deposit Account A.

As regards the method of keeping securities booked under or transferred to Deposit Account A, the great

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banks as a rule adopt the arrangement by classes, that is to say, securities of the same kind but belonging to different customers are kept together, the items belonging to any particular customer being, of course, marked by bands bearing the customer's name and the nominal value of the items. This method of keeping by classes enables each item to be found more readily and is therefore preferred to the method of keeping all the securities belonging to one customer in a portfolio marked with his name. At the same time, for the purpose of having a check on the holdings, all banks carry both "living" account books, in which each customer has one account for all his securities, and a "dead" account book in which each class of securities has an account, the names of the customers being entered under each class, with the items of that class standing in their names.

In the case of mere safe-keeping of securities, or where an order for purchase is followed by safe-keeping, many provincial banks and private bankers are in the habit of obtaining from the customer an authorization to return securities of equal value in place of those deposited or pledged, or to use them for their own (the bank's) profit.³³⁵ Such authorization has to be made in conformity with article 2, section 1 of the bank deposit law, expressly in writing and for each individual case, only when the person in question is not a banker. The great banks, however, do not make a practice of obtaining such authorizations.

The banks, although not required by law, regularly furnish a memorandum giving the issue numbers of the securities, generally by signing and returning one of the two slips (*bordereaux*) which accompany the order.

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No perfectly reliable conclusions can be drawn from the balance sheets hitherto in vogue concerning the extent of the brokerage business of the great banks. On the one hand, the heading "Commissions" (*Provisionen*) covers not only the commissions derived from the brokerage business in its widest sense, but also in many cases all or part of the commissions derived from the discounting of bills, which really ought to be booked under the bill account, because these commissions are not always deducted from the particular bill entries, but are calculated only at the reckoning of the whole account (from the amount of the total transactions).³³⁶ Again, the commissions earned in the current account business are in many cases booked under the commission account, so that this account, homogeneous as it looks, is really a "collective account."

What has been said here of the commissions earned through the discounting of bills holds true also of the purchase and sale of securities, the commissions due to the banker being either calculated from the total transactions of the account, on the larger side, or being at once added to or deducted from the calculated total amount of each individual statement.³³⁷ In the former case the net profit in the way of commissions is transferred in one sum at the reckoning of the account to the collective account "Commissions;" in the latter case the commissions are booked in a separate account, but in that case, if a wrong impression is to be avoided, they have to be picked out singly and transferred to the commission account. This distinction while of no importance as regards the question of the total amount of profit from the brokerage business, does exert an influence, of course,

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on the amount of commissions. Thus, for example, according to a resolution of the Stamp Union (*Stempelvereinigung*), the total transactions in dividend-paying securities are no longer carried in ordinary account, as was done so long as a commission was calculated only from the total transactions of that account (on the larger side), but a special commission is charged, both for the purchase and for the sale of dividend-paying securities, which are booked in a separate account, the dividend-paying security account.

With the reservations resulting from the above statements, an approximate idea of the extent of the brokerage business in the German credit banks may be gained from the following table, since a very large part of the commissions (*Provisionen*) booked on the commission account (*Provisionskonto*) is undoubtedly derived from the brokerage business proper.

According to the *Deutscher Oekonomist*,³³⁸ the German credit banks having a capital of at least 1,000,000 marks each showed the following totals (in millions of marks):

Year	Gross profits	Commissions (<i>Provisionen</i>).	Ratio of commissions (<i>Provisionen</i>) to gross profits.	Year.	Gross profits	Commissions (<i>Provisionen</i>)	Ratio of commissions (<i>Provisionen</i>) to gross profits.
			<i>Per cent.</i>				<i>Per cent.</i>
1885....	77.81	19.7	25.3	1897....	179.37	40.4	22.5
1886....	78.69	20.5	26.0	1898....	218.38	50.5	23.1
1887....	80.97	20.7	25.5	1899....	261.77	57.9	22.1
1888....	110.48	24.2	22.0	1900....	262.02	60.0	22.9
1889....	141.00	32.1	22.8	1901....	258.40	58.9	22.8
1890....	141.04	32.2	22.8	1902....	256.76	57.7	22.5
1891....	112.15	28.8	25.7	1903....	253.21	62.7	24.7
1892....	111.93	26.7	23.8	1904....	273.50	68.2	25.0
1893....	110.03	27.8	25.2	1905....	330.20	81.4	24.7
1894....	112.29	28.1	25.0	1906....	377.08	91.4	24.3
1895....	150.83	34.3	22.8	1907....	382.28	97.5	25.5
1896....	158.93	35.4	22.3	1908....	417.20	103.7	24.9

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From this it appears that the commissions (*Provisionen*), with the exception of the years of depression of 1891 and 1892, kept on rising, very rapidly from 1885 to 1890, less rapidly but very steadily for the period following 1892; but since the total gross profits from 1885 on (with slight interruptions in 1891-1893, 1901 and 1903), also rose very considerably, the ratio of commissions to gross profits remained nearly uniform throughout the period 1885-1908, showing, in fact, a slight decline.

At any rate, almost one-fourth of the gross profits throughout that period resulted from commissions derived, no doubt, for the most part from the brokerage business (*Kommissionsgeschäft*).³³⁹

(G) THE TRANSFORMATION, FOUNDING, ISSUING, SYNDICATE, AND SECURITY BUSINESS.

(1) *The transformation and founding business.*

The objections to the German "mixed banking system" are twofold. On the one hand it is urged that the deposits are not sufficiently secured by liquid assets, which implies a lack of soundness in administration. This point will be dealt with at greater length in section 8. On the other hand, it is pointed out that the transformation and founding business extensively conducted by the German credit banks involves grave dangers both for the credit banks themselves and for the community at large. This point we shall now proceed to discuss.

In previous sections (pp. 4 and 5) we noted that the prompt undertaking of the transformation and founding business—that is to say, the financing business proper³⁴⁰—by the German credit banks, corresponded to an urgent

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need of the industrial and commercial interests of Germany. The very earliest German credit banks were created, first and foremost, for the purpose of promoting trade and industry, as indicated by the very firm name of the Darmstädter Bank: "Bank for Trade and Industry." The establishment in Germany of special banks of deposit was out of the question, mainly because, in view of the low level of prosperity of the population, such banks would not have yielded sufficient profits.

Furthermore, in the very beginning of the volume we pointed out that the special nature of the transformation and founding business demands a vast amount of technical, business, and general economic knowledge and experience, which could only be accumulated little by little in the credit banks. The need for such experience, combined with the continuous watching of the money market and an accurate knowledge of the capital market, as well as of the factors connected therewith, such as the capacity of the market for taking up new securities and the conditions determining the market value of these securities, etc., was of itself sufficient to create "special economic organs," which, to use Schaeffle's expression, were to perform "the special function of the initiative in the joint-stock industry."

Moreover, the necessity of a division of labor, of combination and decentralization of establishments, of supplying the wholesale demand and of overcoming or warding off foreign competition, gave rise to industrial large-scale production, whose favorite form is the stock company, because it obtains credit more easily than the individual entrepreneur, and on that account is more

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susceptible of expansion. This was another reason why in Germany the task of transforming existing establishments into stock companies, or of founding new stock companies, fell to the share of the banks, as central reservoirs of funds available for productive purposes, the stock companies themselves representing a concentration of small amounts of capital, each in itself insufficient for productive utilization.

Large-scale industry and capitalism, bearing to each other the reciprocal relation of cause and effect, were thus enabled, by the aid of the German credit banks, to unite in an inseparable alliance, which impressed its characteristic stamp on the entire economic development of Germany during the two epochs under discussion.

We saw (pp. 38 and 115) that in Prussia, up to the intervention of the credit banks, during the entire quarter of a century from 1826 to 1850, only 102 stock companies, with a combined capital of about 638,000,000 marks, were formed. In contrast with this, the first epoch here considered (more accurately the period terminating with the beginning of the second half of 1870), was marked by the founding of 295 stock companies with a capital of about 2,404,760,000 marks, due, first and foremost, to the activity of the German credit banks in the field of transformation and issue.

But even this was merely the first puff of wind before the beginning of the storm.

Beginning with the second half of the year 1870 up to 1874, 857 stock companies were formed in Germany, with a capital stock of 3,306,810,000 marks. This overproduction in transformations³⁴¹ and new flotations in these

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four and one-half years, as well as the great abundance of money and the fever of enterprise and speculation, were of course either created or at least reinforced by the sudden inflow of the 5,000,000,000 francs of the French war indemnity. Combined with other factors, that overproduction was one of the most important causes of the great crisis of 1873.³⁴²

In the first epoch (from the middle of the nineteenth century to the year 1870), when industrial enterprises to a large extent lacked sufficient capital and energetic entrepreneurs, the banks, in many, perhaps the majority of cases, had to take the initiative in the work of transformation and founding. A natural incident of this process was that the banks often took a share, at times a very considerable share, in the transformed or newly founded enterprises through the purchase of stock or other direct participation. As noted above (p. 72), the 1852 report of the A. Schaaffhausen'scher Bankverein expressly states (p. 3) that it is the function of a large bank "to induce the capitalists of the country to direct idle capital toward those enterprises, which, when properly launched, in response to real needs, and offering the guarantee of expert management, bid fair to bring adequate returns." It was that very bank, the oldest German credit bank, which as early as 1851 took a share in the founding of the Hörder Bergwerks- und Hüttenverein, in 1852 in that of the Cölner Bergwerks-Verein, the Cölnische Baumwoll-Spinnerei, the Cölnische Maschinenbau-Aktiengesellschaft, the Cöln-Müsner Bergwerks-Aktiengesellschaft, and the Cölnische Baumwoll-Spinnerei und Weberei, wisely making choice of local enterprises in its near vicinity, which

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it was in position to keep under steady surveillance. In this way it avoided those severe losses to which other banks, not equally cautious, were subjected at that time.

Thus the Darmstädter Bank, shortly before the crisis of 1857, took part in seven industrial enterprises which in 1856 it had transformed into stock companies or newly founded. These enterprises had a combined capital of 2,500,000 thalers, in round figures. Among them was a woolen and cotton factory, a spinning and weaving factory, a mining company, the Oldenburg-East Indian Shipping Company, and two machine factories. This permanent investment in stock meant afterward corresponding amounts permanently written off. In one case, that of the Mannheim woolen factory, the entire stock was lost.

The Disconto-Gesellschaft in 1857 founded the Heinrichshütte mining and smelting works with a capital of about 1,750,000 thalers. In 1863, after heavy losses, it was found necessary to separate that enterprise from the Disconto-Gesellschaft and to place it in control of the business managers, with participation of the Disconto-Gesellschaft on a silent partnership basis. In 1872, the establishment was merged in the newly founded Dortmunder Union Aktiengesellschaft für Bergbau- Eisen- und Stahlindustrie, which was destined to cause still greater trouble to the bank.

The Mitteldeutsche Kreditbank suffered heavy loss through the acquisition of the Ludwigshütte at Biedenkopf, which in 1858 had been transformed into a stock company under the name of Oberschlesischer Hüttenverein, the share of the bank amounting to one-third of the stock. The same happened with the Wasungen cigar

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factory, in which the bank acquired a share interest in 1856.

This initiative in the business of transformations and foundings, often dearly paid for by the banks, was largely reinforced and facilitated by the defective legislation of that time, which made practically no provision for the true indication nor the strict civil and penal responsibility of the persons concerned in the founding. It was only the new law (*Novelle*) of 1884 that defined the term "founder" (*Gründer*), provided for the complete publicity of the founding process, and introduced strict civil and penal responsibility of the founders and their associates. The argument accompanying that law describes the previous legal condition in words which deserve to be rescued from oblivion (pp. 87-88):

"The founding process was concealed; the true indication of the founders was not legally required; the leading promoters acted without any sense of responsibility and were exempt from any kind of control. The temptation to put private interest above that of the company to be established was too powerful. No person was appointed and no measures taken to guard the interests of the company. For a long time after its foundation the newly-formed company possessed no corporate autonomy and remained defenseless in the hands of persons whose only object was their profit as founders. At the same time the public, which these persons, without any risk or responsibility, had in every possible manner sought to attract to a participation in the company, either formally organized or to be organized, had no reliable data whereby to form a correct estimate of the enterprise.

In a number of the criminal proceedings that took place during the crisis just past [1873] it was not even possible to

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ascertain the names of the authors and publishers of the prospectuses by means of which the public had been invited to subscribe."

So long as it was possible to start industrial transformations and foundings under the screen of anonymity and freedom from any strict responsibility, there was of course also an opportunity for "industrial stock jobbery" ("*industrielle Ausschachtungen*") which Sattler,³⁴³ with a somewhat strange exaggeration, describes as the essence of transformation in general; and, above all, overcapitalization of the worst kind was the order of the day. There was no inquiry into the prices allowed for the property contributed (*Apports*), nor into the compensations allowed for the founding and the preparations for it, nor into the intermediate profits made. The premium on the shares issued by the company did not flow into the reserve fund of the company, as it does now, but into the pockets of the original owners who were credited therewith on account of the property contributed by them (*Apports*). As, moreover, the names of the founders and the intermediate profits were in nowise required to be published the transformation and founding business could not fail to become a special trade offering peculiar attractions. On the other hand, it is not surprising that of the 857 stock companies, with a capital of 3,306,810,000 marks, which, as we have seen, were established in the time between the middle of 1870 and the beginning of 1874, that is to say, before the new Joint Stock Companies Law of 1884, not fewer than 123 were in liquidation as early as December, 1874, and 37 were bankrupt (*im Konkurs*)³⁴⁴.

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As may be gathered from what has been said, the great banks in the first epoch very largely footed the bills for the transformations and foundings of that time. It must be further admitted that, after quickly earning the profits, often very large, from the transformation or founding, they did not leave the enterprises to their fate, as they might easily have done under then existing legislation, but retained a share in them, often to a larger extent than was compatible with the principles of liquidity. This was done not only in order to retain the necessary influence over the industrial enterprise, but also, as expressly stated in many reports of that time, in order to exercise a permanent supervision over the management of those enterprises, a measure which was deemed indispensable in the interest of the issue credit of the banks, since the transformation or founding was in most cases followed by issues of stock or bonds. This was the main reason why it became customary even in the first epoch to appoint some of the directors of the credit banks as members of the supervisory boards of industrial enterprises.

Even in the second epoch (1870 to the present date) there was no lack of instances of permanent direct participations of the banks in industrial enterprises, leading to the same untoward results as in the first epoch, though during this more recent period they have been the exception.

Thus the Disconto-Gesellschaft involved itself in great loss and trouble ever since 1872 because of the foundation of the Dortmunder Union, and after 1890 because of its participation in the Internationale Druckluft- und Elektrizitäts-Gesellschaft (Popp) and in the Venezuela Rail-

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way. The same happened to the Dresdner Bank by reason of the taking over of the Anglo-Deutsche Bank (1892) and the consequent participation in the Export and Warehouse firm (Export- und Lagerhaus-Gesellschaft) J. Ferd. Nagel, which cost that bank about 2½ million marks.

The Deutsche Bank was for years involved in great difficulties and annoyances through the foundation of the Deutsch-Oesterreichische Mannesmann-Werke, established under its direction and with its participation in 1890, the bank having the presidency in the supervisory board. In 1900 the capital stock of that concern had to be reduced from 34,000,000 to 25,000,000 marks.

In the case of the Berliner Handelsgesellschaft, which remained in the main a flotation bank even in the second epoch, the loss in 1873 arose not so much from voluntary participations in new foundations, in which it lost in round figures 158,000 thalers, or 1½ per cent of its capital at that time, as from securities of newly founded companies that could not be disposed of—that is to say, involuntary participations—such as are apt to occur in the issue business. It suffered also exceedingly large losses through the founding of the German Local and Street Railway Company (*Deutsche Lokal- und Strassenbahn-Gesellschaft*) and the Petroleum Exploration Franchise and Oil Land Company (*Petroleum-Bohr Gerechtsamen- und Oelland-Gesellschaft*), in 1880.

It can not be doubted (see p. 242, under b) that the permanent assumption of large risks in enterprises by credit banks is incompatible with the fundamental principles of sound banking policy. Transgres-

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sions of this rule have almost always brought their own atonement, often of a cruel nature. For this reason the credit banks, during the second epoch, in order to avoid direct participation, have to a large extent resorted to the intervention of trust and finance companies for the purpose of exercising their promoting activity and for the financing of subsidiary banks.

The reorganization of an existing enterprise is a less serious undertaking for a bank than a new foundation, because the earning capacity of the enterprise has already been tested for some time before transformation. On the other hand, it is more risky than a new foundation, if the transformation is compulsory. Such may be the case when the industrial enterprise is compelled to resort to this expedient for the purpose of canceling the bank credit granted to it. It may also happen that a bank which had granted to the enterprise long-term or short-term operating credit, which in default of repayment has little by little been transformed into permanent loans, is compelled to demand the transformation in order, first of all, to mobilize that credit in the form of stock, and then to realize on that stock as soon as the state of the market may permit.

The special danger of such a compulsory transformation, as noted in another connection (pp. 243 to 247), lies in this that under the pressure of necessity it is not possible to give due consideration to the dangers that may arise from the transformation, in view of the overwhelming competition of other stock companies, or of the general political, economic, and business conditions, and the market conditions and prospects of the special branch of industry.

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There arise the further questions, whether the enterprise is suitable for the form of a stock company, whether it can be made to pay in view of the greater running expenses which may with certainty be expected to result from the transformation, and, finally, whether a sufficiently capable management is on hand and can be permanently retained. All these questions are apt to receive insufficient consideration in the case of compulsory transformations, with dire consequences sooner or later.

On the whole, however, the transformation and issue business during the second epoch proceeded much more quietly and conservatively than during the first epoch, the reason being that the banks had little by little acquired greater technical and business experience in this field, and were less and less required to take the initiative in foundings and transformations. That initiative was transferred to a constantly increasing extent to industry itself, which became more and more independent in proportion as it was enabled to determine the necessity and manner of investments of capital. In many cases also, as we have seen, foundings or transformations were occasioned, during the second epoch, in obedience to the requirements of the cartel policy, by purely technical considerations, as for example, the consolidation of a number of small competing enterprises into one large concern, the consolidation of different stages of the process of production in one establishment, the combination of iron furnaces with coal mines and conversely, etc.

Moreover, beginning with 1884, the intentional or culpably negligent overvaluation of property contributed (*Apports*) was made very difficult, the concealment of the

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names of the founders and their associates and of the founders' profits, or of profits made pending the organization, was rendered virtually impracticable under existing legislation, and the value of shares or compensations granted as an equivalent for property contributed or taken over was made subject to thrice-repeated audit by persons strictly liable civilly as well as criminally.

These new conditions helped the industrial concerns to meet the crisis of 1900 infinitely better than that of 1873. But in addition, the new law of July 18, 1884 (art. 185b, Nos. 1 and 2), had placed the stock companies under obligation to establish a legal reserve fund, to which a certain part of the yearly net profits and the premiums on any new stock was to be transferred (see art. 262, commercial code). As a result, very considerable reserve funds had been accumulated, especially by industrial companies, by the time the crisis of 1900 burst upon them, strengthening their financial status, and consequently also their power of resistance in critical times.

2. The issuing, syndicate, and security business.

(a) THE ISSUING BUSINESS IN GENERAL.

The issuing business is discussed in this place, because its development by the German credit banks has been such that it became a branch of the regular banking business from the very start, and because the issuing business in very many cases involves the granting of credit, though this is not implied in its nature. Accordingly it seems appropriate to discuss the issuing business in connection with the other credit business of the banks.

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It was normally to be expected that the issuing business would grow in importance in Germany as a consequence of increasing prosperity, because the higher and middle classes in Germany have long been in the habit of investing their available funds permanently either in enterprises, participations, real estate, buildings and mortgages, or in securities. Bank deposits in Germany are made up mainly of the temporary investments of the available funds belonging to these classes and the operating reserves of the trading classes. By far the commonest form of permanent investment is in securities.

(a) METHODS USED IN THE ISSUING BUSINESS PROPER, AND IN THE PRELIMINARY STAGES.

The issuing business of the banks, which in Germany absorbs a very large portion of banking activity, is by no means one of those occupations in which large profits can be raked in without trouble and "without corresponding work."³⁴⁵ On the contrary, it requires a vast amount of labor, sagacity, and caution on the one hand and of financial, economic, and mercantile knowledge on the other. In particular, those who conduct it must have a clear insight into the situation and prospective development of the money and capital market, the relation between supply and demand in both markets, and into the working of those factors that may influence the rates of bank and market discount, the exchange rates, as well as the absorbing capacity of the ordinary and extraordinary circle of customers.

Thus, even before underwriting the proposed issue, a careful and detailed examination is required, which pre-

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supposes a large amount of expert knowledge and practical experience. The decision whether the undertaking (that is to say, the financing) is advisable or not depends in each case not only on the examination of the intrinsic value of the securities to be underwritten, the reasonableness of the price demanded, and the solvency and trustworthiness of the debtor (state, commune, corporation, company, etc.), but on a large number of other important factors, which require close examination.³⁴⁶

First and foremost, in accordance with the fundamental principles of banking policy, to wit, the distribution of risk and the maintenance of the liquidity of the assets which might be endangered by the tying up of funds for a considerable period, it is necessary to inquire whether a quick distribution of the proposed issue—that is to say, a smooth and prompt completion of the financing and issuing business—may be expected in view of the situation of the home market (occasionally also of foreign markets), the general economic and political conditions, the existing and prospective ease or stringency of the money market, the known or probable issue of like or similar securities, some of which may bear a higher rate of interest, or be presented under better auspices, or correspond more closely to the existing favor or inclination of the public, etc.

When the question of undertaking the issue has already been answered in the affirmative, the fixing of the most advantageous conditions of underwriting and of payment requires the closest study and discussion. The very manner of underwriting will differ according to the situation of the money and capital market and according to the

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periods for taking over and payment. In particular, these and a number of other factors have to be considered in order to decide whether it is advisable to underwrite the entire amount in question unreservedly (in a lump or in partial amounts, to be determined by agreement), or only a part without reserve, the other "under option." In the latter case it becomes important to decide whether the prices of the "options" may be the same for all the partial amounts to be taken up gradually, or whether the prices of the "options" may be graduated in a manner advantageous to the financing establishment, while the seller in such cases will frequently demand rising "option" prices. As regards the mode of payment and the periods of taking up and paying for the partial amounts assumed or to be assumed at option, the bank will have to try to secure the most advantageous conditions, having regard to the conditions of subscription that may afterwards be deemed practicable.

If during the negotiations there occurs an unfavorable turn either in the financial situation of the debtor or in the money and capital market or in the political or general economic situation, and the bank while unwilling to undertake the issue desires to bind the other party, it may be found advisable to grant for the time being a certain credit to the party in question, and this will necessitate the determination of the conditions of payment of interest and principal. At the same time, however, the bank may either try to secure the right of preemption of the future loan, against which the credit is to be reckoned at a rate which is known to be seriously offered by a third party (which the bank will, of course, try to avoid as much as

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possible), or an option on the entire future loan or a part of it, at a price or graduated prices to be determined beforehand. The manner of this graduation and the amount of the graduated prices may again give rise to protracted negotiations.

As regards the principle of the distribution of risk, the bank will have to consider whether it is not already overloaded with securities of the same kind, or even, if earlier issues of the same debtor have not been completely placed, or whether such overloading of the market with the same or similar securities exists or is to be expected. On the other hand, it is to be considered whether the risk of the underwriting may not be diminished by the formation of an underwriting syndicate (*Uebernahmekonsortium*) or subsidiary participations (*Unterbeteiligungen*).

If the underwriting has been decided on, the juridical features of the contract may sometimes present serious difficulties, especially as regards the juridical form of the act of pledging demanded by the bank of property items intended to secure the loan. In that case foremost attention must be paid to the law (possibly foreign law) prevailing at the place where the items pledged are located, and at the same time all the measures will have to be agreed on which are necessary and admissible in order to afford security also to the individual holders of the certificates of partial indebtedness to be issued—for example, the appointment of a representative, whose rights and duties will have to be defined. Again, it may be necessary that the so-called war clause be introduced, especially if a considerable period elapses before subscription, as is apt to be the case when the issue is to be made in different

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countries simultaneously, so that official listing will have to be secured from several authorities. In virtue of this war clause the bank would have the right to withdraw from the contract in case any of the countries concerned becomes directly or indirectly involved in war. It must be borne in mind, however, that other unfavorable events may occur, and hence it will be advisable to endeavor to secure the insertion of a general withdrawal clause—for example, to the effect that the bank has the right to withdraw in case the quotation for the leading government securities, such as German Imperial bonds or consols, shall have fallen below a certain point.

Furthermore, the contract will have to provide that the debtor shall agree to furnish all documents, balance sheets, and other evidence required for the purpose of the subscription or demanded by the respective listing authorities (*Zulassungsstellen*); to remit to the issuing house some time before maturity the amounts required for the payment of coupons or certificates drawn by lot, together with the commission due to the bank for this service, which also has to be specified; finally, to publish in designated periodicals those periodic notices which are legally required, in particular, statements of the number and designation of the securities which (in the manner agreed on—that is to say, by lot or by free sale) shall become subject to redemption. In regard to such redemptions, drawings, etc., the debtor will also have to agree to make these redemptions, as well as the payments on coupons, at the home of the underwriting bank, etc.

After the underwriting has been agreed on, the next thing to determine will be the price at which the issue is

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to take place in order to complete the transaction as expeditiously as possible. On this point the following observations may prove of value:

A purely arbitrary fixation of the issue price is hardly ever practicable; on the contrary, the limits within which anything like a free determination of the issuing price is possible are, as a rule, decidedly narrow.

In the case of shares or bonds of a new enterprise the lower limit is fixed by the price paid by the underwriter, with the addition of interest, stamp tax, fees and commissions, and a suitable profit. This profit, especially in the cases covered by article 41, section 1, of the bourse law,³⁴⁷ must also include a suitable premium against risk. The upper limit is defined by the market quotations of enterprises of the same or similar nature, already listed at the bourse, and the price of which will correspond in the main and in the long run to the intrinsic value, the dividends distributed, and the prospective earnings.

In the case of domestic state and communal loans the upper limit of the issuing price, unless determined by the debtor himself, will be fixed by the quotations reached by former loans of the same debtor or by corresponding loans of other states or communes enjoying about the same credit. It may happen, however, that these quotations are kept artificially low with a view to the impending new loan, or that they are merely nominal and could not be maintained in case of large transactions. The lower limit in this case, too, is the price to the underwriter, plus interest, stamps, fees, and a profit, which, if possible at all, varies in the case of domestic state and communal loans between one-eighth, one-fourth, and, in rare cases, one-half

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of 1 per cent, while even in the case of foreign state loans a profit of three-fourths of 1 per cent is a rarity.

The issue prices of securities offered for sale simultaneously at several bourses at home and abroad have, of course, to be so fixed at home that a disturbance of the domestic sales through foreign sales during the period of subscription and for some time after is not to be apprehended.

In case of an issue of bonds of a debtor who is already represented by listed securities bearing a higher rate of interest, the holders of these may be tempted, immediately upon the publication of the new issue, to sell their old securities, if they can do so with profit, and to buy the new securities bearing a lower rate of interest, in case the price of issue is such that a rise may be expected. As this operation is apt to disturb and disorganize the whole market in these securities, it may be desirable to guard against it by an appropriate price of issue and by other conditions of subscription.

It may, indeed, happen that in the issuing of securities the price has to be fixed at a higher figure than might normally have been the case, especially when in time of a rising market, by reason of an actual or expected increase in the earnings of enterprises and the intervention of speculation, the entire level of quotations rises. This will of necessity have a marked effect on the premium on newly issued securities, especially on those issued in connection with an increase of capital of existing companies.³⁴⁸

The time at which an issue (subscription) is to take place is of great importance as regards the question of underwriting in general and as regards the issue and the price of

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issue. It is to be ascertained whether the bank or market discount, which may be low at the time of the underwriting, or the pertinent foreign exchange rates, might not, through existing or impending causes, tend to become more unfavorable at the time for which the issue is planned. If the debtor desires the issue to take place at a certain time, perhaps coincident with the end of a quarter, when there is notoriously a strong demand for cash in the money market, it may be well to inquire whether it would not be better to fix the date at the beginning of the next quarter, for example, at the beginning of January, when, by reason of payments on coupons, of bills, salaries, mortgages, interest, rent, etc., there is wont to be greater ease in the money market.

If this be not feasible, it remains to be considered whether the taking up of the securities should not at least be made easier for the subscribers or purchasers through a graduation of the periods of taking up and payment, or through facilities in the way of calculating the interest, etc., whether a larger bonus should be paid to the bankers whom it is proposed to interest in the placing of the securities,³⁴⁹ whether the requirement of a cash deposit at the time of subscription should be waived, etc.

Furthermore, steps should be taken, especially through a low price of issue, to prevent the market from being disorganized, after the close of the subscription, by immediate realizations of so-called "concert subscribers" (*Konzertzeichner*), that is to say, persons who, in expectation of a rise of the paper issued, subscribe solely for the purpose of selling their subscriptions at once on the bourse, no matter how insignificant the profit. One way of preventing this

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is to give some kind of preferential treatment to those subscribers who are willing to agree not to sell the securities allotted to them for some months, but to deposit them with the issuing firm.

Finally, as regards the time after the issue, especially when an underwriters' syndicate (*Uebernahmeconsortium*) has been formed, it remains to be considered up to what amount—usually stated in the syndicate contract—the securities shall be bought up in the market in order to prevent an immediate or premature fall of the quotation below the price of issue, in so far as this fall is not justified by the general situation or by the state of the bourse.

According to the practice and banking etiquette prevailing in Germany, an issuing firm is not merely justified but positively in duty bound, by the requirement of the "care of an ordinary issuing firm," to effect such purchases of its own issues. This practice can not be regarded as an attempt to produce an artificial rise of quotations or to effect their artificial "regulation." There is always the danger that speculators may attempt, immediately or very soon after the issue, to depress the market value by speculative sales or realizations, while there may be no intrinsic reason for a decline. To guard against this, it is well to have some one in the market ready to take up these speculative securities, at least within certain limits. Of course this precaution must not be carried so far that speculators might be encouraged to speculate "on the back" of this very syndicate which is ready to purchase. The execution of this part of the issuing programme thus requires special knowledge of the bourse and special caution and alertness.

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The considerations here sketched have to be applied to a greater or less extent before, during, and after each issue. In addition, special difficulties may arise in certain cases, especially in connection with the underwriting of foreign loans, when care has to be used to insure against fluctuations in exchange, or against the thwarting of the issuing operation through arbitrage operations of domestic or foreign concerns, made possible by the condition of the market.

At any rate, the multitude of factors to be taken into consideration in this field suffices to show how incorrect it is to suppose that this important branch of the activity of the German credit banks can be conducted without corresponding work, sagacity, and prudence.

There have been cases in which the principles controlling the issue of foreign loans were not observed by German issuing firms, any more than by foreign firms, possessing much longer experience; but aside from these, it will have to be admitted that in the immense number of instances, especially in the second epoch, there were but very few cases in which the issues could be said to have been undertaken in a rash or otherwise questionable spirit.³⁵⁰

The prospectuses published for the purpose of issue, which, it must be said, are for the most part read only afterward and only when something unfavorable has happened, have almost invariably contained, in conformity with the law, the data necessary for forming a judgment regarding the intrinsic value of the securities issued. They have also abstained from any undignified advertising, which for that matter would not be allowed by the authorities on whom the admission to the bourse depends.

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The German credit banks know from their own experience, or from that of other banks, that nothing is likely to injure the reputation of a bank so severely and so lastingly among its customers and among the general public, as a failure to discharge in the most conscientious manner its duties in connection with the issue of securities.³⁵¹

(*β*) THE EXTENT OF THE GERMAN ISSUE BUSINESS.

According to the *Deutscher Oekonomist*, the market value of all the capital raised in Germany by way of issues since 1889 was as follows (in millions of marks):

1889.....1,741	1894.....1,420	1899.....2,612	1904.....1,995
1890.....1,520	1895.....1,375	1900.....1,777	1905.....3,190
1891.....1,217	1896.....1,896	1901.....1,623	1906.....2,741
1892.....1,016	1897.....1,944	1902.....2,110	1907.....2,135
1893.....1,266	1898.....2,407	1903.....1,665	1908.....3,415

From 1883 to the end of 1907, there were issued in Germany securities to the selling value of 40,000,000,000 marks in round figures.

For the years 1900-1907 both the *Frankfurter Zeitung* and the *Deutscher Oekonomist* have arranged the issues by classes of securities, in the tables reprinted in the following pages.

Issues of securities made in Germany, as ascertained or estimated (in millions of marks).

(See Supplement to Proceedings of Bank Inquiry Commission of 1908 [items I-V of question sheet].)

Class of securities.	1900.		1901.		1902.		1903.	
	Face value.	Market value.	Face value.	Market value.	Face value.	Market value.	Face value.	Market value.
<i>(a) According to Frankfurter Zeitung.</i>								
German state loans	187.30	172.50	554.95	506.01	575.00	532.82	348.00	343.36
Foreign state loans	44.70	30.94	68.30	42.06	344.35	313.47	144.12	136.25
Municipal and provincial bonds	322.70	318.16	354.47	352.05	419.95	416.44	342.86	340.48
German mortgage bank bonds	270.00	270.00	292.00	292.00	373.00	373.00	461.59	461.59
Foreign mortgage bank bonds	7.24	7.12	7.87	7.57	6.75	6.73	29.33	29.39
Other bonds	199.94	201.15	448.58	441.83	211.74	211.54	258.53	256.67
Bank shares	115.03	147.74	29.09	37.13	39.20	61.46	26.32	33.06
Railway and street-railway shares	65.12	68.18	23.57	26.23	21.55	22.53	89.61	116.31
Industrial shares	254.44	367.90	76.04	103.82	81.21	94.36	135.14	195.33
Total	1,466.47	1,583.69	1,854.87	1,808.70	2,072.75	2,032.35	1,835.50	1,912.44
<i>(b) According to Deutscher Oekonomist.</i>								
GERMAN SECURITIES.								
State loans	216.30	200.40	554.00	505.57	580.00	536.40	340.00	317.63
Communal loans	222.38	220.35	294.37	293.58	197.89	196.13	214.14	208.56
Mortgage bonds	126.10	126.10	210.50	210.50	411.04	411.04	564.72	564.72
Railway bonds	88.70	85.02	14.99	14.81	8.77	8.71	2.00	1.94
Industrial bonds	178.20	178.77	189.31	193.29	164.25	158.10	65.16	64.96

Issues of securities made in Germany, as ascertained or estimated (in millions of marks)—Continued.

Class of securities.	1900.		1901.		1902.		1903.	
	Face value.	Market value.	Face value.	Market value.	Face value.	Market value.	Face value.	Market value.
<i>(b) According to Deutscher Oekonomist—Con.</i>								
GERMAN SECURITIES—continued.								
Railway shares	49.60	55.63	2.91	3.02	43.90	48.01	3.99	3.43
Bank shares	138.04	174.51	30.60	36.36	81.45	114.33	46.61	67.57
Insurance companies' shares								
Industrial shares	297.47	461.06	116.05	155.18	160.40	184.47	155.28	195.32
Total	1,316.29	1,501.84	1,412.73	1,412.31	1,647.70	1,657.19	1,391.90	1,424.13
FOREIGN SECURITIES.								
State loans	185.20	168.36	37.50	29.26	367.54	339.00	88.16	80.77
Communal loans	3.00	2.85	13.82	12.86	62.96	61.22	36.50	35.32
Mortgage bonds	5.63	5.50	8.36	7.16	6.29	6.16	8.74	8.75
Railway bonds	70.00	9.00	156.59	149.73	29.82	29.30	87.93	83.44
Industrial bonds			1.00	.97	3.27	3.20		
Railway shares	58.96	65.06			4.72	6.68	12.60	16.95
Bank shares	14.00	20.90	6.00	9.00	6.75	7.43	12.00	16.44
Industrial shares	3.60	3.60	2.56	1.85	.51	.51		
Total	280.39	275.27	225.83	210.83	481.86	453.50	245.93	241.67
Grand total	1,596.68	1,777.11	1,638.56	1,623.14	2,129.56	2,110.69	1,637.83	1,665.80

Class of securities.	1904.		1905.		1906.		1907.	
	Face value.	Market value.	Face value.	Market value.	Face value	Market value.	Face value.	Market value.
<i>(a) According to Frankfurter Zeitung.</i>								
German state loans	285.00	283.87	454.00	454.68	668.00	668.97	546.00	541.06
Foreign state loans	100.76	87.24	724.21	676.39	169.32	163.61	51.11	49.83
Municipal and provincial bonds	217.08	216.77	421.36	418.45	431.23	429.79	505.57	496.66
German mortgage bank bonds	467.38	467.38	513.02	513.02	359.74	359.74	287.24	287.24
Foreign mortgage bank bonds	21.87	21.34	5.62	5.62	6.75	6.77	.....	.....
Other bonds	203.59	199.24	333.15	331.31	258.07	257.29	172.84	172.96
Bank shares	136.55	201.45	151.99	203.44	206.24	289.77	81.96	107.31
Railway and street-railway shares	70.78	68.91	6.80	11.06	37.35	42.46	3.61	4.70
Industrial shares	192.58	267.60	327.30	492.52	440.74	624.28	164.66	240.20
Total	1,695.59	1,813.80	2,937.45	3,106.49	2,577.44	2,842.68	1,812.99	1,899.96
<i>(b) According to Deutscher Oekonomist.</i>								
GERMAN SECURITIES.								
State loans	343.00	335.64	428.80	429.66	637.00	638.11	551.00	546.22
Communal loans	242.63	239.48	258.83	257.40	346.83	347.00	430.86	425.44
Mortgage bonds	506.24	506.24	569.49	569.49	404.59	404.59	326.33	326.33
Railway bonds	8.60	8.52	12.00	11.81	9.50	9.02	1.00	.99
Industrial bonds	109.14	110.14	114.06	115.24	182.27	183.10	170.90	172.79
Railway shares	3.50	3.83	.....	.....	1.70	2.16	.61	.62
Bank shares	129.47	196.51	116.83	146.50	184.19	282.19	108.89	152.49
Insurance companies' shares	2.38	2.80	.....	.....	1.50	1.86	3.06	3.06
Industrial shares	224.27	359.80	309.18	552.09	389.94	652.80	284.14	431.32
Total	1,579.23	1,762.96	1,809.19	2,082.19	2,157.52	2,520.83	1,876.79	2,059.26

Issues of securities made in Germany, as ascertained or estimated (in millions of marks)—Continued.

Class of securities.	1904.		1905.		1906.		1907.	
	Face value.	Market value.	Face value.	Market value.	Face value.	Market value.	Face value.	Market value.
<i>(b) According to Deutscher Oekonomist—Con.</i>								
FOREIGN SECURITIES.								
State loans	105.09	99.15	866.30	711.13	37.50	36.21	80.80	78.03
Communal loans					20.00	18.79		
Mortgage bonds	42.05	39.51	20.00	19.40	6.75	6.75	4.00	3.80
Railway bonds	47.75	47.77	206.82	202.13	49.69	48.18	34.00	32.46
Industrial bonds			41.00	41.67	4.00	4.16		
Railway shares	20.00	17.20	46.20	74.34	30.00	34.65	8.00	15.03
Bank shares	12.85	18.15	26.00	30.62	24.25	38.13	16.05	23.34
Industrial shares	8.60	10.33	12.00	29.20	22.88	33.78		
Total	236.34	232.11	1,218.32	1,108.49	195.07	220.65	142.85	152.66
Grand total	1,815.57	1,995.07	3,027.51	3,190.68	2,352.59	2,741.48	2,019.64	2,211.92

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In these tables³⁵² the amounts of shares, bonds, and mortgage bonds set down are those officially reported in the market. It is important, however, to note that the following were omitted: Conversions; issues effected privately, outside of the official market (which were only stated when they were advertised in public journals); mere introductions of securities already quoted at German bourses; finally, new securities which made no demands on the market, inasmuch as they were issued solely for the purpose of exchange against shares, etc., of another enterprise.

The figures given by the *Frankfurter Zeitung* are seen to differ from those of the *Deutscher Oekonomist* very considerably, both in the enumeration of the different classes of securities and in the amounts under the head of the same classes of securities.³⁵³

A word of explanation is required in regard to the issues of foreign state loans (see article 2 II. G. 2d, below), noted in both tables, because on the authority of these tables the complaint has been made, even before the Bank Inquiry Commission, that these issues have evidently had a decided effect in making our balance of payment more unfavorable.

The prospectuses thus far issued concerning the introduction of foreign securities at the bourse give no indication of the amounts that have really been placed in Germany. On the contrary, according to the regulations for listing hitherto in force, the entire foreign loan, even if it was offered simultaneously in different places at home and abroad, had to be noted at the German bourse, for example, in Berlin, even when only, say, one-third of the entire loan was intended to be placed in Germany and

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was so placed. It is true that, in virtue of this notation, the other two-thirds also had acquired "the right of domicile in Germany," as one member of the Bank Inquiry Commission expressed it. However, the effect of this favors not only the foreign country, which in such case might throw on the German market the two-thirds placed in that foreign country, but it also favors Germany, because the one-third actually paid for in Germany may also be utilized abroad, if desired, since the conditions of listing at the foreign bourses are as a rule identical with those in Germany.

If we were to change our regulations for listing, foreign countries would doubtless do the same, and the consequence would be that the foreign market would be closed to us as regards the part of the foreign loan placed in Germany, a result which might be attended with grave consequences in critical times and in time of war.

Furthermore, in regard to the statements made in the tables, it is to be noted that foreign countries, if they expect a profit, also partake of the foreign loans placed in Germany. It must also be remembered that foreign securities always tend to return to the home country, as was extensively illustrated in the case of the Austrian, and in recent years also in the case of the Italian securities.

How large a part of any foreign loan has been permanently placed in Germany can thus not easily be estimated, and this is the reason why the two tables (see note 353 on p. 837) differ so much.

(b) THE ISSUING OF INDUSTRIAL SECURITIES.³⁵⁴

The business of issuing industrial securities is the keystone of the vast structure of the industrial relations between banks and industry, whose foundation is the

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current-account business. The reverse process, namely the case in which the issue of new securities of an enterprise transformed into a stock company becomes the bridge for a regular current account and credit business between the two parties, is of much rarer occurrence. The dangers to the banks arising from both classes of business are equally great, being perhaps even greater in the current-account business, for the simple reason that, as we saw, no fixed rules for industrial credit have yet been developed in the German banking business, assuming even that such rules could possibly be evolved. On the contrary, the technique of the issuing business, its premises and limits, have become more and more familiar to the German credit banks, often through sad experience. Their details are thus well known, both as regards the issue of new securities of an existing enterprise to be transformed into a stock company (which, according to art. 41 of the bourse law can take place only one year after the entry of the company on the register and after the publication of the first balance sheet), or those of a new enterprise, or, finally, those arising from an increase of capital, fusion, or reorganization. Of course the risk in the issuing business will be less when the bank acts merely as broker, that is to say, on account of the industrial enterprise, though in its own name.

Speaking of reorganizations, it may be remarked that the German credit banks, especially the great banks, have rendered important service in that direction to distressed enterprises, as well as to the public in general, especially during the second epoch. After effecting the reorganization, which often involved great expenditure of time,

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capital and labor, and could only be carried out in the face of great difficulties and opposition, the banks, by staking their own issuing credit, restored the earning capacity of the reorganized enterprises and put an end to the prevailing disorder in the trading of shares, bonds, and mortgages. This was illustrated not only by the reorganizations of the Berlin mortgage institutions, effected by the cooperation of all the great banks and banking houses of Berlin, after the collapse of 1901, but also by a series of other reorganizations, such as those of the Lothringischer Hüttenverein Aumetz-Friede and the Differdinger Gesellschaft (now Deutsch-Luxemburgische Bergwerks- und Hütten-Aktiengesellschaft in Bochum und Differdingen). After their financial and technical reconstruction, these companies contributed materially toward raising the pig-iron industry of Luxemburg and Lorraine to its present commanding position.

On the whole, however, the relations of the banks to industry take the slower way of current-account credit and the many forms of short-term credit above described, in which the temporary demand for operating credit is satisfied. Only little by little is the long-term credit developed which finds its natural commercial expression in the issue of shares and bonds.

By such an issue the connection between the banks on the one hand, as principal representatives of the capitalist system of economic organization, and industrial production on the other hand, is drawn so tight that they are thereafter joined "for better or worse." Sooner or later this connection finds further expression in the appointment of members of the bank directorate to the supervis-

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ory council of the industrial enterprises, while occasionally some "captains of industry" are appointed as members of the supervisory councils of banks. The former practice, as was pointed out elsewhere, is virtually caused by the necessity for the banks to maintain the influence which they have gained through the issue; also by a regard for their issue credit, which makes it the duty of the bank, according to the well-established and sound practice of German banking, to retain such permanent control. The converse practice—that is to say, the appointment of leading personalities of an industry as members of the supervisory boards of banks, where, as a rule, they have much less influence than the representatives of banks in the management of industrial companies—is not merely an act of courtesy toward the latter, but also the manifestation of the mutual desire for an outward expression of the close business relations that have been established and the expression of a desire on the part of industry to maintain the closest possible agreement in views and aims as regards the industrial policy of the banks.

Appendix IV gives a statistical view of the extent to which such permanent contact between the two parties, in mutual desires, demands, and interests, has been established during the second epoch by the appointment of representatives of the great banks to the supervising boards of industrial companies. The table also shows the extent and degree of intimacy (manifested especially in the filling of the office of president) of the industrial relations of the great banks to the several branches of industry.³⁵⁵ This form of "friendly" relations through the filling of positions on the supervisory board, it must be confessed,

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was sometimes effected only after considerable unpleasant argument, as, for instance, when the Dresdner Bank gained two places on the supervisory board of the Laurahütte.³⁵⁶

The slow and laborious work which often has to precede the moment at which the question of an issue becomes practical can not be too highly estimated as regards its economic value. The cautious forward movement, step by step and stage by stage, of a private industrial enterprise or an industrial stock company, that may have been founded by the aid of a bank, toward higher and higher aims is aided by a gradually growing current-account and acceptance credit in proportion as the yearly surplus from operation does not suffice for the necessary reconstruction and additional construction. The burden of interest thus imposed on the enterprise is in the nature of things accommodated to the state of improvements or enlargements of the time being. The larger and permanent investment credit subsequently granted to the strengthened enterprise is merely the natural closing act of this process of "healthy and organic development assuming the form of an issue of stocks or bonds. Examples of this may be found in abundance in the connections of every great bank with industrial enterprises especially in the mining, machinery, and electrical industries.

On the other hand, the banks have found an especially important and extensive field of activity in the promotion of industrial combinations, consolidations, and fusions, which, as a rule, are carried out exclusively or preferably through the agency of issue credit. This tendency of the business policy of industrial enterprises, manifested in

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various ways even during the first epoch, became especially pronounced in the second epoch through the development of the cartels. Thus, as early as 1853 the Phönix Company in Laar, established as a stock company, arose from a combination of four iron furnaces and the Nassau iron-ore mines. In 1898, with the powerful aid of the banks, it absorbed the Westfälische Union.³⁵⁷ Similarly, the Hörder Verein, founded in 1852, decided in 1864 to undertake the introduction of the Bessemer process, and accordingly acquired a number of iron-ore mines (*Kleineisensteingruben*). The possession of these, however, ceased to be a necessity when the Hörder Verein, with the assistance of the banks, acquired in 1879 the Thomas and Gilchrist patents.³⁵⁸

Again, the great increase in the number both of the so-called "furnace mines" (*Hüttenzechen*)—that is to say, iron furnaces which acquired coal mines—and of the so-called "mine furnaces" (*Zechenhütten*)—that is to say, coal mines which acquired iron furnaces—during the second epoch was in many cases rendered possible only by the aid of the issue credit of banks. The same was true of the so-called combined plants, which became necessary after the introduction of the Thomas process and which gave to them so great a superiority over the so-called "pure works" (*reine Werke*), whose condition became more and more difficult.

In the same way the banks promoted the great number of fusions, whose object was either to get rid of troublesome competition, to combine successive stages in the process of production, or to diminish the cost of production.³⁵⁹ Such fusions were especially frequent in the min-

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ing industry; for instance, in the case of the Gelsenkirchen Mining Company and in the electrical industry, which from the very beginning was in close touch with the banking interest.

The regular current-account connection of the banks with the great industrial establishments gradually led to the result that the influence of private banking houses, till then considerable, was crowded into the background, despite the long-continued business connection between these private banks and industry. The issue business of the banks, which required larger and larger capital and increasingly permanent investments—that is to say, the assumption of a great and long-continued promoter's risk—tended still more to weaken and eliminate the medium- and small sized private banking houses, a process which extended far beyond the limits of the individual industrial districts, and which was intensified and accelerated in a marked degree by the above-mentioned provision of the bourse law (art. 39, now 41).

The assumption of fiscal agencies (*Zahlstellen*) for the payment of dividends and interest on bonds and for the redemption of drawn bonds, though at times unconnected with any issue, may nevertheless be regarded as an incidental effect of the issuing business, tending to promote not so much the process of concentration as the profits of the banks, but at the same time leading occasionally to new current-account connections. Hence, so long as the requisite caution is observed, the fiscal agencies, combined with the positions on the supervisory boards, supply a means whereby the industrial connections of the great banks may be measured. From the lists

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of the six great banks of Berlin for 1903-4 Otto Jeidels ascertained the following numbers of industrial fiscal agencies of these banks, which, however, are probably incomplete (especially as regards the Disconto-Gesellschaft and the Berliner Handelsgesellschaft):³⁶⁰

Number of fiscal agencies.

1. Deutsche Bank	250
2. A. Schaaffhausen'scher Bankverein	211
3. Dresdner Bank	191
4. Darmstädter Bank	161
5. Disconto-Gesellschaft	111
6. Berliner Handelsgesellschaft	95

As regards the class of industrial securities issued, it may be said that, as a rule, the issue of shares is preferred for obtaining the capital for permanent improvements, while the issue of bonds (redeemable by amortization within a fixed period) is preferred for obtaining the means for improvements of considerable duration, indeed, but yet terminating after the lapse of a certain time. It must, however, always be kept in mind that the issue of bonds, unlike the issue of stock, burdens the enterprise permanently with fixed interest charges, so that it requires great caution. According to Otto Jeidels, in the case of the six great Berlin banks above named, the issues of industrial bonds in the boom period of 1899 amounted to about one-fourth of all syndicate business (40 bond issues out of a total of 161 syndicate participations), and in 1901, the year of the crisis, as much as four-fifths of all syndicate participations (83 out of 101).³⁶¹

According to the *Deutscher Oekonomist*, the actual capital raised by means of issues of German industrial shares was as follows (in millions of marks):

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1892..... 2.5	1897..... 266	1902..... 184	1907..... 431
1893..... 34	1898..... 372	1903..... 195	1908..... 560
1894..... 36	1899..... 276	1904..... 360	
1895..... 143	1900..... 461	1905..... 552	
1896..... 213	1901..... 155	1906..... 652	

According to the table from the *Deutscher Oekonomist*, given above (pp. 360 and 361), the actual capital raised in the shape of German industrial *bonds* issued from 1900 to 1908 was as follows (in millions of marks):

1900.... 178.77	1903... 64.96	1905... 115.24	1907.... 172.79
1901.... 193.29	1904... 110.14	1906... 183.10	1908.... 314
1902.... 158.10			

The foreign industrial bonds admitted to trading at the bourse from 1897 to 1907 amounted to a nominal value of 135,100,000 marks, of which 6,300,000 marks represents the value of converted bonds (*Statistisches Jahrbuch für das Deutsche Reich*, 29 Jahrgang, 1908, p. 238).

The total number of industrial issues by the six great Berlin banks³⁶² in the nine years from 1895 to 1903 was as follows:

	1895	1896	1897	1898	1899	1900	1901	1902	1903.
Deutsche Bank.....	10	13	13	17	19	25	17	16	20
Disconto-Gesellschaft	15	9	15	21	23	26	19	14	9
Darmstädter Bank..	8	7	10	27	15	27	14	20	20
Dresdner Bank.....	25	17	17	25	31	29	14	14	15
A. Schaaffhausen'scher Bankverein..	25	19	21	30	50	29	18	14	14
Berliner Handelsgesellschaft.....	16	16	24	24	23	22	19	15	11

Finally Jeidels endeavored to ascertain the geographic distribution³⁶³ of the industrial relations of the great banks and the distribution, by classes of industries, of the industrial companies³⁶⁴ connected with the banks, both from the data regarding their representation on the super-

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visory boards and the fiscal agencies, though the latter method can yield no reliable results. There can be no doubt that the distribution of industrial relations is most regular in the case of the Deutsche Bank and of the Disconto-Gesellschaft, and next to them in the case of the Berliner Handelsgesellschaft and the Darmstädter Bank, although the latter shows on the whole more South German and (as a consequence of the absorption of the Breslauer Disconto-Bank), also Silesian industrial relations, which is also true of the Deutsche Bank. The industrial relations of the Dresdner Bank, naturally, are mostly with the Kingdom of Saxony, those of the A. Schaaffhausen'scher Bankverein with Rhineland and Westphalia.

The distribution of the industrial relations by branches of industry is most regular in the case of the Deutsche Bank and the Disconto-Gesellschaft, both banks having extensive relations with foreign railway companies, and the Deutsche Bank also with electrical companies. In the case of the Darmstädter Bank the relations to tramways and breweries predominate, in the case of the Berliner Handelsgesellschaft the relations to the "heavy industries," such as iron and other metals (*schwere Industrie*), electric companies, and tramway enterprises.

Among particularly close connections during the second epoch we may mention the following:

The Deutsche Bank with Siemens & Halske, the North German Lloyd, the Hamburg-American Steamship Company, the Huldshinsky Works, the Deutsche Petroleum-Aktien-Gesellschaft, the German and Oversea Electrical Company (*Deutsche-Ueberseeische Elektrizitäts-Gesellschaft*), the Electric Elevated and Underground Railway Com-

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pany (*Gesellschaft für Elektrische Hoch- und Untergrundbahnen*).

The Disconto-Gesellschaft with the Gelsenkirchen Mining Company (*Bergwerks-Aktien-Gesellschaft*), which on January 1, 1905, entered into community of interest relations with the Red Earth Furnace Stock Company of Aachen (*Aachener-Hütten-Aktien-Verein Rote Erde*) and the Schalker Mine and Furnace Company (*Gruben- und Hütten-Verein*) the Dortmunder Union, the Aschersleben Potash Works, Ludwig Loewe & Co., the Machine Factory and Flour Mill Construction Works (*Maschinenfabrik und Mühlenbau-Anstalt*) Luther in Braunschweig.

The Dresdner Bank with the Kattowitzer Mining Company, Felten & Guillaume, the German-Austrian Mining Company (*Deutsch-Oesterreichische Bergwerks-Gesellschaft*), the Lauchhammer Stock Company and the *Laurahütte*.

The Berliner Handelsgesellschaft with the General Electric Company (*Allgemeine Elektrizitäts-Gesellschaft*) the Harpen Mining Company (*Harpener Bergbau-Gesellschaft*), the Hibernia, the Consolidation Mining Company (*Bergwerksgesellschaft Consolidation*), the Upper Silesian Iron Industry (*Oberschlesische Eisenindustrie*), the Upper Silesian Coke Works (*Oberschlesische Kokswerke*), the Accumulator Works, Limited (*Akkumulatoren-Fabrik Aktien-Gesellschaft*) in Berlin.

The A. Schaaffhausen'scher Bankverein with Aumetz-Friede, the Harpen Mining Company (*Harpener Bergbau-Gesellschaft*), the Hoesch Steel Works (*Stahlwerk Hoesch*), the Bochum Union (*Bochumer Verein*—absorbed in 1907 by the Phönix), the Phönix, the *Hoerder Mining and Fur*

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nace Company (*Bergwerks- und Hütten-Verein*), the International Exploration Company (*Internationale Bohrgesellschaft*), the Hercynia Company (*Gewerkschaft Hercynia*).

The Darmstädter Bank with the German-Luxemburg Mining and Furnace Company (*Deutsche-Luxemburgische Bergwerks- und Hütten-Aktien-Gesellschaft*), and the Peaceful Neighbor (*Friedlicher Nachbar*), the A. Riebeck Works (*A. Riebeck'sche Montanwerke Aktien-Gesellschaft in Halle*), the Company for Brewing Industry (*Aktien-Gesellschaft für Brauindustrie*), Griesheim-Elektron Chemical Works (*Chemische Fabrik Griesheim-Elektron*), and the Chemical Works formerly H. and E. Albert (*Chemische Werke vormals H. and E. Albert* (Biebrich).

The representatives of the banks on the supervisory boards of the industrial companies have always taken special care to fulfill one very effective part of the "advisory function"³⁶⁵ of the supervisory board, viz, to provide for the disposal of the products of the industrial companies in question to suitable industrial enterprises on which the banks were able to exercise some influence.

As regards industrial issues, Eberstadt³⁶⁶ first ascertains the net amount received by any particular industry from the issues undertaken in its behalf, which amount he calls net capital claim [*Kapitalreinanspruch*]—(net capital receipts [*Kapitalreinempfang*] would be a more correct term)—consisting of the nominal value plus the (purchase-price)—premium or minus the agio; whatever goes beyond that "net claim" or "net receipts," as a result of a rise in the market value, he regards as pure "speculation," due to the "gambling propensity of the public" (p. 15).

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In this way, of course, he arrives at enormous "speculative amounts." How false this view is may be seen at once from the fact that the quotations of any particular day, mostly based on insignificant transactions, can not be regarded as a measure even for large amounts, let alone the entire stock, and because the "speculators" very largely reinvest the profits of their speculative sales in industry. Above all, however, the statement is untrue because the quotation depends first and foremost on the varying intrinsic value of the securities, that is to say, on the condition of the enterprises in question, and does not depend on the "gambling propensity" either solely or even in large part.³⁶⁷

It is because he disregarded the above considerations that Eberstadt was able to arrive at the conclusion (p. 42) that from January 1, 1895, to April 1, 1900, nearly 1,000,000,000 marks, that is to say, for the average of that period about 186,500,000 a year, were employed solely for "speculative purposes" in stock, mining and smelting enterprises alone (he does not even include "Kuxe," i. e., mining shares). In contrast with this, he estimates the "demand for capital by industry" for the same period and for the same branches of industry at only about 419,500,000, or about 80,000,000 marks a year.

The latter statement is as erroneous, and moreover as misleading, as the former. The demand for capital in the mining industry, as we had repeated occasion to note in speaking of the economic development during that epoch, falls far short of the amounts supplied by issues, which in bad years are only possible to a limited degree or not at all. On the contrary, it is supplied also by way of

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current-account, discount, acceptance, report and collateral credit, etc., to a much larger extent than is indicated by Eberstadt. It is, of course, difficult to ascertain the amounts thus placed at the disposal of industry in general and of the mining industry in particular, either for the period as a whole or for each year, since the amounts in question are not separately booked. Certain it is that they always played a great part. The most summary comparison between the demand for short-term credit, recorded on a previous page for a number of industries, with the amounts of credit granted during that period, suffices to show that the issues alone came nowhere near covering that demand, and that the banks throughout that period granted industrial credit³⁶⁸ to the utmost possible limit, occasionally even to a degree incompatible with a sound distribution of risk.³⁶⁹

As regards the financing of shares and bonds of real estate companies (*Terraingesellschaften*), it may be said that in this direction the great banks have hitherto, in many, perhaps most cases, not pursued any far-sighted economic aims, and that to a large extent they have not concerned themselves with the great questions of land policy.

(c) THE FLOATING OF GERMAN STATE AND COMMUNAL LOANS.

In describing the development of the German banks during the first epoch (1848 to 1870), we saw that all the great banks then in existence regarded it as an essential part of their program and business policy to take part in the business of floating state loans. State-

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ments to this effect are found in some of the early annual reports of these banks.³⁷⁰ On page 62 we gave a review of the most important state and communal loans, which were taken over during the years 1854 to 1869 by the Darmstädter Bank and the Disconto-Gesellschaft, i. e., the two leading banks of that period. Success in this field was achieved, however, as is expressly stated in the jubilee report of the Disconto-Gesellschaft³⁷¹ in the face of decided "opposition on the part of the old-established and well-known private banking houses, which until then had held a monopoly of the financial business and in every manner attempted to ward off the invasion of the new banking companies." The banks in many cases won in this struggle only by showing a far greater liberality toward the individual States and communes in the fixing of the terms of loans and in reducing the hitherto customary rates of brokerage.³⁷² As a result numerous state loans were taken over even during the first period, as for instance, loans contracted by Prussia, Bavaria, Saxony, Wurtemberg, Baden, Brunswick, Hamburg, Bremen, Austria, etc., as well as municipal loans offered by Danzig, Worms, Mannheim and others. As early as 1859 a Prussian mobilization loan of 30,000,000 thalers was taken over by the Disconto-Gesellschaft in conjunction with other then existing Berlin banks and banking houses, this joint operation being the forerunner of the "Prussian syndicate" (*Preussenkonsortium*) subsequently formed under the leadership of the *Seehandlung* (Prussian State Bank). This syndicate became effective in

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1868, when it took over Prussian loans to an amount of 45,000,000 thalers. In the following year it took over additional Prussian loans to a total amount of 5,000,000 thalers, made necessary by the annexation agreement (*Recess*) with the erstwhile free city of Frankfort-on-the-Main.

Between the years 1868 and 1901 the Disconto-Gesellschaft, the Darmstädter Bank, and other credit banks, as well as a number of private banking houses, at times with the partial cooperation of the Seehandlung, took over and issued 255,000,000 marks of Bavarian State loans alone. As regards the war loan of August 3 and 4, 1870, amounting to 120,000,000 thalers, its issue was effected without the cooperation of the banks by means of a national subscription at the rate of 88 per cent. The jubilee report of the Disconto-Gesellschaft mentions on page 35 that at the preliminary negotiations regarding this loan, held in the Prussian ministry of finance, the two representatives of German banks and banking firms present declared "that the success of this loan could be assured only in case it was issued at a rate of 85 per cent."

The report continues:

"This rate was recommended upon the plain business consideration that the issue price would have to be fixed on a parity with the market prices then quoted for similar Prussian state securities. The authorities, however, reckoned only with the prevailing national sentiment and, disregarding the actual conditions of the money market, fixed the subscription price at 88 per cent. The result was that the nominal amount subscribed on the two subscription days, August 3 and 4, did not exceed

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68,000,000 thalers, which at the subscription price of 88 per cent yielded a net amount of only 60,000,000 thalers."³⁷³

In October, 1870, a funded federal loan of 20,000,000 thalers was issued with better regard for the condition of the money market. In November, 1870, and January, 1871, additional war loans totaling 142,000,000 thalers were issued in the form of 5 per cent treasury bills, payable in five years. These loans were taken over and placed by a German syndicate of banks and banking houses with the collaboration of English banks. No use was made of the last war credit of 120,000,000 thalers (law of April 26, 1870) because of the receipt of part of the French war indemnity.

Between 1871 and 1880 no less than 640,000,000 Prussian and 142,000,000 Imperial loans were taken over and issued by the Prussian syndicate and by the other syndicate for the loans of the Empire. The total amount of public loans underwritten and placed by syndicates of banks and banking houses on behalf of Hanseatic towns, and the States of Wurttemberg, Saxony, and Hessen reached nearly 1,000,000,000 marks.

After 1880, notwithstanding the successful experience had with the old method, it was thought that in order to prevent the growth of a monopoly of banks and banking houses it would be feasible to place a large portion of newly issued Prussian and other State loans with the various applicants by way of competitive subscription (*im Wege freier Begebung*). The result was in the main merely a considerable depression in the market and of the prices of German State bonds.

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In February, 1899, the Deutsche Bank alone took over 75,000,000 marks of 3 per cent Imperial bonds and 125,000,000 marks of 3 per cent Prussian consols.

In September, 1900, the entire amount of 80,000,000 marks of 4 per cent treasury bills, payable in 3½ to 5 years, was awarded to the New York banking house of Kuhn, Loeb & Co. This measure was strongly criticized, notwithstanding the fact that the German money market as a result was greatly relieved by the influx of gold from abroad.

The amount of German communal loans issued during this period in which the Disconto-Gesellschaft participated—and this for 40 cities only, specified in the jubilee volume, page 42—up to the end of 1900, was, in round figures, 300,000,000 marks, while the amount of mortgage bonds of cooperative land credit associations (*landschaftliche Pfandbriefe*) and provincial and district loans (*Provinz- und Kreisanleihen*) issued during that period with the cooperation of the Disconto-Gesellschaft reached almost 1,000,000,000 marks.

Combining domestic State and communal loans issued during the last 15 years of the second period, we find the following totals, according to the *Deutscher Oekonomist*:

Net amounts realized (effective Beträge) in millions of marks.

1894..... 295	1898..... 261	1902..... 733	1906..... 985
1895..... 139	1899..... 660	1903..... 526	1907..... 972
1896..... 160	1900..... 420	1904..... 575	1908..... 1,770
1897..... 167	1901..... 799	1905..... 687	

The net amounts of German state loans only, as distinct from German communal loans, issued yearly during the important period 1900 to the end of 1908, according to the

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statements of the *Frankfurter Zeitung*, printed above on pages 359 and 361, as well as of the *Deutscher Oekonomist*, were in thousands of marks:

Year.	Figures of the—		Year.	Figures of the—	
	Frankfurter Zeitung.	Deutscher Oekonomist.		Frankfurter Zeitung.	Deutscher Oekonomist.
1900.....	172,500	200,400	1905.....	454,680	429,660
1901.....	506,010	505,570	1906.....	668,970	638,110
1902.....	532,820	536,400	1907.....	541,060	546,220
1903.....	343,360	317,630	1908.....	1,079,000	1,258,990
1904.....	283,870	335,640			

This is not the place to discuss the causes of the enormous growth in the yearly issues of state loans. Suffice it to say that the constant pressure weighing on the market of imperial and state loans already issued or about to be issued has been one of the main causes of the low market prices of German imperial and state issues, prices which in no way corresponded to their intrinsic value. Neither did the reduction of the interest rate from $3\frac{1}{2}$ to 3 per cent tend to commend these securities to German investors, who were used to a higher interest rate paid by various solid industrial securities and in most cases could not afford such a low yield on their capital.

The German communal loan issues during the same period are given in the following table, which states in parallel columns the data of the *Deutscher Oekonomist* and those of the *Frankfurter Zeitung*. The latter, however, includes under the same head loans issued by cities and provinces:

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*Net amounts realized (effective Beträge) on German communal loans during
1900-1908.*

[In thousands of marks.]

Year.	Figures of the—		Year.	Figures of the—	
	Deutscher Oekonomist.	Frankfurter Zeitung.		Deutscher Oekonomist.	Frankfurter Zeitung.
1900.....	220,350	318,160	1905.....	257,400	418,450
1901.....	293,580	352,050	1906.....	347,000	429,790
1902.....	196,130	416,440	1907.....	425,440	496,660
1903.....	208,560	340,480	1908.....	511,710	606,430
1904.....	239,480	216,770			

A comparison of the annual amounts of communal loans with those of state loans discloses the striking fact that the former differ in size but little from the latter. There is no doubt that many of our communes have become obsessed during the recent period, especially during the last decades, by a sort of mania of greatness. As Waldemar Müller³⁷⁴ says, "Every mayor thinks he has failed to live up to the requirements of his office if he does not borrow a million every couple of years for slaughterhouses, sewers, the construction or purchase of electric plants and city railways, nay, even for paving and schoolhouses, the expenses for which ought to be defrayed out of current revenues."

At all events, considering the large amounts added to German communal loans almost every year, of which by far the larger portion has been taken over and emitted by the German banks, it can not be seriously contended that in this field the German banks have not taken sufficient care of the "domestic market."

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(d) THE FLOATING OF FOREIGN SECURITIES.

(*α*) *Principles underlying the flotation of foreign securities.*

In section 7 of this part (p. 527 and foll.) an attempt is made to answer the question, whether the so-called "export capitalism" is to be regarded as necessary, admissible, and unobjectionable on general principles, and in particular beyond the amount required to compensate for the excess of imports over exports.³⁷⁵ In that section, however, the above question is discussed and answered only as a matter of principle, while in the present chapter we are concerned with the question, what special principles are to govern the issue of foreign securities, and what limits are to be drawn in this field.

In my opinion the three fundamental requirements for a sound policy in this regard are as follows:

(1) The issue of foreign securities in the domestic market, like the establishment of branches of domestic enterprises and participations abroad, is permissible only after the domestic demand for capital has been fully satisfied, since the first duty of the banks is to use the available funds of the nation for increasing the national productive and purchasing power and for strengthening the home market.

(2) International commercial dealings as well as international flotations ought to be but the means for attaining national ends and must be placed in the service of national labor.

(3) Even when the two foregoing conditions have been fulfilled, the greatest care will have to be used in selecting the securities to be floated. Our experience in

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the eighties with Argentine, Greek, Portuguese, Chilean, Servian, and similar securities proves the paramount necessity of drawing a sharp distinction between individual countries and securities.

It may be granted that so far as the eighties are concerned, when we entered that particular field in competition with other nations, we obtained, in the main, only those foreign loans which the other countries, with their old established international relations, either had left to us or at least did not seriously contest, and that for these reasons our choice was confined within rather narrow limits.

At present, when as the result of slow, careful, and laborious efforts, our financial relations with foreign countries have improved to a gratifying extent, we must more than ever be careful to underwrite as a rule only securities of such countries as possess what may be called a rich and extensive "hinterland," either in the shape of good colonies or of large provinces presenting a hopeful field for agricultural, industrial, and commercial enterprise, or countries which possess strong reserves in other shape and are thus in a position to endure and speedily emerge from hard times.

Furthermore, whenever practicable and in so far as we are not bound by previous engagements toward foreign countries, the time and amounts of underwriting as well as the interest rates on foreign loans should be fixed with due regard to the economic and financial conditions prevailing at home. In particular (barring those previous engagements just mentioned), in times of industrial prosperity, a proper regard for the discount policy of the

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Reichsbank and for our balance of payments³⁷⁶ should induce our banks to show the utmost conservatism in the flotation of foreign securities and in the granting of long-term credits to foreign countries, a principle which has not always been sufficiently observed by the German credit banks. Still, in criticising the methods used heretofore, we must bear in mind that, when a foreign country, possibly after a long interval, applies to us for urgently required funds, at a time deemed opportune to itself, it is only in the rarest instances that we shall be in a position to say that the time is not opportune for us and that the applicant had better call at some other time. Such a procedure might result not only in spoiling our relations to the respective foreign country, but eventually in the loss of our entire position in the international market. Furthermore, in cases where the purpose of the loan permits it, such pressure as we are able to exert should be brought to bear in order to provide in the loan contract that any orders for works and contracts, the expense of which is to be defrayed by the loan, be placed in Germany, in the interest of our industry.

As the jubilee report of the Disconto-Gesellschaft justly remarks (p. 45), it was "precisely the action of the banks in underwriting foreign loans and introducing them to the German market that proved so signally effectual in promoting the development of German industry." Thus, among other things, the Russian, Austrian, Hungarian, Portuguese, and Roumanian railway loans of the nineties, as well as the financing of the Venezuelan, Anatolian, and Bagdad railways, the constructions at the Iron Gate, the long-continued work carried on by the Shantung Railway

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and Mining Companies, have brought to German industry a large number of lucrative orders. In other cases, however, as a result of political and competitive conditions, all efforts to secure a participation of German industry have failed, though on some particularly opportune occasions, as for instance, that of the Kongo Railway,³⁷⁷ the banks insisted, as a condition of their own financial cooperation, that German industry be given a share in the work.

On the whole, despite painful experience, we have to agree with Schmoller's general conclusion³⁷⁸ that, in order to maintain and strengthen her position in the world markets, Germany will have to increase rather than restrict her foreign financial business, provided, of course, the above stated general and special requirements are observed.

Other countries have had just as bad if not a worse experience in this field; moreover it goes without saying that the mastering of all the difficulties in this field requires an apprenticeship. This point seems to have been largely overlooked by Sartorius Freiherr von Waltershausen in his otherwise valuable work entitled "The economic system of investments of capital abroad."³⁷⁹ The suggestions made in that book are largely—notwithstanding his denial—the mere expression of a strong and, in my opinion, wholly groundless lack of confidence in the management of our banks as hitherto conducted, which, I maintain, have on the whole achieved great results in the interest of the nation, notwithstanding some occasional faults and errors. Moreover, some of his suggestions, in my opinion, are in a large measure impracticable.

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This is true in the first place of the suggestion that inasmuch as there exists no suitable representation of the interests of purchasers of securities, the protective committees representing foreign bondholders whose interests are endangered should interfere in a preventive capacity (op. cit., p. 310 et seq.) by carefully advising their constituents before the purchase of newly issued securities. This suggestion was thoroughly punctured by Kaemmerer, who points out that such an organization—the lack of which the author deplures—does already exist in the shape of our banks. For it can not be said that the banks advise their customers against their own better knowledge in questions of purchase of securities, underwritten by them or by other banks, or that, as a rule, they are not far more expert in this field than the members of any protective committees.³⁸⁰ Moreover, according to our legal provisions, the very purpose of the prospectuses is to exhibit the main points underlying the intrinsic value of the securities. As a rule this is done, but the trouble is that, as a rule, nobody reads them. The people who are speculating on a rise of securities neither read prospectuses nor do they listen to the counsel or warnings of third parties, let alone protective organizations.

A like criticism applies to the proposition (op. cit., p. 305) that the underwriters, in order to become permanently interested in state and communal issues, should be legally required to retain permanently some part, even though but a small part, of the issue (one-half to 2 per cent according to a graduated scale) and to deposit it, say, at the Reichsbank. The author may rest

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assured that not only bankers will "shake their heads" at such a proposition (op. cit., p. 30). It reminds one of the other proposition that the banks should redeposit at the Reichsbank part of the deposits entrusted to them by their customers. If this keeps on we may arrive at an ideal state in which all the capital or the greater part of it is redeposited and thus made safe. It is true that this will insure the fullest degree of liquidity, security, and proper management, but the only trouble will be that one will no longer be able to do any business. Do the critics really believe that it suffices to turn the knob of legislation or to draw up a few governmental regulations in order to attain the proper management of our banks—in regard to which, for that matter, the critics are by no means agreed? *Vestigia terrent*, in no other field, as was repeatedly shown, have state control and legal interference proved such dismal failures, as in that of banking. Though I am anything but an advocate of laissez-faire principles, I have too exalted a conception of the State and its attributes to wish to see it exposed to further chances of tests of this kind, which as a rule can only result in humiliation.

Notwithstanding this criticism of the individual proposals of the author, it gives me pleasure to acknowledge that fundamentally, i. e., so far as the prerequisites and aims of the issues of foreign loans are concerned there seems to be no difference of views between us. I may say that these fundamental principles were formulated by me in the main as early as 1906 in the second edition

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of this work, prior to the appearance of Waltershausens' book.

My aim in the above discussion was merely to prove that in this department of banking, as well as in others, the lessons and experience of the past may enable us to draw correct conclusions regarding the future and to discourage outsiders from proposing all sorts of impracticable reform measures.

On the other hand, granted that in consequence of the issue of "exotic" securities, German investors suffered considerable losses during the eighties, especially from 1886 to 1889³⁸¹ it seems to me rather immaterial whether the data regarding the amount of these losses are exact or perhaps, for various reasons, inexact. As Ad. Weber has pointed out, hardly a single investor bought at the highest price and sold at the lowest price; furthermore, the calculation disregards the large number of those who bought these securities for speculative purposes only and who disposed of them after the considerable rise in the market (of 10 per cent and more) which in many cases followed immediately after their issue. It may also be pointed out that the table of the *Deutscher Oekonomist*, reproduced by Ad. Weber (op. cit., p. 133) contains securities which had not been under a cloud (*notleidend*) even for a single day, such as the Lisbon municipal loan. In the same manner I do not ascribe any decisive importance to the unquestionable fact noted by Schmoller in the well-known introduction to the Proceedings of the Bourse Inquiry Commission (p. XXV) that against the losses should be placed the

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gains of about a billion marks which had accrued to Germany from investments in American and Russian securities alone, made during the period from 1860 to 1892.³⁸²

However, with a view both to the past and to the future, it is necessary to note that the time at which those issues took place was characterized by an abundance of money, caused by a preceding period of economic depression which lowered the value of money and the rate of discount. This was also the period of railway nationalization and of actual or threatened conversions.³⁸³ The combined effect of these factors was to start an impetuous desire on the part of the investment-seeking public for securities yielding a higher rate of interest.

In this connection it is interesting to recall the fact recorded in Gilbert's book above cited,³⁸⁴ that in England, also mainly as a result of a plethora of available capital and the resulting low interest rate, as early as the years 1822 to 1825, inclusive, there were issued foreign, mainly "exotic," loans, totalling £25,994,511, i. e., over half a billion marks within four years,³⁸⁵ which later on gave occasion for many a sad experience. It is true that among these loans there is found a 5 per cent Prussian loan of £3,500,000 issued in 1822, a 3 per cent Danish loan of 1825 to the amount of £5,500,000, and a 5 per cent Russian loan of 1822 amounting to £3,500,000, but the rest, i. e., the greater part, were essentially "exotic values," viz, 5 per cent loans of Australia, Brazil (2), Greece (2), Mexico, Portugal, and Spain (2), and 6 per cent loans of Buenos-Aires, Chile, Colombia (1), Guatemala, Mexico, Peru (2), etc. There had also been in

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England a considerable reduction of the interest rate on a large proportion of British consols, which doubtless had long been foreseen, viz, in 1823 the conversion of £135,000,000 of 5 per cent into 4 per cent consols, and in 1825 the conversion of £80,000,000 of 4 per cent into 3½ per cent consols.

(β) Amount of foreign securities issued in Germany.

The combined effective amounts of all foreign issues (except issues of foreign shares of stock), viz, the issues of foreign state and communal loans, railroad bonds, etc., since 1894, i. e., for the last fifteen years, according to the *Deutscher Oekonomist*, were as follows:

Million marks.	Million marks.	Million marks.	Million marks.
1894 338	1898 891	1902 445	1906 149
1895 300	1899 203	1903 199	1907 129
1896 489	1900 185	1904 186	1908 205
1897 608	1901 199	1905 874	

The combined value of the foreign securities listed at the German bourses from 1897 to 1907 according to the *Statistisches Jahrbuch für das Deutsche Reich* (vol. 29, 1908, p. 228), shows a total of 28,957,700,000 marks, of which 8,224,600,000 marks represents the value of converted securities. This leaves a net value for newly listed securities of 20,733,100,000 marks. The majority of these foreign securities were listed simultaneously at foreign bourses.

The 29,000,000,000 marks or thereabouts of listed foreign securities show the following distribution:

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[In thousands of marks face value.]

Class of securities.	Total amounts.	Conversions (included in total).
1. State loans.....	19,896,300	6,583,600
2. Provincial and municipal loans.....	699,900	54,000
3. Mortgage bonds of Landschaften (cooperative land credit associations) and kindred institutions.....	754,500	202,300
4. Mortgage bonds of real estate credit banks.....	332,700	8,600
5. Bank shares.....	360,200	8,600
6. Bank debentures.....	24,300	.....
7. Railroad shares.....	2,680,300	.....
8. Railroad debentures.....	3,928,600	1,342,400
9. Industrial shares.....	145,800	a 18,800
10. Industrial debentures.....	135,100	6,300
Total.....	28,957,700	8,224,600

a Transformations.

The effective value of foreign state and communal loans alone according to the *Deutscher Oekonomist* was as follows:

Million marks.	Million marks.	Million marks.	Million marks.
1894..... 195	1898..... 278	1902..... 400	1906..... 55
1895..... 98	1899..... 102	1903..... 116	1907..... 78
1896..... 264	1900..... 171	1904..... 99	1908..... 169
1897..... 233	1901..... 42	1905..... 711	

For the period comprising the largest activity in the issue of foreign securities, viz, the years 1886-89, the nominal value of these issues shows the following totals:

	Marks.
1886.....	516,400,000
1887.....	456,300,000
1888.....	696,100,000
1889.....	749,100,000

It appears thus that during these four years the nominal value of foreign issues offered to German investors was in excess of 2,417,000,000 marks,³⁸⁶ or 45 per cent of the nominal value of 5,431,000,000 marks of issues of all kinds. The many serious objections to these figures are found

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stated in a previous chapter (see above pp. 363). It may suffice to mention here that as a matter of fact a considerable part of these issues was not placed in Germany and therefore not paid by the German public.

If the above-given figures of the *Deutscher Oekonomist* (see pp. 360 to 362) are used, which comprise all classes of foreign issues including foreign shares (the amount of which does not figure in the above table), we obtain for the period 1900-1908 the following totals:

Effective amounts.

1,000 marks.	1,000 marks.
1900..... 275, 270	1905..... 1, 108, 490
1901..... 210, 830	1906..... 220, 650
1902..... 453, 500	1907..... 152, 660
1903..... 241, 670	1908..... 228, 020
1904..... 232, 110	

The effective amounts of both domestic and foreign securities issued during the same period are stated above on pages 360 and 362 by the same authority as follows:

1,000 marks.	1,000 marks.
1900..... 1, 777, 110	1905..... 3, 190, 680
1901..... 1, 623, 140	1906..... 2, 741, 480
1902..... 2, 110, 690	1907..... 2, 211, 920
1903..... 1, 665, 800	1908..... 3, 415, 820
1904..... 1, 995, 070	

A comparison of these two sets of figures proves that the German banks, partly as the result of their experience with a part of the foreign loans issued during the eighties, have become much more careful in issuing such loans. As a matter of fact the amounts of foreign securities issued during 1900-1908, as given in the above table, in most cases are not quite one-half and in some cases even much less than one-half the corresponding amounts for 1886-1890.

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It also appears from the table just given that the amount of foreign securities issued during the year 1907, 152,660,000 marks, when as a result of the American crisis there was a great money scarcity in Germany as well, fell much below the like amount in 1906, 220,650,000 marks, while the amount for 1908 represents but one-fifth of the corresponding amount for 1905.

During the high-tide period of the issue of foreign securities (1886-1889), as stated before, the proportion of these issues to the total issues effected in the country was no less than 45 per cent. In 1905 the proportion was only a little above one-third, in 1906 a little less than one-tenth, and in 1907 only about one-fifteenth of all issues effected in Germany during the same years.

The above figures prove likewise that during the very years which we found to have been characterized by a particularly gratifying increase in the productive and purchasing powers of the nation, the "export of capital" from Germany has considerably abated, and that during these years the banks have been acting in accordance with the principle laid down above (p. 384, No. 1) for the regulation of foreign issues in general. In so doing they were partly influenced, to be sure, by the high rate of discount, "obeying necessity, not their own impulse."

(e) AMOUNTS OF LISTED SECURITIES ISSUED BY EACH OF THE GREAT BERLIN BANKS.

Appendix V at the end of the volume contains exact information regarding all securities issued by each of the six great Berlin banks and admitted to the privilege

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of being traded in and quoted *at the Berlin bourse* during the years 1883 to 1908.

Appendix VI gives similar information for the securities emitted by the six great Berlin banks and admitted to like privileges *at all German bourses* during the years 1897 to 1908. For earlier years than 1897 official data were available for the Berlin bourse only.

(f) THE SYNDICATE BUSINESS (*Konsortialgeschäft*).

As stated above (p. 349) the two essential requirements of any sound banking policy are the liquidity of the resources and the distribution of risks with regard to persons, funds involved, time and place, even in the case of the most promising undertakings and the most brilliant market condition, when there is every prospect for a speedy and smooth transaction of the business. As a necessary consequence of these two requirements, when a bank contemplates the underwriting of a business of some magnitude, it tries to strengthen itself by alliances, because there is always the possibility of a change in the political and economic weather conditions, and in the prospects and constellations bearing on each particular transaction.

Accordingly we noted that in 1859 the German credit banks, probably for the first time, formed two bank syndicates. The first was organized by the Darmstädter Bank for the liquidation of several engagements, which fell due in 1860, especially of the Rhine-Nahe bonds. The 1860 report of the bank makes special mention of this agreement in the following terms: "This form has decided advantages, since it diminishes the risk of the individual

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participants and facilitates the accomplishment of the common task." The second syndicate was formed by the Disconto-Gesellschaft for the purpose of underwriting a part of the loan of 30,000,000 thalers required for the mobilization of the Prussian Army and gave the first impetus for the subsequent formation of the so-called Prussian syndicate (*Preussen-Konsortium*).

The members of such syndicates, as a matter of course, are under obligation to fix or bind their quota for the common use of the syndicate during the term of the syndicate agreement, which is fixed, but may be extended by unanimous resolution. The execution of the common operation is intrusted, as a rule, to a syndicate manager or managers, whose action is subject to the approval of the executive board of the syndicate, or, if the latter be small, of the other syndicate members, as regards all measures of importance or such as exceed the normal course of the syndicate business. In most cases the maximum amount of underwriting that may become necessary is fixed beforehand. This maximum may, however, be exceeded, as a rule, by majority vote or by assent of the executive board in case the management of the syndicate deems it necessary or profitable.

The frequent allotting of subsidiary or secondary participations (*Unterbeteiligungen*) by the individual members of the syndicates may be caused by considerations of greater liquidity and of better distribution of risk. But quite often such action may be due to mere business considerations, when it is desired by such courtesies to acquire a claim to reciprocal treatment on the part of the favored domestic or foreign houses, or else to reciprocate a similar

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courtesy already received. Very frequently this action is a means of conferring a favor on customers regarded as specially valuable, or of indemnifying certain customers for participations which had yielded poor profit or been terminated with a loss. Such "subparticipants" (*Unterbeteiligte*) acquire no rights against the syndicate, but only against the member of the syndicate by whom the subsidiary allotment is made. The latter is under obligation of keeping them informed and accounting to them and to fulfill toward his subsidiaries everything "required by common honesty with regard to commercial etiquette" (par. 157 of the Civil Code) and conversely to abstain from doing anything that might conflict with this principle.

An important class of syndicates are the so-called guarantee syndicates (*Garantiekonsortien*) which are formed by several banks in the interest of industrial or commercial undertakings, in order to assure the success of an increase of capital. In such cases the legal priority right of the old stockholders may be excluded—the syndicate offering them the new shares at the price they were taken over by the syndicate (*zum Uebernahmepreis*) plus a certain surcharge. If the legal priority right remains, the guarantee syndicate agrees to take over those shares which are not accepted by the old shareholders. In many cases the acceptance of syndicate participations is by no means voluntary. Whenever there are permanent groups (e. g. for Asiatic, Russian, Austro-Hungarian business or for business in the domain of the electrical industry), any bank belonging to the group is bound to accept its participation quota in the underwriting or issue unless there

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is a special arrangement—which is rarely the case—whereby it is free to abstain from a particular operation of the group. The obligation remains even when a bank objects to the particular operation as a whole or to any of its features, to the time, or, what is not less important, the price, or to any other terms of the issue.

Since the formation of syndicates and the ceding of subsidiary participations may be a feature of every underwriting and issue transaction and is of daily occurrence in connection with an immense number of finance operations of this sort, it would serve no useful purpose—even were it practicable—to attempt to state the number and amounts of syndicate operations and participations during the first and second periods. Such an attempt would be futile for several reasons:

In the first place until recently such syndicate participations of the banks were often lumped in the bank reports with “securities owned,” which was decidedly wrong from the accounting point of view. Only in the summary reports (*Rohbilanzen*) of the great Berlin banks, published since the end of February, 1909, has this practice been discontinued. On the other hand, certain amounts, properly coming under the head of “syndicates” were often booked with “securities,” and vice versa. The true principle would be to book under the head of “syndicates” all those participations which call for additional installment payments or which are not at the disposal of the bank, while securities allotted to the bank as a result of a syndicate participation either without the above restrictions, or when these restrictions no longer apply, should go under the head of “securities.” Finally, in many cases, the

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items "syndicates" and "securities" are either not specified at all or only insufficiently specified in the balance sheets. The mere enumeration of the syndicate participations loses all interest and value, unless combined with information showing the distribution of risks with regard to persons, funds involved, time and place, which is, however, impracticable from the business point of view.

Neither is it practicable, as will be shown more fully in section 8, to carry out the suggestion of giving a statement of the installments remaining due and unpaid at the end of the year on account of syndicate participations, since, for obvious reasons, the amounts of these obligations may not be known to the syndicate management itself and at all events could, in most cases, not be ascertained on the 31st of December.

For these reasons I am in a position to give only a few numerical data; and even these data must be used with caution because of the shortcomings found until recently in the accounting methods of our banks.

The number and amounts of syndicate participations of the Deutsche Bank in State, communal, and railroad securities, as well as in "shares and bonds of various companies," during the crisis year 1900, and the years immediately preceding, i. e., during the period 1897 to 1901, inclusive, were as follows:³⁸⁷

Year.	Number of participations.	Amounts in thousands of marks.
1897.....	107	30,220
1898.....	127	33,920
1899.....	146	29,810
1900.....	160	32,080
1901.....	179	33,870

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The syndicate account of the Dresdner Bank for the years 1896-1900 was composed as follows:³⁸⁸

[Amounts in million marks.]

	1896.		1897.		1898.		1899.		1900.	
	Number.	Amount.	Number.	Amount.	Number.	Amount.	Number.	Amount.	Number.	Amount.
1. State securities, land mortgage bonds, and preference bonds (Prioritäten).....	12	8.7	14	6.9	9	4.9	9	6.9	6	1.3
2. Shares and bonds of railways and other transportation enterprises.....	10	3.8	5	.9	10	4.9	13	6.2	12	4.8
3. Bank shares.....	10	4.98	9	4.5	8	3.8	7	3.1	7	5.3
4. Securities issued by real-estate companies (Terraingesellschaften).	5	2.19	5	1.4	6	2.1	7	2.3	5	2.4
5. Industrial and insurance companies; over-sea enterprises.....	23	8.18	24	10.9	35	16.3	50	20.8	46	2.4
Total.....	60	27.85	57	24.6	68	32.0	86	39.3	76	16.2

According to the summary reports of seven great Berlin banks as per June 30, 1909, the syndicate participations of these banks³⁸⁹ on that day showed the following figures, as compared with corresponding figures under date of December 31, 1908.

[Amounts in thousands of marks.]

Banks.	Syndicate participations.	
	June 30, 1909.	Dec. 31, 1908.
Deutsche Bank.....	23,000	36,840
Disconto-Gesellschaft.....	48,500	64,430
Dresdner Bank.....	36,300	33,590
Darmstädter Bank.....	44,900	46,840
A. Schaaffhausen'scher Bankverein.....	24,100	33,590
Nationalbank für Deutschland.....	31,800	33,290
Commerz- und Disconto-Bank.....	13,900	12,130

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(g) THE SECURITY BUSINESS.

The security transactions of the banks may be said to be partly voluntary, partly involuntary in character.

The voluntary transactions of this class include the investment of the liquid bank resources in correspondingly liquid investment securities—i. e., such as can be speedily realized and, secondly, speculative security transactions. The latter may assume the form of the perfectly legitimate though largely speculative report and arbitrage transactions, or that of regular bourse speculation, or finally that of acquiring securities for the purpose of obtaining a temporary or permanent influence on industrial undertakings.

The involuntary security transactions of the banks comprise (1) the holdings of such securities as the bank is unable to dispose of, including securities either issued by the bank itself or turned over to it as its share of syndicate participations, (2) the purchase of securities immediately after their issue, for the purpose of preventing an undue depression of their market value.

Generally speaking, considerable security holdings are not regarded as a favorable sign, although during critical periods large holdings of this class may represent an increased proportion of particularly liquid assets, or a special reserve for deposits. Thus, for instance, the Deutsche Bank in its 1908 report mentions holdings of 32,000,000 marks in treasury bills and defends this course as proper and correct. As a rule, however, excessive holdings of securities will be interpreted to mean either that the times have not been propitious for the issue business of the bank, or that it maintains excessive

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speculative engagements, or that it is involved to an excessive extent in speculative transactions on its own account—a line of business which can be regarded as permissible only to a very limited extent—or, finally, that it has been unable to find sufficiently profitable employment for its funds. It is for these reasons that a large proportion of the writing off done by the banks occurs under the head of securities' account.

In accordance with sound banking policy the investment securities include also foreign securities, payable in gold and dealt in at several bourses, which are therefore of an international character. During critical or warlike periods such securities form a valuable reserve and increase the banks' capacity for intervention and action. But, as stated above, a large portion of these holdings may be composed of shares of stock, through the possession of which the bank intends to exercise temporary or permanent influence upon an undertaking either by shaping the decisions of a given general meeting of stockholders, or by "controlling" it outright, or by obtaining representation on its supervisory board.

Of all the German banks the Darmstädter Bank is probably the one that since its foundation and up to the present time has published more detailed statements regarding the composition of its security holdings³⁹⁰ than any other bank.

The Darmstädter Bank gives the following groups: (1) German public securities, real estate mortgage bonds, and railway debentures; (2) foreign state and communal bonds, first mortgage bonds of foreign railways, and bonds of German industrial undertakings; (3) stock shares of

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German and non-German industrial and mining concerns; (4) bank shares; (5) sundry holdings.

The Deutsche Bank groups its security holdings under the following four heads: (1) State and communal bonds, mortgage bonds and railway bonds; (2) shares of railroads, banks, and industrial concerns; (3) bonds of industrial concerns; (4) sundry holdings.

The Dresdner Bank distinguishes among its security holdings only three groups, viz: (1) State bonds, mortgage bonds, railway and industrial bonds; (2) shares of banks, railroads, other transportation companies, and insurance concerns; (3) shares of industrial corporations.

It would therefore be of but little value to give figures of securities held by the various banks, since, as was remarked on page 399, the account "securities owned" in many cases appears understated, inasmuch as a certain portion of the securities, properly belonging under that head, is booked under the head of "syndicate participations." On the other hand, it is equally true that securities which properly belong under the head of "syndicate participations" are at times found booked under the head of "securities owned." A similar shifting is frequently noticed between the account "securities owned" and that of "permanent participations in other banking institutions and concerns," if the two accounts are separated at all. The bimonthly summary statements, now published by a number of banks, separate the two accounts.

During the period of great activity preceding the crisis of 1901 the account "securities owned" showed a large increase over that shown for the previous years. Thus the Dresdner Bank showed the following changes

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(in millions of marks) under that head for the years 1896-1900:

	1896	1897.	1898.	1899.	1900.
Group I	9.9	9.8	15	12.8	16.1
Group II	2.7	4.9	2.9	6.1	6.5
Group III.....	5.8	8.7	8.2	19	10.7

This table shows a considerable increase largely in the amount of industrial shares held.

In the case of the Darmstädter Bank the like account for the period 1896-1902, classed by its five groups, shows the following changes (in millions of marks):³⁹¹

	1896.	1897.	1898	1899	1900	1901.	1902.
Group I.....	1.8	1.3	1.1	5.9	1.2	4	4.4
Group II.....	1.4	.9	4.8	3.2	3.1	2.3	3.3
Group III.....	5.1	3.9	3.3	5.4	5.4	4.8	9.4
Group IV.....	2.6	1.9	1.9	1.7	1.7	1.6	2.9
Group V.....	1	1	.7	1	.9	.7	.8

The summary balance sheets (*Rohbilanzen*) of the undermentioned banks published under date of June 30, 1909, show the following figures (in millions of marks) for the account "securities owned," though without detailed grouping, as compared with the figures for the end of the preceding year.³⁹²

	Situation on June 30, 1909.	Situation on Dec. 31, 1908
Deutsche Bank.....	51.3	55.68
Disconto-Gesellschaft.....	23.8	29.49
Dresdner Bank.....	54.4	61.03
Darmstädter Bank.....	51.5	47.77
A. Schaaffhausen'scher Bankverein.....	43.0	42.33
Nationalbank für Deutschland.....	26.5	21.17
Commerz-und Disconto-Bank.....	31.8	33.39

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In closing this chapter the following points regarding the investment and issue activities of the banks must be emphasized:

The successful accomplishment of the important and various tasks devolving upon the banks, becomes possible only when there is a strong bourse—i. e., an organization of the utmost strength and elasticity during normal times and of the utmost power of resistance during critical and bad times. It is only through the concentration of the converging streams of offers, demands, and news that resultant prices will present a fairly accurate picture of underlying conditions. But this function of balancing offer and demand can be performed by the bourse in a satisfactory manner only in case there can be enlisted for permanent as well as temporary service sufficient amounts of capital to be used in transactions, which, like trading in futures, prevent as much as practicable violent and sudden variations in the quotations of securities and are apt to give timely warning of impending disturbances of the financial equilibrium. As Schmoller puts it in his *Grundriss*, Volume II, page 37, in the security market the option business represents “a more refined technique of the modern business for future delivery;” it is “an instrument of increasingly correct calculation of future probabilities, a means of controlling the most important elements of price formation” and a form of business, “which may be improved, regulated, and placed on a higher moral level but can not be dispensed with.” The same author very properly says, on page 493 of the same work: “Every improvement in the organization of the market has in view a more correct price formation, while any lessening of

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extreme price variations results in the lessening of the damages caused by crises."

It is often said that the strength of a bourse lies in the fact, that in times of general business prosperity it will register invariably a strong upward movement of values notwithstanding all obstacles caused by fiscal and bourse legislation. But such a view is due to imperfect knowledge and excusable only on that ground. Economic laws are superior to governmental laws. No bourse or fiscal law can prevent altogether the upward movement of business, nor a corresponding advance of values—which is merely emphasized by speculation—of concerns sharing in that advance.

This error is the more regrettable, because the need of a strong bourse is felt more and more in view of the impending grave competitive struggle. Now, the strength of a bourse is shown precisely in the fact, "that during prosperous periods it is successful in preventing impetuous and excessive advances of values, during bad times—in averting excessively rapid and sudden declines in values, and during a crisis—in preventing the unreasonable discouragement of the public and thus an undue depreciation of values." (Memorial of the Zentralverband December, 1903, p. 35.) It is only necessary to recall the disastrous 9th of February, 1904, the date of the outbreak of the Russian-Japanese war, in order to get a clear idea of a strong bourse—and its reverse.

SECTION 3.—BANK GROUPS.

The subject of this chapter are not those bank groups, which are formed as the result of the permanent clustering

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of a number of so-called "concern-banks" (*Konzernbanken*) around a leading bank, representing a permanent community of interest and action of the banks concerned and embracing the entire field of banking operations. These groupings are the result of concentration tendencies and will be discussed at length in a subsequent chapter.

Nor will the discussion of this section take in the so-called "syndicates" (*Konsortien*) which, as was pointed out above, are formed with the view of distributing the risk, of preserving the liquidity of resources and in the interest of smoother and more rapid performance of a single given financial operation. It has been shown that whenever the risk or the engagements assumed are especially large, syndicates composed of a shifting number of banking firms are constantly formed for each given case either under the name of a "guarantee-syndicate" or "loan-syndicate."

The bank groups, which are to be discussed in the present chapter, are permanent combinations, formed by certain banks and banking firms for certain operations or classes of operations, and involving a more or less close alliance among the individual banks. Among the reasons of such formations the following may be mentioned:

1. In the beginning of the first period they were the only means of enabling the new banks to share in the participation of domestic and foreign loans in competition with the powerful private houses, especially the Rothschilds, who until that time had an almost uncontested monopoly in that field. This was the occasion which gave rise to the so-called *Preussenkonsortium*

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(Prussian syndicate) for the underwriting and issue of the Prussian consols, to a somewhat differently composed group, formed during the second period, to underwrite the loans of the German Empire and to the so-called Rothschild group for undertaking the issues and kindred operations of the Austro-Hungarian Government.

(a) The Prussian syndicate, as already stated, owes its origin to a syndicate of large Berlin banks and banking houses formed in 1859 under the leadership of the Disconto-Gesellschaft on the occasion of the Prussian army mobilization loan of 30,000,000 thalers.³⁹³ It took a leading part in the loan operations of the sixties and seventies, continuing its activity to the most recent years in floating most of the Prussian state loans. This arrangement, however, was by no means exclusive, as the Prussian Government during the eighties, also during most recent years, in order to prevent a monopoly, repeatedly appealed to the market direct. On other occasions the Government would dispose of portions of its loans to individual banks and banking houses, although the permanent effects of such a policy on the market were rather unfavorable. Sometimes a member of the group would underwrite singly an entire imperial or Prussian loan. The latter mode was followed in May, 1900, when the Deutsche Bank undertook the issue of 200,000,000 marks of German imperial bonds and Prussian consols.

The Prussian syndicate, as at present (in 1909) constituted, is headed by the Royal Seehandlung (Prussian main bank), and after the elimination of defunct firms includes the following banks and banking houses:

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Bank syndicate for Prussian state loans.

Königliche Seehandlung (Prussian main bank). Bank für Handel und Industrie. Berliner Handelsgesellschaft. S. Bleichröder. Commerz- und Disconto-Bank. Delbrück, Leo & Co. Deutsche Bank. Direction der Disconto-Gesellschaft. Dresdner Bank. F. W. Krause & Co. Mendelssohn & Co. Mitteldeutsche Kreditbank. Nationalbank für Deutschland. A. Schaaffhausen'scher Bankverein. Sal. Oppenheim, jr., & Co., Cologne. Lazard Speyer-Ellissen, Frankfort-on-the-Main.	Jacob S. H. Stern, Frankfort-on-the-Main. L. Behrens & Söhne, Hamburg. Norddeutsche Bank, Hamburg. Vereinsbank, Hamburg. M. M. Warburg & Co., Hamburg. Allgemeine Deutsche Creditanstalt, Leipzig. Rheinische Creditbank, Mannheim. Bayerische Hypotheken- und Wechselbank, Munich. Bayerische Vereinsbank, Munich. Königliche Hauptbank, Nuremberg. Ostbank für Handel und Gewerbe, Posen. Württembergische Vereinsbank, Stuttgart.
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(b) The bank group for underwriting the loans of the Empire, as at present constituted, is headed by the Reichsbank, and after the elimination of various defunct firms includes the following banks and banking houses:

Syndicate for imperial loans.

Reichsbank. Königliche Seehandlung (Prussian main bank). Bank für Handel und Industrie. Berliner Handelsgesellschaft. S. Bleichröder. Commerz- und Disconto-Bank. Delbrück, Leo & Co. Deutsche Bank. Direction der Disconto-Gesellschaft. Dresdner Bank. F. W. Krause & Co.	Mendelssohn & Co. Mitteldeutsche Kreditbank. Nationalbank für Deutschland. A. Schaaffhausen'scher Bankverein. Sal. Oppenheim, jr., & Co., Cologne. Lazard Speyer-Ellissen, Frankfort-on-the-Main. Jacob S. H. Stern, Frankfort-on-the-Main. L. Behrens & Söhne, Hamburg. Norddeutsche Bank, Hamburg. Vereinsbank, Hamburg.
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M. M. Warburg & Co., Hamburg.	Bayerische Vereinsbank, Munich.
Allgemeine Deutsche Creditanstalt, Leipzig.	Königliche Hauptbank, Nuremberg.
Rheinische Creditbank, Mannheim.	Ostbank für Handel und Gewerbe, Posen.
Bayerische Hypotheken- und Wech- selbank, Munich.	Württembergische Vereinsbank, Stuttgart.

(c) In Austria there has existed since 1848 a close relationship of the financial administration of the Government with the Vienna house of Rothschild, which until 1855, when the *Österreichische Kreditanstalt* was added, conducted practically all the financial operations for the government. It was only in 1864 that the *Disconto Gesellschaft*, at the head of a syndicate of German banking houses, entered into competition with the Rothschild house and the *Kreditanstalt*, and was allotted, out of a total silver loan of 70,000,000 florins, the portion of 23,500,000 florins. It was this successful competition which brought about the entrance of the *Disconto-Gesellschaft* into the group known subsequently as the Rothschild syndicate. During the following years a number of other banks and banking houses joined, including the *Allgemeine Österreichische Bodenkredit-Anstalt* of Vienna, the *Ungarische Allgemeine Kreditbank*, and the *Bank für Handel und Industrie*. The latter institution, as early as 1854, had joined the Rothschild firm in underwriting a loan for the Government of Baden, and in 1862, that is to say, much earlier than the *Disconto-Gesellschaft*, had participated in an issue of 83,000,000 florins of the Austrian 5 per cent 1860 lottery loan by the Rothschild firm and the *Kreditanstalt*. Later on the group was joined by the banking houses of S. Bleichröder, Sal. Oppenheim, jr., of Cologne, and Mendelssohn & Co., and

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during the most recent period—for state loans—by the Austrian Postal Savings Bank.

The Rothschild syndicate represents to-day a firm organization for the common management not only of Austro-Hungarian finance operations of a public character, but also of all other finance operations which it cares to undertake in either of these two countries. It is composed at present of the following concerns:

Rothschild group.

Direktion der Disconto-Gesellschaft.	de Rothschild frères, Paris.
Österreichische Kreditanstalt für Handel und Gewerbe.	N. M. Rothschild & Sons, London.
M. Wodianer.	Allgemeine Österreichische Bodenkredit-Anstalt, Vienna.
S. M. von Rothschild, Vienna.	Sal. Oppenheim, jr., Cologne.
Ungarische Allgemeine Kreditbank in Budapest.	Mendelssohn & Co.
S. Bleichröder.	Österreichische Postsparkasse (for state loans).
Bank für Handel und Industrie.	

(2) The organization in 1890 of a group for Asiatic business was the natural consequence of the founding, in 1889, by a number of large banks and private banking houses, of the Deutsch-Asiatische Bank. A great many difficulties had to be overcome before this bank could be founded. In the first place there was the nearly always successful tactics of the Chinese negotiators in charge of the national finance and railroad business of playing off against each other the individual competitors in the various countries. On the other hand, for a long time no concerted action with English banking circles nor even of German banks with each other could be attained, the latter having formed two separate groups under the leadership of the Disconto-Gesellschaft and of the Deutsche Bank respec-

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tively. The organization of the *Deutsch-Asiatische Bank* and the formation a year later of the *Syndikat für Asiatische Geschäfte* (syndicate for Asiatic business) put an end to the competitive struggle between those two groups. Inasmuch as independent action of other German banks had but little chance in the future, united action of German interests became assured not only with reference to Chinese, but also all Asiatic financial operations, the new powerful syndicate, led by the *Disconto-Gesellschaft*, undertaking the common planning and managing of loans and advances to the central governments, provinces, and railroad companies in China, Japan, and Korea and the organizing of railroad and mining companies in China. The structure of this syndicate is, however, somewhat loose, as it is left to each member to keep aloof from any individual transaction.³⁹⁴

The successful activity of this syndicate was frustrated for the time being by the outbreak in the nineties of the Chinese-Japanese war. In March, 1896, the syndicate succeeded for the first time, with the gratifying cooperation of the English Hongkong and Shanghai Bank, in taking over £8,000,000 of the total Chinese loan of £16,000,000. An agreement was also reached with the English bank for future common action in Chinese business on the basis of equal participation, resulting, soon afterwards, in 1898, in the common taking over of the remainder of the Chinese war indemnity to Japan in the shape of a 4½ per cent loan of another £16,000,000.

Since then the Asiatic syndicate has managed successfully a number of other financial transactions.

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(3) The formation of groups for the permanent common handling of other domestic state loans—as for instance, the underwriting of the Bavarian and Baden loans and of foreign state and railroad loans (such as Swiss, Argentine, Mexican, Russian, Roumanian, Portuguese, etc.)—occurred more frequently during the second period. These groups, however, if we except the Russian group headed by Mendelssohn & Co., did not attain the same solidity of structure and consequent exclusive power as the group formations mentioned in paragraph 2. Their origin was often due to a combination into one group of syndicates, originally opposing each other, or to the subsidiary banks of a great bank combining into a single-issue group for certain underwriting purposes. The same remarks apply to group formations for the taking over of municipal loans, as, for instance, of Cologne, Hamburg, Frankfort-on-the-Main, and Munich. In the latter case the groups are composed of local houses, strengthened in some cases by the joining of friendly outside banks. However, these groups show frequent changes of membership, since they were never strong enough to completely shut out competition.

As this chapter is devoted exclusively to the discussion of permanent bank groups, no specific mention is made of those syndicates which, originally formed independently of each other, for the taking over of state or municipal loans, frequently coalesced into one group for a single transaction, in order to do away with mutual out-bidding. Such transitory combines may be characterized as mere price conventions.

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On the other hand, syndicates originally formed as *societates unius rei*, for instance, for the taking over of a municipal loan, may gradually coalesce into solid and permanent group formations. During the second period, particularly, it became more and more customary to maintain the combination after the first successful cooperation in case the character of the transaction was such that its recurrence at regular intervals might confidently be expected. This was unfortunately true of municipal loans, the recurrence of which could be predicted with almost mathematical certainty. In such cases each party of the syndicate felt at first only morally bound to refrain from independent bidding or from joining another syndicate, but to either suggest or await an invitation to a meeting of the syndicate, unless it had informed beforehand the management of the old syndicate of its contrary decision. The management of such syndicates, unless a change was expressly provided for, as a rule remained unchanged for subsequent transactions.

(4) A large number of bank groups originated during the second period as a result of the changed relations of the banks to industry as set forth in previous chapters. In this field the formation of groups, while due to designed industrial policy, had become more pronounced and definite since the nineties, and in turn caused a more refined differentiation and growing intensification of this policy. The principal cause was, however, the enormous demand for capital by industry in general, and the electro-technical industries in particular. Accordingly we find such bank groups closely allied with the so-called "heavy"

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industries (mining, iron and steel) as well as with the "light" industries, especially the electrical industry, breweries, secondary railways, and petroleum enterprises.

Until about 1900 there had been formed, to correspond with the seven combinations of electrical undertakings to be discussed later on, seven bank groups, each backing the respective industrial combination and attending to the issue business of the industrial combination as well as to its other financial operations. In particular the Siemens & Halske stock company was backed in 1900 by a group of 11 banks headed by the Deutsche Bank; the combination formed under the leadership of the Allgemeine Elektrizitätsgesellschaft (A. E. G.) was backed by a bank group consisting of 8 banks headed by the Berliner Handelsgesellschaft; the combination known as the Union-Elektrizitätsgesellschaft (U. E. G.) was backed by a bank group headed by the Disconto-Gesellschaft, etc.

In the same year the so-called "Loewe-Gruppe" (i. e., the group of industrial undertakings controlled by the firm Ludwig Løewe & Co.) was backed by the same six banks and banking houses which stood behind the Union-Elektrizitätswerke. This banking syndicate, formed at first for purposes of common underwriting, subsequently conducted also the other financial operations of the industrial group.³⁹⁵ It appears that since the nineties the ever increasing extension of the plant and the annexing of a number of hitherto independent concerns made it impossible to have the largely increased demands for capital met either by the original firm or by any single banking institution, the latter partly for the reason that a number of bank-

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ing institutions were simultaneously interested in several enterprises of the electro-technical industry.

In the field of secondary railways (Kleinbahnen) several groups were formed. One of them is headed by the Berliner Handelsgesellschaft, which founded the *Westdeutsche Eisenbahngesellschaft*. Another is headed by the Darmstädter Bank, which organized the *Süddeutsche Eisenbahngesellschaft* at Darmstadt; a third, headed by the Nationalbank für Deutschland, is backing the *Allgemeine Deutsche Kleinbahngesellschaft und vereinigte Eisenbahn- Bau- und Betriebsgesellschaft* at Berlin (General German Secondary Railway and Consolidated Railway Construction and Operation Company).

The object of the first group was to assist the firm of Lenz & Co., engaged in the construction and operation of secondary railways; that of the second group, to assist the similar enterprises of the firm Herrmann Bachstein; while the group headed by the Dresdner Bank has founded trust companies for the floating of German and Austro-Hungarian railway securities (*Zentralbank für Eisenbahnwerte*), also the firm Orenstein & Koppel (now consolidated with the firm Arthur Koppel), engaged in the construction of field and secondary railroads.

In the field of the petroleum industry the two foremost groups are those headed by the Deutsche Bank and by the Disconto-Gesellschaft. These organizations are the expression of the industrial entrepreneur activity of the great banks, an activity which during this period has for good reasons been slackening. The aim is to counterbalance the monopoly position in the petroleum market of the American and Russian producers.

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In 1903 the Deutsche Bank became interested on the one hand in the Roumanian petroleum company *Steaua Romana* by taking over a large portion of newly issued stock and by having one of its directors made chairman of the supervisory board, and, on the other, in the Galician petroleum company "Schodnica."

Subsequently, on January 21, 1904, together with the Wiener Bankverein, the Darmstädter Bank, the Nationalbank für Deutschland, the Mitteldeutsche Kreditbank, and the banking firm of Jakob S. H. Stern in Frankfort-on-the-Main, it founded in Berlin the *Deutsche Petroleum Aktiengesellschaft* (with a share capital of 20,000,000 marks), into which it merged its participations in the Roumanian, Russian, and Galician, also in some Hanover petroleum enterprises. The new company soon after made an agreement with the *Petroleum-Produkten-Aktiengesellschaft* in Hamburg for the transportation of the Roumanian petroleum.

About the same time (1903) the Disconto-Gesellschaft, together with the firm of S. Bleichröder, participated in the petroleum industry company "*Bustenarii*" and in another large Roumanian petroleum company, the "Telega Oil Company (Limited)," which made an agreement for the transportation of the petroleum with the Shell Transport and Trading Company, which in turn owned shares of a nominal amount of 2,600,000 marks, out of a total nominal capital of 3,000,000 marks in the *Petroleum-Produkten-Aktiengesellschaft*.

In 1905 the Roumanian petroleum refining company "Vega" and the "Society for the Development of the Roumanian Petroleum Industry *Credit Petrolifer*" were

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organized, the first under the combined auspices of the Disconto-Gesellschaft, S. Bleichröder, and the Compagnie Industrielle des Pétroles at Paris, for the purpose of refining crude petroleum. In the same year the Disconto-Gesellschaft group merged its Roumanian petroleum participations in the "*Allgemeine Petroleum-Industrie-Aktiengesellschaft*," founded by it with a capital of 17,000,000 marks.

A third group, headed by the Dresdner Bank, and comprising the A. Schaaffhausen'scher Bankverein, the *Internationale Bohrgesellschaft*, and several industrial and banking firms, founded in Roumania a third petroleum company under the name of the "*Petroleum-Aktiengesellschaft Regatul Romana*," with a capital of 24,000,000 lei (francs).

In 1906 the European Petroleum Union, with a capital of 37,000,000 marks, was founded by Russian petroleum producers, closely connected with the crude-oil producing firm of Nobel Brothers in St. Petersburg and the banking house de Rothschild Frères in Paris, in company with the Deutsche Bank and other (Russian, Roumanian, and Galician) petroleum interests, with the object of consolidating the various European selling organizations controlled by them.

In all the above-described cases special care was taken to distribute the risk by the formation of groups, to mobilize the participations by the organization of stock companies, with the view, undoubtedly, of disposing of at least part of the participations as the companies grew in strength, and of retaining only an amount required for the continuance of permanent influence.

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The industrial-bank groups are thus seen to differ from other bank groups in that they represent a combination of the industrial entrepreneur activity—which as matter of principle it would be better to leave to industry itself—with that of bank financing proper and a special banking initiative (*Bankinitiative*). It is the latter that has caused the unprecedented growth in Germany of some new industries, such as the electro-technical, or the creation of hitherto nonexistent industries, such as the petroleum industry.

SECTION 4.—THE OVER-SEA AND FOREIGN BUSINESS OF THE GERMAN CREDIT BANKS.³⁹⁶

I. THE PART TAKEN BY THE BANKS IN DEVELOPING GERMAN OVER-SEA IMPORT AND EXPORT TRADE.

As stated before, a special section (Sect. 7) will be devoted to the discussion of the question whether, to what extent, and under what circumstances the so-called "export capitalism"—i. e., the investment of German capital in foreign enterprises, businesses, and securities, particularly the founding of subsidiary companies destined exclusively for over-sea business, is necessary and proper. For the present we will merely note the fact that the German great banks, since the beginning of the second period, devoted themselves energetically to the promotion of our industrial and commercial relations with over-sea countries. We shall attempt now to describe briefly the commercial objects of this activity and the gradual development of this part of German banking policy.

The earliest formulation of this policy, which extends far beyond the previous limits of German banking, is

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found in paragraph 2 of the charter of the Deutsche Bank. There can be no doubt that the founders of that institution, in view of the general economic position of Germany, regarded this as their foremost aim and a necessary and true policy, for its execution was stated to be part of the program of the new bank in the following terms:

The object of the company is the transaction of all sorts of banking business, particularly the fostering and facilitating of commercial relations between Germany, the other European countries, and over-sea markets.

The purpose of this program was to fill a gap in the organization of German credit and banking clearly perceived by the founders and more particularly by the early managers of the bank. This "bold stroke" and the economic insight disclosed can not be appreciated too highly.³⁹⁷

The Deutsche Bank has followed its ambitious program³⁹⁸ with the utmost vigor and tenacity, preparing its future success by a number of deliberate and far-sighted measures.

The activity of the Deutsche Bank as an intermediary on behalf of import and export trade was soon taken up also by the Disconto-Gesellschaft, which in many lines of banking activity during this period showed a degree of development as large, or nearly as large, as the Deutsche Bank. Previously, German industrial and commercial interests in foreign, especially over-sea countries had to fall back almost exclusively upon the intermediary of English and, in some cases, French banking institutions. For while bills in terms of German currency had no foreign market, English bills particularly, had almost boundless and unlim-

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ited circulation, since English banks were represented in one form or another in all parts of the world.

As the first result of its activity, the Deutsche Bank secured for German commerce and industry a firm position in the world market, and introduced German bills into the channels of over-sea commerce where they were almost unknown up to that time. This was especially difficult at the beginning of the period, when the gold standard did not yet exist in Germany, for bills in terms of the multifarious German currencies (see p. 39) were unknown and disliked in international business, (which is transacted mainly by means of bills,) and were therefore subject to higher rates of discount than the London sterling bills.³⁹⁹

In order therefore to improve these conditions, the first requisite was to open credit at London to the German importer and exporter. This the Deutsche Bank attempted to do at first through an agency of its own at that place. When this attempt failed, through difficulties of formal nature, the bank acquired an interest in the German Bank of London, Ltd., without, however, attaining fully the desired object.

On the other hand, the German exporter and importer was to be given an opportunity⁴⁰⁰ "to obtain such credit in Germany by the introduction of German currency bills in over-sea markets and by offers to buy the bills drawn on German exchange centers." The Deutsche Bank attempted to attain both these objects by establishing in 1872, i. e., before the introduction of the German gold standard, branches in Yokohama and Shanghai which were to buy bills drawn on Germany, so that the Ger-

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man exporter, who had calculated the selling price of his goods in marks, might be paid abroad in marks, while the importer might credit the foreign seller at the bank with the amount of the invoice in marks and meet payment in marks upon bills subsequently drawn by the seller.

Both branches in eastern Asia had to be closed in 1874, i. e., after an existence of barely two years, mainly because the continuous depreciation of silver had diminished the invested capital. Similarly the La Plata bank, opened in 1872 by the Disconto-Gesellschaft and taken over by the Deutsche Bank in 1874, had to be liquidated in 1885. But in the meantime the Deutsche Bank opened branches in German centers of over-sea trade—one in Bremen (in 1871) and another in Hamburg (in 1872). In the same year a silent partnership (*Kommandite*) in New York was formed. By 1871, in order to obtain the means required for these enlargements of its business, its capital had been doubled from 5,000,000 to 10,000,000 thalers.

Finally, in 1873, it succeeded in opening in London a branch of its own, whose business operations soon assumed considerable proportions. The clients of the bank, who imported goods from over-sea markets, were now in position to draw their bills either in marks on Germany (Berlin, Bremen, Hamburg) or in pounds sterling on London, as it appeared to them more advantageous in accordance with the respective discount and exchange rates in the two countries. Thus the first and most difficult stage in this development was successfully passed.

It must be said that even the program of the Deutsche Bank was regarded with little favor in banking and

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bourse circles. The sentiments prevailing among these circles at that time are accurately reflected in a South German newspaper, which has been used by Model as the only journalistic source not only as regards this subject but also in discussing the activity of the banks during the earlier period. This paper⁴⁰¹ stated, not more than four weeks before the foundation of the Deutsche Bank, that the houses which were chiefly interested in the projected bank were "not regarded as able" to manage an institution of this class "in accordance with modern requirements" and "that its founders would save themselves from a splendid fiasco if they were to take over their own shares, since there was absolutely no sympathy for the project in Berlin."

The same paper, in speaking of the doubling of the share-capital in 1871, stated that there was no need for such an increase, "even if it were true that the bank intended to establish silent partnerships in the regions peopled by the Riff pirates, Kaffirs, and Blackfoot Indians."

After the initial failures, when the branches in Eastern Asia had to be closed (in 1874), the following remarks were made: "The Deutsche Bank, in closing its branches in Shanghai and Yokohama, confesses its inability to execute its original high-sounding program, since it was primarily founded for the purpose of freeing German commerce in foreign countries, particularly in China, Japan, and the East Indies, from the tutelage of English and French bankers. The question of liquidation of the bank is now being seriously debated; at all events, a reduction of its capital would seem to be advisable."

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A still sharper criticism of the Deutsche Bank by the same paper in 1875 reads as follows: "One of those banking establishments, which has anything but fulfilled its program, and whose right to exist can only be based on the fact that, though long moribund, it still manages to exist, is the so-called Deutsche Bank in Berlin."

The Deutsche Bank, however, has not allowed itself to be diverted from its path either by its early failures or by criticism. Mainly through its branches and agency in Bremen, Hamburg, and London, it fostered the over-sea business consistently and with ultimately brilliant success. In a subsequent chapter we shall relate the attempts of the Deutsche Bank, and after it of a number of other banks, to lend their energetic and ever-growing support to German import and export trade by means of branches as well as through the founding of subsidiary banks. The principle which may be said to have dominated their entire activity has been correctly formulated by Emil Herz⁴⁰², as follows: "The part of the confidential adviser in business (*der wirtschaftliche Vertrauensmann*) both at home and abroad must be taken by the banker."

As soon as German trade felt certain of banking support in its import and export activity on the part of the branches of the banks in the great centers of oversea trade (Hamburg, Bremen, London), or of the German subsidiary banks working hand in hand with the parent banks in Germany, it naturally emancipated itself from the foreign intermediaries by enlisting the usually much cheaper services of the German banks and their branches or of their subsidiary banks.

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Let us first take the case of the exporter.⁴⁰⁸ He sells his goods as a rule on long terms for delivery at over-sea places, where after possibly several months' sailing they are paid by the buyer only when unloaded and then only by means of the buyer's acceptance. Through his connection with a German bank the exporter is now enabled to turn over his bill of lading to that bank with an order to deliver the same to the buyer through its over-sea connection, say its subsidiary bank, after payment of the amount of the bill or after acceptance of the draft, the latter in case the goods have been sold on longer terms. In case of nonpayment, of which he is to be advised by cable, the order further provides that the goods are to be insured and stored at the over-sea place of destination at the expense of the seller.

In such cases the exporter is usually able to procure at least part of the purchase price, and thus fresh operating capital, long before the arrival of the goods, the bank granting him an advance upon the floating goods. This advance is made upon the pledging by indorsement of the bills of lading, which secure the delivery of the goods at the point of destination and upon the transfer of the accompanying insurance policy either according to fixed loan terms or according to such terms as may have been agreed upon on the particular occasion. These advances vary between 40 and 75 per cent of the invoice, a copy of which is to be handed to the bank.

It goes without saying that such advances are granted as a rule only on such goods which are not easily subject to the risk of decay, waste, breakage, loss of weight, or leakage.

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Provided the documents are genuine and the exporter's personal credit is good up to the amount advanced, the bank, when taking the above precautions, will run but little risk. The risk will naturally be greater, in case the advance is made on goods which are not yet definitively sold. In the latter case, when, for instance, the exported goods are directed to the oversea representative of the domestic export firm, who is to try to sell them only upon arrival, the loan will be made as a rule by a subsidiary institution of any of the German banks (as for instance the Deutsch-Ueberseeische Bank, the Deutsch-Asiatische Bank, the Bank für Chile und Deutschland, etc.). These banks, at the request of the oversea agent of the domestic exporter, who turns over to them the bills of lading, will receive and store the goods upon arrival at destination, and in turn will honor the bills drawn upon the German exporter's oversea representative who takes the goods from the storehouse and gradually makes good the credit on the drafts as he sells the goods.

In such cases the loan transaction is particularly risky when the agents order too large a stock and thus cause a reduction in the price of the export goods, which may be even intensified, in case the banks have to undertake the forced sale of the goods after failure of the subsequent payments. In these cases the bank may suffer loss if the recipient of the advance proves of insufficient solvency, or the pledged goods—of insufficient value.

Besides granting advances upon merchandise the banks render assistance to the export trade in various other ways. They will, for instance, give him reimbursement (*rembours*) credit (see p. 428, below) against the documents

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by attaching their acceptance to the draft of the seller, who is thus enabled to discount it at the private rate. The bank may also accord its acceptance to the domestic exporter on the basis of bank credit, extended not by him to the foreign buyer, but by the latter to him, the bank being ordered by the foreign buyer to accept the drafts of the domestic exporter up to a certain amount, against receipt of the shipping documents, which order is usually confirmed by the bank to the exporter ("confirmed letter of credit").

However, the most prominent function of the branches of the German banks at Hamburg, Bremen, and London, also of the oversea banks, is the financing of imports from oversea countries, especially of raw materials.⁴⁰⁴

This is done in the following manner: The domestic buyer of the article (importer) procures in the first place from his German bank a "draft" credit (*Trassierungskredit*) in the form of "rembours" credit up to approximately the amount of the invoice in favor of the oversea seller of the article (wool, cotton, grain, rice, coffee, ore, etc.), with the understanding, that the seller, or the latter's bank, shall have authority to draw upon the bank of the importer to the extent of the purchase price. The bank will accept the foreign bill, which the oversea seller or his bank will send to it after the loading of the goods, or have presented to it for acceptance by a German banking connection, only in case a full set of the bills of lading together with insurance policy, invoice, description of weight and quantity and, if need be, the certificates of origin, are turned over to it.⁴⁰⁵ In this way the delivery of the goods to the bank is assured,

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as are also the identity of the article and the terms of sale, as described by the importer, as well as the fact that the particular transaction is a real, bona fide commercial transaction, corresponding to the importer's statement.

After the bank has accepted the bill, which as a rule runs for thirty or one hundred and eighty days after sight, the seller is enabled to discount it either abroad or at another German bank, the first bank having to honor its acceptance on maturity.

In case the importer, as is normally the case, has resold the goods to another domestic buyer, the goods must be forwarded to this new buyer. In that case the bank will have to deliver to its customer the shipping and other accompanying documents, for the purpose of forwarding them to another trusted party. This does away with its collateral security, and up to the time of payment or the remittance of a draft by the buyer the bank has to grant blank credit, which, however, is usually of but short duration. When this remittance is received, the bank discounts it, credits the amount to the importer as per date of maturity, and as a rule finds itself in possession of the cash a good while before maturity of its own acceptance.

In case the buyer has not resold the goods, they are stored after their arrival in Germany, under the supervision of the bank or of its representative, the bank receiving a new security in the shape of the storehouse certificate, the bill of lading having been delivered to the master of the vessel at the time of unloading.

In the case of these import transactions the granting of credit may likewise be required, as for instance when the German importer has to pay at once, at the time of

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loading abroad, the purchase price for the goods bought. In such case his German bank accords him "reimbursement" credit (*Rembourskredit*) by ordering its oversea affiliation to pay the purchase price upon receipt of the documents, the importer returning the purchase price upon arrival of the goods, or in case of sale to a third party (see above) on return of the documents.

Finally, if the importer has sold the goods to another country, prior to their shipment, his German bank will forward the bills of lading to its affiliated bank in that country and order it to hand the documents to the buyer or his bank upon payment of the purchase price or against acceptance.

It is in this manner that transactions relative to the importation of cotton from America, of wool from Australia, Cape Colony or Argentina, of grain from Russia or America, of rice from eastern Asia, of copper from America, of ores from Spain and Sweden, are effected to an annual aggregate amount of several billions of marks.⁴⁰⁶ As the underlying documents and declarations are examined with extreme care (much more needed in this than in other classes of business transactions) the settlement is made as a rule without any hitch, since, as Waldemar Müller justly remarks, the bank in granting the combined reimbursement and acceptance credit, runs a risk only in case the documents happen to be forged, or if after the goods are handed to the importer "in trust" (*zu treuen Händen*), the latter as well as his buyer fail at the same time. Against such emergencies the banks may take some, though not always sufficient precautions.⁴⁰⁷

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Loans on merchandise collateral may be combined with "reimbursement transactions" ("*Remboursgeschäft*") in case the importer or his foreign agent desire to lay in abroad a stock of raw materials. In the latter case, upon receipt of the acceptance the goods are held insured in store at the disposal of the bank by its shipping agent (to whom the documents are sent) until such time as the client has released them in total or in part by remitting the corresponding amount of the purchase price.

It is clear that the "reimbursement" business can be successfully handled only by first-class banking houses whose acceptances are known as prime bills abroad as well as at home, and are therefore taken without question, even in larger amounts. For such bank acceptances are to be preferred *per se* to the acceptance of the commercial house which receives the goods, and usually also for the additional reason that they can be realized at the private rate of discount. As a rule these banks and banking houses will grant such credit in terms of German currency; only in exceptional cases, as in some countries of South America, Asia, and Australia such credits will be in terms of pounds sterling and bear the acceptance of their London agency.⁴⁰⁸

Since as the result of continuous efforts mark bills have gained a respected position in foreign markets alongside of sterling bills, British aid and intervention is no longer required in nearly the same proportion to settle the balance of payments on account of German imports and exports. The time may be said to have passed, at least in the majority of cases, when German exporters, in order to collect their foreign claims, and foreign exporters when

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selling goods to Germans, had to draw on London, or when German importers had to settle the credits of their sellers via London.

When the Deutsche Bank made its first efforts to gain for mark bills an equal standing as compared with sterling bills, it had not merely to struggle against foreign lack of confidence and the competition of the English banks, it also became the object of attack on the part of domestic banking and other interests on the ground that, as a result of the above-described fostering of our oversea import and export trade, in accordance with its program, its acceptance account at times became so greatly swelled as to exceed, and sometimes even greatly exceed, the amount of the share capital of the bank, even after the large increases of its capital during the later period. But as was shown above, the acceptance business for the promotion of oversea commerce, which is transacted chiefly by means of international bills, contains no excessive elements of risk, provided only due caution is observed. Hence in criticising the extent of the acceptance accounts of our banks, regard should be had not so much to the quantity as to the quality of the drafts which the banks accept.

II. THE OPENING OF BRANCHES IN HAMBURG, BREMEN, AND LONDON, AND THE ORGANIZATION OF OVERSEA AND FOREIGN BANKS, AND OF DOMESTIC SUBSIDIARY BANKS FOR OVERSEA AND FOREIGN BUSINESS.

(1) Participations of the Deutsche Bank.

In the preceding chapter we saw how the Deutsche Bank opened branches first at Bremen (1871), and Ham-

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burg (1872), the German centers of oversea commerce, and London (1873), with the view of fostering German oversea import and export trade. These branches were to serve, so to say, as advanced posts for the observation, exploration, and winning of new territory by the German banks.

(a) In 1886 the Deutsche Bank organized in place of the above-mentioned *La Plata Bank*, which had to be liquidated in 1875, the *Deutsche Ueberseebank* (effective July 1, 1887), with a paid-up capital of 6,000,000 marks (10,000,000 nominal), for the purpose of fostering commercial relations with South America, especially Argentina. This bank in turn was superseded on June 17, 1893, by the *Deutsche Ueberseeische Bank*,⁴⁰⁹ founded in Berlin with a capital of 20,000,000 marks, and increased in 1909 to 30,000,000 marks.⁴¹⁰

The bank has had a continuously prosperous career, as may be seen by the rate of dividends paid:

Per cent.	Per cent.	Per cent.	Per cent.
1893..... 6	1897..... 8	1901..... 8	1905..... 8
1894..... 7	1898..... 8	1902..... 8	1906..... 9
1895..... 9	1899..... 8	1903..... 8	1907..... 9
1896..... 9	1900..... 8	1904..... 8	1908..... 9

The number of its branches totals at present 21, of which 8 are in Chile (Santiago de Chile, Antofagasta, Concepción, Iquique, Temuco, Valdivia, Osorno and Puerto-Montt), 4 in Argentina (Buenos Aires, Bahia Blanca, Cordoba, and Tucuman), 4 in Peru (Lima, Callao, Trujillo, and Arequipa), 2 in Bolivia (La Paz and Oruro), 1 in Uruguay (Montevideo), 1 in Ecuador (Guyaquil), and 2 in Spain (Madrid and Barcelona). The firm name of the branches in foreign countries reads: Banco Alemán Transatlántico.

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The former branch of the Deutsche Ueberseeische Bank in the City of Mexico was merged, in 1906, with the *Mexikanische Bank für Handel und Industrie* (see below under "m"), founded with the cooperation of the Deutsche Bank. In turn the Deutsche Ueberseeische Bank absorbed the firm Guillermo Vogel & Co., in Madrid, in which the Deutsche Bank had previously held a silent partnership interest (*Kommandite*).

(b) In March, 1889,⁴¹¹ the Deutsche Bank, in conjunction with the Dresdner Bank and other institutions, with the view of fostering German commercial relations with Turkey, founded the Anatolian Railway Company (*Société du Chemin de fer Ottoman d'Anatolie*), with headquarters at Constantinople, which, having acquired before December 31, 1892,⁴¹² a small railway opposite Constantinople, undertook to extend it from Haidar-Pasha, near Constantinople, to Ismid (92 kilometers), thence to Angora (486 kilometers) and from Eski-Shehir to Konia (445 kilometers). The capital of the company was at first 45,000,000 and subsequently 60,000,000 francs.

(c) In the same year (1889) the Deutsche Bank, jointly with the Wiener Bankverein, acquired the share interest held by Baron von Hirsch in the *Actiengesellschaft der Orientalischen Eisenbahnen* (Oriental Railway Company), founded in 1879 with a capital of 20,000,000 Austrian gold florins and operating 1,563 kilometers of railways,⁴¹³ and with it the concession for the Macedonian line Saloniki-Monastir. This concession it ceded to the *Société du Chemin de fer Ottoman Salonique-Monastir*, founded February 5, 1891 (with headquarters at Constantinople), with a share capital of 20,000,000 marks and debentures of 60,000,000 francs.

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In North America the Deutsche Bank maintains very active business connections, resulting in numerous financial transactions and underwriting of American public securities, treasury bonds, various railway bonds, and other railway transactions. The temporary depression in the price of Northern Pacific securities caused, for the time being, grave anxiety to the bank, which was terminated by the reorganization of the railroad, effected under its auspices.

At first (beginning with October 15, 1872) the bank secured a silent partnership interest in the banking firm of Knoblauch & Lichtenstein, in New York,⁴¹⁴ amounting to \$500,000 currency (1,845,000 marks), but as a result of financial losses of that firm it had to reduce its participation to \$400,000 (1,680,000 marks),⁴¹⁵ while the liquidation of the firm, which took place October 15, 1882, caused even a loss of about 700,000 marks.⁴¹⁶

In 1890 the Deutsche Bank, mainly because of its connection with many American railroads, especially the Northern Pacific Railroad Company, instituted, in conjunction with Frankfort and American houses, the *Deutsch-Amerikanische Treuhand-Gesellschaft* (German-American Trust Company) at Berlin, with a nominal share capital of 20,000,000 marks, whose main object was to issue its own debentures on the basis of solid American securities to be purchased by it, and, in the second place, to represent the interests of holders of securities issued by American enterprises which had become insolvent. When the first object of the company, mainly in view of the precarious financial situation in the United States, was found to be unrealizable, the capital of the company was

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at first reduced to 1,000,000 marks.⁴¹⁷ Later on, by the by-law (*Statut*) dated December 9, 1901, the company was reconstructed under the new name of *Deutsche Treuhand-Gesellschaft*. While the second of the above-named purposes still remained one of the objects of the reconstructed company (whose capital was increased to 1,500,000 marks), its principal function became the examination of the accounts of stock companies and the undertaking of trustee operations and those of pledge holding. Its activity in these fields has proved eminently satisfactory.

In 1889 the Deutsche Bank, with the view of promoting commercial relations between Germany and Eastern Asia, participated in the founding of the *Deutsch-Asiatische Bank* at Shanghai, with a capital of 7,500,000 taels. (See III, par. 1, below.)

(d) With the view of executing the financial part of the tasks of the Anatolian Railway Company, there was founded at Zurich in 1890, with the participation of the Deutsche Bank, the *Bank für Orientalische Eisenbahnen*, with a nominal capital of 50,000,000 francs of common shares (*Stammaktien*) and 13,000,000 francs of preferred shares (*Vorzugsaktien*).⁴¹⁸ The debenture capital since May, 1907, amounts to 30,000,000 francs.

(e) In 1894, with the view of fostering commercial relations between Germany and Italy, the Deutsche Bank participated in the founding of the *Banca Commerciale Italiana* at Milan, the present capital of which is 105,000,000 lire. (For particulars, see III, par. 2.)

(f) Between the years 1898 and 1904 the Deutsche Bank, together with other banks and firms, participated

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in the founding of the *Deutsch-Atlantische, Ost-Europäische und Deutsch-Niederländische Telegraphen-Gesellschaft*, and the *Norddeutsche Seekabelwerke* (North-German marine cable works). In 1908 it took part in the founding of the *Deutsch-Südamerikanische Telegraphen-Gesellschaft*. (See pp. 458 and 459, No. 6.)

(g) In 1899 the Deutsche Bank cooperated in the launching of the *Schantung-Bergbau-* and the *Schantung-Eisenbahngesellschaft* (Shantung Mining and Shantung Railway Companies) founded by a number of German banks and firms. See pp. 458 and 459, No. 6.)

(h) When in 1901 the Anatolian Railway Company was granted the concession for the extension of its lines from Konia to Bagdad and the Persian Gulf,⁴¹⁹ that company, in conjunction with a number of Turkish, German, Austrian, French, Swiss, and Italian firms, founded the Imperial Ottoman Bagdad Railway Company.⁴²⁰ During 1905 a controlling interest in the railroad between Mersina and Adana was acquired in behalf of the Bagdad Railway, the first portion of which, from Konia to Burgulu, was opened for traffic October 25, 1904. In the spring of 1908, "after four years of laborious negotiations,"⁴²¹ the required state guarantees were at last secured for the further construction of the Bagdad Railway over the Taurus and Amanus mountains to Syria and upper Mesopotamia as far as El Helif near Mardin (840 kilometers from the last point reached by the Bagdad Railway in 1908, 1,738 kilometers from Constantinople, and about 1,155 kilometers from Bassora on the lower Shatt-el-Arab), "assuring thus the furtherance of this great undertaking."

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(i) In 1904 the bank founded the *Ost-Afrikanische Gesellschaft* (East-African Company), with headquarters in Berlin, a colonial company with 21,000,000 marks of nominal capital, the Empire guaranteeing a minimum interest return of 3 per cent and repayment at the rate of 120 per cent.

(k) In 1904-1905 the Deutsche Bank participated in the founding of the *Deutsch-Ost-Afrikanische Bank* with a capital of 2,000,000 marks and central office at Berlin, which is both a credit and note issuing bank for the German colony of East Africa. (See III, sec. 3, below.)

(l) In December, 1905, the Deutsche Bank, in conjunction with the Deutsche Ueberseeische Bank, the banking house of Lazard Speyer-Ellissen in Frankfurt-on-the-Main and the Schweizerische Kreditanstalt, with the view of promoting German commercial relations with Central America, founded the *Zentral-Amerika-Bank, Aktiengesellschaft*, with central office at Berlin and a capital of 10,000,000 marks, of which 25 per cent was paid in for the time being. But, as the company was unable to secure the state concession for the transaction of banking operations for its proposed branch in Guatemala, the original object of the enterprise was changed in 1906, so that the present name reads *Aktiengesellschaft für überseeische Bauunternehmungen* ("Company for over-sea building enterprises"). Its present object has thus been considerably narrowed. Dividends paid during 1905 to 1908 were: 0, 0, 5, and 4 per cent.

(m) In 1906 the Deutsche Bank, in conjunction with the banking house of Speyer & Co. in New York, with the view of promoting German commercial interests in

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South America and more especially in Mexico, founded the *Mexikanische Bank für Handel und Industrie* (Banco Mejicano de Comercio é Industria), with its main office in New York. This bank, as stated above, assumed the business of the Banco Alemán Transatlántico in Mexico; its nominal capital is 10,000,000 pesos, the term of its concession is forty years; the dividends paid in 1907 and 1908 were at the rate of 6 per cent.

As regards the foreign participations of the Deutsche Bank in Europe it may be stated that—

(n) The bank had entered into a silent partnership as early as January 1, 1873, with the Paris banking house of Weissweiler & Goldschmidt⁴²² by a participation (*Kommanditeinlage*) of 1,000,000 francs, but this participation was reduced to 500,000 francs as early as 1876, and terminated soon after, owing to the liquidation of that firm.

(o) In 1877 (Oct. 1) the Deutsche Bank entered into a silent partnership with the Vienna banking house of Güterbock, Horwitz & Co. by a participation of 750,000 florins (1,290,000 marks), which was, however, repaid December 31, 1883.⁴²³

(p) In 1895 the Deutsche Bank formed a silent partnership with another Vienna banking firm, Rosenfeld & Co., but subsequently organized a group of German and Austrian banks for the purpose of participating in Austrian and Hungarian business.

(q) In 1895 the Deutsche Bank entered into a silent partnership with the Madrid firm Guillermo Vogel & Co.⁴²⁴ The latter, as mentioned above, was taken over in 1906 by the Deutsche Ueberseeische Bank.

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(r) The bank became interested in the mining business in the early nineties by a participation in the firm Ad. Goerz & Co., of Berlin and Johannesburg.

Almost all the other great banks followed the example of the Deutsche Bank in developing and extending foreign and oversea relations, some of them rapidly and energetically, others hesitatingly and to an inconsiderable extent. The bank which did so most rapidly and extensively was the Disconto-Gesellschaft.

(2) PARTICIPATIONS OF THE DISCONTO-GESELLSCHAFT.

This bank as early as 1873 had participated in the founding of the La Plata Bank, subsequently transferred to the Deutsche Bank.

(a) In 1880 the Disconto-Gesellschaft cooperated in the reconstruction of the *Deutsche Handels- und Plantagen-Gesellschaft der Südseeinseln* (German Commercial and Plantation Company of the South Sea Islands). The capital of this company was 2,750,000 marks. During 1883-1887, at the instigation of Ad. von Hansemann, it cooperated in the organization and founding of the *Neu-Guinea-Kompagnie* (with a capital of 6,000,000 marks).

(b) In 1887 the Disconto-Gesellschaft, in conjunction with the Norddeutsche Bank, founded the *Brasilianische Bank für Deutschland*⁴²⁵ with main office in Hamburg and a capital of 10,000,000 marks, for the promotion of commercial relations between Germany and Brazil. This bank has at present (1908-9) five branches (in Rio de Janeiro, São Paulo, Santos, Porto Alegre, and Bahia). The rates of dividends were as follows:

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Fiscal year ending June 30—	Dividends.	Fiscal year ending June 30—	Dividends.
	<i>Per cent.</i>		<i>Per cent.</i>
1890.....	5	1900.....	9
1891.....	10	1901.....	8
1892.....	16	1902.....	6
1893.....	16	1903.....	6
1894.....	8½	1904.....	8
1895.....	10	1905.....	10
1896.....	12	1906.....	10
1897.....	12	1907.....	10
1898.....	12	1908.....	10
1899.....	12		

(c) In 1889 the Disconto-Gesellschaft participated in the founding of the Deutsch-Asiatische Bank,⁴²⁶ organized by seven Berlin banks with the view of fostering German trade with eastern Asia (cfr., p. 455, No. 1). Particulars regarding this bank are found further below.

(d) In 1890 the Disconto-Gesellschaft entered into silent partnership connections (*Kommandite*) with the banking firm of Ernesto Tornquist in Buenos Aires, and the Antwerp firm H. Albert de Bary & Co., allied with the former, the aggregate participation being 2,187,000 marks. The latter firm was transformed in 1900 into the stock company "Compagnie Commerciale Belge, anciennement H. Albert de Bary & Co.," with a share capital of 5,000,000 francs, the Disconto-Gesellschaft continuing its participation through ownership of stock.⁴²⁷

(e) In 1894 it cooperated in the formation of the *Banca Commerciale Italiana* (see below, p. 456, No. 2).

(f) In 1895 the Disconto-Gesellschaft, together with the Norddeutsche Bank, and in cooperation with several business houses having trade connections with Chile, founded the *Bank für Chile und Deutschland*⁴²⁸ at Hamburg with a capital of 10,000,000 marks. This bank has

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now nine branches in Valparaiso, Santiago, Concepcion, Temuco, La Paz, Oruro, Antofagasta, Victoria, and Valdivia. Its dividends show the following development:

1896, 0 per cent; 1897, 5 per cent; 1898, 2 per cent; 1899-1901, 7 per cent; 1902-6, 8 per cent; 1907, 4 per cent; 1908, 8 per cent.

(g) In 1897 the Disconto-Gesellschaft in conjunction with the firm of S. Bleichröder, founded the *Banca Generala Romana*⁴²⁹ in Bucharest for the promotion of German-Roumanian trade relations. The bank has now (1909) two branches in Braila and Craiova, and an agency in Constanza.⁴³⁰ Its capital is 10,000,000 francs (Lei). Its rates of dividends were as follows:

1898, 6 per cent; 1899, 5 per cent; 1900, 7 per cent; 1901, 8 per cent; 1902-3, 0 per cent; 1904, 6 per cent; 1905, 8 per cent; 1906-8, 9 per cent.

(h) In 1898 the Disconto-Gesellschaft participated in conjunction with a number of domestic and foreign firms in the founding of the Banque Internationale de Bruxelles for the promotion of German-Belgian trade relations. The nominal capital of the new bank was 25,000,000 francs. It paid the following rates of dividends:

1899, 6 per cent; 1900, 4 per cent; 1901-3, 0 per cent; 1904, 4 per cent; 1905-8, 5 per cent.

(i) In 1899 the Disconto-Gesellschaft participated, in conjunction with a number of German banks and banking houses, in the founding of the Shantung Railroad and Shantung Mining companies (particulars for which are given below). During the period 1898-1904 and again in 1908 it took part also in the organization of several telegraph and cable companies (see below, pp. 458 and 459, No. 6).

(k) In 1900 the Disconto-Gesellschaft founded the Otavi Mining and Railroad Company with a capital of 1,000,000 marks, which was increased to 20,000,000 marks as early

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as May 12, 1903, for the purpose of constructing a railway between Swakopmund and Tsumeb. Through the completion of a branch line between Onguati and Karibib a junction was effected in 1906 with the main line Swakopmund-Windhuk.⁴³¹

(l) In 1904 it founded the East African Railroad Company, with a share capital of 21,000,000 marks. A minimum dividend of 3 per cent on this capital, as well as a redemption price of 120 per cent, have been guaranteed by the Empire.

(m) In 1904-5 the Disconto-Gesellschaft took part in the establishment of the German-East African Bank, with the main office at Berlin and a branch at Dar-es-Salaam, which acts as a credit and note-issuing bank for the German East African colony.

(n) In 1905 the Disconto-Gesellschaft, together with the firm of S. Bleichröder, the Norddeutsche Bank, and several Bulgarian firms, for the purpose of fostering German-Bulgarian trade relations, established the Banque de Crédit (*Kreditna Banka*) at Sophia, with a nominal capital of 3,000,000 francs (lev).

(o) In the same year (1905) the Disconto-Gesellschaft in conjunction with the firm C. Woermann at Hamburg, established the *Deutsche Afrika-Bank* with a capital of 1,000,000 marks. This bank opened branches in 1904 at Swakopmund, Windhuk, and Lüderitzbucht and took over the business at those places of the Damara and Namaqua Trading Company (Limited) which had been founded in 1904 by the above-mentioned firm.

(p) By the taking over of stock in 1905 the Disconto-Gesellschaft became interested in the General Mining

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and Finance Corporation (Limited) in London, founded by the Dresdner Bank in conjunction with Albu Brothers, with a capital of £1,250,000. The investment did not prove profitable, as may be inferred from the fact that the value of this stock as carried on the books of the company had to be reduced considerably several times.

(q) In 1906 the Disconto-Gesellschaft in conjunction with a number of German banks, banking houses, and firms took part in the foundation of the Kamerun Railroad Company. (See below, p. 458, No. 5.)

It is noteworthy that to the end of the nineties the Disconto-Gesellschaft adhered to the principle of strict centralization in the internal management of its affairs. In particular it discountenanced the opening of branches for the promotion of over-sea trade. It should be said though, that it had been represented for years at Hamburg by the Norddeutsche Bank, with which it had become closely allied during the first period.

It was only in 1900 that the Disconto-Gesellschaft, in view of the considerable growth of its own over-sea connections, decided upon the opening of a branch in London, followed in 1903 by the opening of another branch in Bremen.

It may be also noted that as early as 1888 the Disconto-Gesellschaft, together with the Norddeutsche Bank entered into an agreement with the firm Friedr. Krupp, which had obtained a state-guaranteed concession for the construction of the Great Venezuelan Railroad between Caracas and Valencia with a total length of 180 kilometers, by which it took over the construction of that road⁴³². The transaction, while resulting in considerable

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contracts and orders for German industry, caused the bank numerous long-continued troubles and annoyances of all kinds.

Finally, it should not be overlooked that the Disconto-Gesellschaft, as a member of the Rothschild Syndicate, participated in a large number of Austro-Hungarian state, railroad, and other finance transactions, took part in 1887 and 1888 in the emission of Argentine loans, and participated in a number of finance and loan operations in behalf of the Finnish, Russian, and Roumanian Governments and railroads. (For particulars see App. V and VI.)

(3) PARTICIPATIONS OF THE DRESDNER BANK.

(a) With the view of promoting its foreign, particularly its over-sea relations, the Dresdner Bank founded the following branches: 1892, one in Hamburg; 1895, one in Bremen, and 1901, one in London.

(b) In 1889 the Dresdner Bank participated in the founding of the Anatolian Railway Company, also of the Company for the Operation of the Oriental Railroads (see above, 1 *b* and *c*), and in the establishment of the *Deutsch-Asiatische Bank*. (See below, p. 455, No. 1.) In 1891 it took part in the founding of the Bank for Oriental Railroads. (See above sub. *id.*)

(c) In 1894 it participated in the founding of the Banca Commerciale Italiana. (See below, p. 456, No. 4.)

(d) In 1899 it took part in the founding of the Shantung Mining and Shantung Railway companies. (See below, pp. 458 and 459, No. 6.)

(e) In 1904-5 it participated in the founding of the German West-African Bank. (See below, p. 457, No. 4.)

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(f) In 1905 it entered into a close alliance with the banking house J. P. Morgan & Co., of New York, London, and Paris⁴³³, for the purpose of common action in the field of international finance and issue operations and of extending the German market for American securities. This alliance led to the common participation of the two parties in the now liquidated Sovereign Bank of Canada at Montreal.

(g) About the end of 1905 the Dresdner Bank, in conjunction with the A. Schaaffhausen'scher Bankverein and the Nationalbank für Deutschland, with the view of promoting trade relations with the Orient, especially with Turkey, Greece, and Egypt, founded the *Deutsche Orientbank* stock company in Berlin, with a share capital (now fully paid-in) of 16,000,000 marks⁴³⁴ and two branches in Constantinople and Hamburg, taken over from the *Banque d'Orient* in Athens. Since then additional branches have been opened in Alexandria, Brussa, Cairo, Kalamata, Smyrna, and Casablanca (Morocco). Dividends in 1906 were 4 per cent, in 1907, 4 per cent, and in 1908, 4 per cent.

(h) About the same time (end of 1905⁴³⁵) the Dresdner Bank, with the view of promoting German commerce with South America, founded jointly with the A. Schaaffhausen'scher Bankverein the *Deutsch-Südamerikanische Bank* stock company, with the main office at Berlin, and a nominal capital of 20,000,000 marks, divided into 4 series of 5,000,000 marks each. This bank has at present (1909) 3 branches (in Hamburg, Buenos Aires, and Mexico). In 1908 it entered into close relation with the above-mentioned Sovereign Bank of Canada in Montreal (capital

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\$2,000,000), severed however in 1908 by reason of the liquidation of the Canadian bank. No dividends have as yet (i. e., for the years 1906, 1907, and 1908) been declared by the Deutsch-Südamerikanische Bank.

(i) In 1906 the Dresdner Bank participated, in conjunction with several German banks, banking houses, and commercial firms, in the founding of the Kamerun Railway Company. (See below, p. 458, No. 5.)

(k) It became interested in the mining business by participating, in company with the Disconto-Gesellschaft, in the General Mining and Finance Corporation, London, which had been founded by it jointly with Albu Brothers, with a capital of £1,250,000.

The Dresdner Bank also participated in the emission of the 1905 Chinese state loan, in the 5 per cent loan of the Tehuantepec National Railway Company, and in two (4½ per cent and 4 per cent) Japanese gold loans. (For particulars, see Append. V and VI.)

(4) PARTICIPATIONS OF THE DARMSTÄDTER BANK.

The Darmstädter Bank up to the present has not established any branches for the promotion of over-sea trade. But as early as 1854 it acquired a silent partnership interest (*Kommandite*)—the first of similar interests—in the New York firm E. vom Baur & Co. This firm, however, went into liquidation about the end of 1885.⁴⁸⁶ In 1900, jointly with the Bankers' Trading Syndicate of London—its own creation—which in turn was closely allied with the banking house S. Japhet & Co. and the Nordwestdeutsche Bank (subsequently the Deutsche Nationalbank, *Kommanditgesellschaft auf Aktien*) of

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Bremen, it took the first steps for the promotion of foreign business.

In 1906, with the view of extending business relations with the United States, it founded, in cooperation with other German and American banking firms, the *Amerika-Bank*, a stock company in Berlin, with a capital of 25,000,000 marks, divided into 5 series, of which 5,000,000 marks were fully paid in, and the rest to the extent of 25 per cent, while 10 per cent premium on the shares, *i. e.*, 2,500,000 marks, was placed into the reserve fund. However, this bank went into liquidation in 1909, and its shares were taken over by the Darmstädter Bank.

The Darmstädter Bank participated in the launching of the following organizations for the promotion of over-sea commercial relations:

(a) 1889: In the founding of the *Deutsch-Asiatische Bank*. (See below, p. 455, No. 1.)

(b) 1898-1904 and 1908: In the founding of several telegraph and cable companies. (See below, pp. 458 and 459, No. 6.)

(c) 1899: In the founding of the Shantung Mining and the Shantung Railway Companies. (See below, *ibid.*, No. 6.)

(d) 1906: In the founding of the Kamerun Railway Company. (See below, p. 458, No. 5.)

Its own foreign, though not over-sea connections, were quite numerous even during the first period.

(a) As early as 1857, for the purpose of promoting business with France, it formed a *commandite* in Paris. The latter, after excellent results, had to be liquidated in 1871, owing to the unfriendly sentiment then prevailing. In

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1873 a new *commandite* was established, which, however, went into liquidation shortly after, in 1877.

(b) In 1870 a *commandite* was formed in Vienna (Dutschka & Co.), which was liquidated in 1902. Its clientele was taken over by the *Wechselstuben-Aktiengesellschaft Merkur* in Vienna, which in 1908 had a capital of 20,000,000 kronen (\$4,060,000) and 9 branches. There is a close alliance between this institution and the Darmstädter Bank.

(c) In 1871 it founded for the promotion of trade between Germany and the Netherlands the *Amsterdamsche Bank* in Amsterdam,⁴³⁷ with which it has since maintained the most intimate relations. Simultaneously, for promoting trade with Belgium a *commandite* was formed in Brussels.

(d) In 1873-74 the bank formed a *commandite* in Milan.⁴³⁸

(e) In 1877 the Darmstädter Bank, jointly with other firms, founded the *Ungarische Escompte- und Wechslerbank* in Budapest.

(f) In 1881 it founded the *Württembergische Bankanstalt*, formerly Pflaum & Co., in Stuttgart (share capital, in 1909, 10,000,000 marks), which in turn formed in the same year a contractual community of interest—the earliest union of this class—with the *Württembergische Vereinsbank*.

(g) In 1890 it acquired a *commandite* interest in the banking house Marmorosch Blank & Co. in Bucharest. In conjunction with the *Berliner Handelsgesellschaft* it transformed that firm into a stock company under the name of the *Banca Marmorosch Blank & Co., Societate Anonima*

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(effective January 1, 1905), whose capital amounts at present to 10,000,000 lei (\$1,930,000).

(h) In 1898 it founded, in conjunction with a number of domestic and foreign houses, the *Banque Internationale de Bruxelles*, with a capital of 25,000,000 francs.

It also became interested in the mining business through the acquisition of shares of the Consolidated Mines Selection Company and of the African Venture Syndicate founded in 1903.

During the second period it participated in all the Austrian and Hungarian emissions of the Rothschild group, and together with several other banks and banking houses took part in the emission of Portuguese state, municipal, and railroad securities, which latter operations for several years proved a source of great trouble and financial losses. It also shared in the emission of the 5 per cent Chinese state loan, the 4½ and 4 per cent Japanese loans of 1905, and other finance operations, for which see Appendices V and VI.

(5) PARTICIPATIONS OF THE BERLINER HANDELSGESELLSCHAFT.

The Berliner Handelsgesellschaft participated in the founding of the following companies for the promotion of German oversea interests:

(a) 1889: Deutsch-Asiatische Bank. (See below, p. 455, No. 1.)

(b) 1898-1904 and 1908: Several German cable companies and cable works. (See below, pp. 458 and 459, No. 6.)

(c) 1899: Shantung Railway and Shantung Mining companies.

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(d) 1906: Kamerun Railway Company.

Among its foreign, other than oversea connections, the following may be mentioned:

It had a share in the founding of the following institutions:

(e) 1872: *Schweizerischer Bankverein* in Basel with a share capital of 50,000,000 francs.

(f) 1898: *Banque Internationale de Bruxelles* (jointly with several other firms).

(g) 1904-5: Banca Marmorosch Blank & Co., Societate anonima in Bucharest (jointly with the Darmstädter Bank).

(h) 1908: Stock company formerly Andréevics & Co. in Belgrade, with a share capital of 4,000,000 francs (jointly with the *Pester Ungarische Commerzialbank*).

Moreover the Berliner Handelsgesellschaft maintains close relations to the stock company *Labouchère Oyens & Co. Bank* in Amsterdam (capital 6,000,000 florins) and since 1903 to the New York banking house, Hallgarten & Co.

It also took part ⁴³⁹

1887: In the founding of the Dutch South African Railroad Company in Amsterdam.⁴⁴⁰

1889: In the acquisition of the Egyptian railroad system.⁴⁴¹

1894: In the founding of the Banca Commerciale Italiana.

1894: In the founding of the Compañía Sevillana de Electricidad in Sevilla and the Compañía Barcelonesa de Electricidad in Barcelona.

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1897: In the founding of the *Bank für elektrische Unternehmungen* in Zurich.

1898: In the founding of the *Aluminium-Industrie-Aktiengesellschaft* in Neuhausen (Switzerland).

1898: In the founding of the *Deutsch-Ueberseeische Elektrizitätsgesellschaft* (German Oversea Electric Company).

1899: In the establishment of the *Deutsch-Ostafrika Linie* (German East Africa Steamship Line).

1903: In founding the *Deutsch-Chinesische-Eisenbahngesellschaft*.⁴⁴²

1904: In founding the *Deutsche Kolonial-Eisenbahnbau- und Betriebsgesellschaft* (German Colonial Railroad Constructing and Operating Company) for the execution of railroad and port constructions in the German colonial possessions.

Since April, 1905, it has been operating under a lease contract the Usambara railroad in German East Africa. In conjunction with the firm Lenz & Co. it has contracted with the Imperial Government for the construction of the railroad *Lüderitzbucht-Kubub*.

The Berliner Handelsgesellschaft took a prominent part in the underwriting of all Russian, Chinese, and Japanese loans emitted in Germany during the second period. It also emitted several Servian state and railroad loans. (For particulars see Append. V and VI.)

(6) PARTICIPATIONS OF THE A. SCHAAFFHAUSEN'SCHER BANKVEREIN.

Although the main strength of this institution from the start has been due to the promotion of domestic rather

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than foreign business, it participated also in the founding of the following concerns engaged in the foreign field:

(a) 1889: *Deutsch-Asiatische Bank*. (See below, p. 455, No. 1.)

(b) 1894: *Banca Commerciale Italiana* in Milan. (See below, p. 456, No. 2.)

(c) 1898-1904 and 1908: A number of telegraph companies and cable works. (See pp. 458 and 459, No. 6.)

(d) 1898: *Banque Internationale de Bruxelles*.

(e) 1899: Shantung Mining and Shantung Railway Companies. (See below, pp. 458 and 459, No. 6)

(f) 1905: *Deutsche Orient-Bank* in Berlin, jointly with the Dresdner Bank (see above sub. 3, g) and the Nationalbank für Deutschland.

(g) 1905: *Deutsch-Südamerikanische Bank*, stock company, in Berlin, jointly with the Dresdner Bank. (See above sub. 3, h.)

(h) 1906: Kamerun Railway Company, jointly with several other banks. (See below, p. 458, No. 5.)

(7) PARTICIPATIONS OF THE NATIONALBANK FÜR DEUTSCHLAND.

This bank took part in the founding of the following institutions:

(a) 1889: *Deutsch-Asiatische Bank*. (See below, p. 455, No. 1.)

(b) 1895: *Credito Italiano* in Rome. The present share capital of the institution is 75,000,000 lire (\$14,475,000); its branches number at present 17.

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(c) 1899: Shantung Mining and Shantung Railway companies. (See below, pp. 458 and 459, No. 6.)

(d) 1904: *Banque d'Orient*, established by it in Athens. (Share capital, 10,000,000 francs; branches in Saloniki and Smyrna.)

(e) 1905: *Deutsche Orientbank*, stock company, in Berlin, founded in conjunction with the Dresdner Bank (see above, sub. 3, g) and the A. Schaaffhausen'scher Bankverein. This bank was detached from the *Banque d'Orient* and took over the latter's branches in Berlin, Hamburg, and Constantinople. Additional branches have been opened since in Cairo, Alexandria, Brussa, Kalamata, Saloniki, Smyrna, Tangier, and Casablanca.

Since 1905 the Deutsche Orientbank has maintained a community of interest with the *Deutsche Palästina-Bank* in Berlin, founded in 1899 by the banking firm Von der Heydt & Co., for the promotion of trade with Palestine and the Levant. The latter bank took over the assets and liabilities of the *Deutsche Palästina und Orient-Gesellschaft (Limited)* in Jerusalem, with a capital of 5,000,000 marks. It has now 4 branches (in Jaffa, Jerusalem, Beirut, and Hamburg), and in turn founded a subsidiary company, the *Levante-Kontor (Limited)*, with a branch in Constantinople. The dividends on its preferred stock show the following rates:

	Per cent.			Per cent.
1899.....	0	1904.....		0
1900.....	5	1905.....		5
1901.....	5	1906.....		6
1902.....	4	1907.....		6
1903.....	0	1908.....		6

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(f) 1909: The bank took part in the increase of capital of the *Crédit Mobilier Français*.

III.—THE COMMON SUBSIDIARY COMPANIES (*Tochter-Gesellschaften*) OF THE GERMAN CREDIT BANKS FOR THE PROMOTION OF OVER-SEA AND FOREIGN BUSINESS.

The following subsidiary institutions were founded jointly by a large number of German banks and banking houses to assist German trade and industry in gaining new markets and to preserve and expand existing markets or to develop our colonies.

1. In 1889 there was founded for the promotion of our trade in eastern Asia the *Deutsch-Asiatische Bank*⁴⁴³ at Shanghai, which at the end of 1908 had twelve branches in Berlin, Hamburg, Tientsin, Tsingtau, Hankow, Hongkong, Calcutta, Tsinanfu, Peking, Yokohama, Kobe in Japan, and Singapore. The share capital amounts to 7,500,000 Shanghai taels, fully paid in. The following great banks participated in its founding: The Deutsche Bank, Disconto-Gesellschaft, Dresdner Bank, Darmstädter Bank, Berliner Handelsgesellschaft, A. Schaaffhausen'scher Bankverein, and Nationalbank für Deutschland.

By grant (*Konzession*) dated July 6, 1906, based on paragraph 3 of the law regarding the colonies and the imperial decree regarding the issue of bank notes in the colonies, dated October 30, 1904, the *Deutsch-Asiatische Bank* was given the right for a period of fifteen years to issue bank notes in denominations of 1, 5, 10, and 25 Mexican dollars and of 1, 5, 10, and 25 taels through its branch offices located in the German possession of Kiauchau and in China. The dividends⁴⁴⁴ paid were as follows:

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	Per cent.			Per cent.
1889	0	1899.....		6
1890	2½	1900.....		7
1891	0	1901.....		7
1892	0	1902.....		9
1893	5	1903.....		10
1894	7	1904.....		10
1895	8	1905.....		11
1896	10	1906.....		9
1897	6	1907.....		8
1898	10	1908.....		8½

2. In 1894, for the promotion of our trade with Italy, there was founded the *Banca Commerciale Italiana*⁴⁴⁵ in Milan. Among the participants there were the same great banks, except the Nationalbank für Deutschland, which was interested in the *Credito Italiano*. The capital of the *Banca Commerciale Italiana* at the end of 1908 was 108,000,000 lire. It has now 35 branches, among them one recently opened at Constantinople.

The dividends paid were as follows:

	Per cent.			Per cent.
1895	6½	1902		8
1896	6½	1903		8
1897	7	1904		8
1898	7½	1905		9
1899	8½	1906		9
1900	8½	1907		9
1901	8	1908		9

For the promotion of trade with Tunisia the *Banca Commerciale Italiana* in turn founded in 1907 the *Banca Commerciale Tunisina* with the head office at Paris. During the same year it also participated in the increase of capital of the *Banco Commerciale Italiano* in São Paulo, Brazil, whose firm name has been changed since to the *Banco Commerciale Italo-Brasiliano* (capital 5,000 contos). In 1908 it founded in Constantinople the *Societá Commer-*

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ciale per l'Oriente (share capital, 3,000,000 lire) for the promotion of trade between Italy and Turkey.

3. During 1904-5 the *Deutsch-Ostafrikanische Bank*⁴⁴⁶ was founded with the head office at Berlin, a nominal capital of 2,000,000 marks and branches at Zanzibar, Mombassa and Dar-es-Salam. This institution acts both as an ordinary and a central note bank for the German colony of East Africa.⁴⁴⁷ In its latter capacity it is to regulate the money market, to facilitate payments within the colony and to make remittances between the colony on the one hand and Germany and other countries on the other. It has also been granted the privilege of issuing bank notes in terms of rupees in accordance with business demand up to the threefold amount of its capital with minute provisions regarding the reserve for its note circulation.⁴⁴⁸ Among the institutions participating in its foundation there figured also the *Deutsch-Ostafrikanische Handelsgesellschaft* (German East African Trading Company) which had been organized in the same colony likewise with the cooperation of German banks. Among the great banks which took part in the foundation of the East-African Bank we find the Deutsche Bank and the Disconto-Gesellschaft.

4. During 1904-5 the *Deutsch-Westafrikanische Bank*⁴⁴⁹ was formed, a colonial company with a capital of 1,000,000 marks and its main office at Berlin. At the end of 1908 it had three branches (in Hamburg, Lome in Togo, and Duala in Kamerun). Its function is to act as a bank in the colonies of Togo and Kamerun, i. e., to regulate the money market and to facilitate payments in these colonies; also to facilitate remittances between these colo-

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nies on the one hand and Germany and foreign countries on the other. The Deutsch-Westafrikanische Bank does not possess, however, the privilege of note issue.⁴⁵⁰ It may be noted that the participants in its foundation include besides the Dresdner Bank and several commercial firms, also the *Deutsch-Westafrikanische Handelsgesellschaft* (German West African Trading Company) which operates in the same colony.

5. The year 1906 witnessed the foundation of the Kamerun Railroad Company for the construction of a railway from Duala to the Manenguba Mountains with a capital of 5,640,000 marks preferred and 11,000,000 marks common stock. In accordance with act of May 4, 1906, the German Imperial Government guarantees a 3 per cent yearly dividend on the common stock, besides the redemption of the capital at the rate of 120 per cent. (Reichsgesetzblatt, 1906, p. 525.) Of the great banks the following took part in the foundation of the company: Berliner Handelsgesellschaft, Darmstädter Bank, Disconto-Gesellschaft, Nationalbank für Deutschland, Norddeutsche Bank and the A. Schaaffhausen'scher Bankverein. Among the founders figure also the banking firms S. Bleichröder, von der Heydt & Co. in Berlin, Wilh. Schlutow in Stettin, M. M. Warburg & Co. in Hamburg, also the commercial firm C. Woermann in Hamburg, and the *Aktiengesellschaft für Verkehrswesen* (Stock Company for transportation enterprises).

6. Again in the interests of national policy all the banks and firms concerned in the foundation of the Deutsch-Asiatische Bank took part also in the launching of the following enterprises. In all these cases there could be

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no thought of the speedy realization of the capital tied up in these enterprises.

1898: *Land- und Seekabelwerke A. G.* (Stock Company for land and sea cable works) in Cologne-Nippes (share capital 6,000,000 marks).

1899: *Schantung-Bergbau-Gesellschaft* (Shantung Mining Company) in Berlin, with a share capital of 6,000,000 marks.

1899: *Schantung-Eisenbahn-Gesellschaft* (Shantung Railway Company) in Berlin, with a share capital of 54,000,000 marks.

1899: *Deutsch-Atlantische Telegraphen-Gesellschaft*, Stock Company in Cologne, with a share capital of 24,000,000 marks.

1899: *Norddeutsche Seekabelwerke* (North German Sea cable works), stock company in Cologne-Nordenham, with a share capital of 6,000,000 marks.

1899: *Osteuropäische Telegraphen-Gesellschaft* (East-European Telegraph Company), stock company in Berlin, with a share capital of 1,000,000 marks.

1904: *Deutsch-Niederländische Telegraphen-Gesellschaft* (German-Dutch Telegraph Company), stock company in Cologne, with a capital composed of 7,000,000 marks of stock and 7,250,000 marks of bonds.

1908: *Deutsch-Südamerikanische Telegraphen-Gesellschaft A. G.* (German-South American Telegraph Stock Company), in Berlin, with a capital composed of 4,000,000 marks of stock and 7,800,000 marks of bonds.

1907: A number of German banks participated in the establishment of the State Bank of Morocco.

At the end of the nineties there were in existence only 4 German over-sea banks. In 1903 their number was 6, with 32 branches, while at the beginning of 1906 there were

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as many as 13, possessing a combined capital of fully 100,000,000 marks and about 70 branches.

But even these achievements appear rather unimportant when compared with those of other countries in the same field. Thus, for instance, England, in 1904, had 32 colonial banks with head offices in London and 2,104 in the colonies, besides 18 (30 in 1907) other British foreign banks with 175 branches.⁴⁵¹ France in 1904-5 had 18 colonial and foreign banks with 104 agencies; Holland 16 over-sea banks with 68 branches.

SECTION 5. GENERAL FINANCIAL RESULTS OF THE GERMAN CREDIT BANKS; GROSS EARNINGS AND THEIR COMPOSITION; GENERAL EXPENSES; NET PROFITS, DIVIDENDS, WRITING OFF, AND RESERVES.

The financial results of all German credit banks (with a share capital of at least 1,000,000 marks) for the years 1885 to 1908, inclusive, their number, and the dividends paid by them, are summed up in the following table:⁴⁵²

Year.	Number of banks.	Gross earnings, in thousands of marks.	Net earnings, in thousands of marks.	Dividends.	
				Amount of, in thousands of marks.	Rate of (per cent).
1885.....	71	77,810	56,140	46,430	6.41
1886.....	71	78,690	57,180	47,170	6.43
1887.....	71	80,970	57,740	48,000	6.53
1888.....	71	110,480	75,390	58,970	7.79
1889.....	93	141,000	110,500	81,920	8.77
1890.....	92	141,040	98,300	79,630	7.60
1891.....	95	112,150	74,140	63,070	6.11
1892.....	94	111,930	76,850	61,230	5.80
1893.....	93	110,030	71,770	59,740	5.72
1894.....	96	112,290	85,110	68,620	6.49
1895.....	94	150,330	111,920	83,550	7.61
1896.....	98	158,930	118,350	92,690	7.66

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Year.	Number of banks.	Gross earnings, in thousands of marks.	Net earnings, in thousands of marks.	Dividends.	
				Amount of, in thousands of marks.	Rate of (per cent).
1897.....	102	179,370	134,690	101,830	7.63
1898.....	108	218,380	162,800	126,360	7.86
1899.....	116	261,170	195,470	148,560	8.12
1900.....	118	262,020	185,270	140,520	7.19
1901.....	125	258,400	152,640	110,520	5.66
1902.....	122	256,760	156,170	120,510	6.19
1903.....	124	253,210	170,560	130,880	6.59
1904.....	129	273,500	189,780	145,540	7.25
1905.....	137	330,200	224,730	168,540	7.75
1906.....	143	377,080	255,530	186,880	7.88
1907.....	158	382,280	255,380	190,720	7.45
1908.....	169	417,230	261,010	194,820	7.41

It may be seen from this table that the German credit banks have paid an annual dividend below 6 per cent only three times during the last twenty-four years, namely, for the years of depression, 1892 and 1893, when the rate went down to 5.80 and 5.72 per cent and for the crisis year 1901, when the rate was as low as 5.66 per cent. Even for the years 1902 and 1903 following the crisis the average dividends exceeded 6 per cent, while for each of the last five years the average has been in excess of 7 per cent. During the years of the high crest of business activity, 1889 and 1899, average dividends in excess of 8 per cent were paid, viz, 8.77 and 8.12 per cent. These are exceedingly satisfactory and moreover stable results.

It is further seen that the average 1907 dividends of 7.45 per cent show a decline since 1906, when the average was 7.88 per cent, notwithstanding the fact that the average discount rate of the Reichsbank in 1907 stood at 6.03 per cent, as against only 5.15 per cent for the

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preceding year. This may serve as an additional argument against the contention that the banks are interested in a high bank rate. The truth is that whatever advantage they may derive from the higher interest rates on current account, this advantage is as a rule more than compensated by the fact that in such times emissions are either out of question or else made quite difficult; that in addition the security business is less profitable, that the value of the security holdings is shrinking, necessitating corresponding amounts to be written off, and that at such time losses under the head of debit accounts are also inevitable. A continuous high bank discount rate is therefore as a rule not favored by the banks.

If it is considered that the operating capital of a bank includes also the surplus funds and that therefore in calculating the dividend rates the former must also be reckoned, the following results for the last seven years are obtained, according to the *Deutscher Oekonomist*:⁴⁵³

[Amounts expressed in thousands of marks.]

	1902.	1903.	1904.	1905.
Share capital on which dividends are earned	1,948,476	1,984,642	2,005,136	2,175,315
Surplus at the beginning of the year	380,211	391,362	400,372	448,380
Total of capital and surplus (<i>Gesamtes eigenes Kapital</i>)	2,328,687	2,376,004	2,405,508	2,623,695
Dividends, amount of	120,512	130,881	145,511	168,536
Rate of dividends calculated on the basis of capital and surplus	5.10	5.51	6.05	6.40
Rate of dividends calculated on the basis of capital only	6.19	6.59	7.25	7.75

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	1906.	1907.	1908.
Share capital on which dividends are earned	2,371,781	2,559,202	2,627,855
Surplus at the beginning of the year	479,561	554,411	586,750
Total of capital and surplus (<i>Gesamtes eigenes Kapital</i>)	2,851,342	3,113,613	3,214,605
Dividends, amount of	186,884	190,722	194,829
Rate of dividends calculated on the basis of capital and surplus	6.50	6.12	6.06
Rate of dividends calculated on the basis of capital only... per cent..	7.88	7.45	7.41

It appears that on an average more than $1\frac{1}{4}$ per cent of the dividends is to be imputed to the surplus funds.

It is hardly possible for an outsider to calculate the return to the banks themselves on the capital invested, since neither the average amounts of capital employed during a given year nor the interest paid by the banks are known. For the same reason it is impossible to calculate the profits of the various business branches of the banks. Neither are the net returns to the holders of bank shares identical with the dividends received by them, in case a premium was paid, when the shares were purchased. For the period 1871 to 1900 the average income from dividends derived by shareholders of German credit banks amounted to 6.74 per cent; for 1880-1900 to 6.84 per cent, while the net income of shareholders for the last ten years was 6.70 per cent.⁴⁵⁴

For the year 1908 the returns on various shares from the shareholders' point of view⁴⁵⁵—that is, the net returns to shareholders—were as follows:

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Banking, 7.7 per cent; insurance, 19.3 per cent; chemical industry, 15.7 per cent (large-scale chemical enterprises, 11.5 per cent); mining, smelting, salt works, etc., 9.5 per cent; textile industries, 9.4 per cent; electrical industry, 8 per cent; secondary railways (*Kleinbahnen*) and street railways, 4.3 per cent.

The average dividends of the 14 Berlin banks⁴⁵⁶ were invariably higher than those of other banks, as may be seen from the following table, which gives the comparative figures for the last seventeen years:

Year.	Average dividends paid by—		Year.	Average dividends paid by—	
	All German banks with a capital of at least 1,000,000 marks each.	Berlin banks.		All German banks with a capital of at least 1,000,000 marks each.	Berlin banks.
	<i>Per cent.</i>	<i>Per cent.</i>		<i>Per cent.</i>	<i>Per cent.</i>
1892.....	5.80	6.03	1901.....	5.66	5.75
1893.....	5.72	5.73	1902.....	6.19	6.72
1894.....	7.49	8.14	1903.....	6.59	7.23
1895.....	7.61	8.29	1904.....	7.25	8.15
1896.....	7.66	8.48	1905.....	7.75	8.72
1897.....	7.63	8.45	1906.....	7.88	8.77
1898.....	7.86	8.45	1907.....	7.45	7.93
1899.....	8.12	8.59	1908.....	7.41	8.06
1900.....	7.19	7.61			

We may reiterate here what we stated in the earlier part of the volume, viz, that the rate of dividends increases with the increase of the current business of the bank, while the steadiness of the dividends increases with the increase of its regular deposit business.

On the other hand there is no basis of fact for the notion of a recent writer,⁴⁵⁷ according to which the profits of the bank increase in proportion to their combined capital and

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surplus, a fact which he regards of the utmost economic interest. As a matter of fact, the reverse is true: With the progressive growth of profits—that is, with the growth of business, especially their current business—the banks, in accordance with sound business policy, have been increasing their capital.

Of the total gross profits of the German banks (with a capital of at least 1,000,000 marks each) almost one-quarter is due to commissions earned chiefly in the brokerage business. According to the *Deutscher Ökonomist* the gross profits, commissions, and the proportion of commissions to gross profits show the following figures:

Year.	Number of banks.	Gross profits (1,000 marks).	Commissions (1,000 marks).	Proportion of commissions to gross profits.
				<i>Per cent.</i>
1884.....	71	83,000	19,900	24.0
1885.....	71	77,800	19,700	25.3
1886.....	71	78,700	20,500	26.0
1887.....	71	80,900	20,700	25.5
1888.....	71	110,050	24,200	22.0
1889.....	93	141,000	32,100	22.8
1890.....	92	141,000	32,200	22.8
1891.....	95	112,000	28,800	25.7
1892.....	94	111,900	26,700	23.8
1893.....	93	110,000	27,800	25.2
1894.....	96	112,200	28,100	25.0
1895.....	97	150,300	34,300	22.8
1896.....	98	158,900	35,400	22.3
1897.....	102	179,400	40,400	22.5
1898.....	108	218,400	50,500	23.1
1899.....	116	261,800	57,900	22.1
1900.....	118	262,000	60,000	22.9
1901.....	125	258,400	58,800	22.8
1902.....	122	256,700	57,700	22.5
1903.....	124	253,200	62,600	24.7
1904.....	129	273,500	68,200	25.0
1905.....	137	330,200	81,400	24.7
1906.....	143	377,000	91,400	24.3
1907.....	158	382,300	97,500	25.5
1908.....	169	417,200	103,700	24.9

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The gross profits of the Berlin banks show the following figures (in million marks):

1897.....	98.8	1903.....	140.4
1898.....	126.8	1904.....	152.6
1899.....	144.5	1905.....	190.7
1900.....	139.9	1906.....	201.9
1901.....	131.6	1907.....	201.3
1902.....	138.2	1908 ⁴⁵⁸	196.0

According to a calculation of the *Kölnische Zeitung*⁴⁵⁹ the total gross profits of 57 German banks in 1903 originated as follows: From bills and interest, 48 per cent; from commissions, 25 per cent; from issues and participations, 22 per cent.

For the years 1905-1908 the profits from commissions and interest constituted the following proportions of the total gross profits: (a) for all banks: 71 per cent, 75 per cent, 86 per cent, and 76 per cent; (b) for 9 Berlin banks: 67 per cent, 71 per cent, and 78 per cent.

Of the gross profits of the Berlin great banks the following proportions were derived from commissions and interest:

	1906.	1907.	1908, ⁴⁶⁰
	<i>Per cent.</i>	<i>Per cent.</i>	<i>Per cent.</i>
Deutsche Bank.....	69	73	70.6
Disconto-Gesellschaft.....	64	68	61.4
Dresdner Bank.....	79	88	84.8
Darmstädter Bank.....	55	69	66.6
Berliner Handelsgesellschaft.....	73	79	82.9
A. Schaaffhausen'scher Bankverein.....	77	88	84.4

The assertion has been made that as early as 1894 all the banks except the Darmstädter Bank, and in 1905 all the banks, except the Disconto-Gesellschaft and the Darmstädter Bank derived sufficient earnings from their current

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business, that is, the specie, coupon, and bill business, interest and commissions, also from their commandites, to fully pay their dividends. This assertion made by Loeb (see Model-Loeb op. cit. p. 152) is erroneous, as the author fails to deduct from the above earnings the corresponding expenses of operation. These expenses⁴⁶¹ for all German credit banks with a capital of at least 1,000,000 marks each were as follows (in million marks):

Year.	Million marks.	Year.	Million marks.	Year.	Million marks.
1883.....	12.4	1893.....	26.9	1902.....	66.5
1884.....	13.5	1894.....	26.2	1903.....	69.7
1885.....	14.0	1895.....	29.2	1904.....	74.9
1886.....	14.8	1896.....	32.8	1905.....	90.8
1887.....	15.6	1897.....	37.0	1906.....	107.9
1888.....	17.1	1898.....	45.8	1907.....	121.8
1890.....	22.8	1899.....	53.3	1908.....	134.5
1891.....	23.4	1900.....	59.8		
1892.....	24.0	1901.....	64.2		

It is seen that during the course of concentration the cost of operation has been steadily and largely increasing. In 1908 it constituted about 32 per cent of the gross earnings of all the larger banks, compared with 31 per cent in 1907, 28 per cent in 1906, 27 per cent in 1905 and only 18 per cent in 1895. For the 9 Berlin banks the cost of operation in 1908 amounted to not less than 66,800,000 marks, as against gross earnings of 196,000,000 marks, that is, 34 per cent, as against 32 per cent in 1907, 30 per cent in 1906, and 28 per cent in 1905, the individual banks showing proportions more or less favorable than the averages just given.

For the 6 Berlin great banks the cost of operation for 1908 was 55,900,000 marks; that is, 33 per cent of the

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gross earnings, the figures for each of these banks being as follows (in million marks):

	1907.		1908.	
	Gross earnings.	Cost of operation.	Gross earnings.	Cost of operation.
Deutsche Bank	53.6	20.0	55.0	21.4
Disconto-Gesellschaft	27.8	8.5	29.0	8.9
Dresdner Bank	31.5	9.8	31.0	10.5
Darmstädter Bank	17.8	7.6	19.3	8.2
Berliner Handelsgesellschaft	14.0	2.5	14.7	3.9
A. Schaaffhausen'scher Bankverein	18.0	3.4	18.3	3.0

The most noteworthy facts brought out by the table is the relatively small cost of operation in the case of the Berliner Handelsgesellschaft, due to its continued strong centralization, and the relatively high cost of operation in the case of the Deutsche Bank, due undoubtedly to its strong decentralization.

The amounts written off by all German credit banks (with a capital of at least 1,000,000 marks each) prior to the fixing of the clear profits were as follows (in million marks):

Year.	Million marks	Year.	Million marks.	Year.	Million marks.
1883	3.2	1892	8.2	1901	51.6
1884	3.7	1893	10.0	1902	24.0
1885	6.6	1894	8.3	1903	12.7
1886	4.7	1895	9.0	1904	11.0
1887	5.9	1896	4.1	1905	11.0
1888	8.2	1897	2.5	1906	12.0
1899	5.4	1898	5.8	1907 ⁴⁰²	40.2
1890	6.7	1899	10.7	1908	35.1
1891	8.9	1900	12.8		

This table does not include the amounts written off prior to the fixing the gross earnings by reducing the valua-

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tion of particular assets (so-called silent reserves). The specially large amounts written off in 1901, viz, 51,600,000 marks, are due to the crisis of 1900-1901.

According to the *Deutscher Oekonomist*, the surplus funds showed the following total amounts and proportions to the share capital:

Year.	Data for all banks.			Data for the Berlin banks.		
	Capital stock (in thousands of marks.)	Surplus (in thousands of marks.)	Proportion of surplus to capital stock.	Capital stock (in thousands of marks.)	Surplus (in thousands of marks.)	Proportion of surplus to capital stock.
			<i>Per cent.</i>			<i>Per cent.</i>
1885.....	723,950	93,240	12.90	326,740	55,080	17.00
1886.....	733,690	99,270	13.53	332,750	59,520	18.00
1887.....	758,000	107,900	14.23	351,750	67,140	19.00
1888.....	772,400	115,320	15.00	368,180	74,030	22.11
1889.....	981,450	156,060	15.90	473,120	103,820	22.00
1890.....	1,054,330	187,880	17.82	507,450	119,650	23.58
1891.....	1,053,210	191,720	18.20	481,240	117,910	24.50
1892.....	1,057,090	200,310	18.95	494,390	123,180	24.92
1893.....	1,046,170	196,330	18.77	486,400	117,560	24.17
1894.....	1,067,520	199,820	18.72	534,200	120,490	22.56
1895.....	1,134,820	210,620	18.56	626,860	142,460	22.73
1896.....	1,240,310	235,250	19.00	656,570	153,040	23.32
1897.....	1,418,090	270,750	19.10	758,080	172,320	22.73
1898.....	1,688,170	330,370	19.60	926,530	202,860	21.90
1899.....	1,906,250	373,930	19.61	1,019,920	225,540	22.11
1900.....	1,959,550	390,930	19.95	1,019,920	230,680	22.62
1901.....	1,959,290	380,210	19.40	1,015,800	223,730	22.13
1902.....	1,980,590	391,360	19.75	1,022,800	239,890	23.45
1903.....	1,989,960	400,370	20.12	1,019,400	243,310	23.87
1904.....	2,066,540	448,380	21.68	1,071,200	278,950	26.04
1905.....	2,223,580	479,560	21.50	1,136,700	294,100	25.80
1906.....	2,432,140	554,410	22.70	1,175,440	333,750	28.30
1907.....	2,572,890	586,750	22.80	1,209,100	344,850	28.50
1908.....	2,646,610	607,070	22.90	1,178,000	342,890	29.10

A very material part of the surplus funds does not come from the business profits, but represents chiefly amounts paid in by the stockholders in the shape of premiums and

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placed with the surplus funds in accordance with the provisions of paragraph 262 of the Commercial Code (formerly article 185, b, secs. 1 and 2 of the *Aktiennovelle* (corporation share act) of July 18, 1884. The surplus funds grew according to the above table in the case of all banks with a capital of at least 1,000,000 marks each from 12.90 per cent in 1885 to 22.90 per cent in 1908, and in the case of the Berlin banks from 17 per cent in 1885 to 29.10 per cent in 1908. On an average, the surplus funds grew more rapidly than the capital stock.

During the year 1900, when the surplus funds in all the banks amounted to nearly 20 per cent (19.95) and in the Berlin banks to nearly 23 per cent (22.62), the surplus funds in other enterprises (according to Ed. Wagon, *op. cit.*, p. 170) were:

	Per cent.
In the wood industry.....	8.89
In building companies.....	10.87
In the brewery industry.....	17.07
In the coal industry.....	20.48
In the machinery industry.....	22.94
In the chemical industry.....	23.38
In the rubber industry.....	27.15
In the paper industry.....	27.16

I must say, however, that this very favorable development of the surplus funds of the banks is due to the excellence of our corporation laws rather than to the excellent policy of our banks, as Ed. Wagon would have us believe.⁴⁶³

At all events it is due chiefly to the relatively large surplus funds that the German banks and industrial companies were able to pass through the crisis of 1900 relatively well, in strong contrast to the crisis of 1873, and that their recovery after the crisis took so little time. It is seen that

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the surplus funds of the German banks compare quite favorably with the surplus funds accumulated in the most important branches of industry. It must, however, be borne in mind, that, like the industrial corporations, our banks have endeavored to accumulate so-called "silent reserves" in addition to the legally prescribed surplus funds as shown in the balance sheets. These "silent reserves" can be traced chiefly to the extremely cautious and conservative modes of valuing the assets of the institutions before the gross earnings are calculated.

The fairly steady progress of the former period (1848-1870) contrasts with the rapidity with which Germany's whole economic life and, with it, German banking are advancing in the present period, in about the same way as the speed of the mail coach of the times of the Holy Roman Empire of the German nation, contrasts with the flight of the modern automobile, which while it speeds along, overcoming all obstacles, corners, and surface difficulties, endangers at times both the innocent pedestrian as well as the occupants. Just as in the case of the automobile, so in the case of German banks, public safety and real progress are safeguarded only when the persons in charge combine great technical skill with the greatest virtue of persons in control, that of keeping within bounds.

Not only private but also public interests are at stake. With the power and the influence of the large enterprises grows also the responsibility of the managers, as well as the necessity of supplanting the indiscriminate choice of means by wise self-restraint of the leaders. It is not without significance that a distinction is made

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between banks proper and private banking concerns, and that the bank employees are spoken of as bank officials. They are, in fact, employees of enterprises which by reason of their functions and development "can not be regarded as purely private undertakings"⁴⁰⁴ and toward which the regulations of private law are becoming less and less applicable.

SECTION 6. THE CHARACTER OF THE BUSINESS MANAGEMENT AND BUSINESS DEVELOPMENT OF EACH OF THE GREAT BERLIN BANKS.

Before describing in the next chapter the concentration movement in German banking during the second period, I shall attempt to characterize summarily the particular methods of management and operations of each of the great Berlin banks, as shown in previous chapters, in connection with their various activities.

THE DEUTSCHE BANK.

1. The distinct merit of the management of the Deutsche Bank, which was founded only in the beginning of the second period, is that from its very inception is showed a clear insight both into the needs of the hour as well as of the more distant future. Accordingly its policy has been to make timely and proper provisions for these more distant needs, so that the bank was hardly ever taken unawares by unexpected happenings and in its actions and policies was almost never influenced by untoward developments. The bank was thus never compelled to make sudden changes in its policy, dictated by the pressing needs of the moment, and in all its activities presents a picture of safe, quiet, and steady progress.

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2. There are three main directions in which the above-mentioned qualities of management are brought out most clearly and brilliantly, and in which the Deutsche Bank has become a model for German banking as a whole:

(a) The Deutsche Bank, immediately after its creation, adopted as an integral and essential feature of its banking policy, the systematic fostering of the deposit business through the establishment of deposit offices, (which numbered 74 at the end of 1908), thereby effecting the concentration of a part of the available funds of the nation in the credit banks for productive investments and uses.

The amount of its deposits increased from 4,800,000 marks at the end of 1871 to 74,800,000 marks in the year 1894 and reached the total of 779,500,000 marks at the close of 1908.

(b) It was first among the banks to recognize the necessity for the German credit banks, of following a systematic industrial policy, and immediately upon recognition of this necessity it took the proper practical steps in line with its new policy.

In the year 1897 a community of interests formed simultaneously with the *Bergisch-Märkische Bank* in Elberfeld and with the *Schlesischer Bankverein* in Breslau, both of which had long been active in the chief industrial districts of Rhineland-Westphalia and Silesia, secured to the Deutsche Bank, with one stroke, a firm foundation for permanent industrial connections in these districts.

(c) Although other banks had made scattered efforts along the same lines, the Deutsche Bank was the first to recognize the need of a systematic fostering of industrial exports by the German credit banks and proceeded to lend

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its support to that policy with an energy undaunted either by difficulties or occasional failures. Soon after its creation it established branches in Bremen, Hamburg, and London, followed later by the creation of subsidiary companies in foreign countries or for the foreign trade, such as the *Deutsch-Amerikanische Treuhand-Gesellschaft*, (1890) the *Deutsche Ueberseeische Bank* (1890), the *Deutsch-Ostafrikanische Bank*, (1904-5), the *Central-Amerika-Bank* (1905), and the *Mexikanische Bank für Handel und Industrie* (1906).

The same and even larger purposes were served by the founding of the *Anatolische Eisenbahn-Gesellschaft* (1889), the *Betriebsgesellschaft der Orientalischen Eisenbahnen* (1889), the *Bank für Orientalische Eisenbahnen* (1891), the *Kaiserl. Ottomanische Eisenbahngesellschaft* (1903), the *Bagdad-Bahn* (1903), and the *Deutsch-Ostafrikanische Bank* (1904-5).

In all its activities abroad the Deutsche Bank was governed by the viewpoint which I endeavored to express in another part of this book (Sec. 7) in the words: "The skirmishes" of the political advance posts are fought out on financial ground" (*Die politischen Vorpostengefechte werden auf finanziellem Boden geschlagen*). This is shown best by the bank's activities in Turkey, in the case of the Anatolian and the Bagdad railways, etc.

It was the above-mentioned lines of policy which caused the Deutsche Bank (as we shall see in the next Part, IV) to develop a strong tendency toward concentration, particularly by decentralizing its operations. In this connection the bank quite frequently and successfully availed itself of opportune moments for prompt

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and energetic action, even at times when other banks preferred to follow a cautious and waiting policy. For instance, on the same day when the business and banking world was shocked by the news that the Leipziger Bank had closed its doors the Deutsche Bank announced the opening of a branch in Leipzig.

The beginnings of concentration date back to the seventies, when the Deutsche Bank participated in a number of bank liquidations, which will be discussed in detail later on. This action proved the source of considerable profits, and, what was more important, resulted at the same time in the gain of a large clientele of the first order in various sections of the Empire. It also gave the bank an opportunity to obtain a firm foothold in southern Germany by founding in Frankfort-on-the-Main, one of the leading financial centers, a branch of its own on the ruins of the *Frankfurter Bankverein*.

By constantly extending the network of communities of interest and by the conclusion of friendly agreements (*Freundschaftsverträge*) on the basis of the "most-favored treatment," it steadily increased the concentration and through it extended its sphere of activity and influence. With each further phase of concentration the bank also increased the domain of its current-account, bill, contango, acceptance, and emission business. This can be seen very plainly from a comparison of the table below (p. 480), which shows the earnings from its various lines of business, with the table showing the progress of concentration (Appendix VII). The bank recognized from the very beginning, even while it was

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planning large activities abroad, that the fostering of the deposit and the regular business must always constitute the backbone of a German credit bank, and it took no step in its concentration development which did not involve also a vigorous advancement in this direction.

The systematic development of its industrial policy began with the "bold move" of 1897. During the first two decades, however, the bank did little or nothing toward extending its industrial connections through the founding or transforming of industrial enterprises. At that time it sought to improve these connections rather through expanding its current-account and acceptance business. When in 1890 it followed the example of the other banks by founding the *Deutsch-Oesterreichische Mannesmannröhrenwerke* (German-Austrian Mannesmann Tube Works), this "step from its straight path" did not prove profitable.

Since the nineties, however, the German Bank has shown but little difference from the other banks as regards its industrial, founding, transforming, credit, and emission business,⁴⁰⁵ although, generally speaking, it shows far less activity than the other banks in the field of industrial promotion proper. It was only recently that it entered upon this line of activity on a large scale by financing, with apparent success, a number of petroleum companies. (See above, p. 418 and following.)

It should be said that the Deutsche Bank was also in advance of most other banks, in adhering the more strictly to the principles of distribution of risk and liquidity of resources the more it extended its sphere of activity.

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Increases of capital for the purpose of restoring the liquidity of its resources were never resorted to at a time when the liabilities had already grown to dangerous proportions as compared with the liquid assets of the institution, but were secured beforehand, when such an unfavorable change was to be reasonably expected as the natural consequence of the normal growth of business. Such increases often proved unpleasant surprises to stockholders and speculators, causing unjustified apprehension of decreased earnings.

As a result of the mutually interdependent business policies described above, the Deutsche Bank has shown a greater steadiness in the development of its dividends as well as its surplus funds than any other bank. This is proven by the table below, taken from the report of its operations for 1908. Its surplus funds, as shown in its balance sheets (exclusive of the no doubt considerable "silent reserves"), amount at present to 51 per cent of the capital stock of 200,000,000 marks, the latter having grown from an original capital stock of 15,000,000 marks in 1870.

With reference to earnings from the current business and the extent of its oversea business, the Deutsche Bank takes first rank. Its acceptance account as a result of its large oversea business often reached proportions which were deemed excessive in some quarters. The bank undertook the underwriting and emission on a large scale of German state and communal loans. It had a leading part in the emission, among others, of the loans of the following states: Argentina, Bosnia, Bulgaria, Chile,

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China, Mexico, Spain, and Turkey (for particulars see Append. V and VI). It took up in their entirety the German and Prussian loans of 1899, amounting altogether to 200,000,000 marks.

The bank repeatedly suffered losses through the speculations of the managers of its branches and *commandites*; thus in 1882 through the speculations of the managers of its New York commandite, in 1897 through the speculations of the manager of an exchange office (*Wechselstube*) of the Hamburg branch, and in 1891 through the speculations and embezzlements of a Berlin official, which necessitated a writing off of 1,000,000 marks. The losses in the current-account business have been relatively small, and in view of the large surplus have had no appreciable effect on the bank.

On the other hand, like the other banks, it had to write off repeatedly serious losses on account of participations and industrial business. Under this head fall the losses due to the liquidation of its early branches in Shanghai and Yokohama, of its commandites in New York and Paris; the Argentine participations and emissions, the *Deutsch-Amerikanische Treuhand-Gesellschaft* (German-American Fidelity Company), the Mannesmann-undertaking; also losses occasioned through its participations and connections in the United States, especially with the American railways, such as the Northern Pacific Railroad Company. The successful reorganization of this road is due primarily to the energy and sagacity of the Deutsche Bank.

The standing which the German mark bills attained in foreign markets, and which constituted the first stage

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in the increasing independence of our export trade from foreign intermediaries, is primarily the work of the Deutsche Bank and in the second place that of the Disconto-Gesellschaft.

The German Bank participated and as a rule took a leading part in all the joint enterprises of the large banks, initiated for the advancement of the foreign and especially the oversea relations of Germany, as, for instance, in the founding of the *Deutsch-Asiatische Bank* (1889), the *Banca Commerciale Italiana* (1894), the *Banque Internationale de Bruxelles* (1898), the *Schantung-Bergbau und Eisenbahn-Gesellschaft* (1899), the telegraph and cable companies of the years 1898 to 1908, and the *Kamerun-Eisenbahngesellschaft* (1906).

The following table shows in detail the development of the Deutsche Bank:

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Statistical review of the develop

End of calendar year—	Cash, coupons, bills, bank credits, tango, treasury bills and securities.	Credits on current account and deposits.	Debits on current account, advances on merchandise, etc.		Acceptances.
			(a) Secured.	(b) Unsecured.	
	Marks.	Marks.	Marks.	Marks.	Marks.
1870....	5,680,689	2,352,265	3,237,181	2,158,120	2,463,740
1871....	22,739,225	22,922,080	11,742,210	7,828,140	7,600,918
1872....	41,602,899	38,671,172	27,842,441	18,293,382	23,512,090
1873....	72,854,311	50,727,055	25,184,925	12,487,373	30,269,944
1874....	81,435,860	56,977,289	17,521,326	17,447,623	37,614,960
1875....	72,117,806	43,547,190	24,555,468	17,091,166	42,475,164
1876....	110,373,161	96,454,424	35,312,592	16,328,058	41,038,337
1877....	65,103,158	41,546,656	41,310,408	13,400,531	38,836,891
1878....	73,577,426	48,471,197	42,776,959	13,117,797	44,032,363
1879....	92,679,843	68,585,210	56,035,000	14,178,119	48,205,643
1880....	85,896,970	63,938,491	49,490,850	16,349,525	45,834,592
1881....	110,913,709	92,471,665	64,282,435	21,235,646	54,216,214
1882....	106,236,471	84,705,101	66,649,401	19,184,402	46,140,476
1883....	129,277,138	107,724,165	80,060,464	28,096,181	69,048,298
1884....	149,917,199	122,280,372	85,725,618	36,503,597	83,658,784
1885....	164,517,101	132,414,350	91,567,601	27,876,166	80,942,605
1886....	159,531,662	137,809,036	91,567,364	26,820,749	82,753,414
1887....	175,801,987	159,040,048	95,685,222	30,173,948	88,821,789
1888....	208,419,928	185,939,718	106,626,950	42,527,464	93,912,184
1889....	217,646,924	217,322,621	139,041,615	40,600,115	105,801,771
1890....	234,758,079	203,247,700	115,164,961	34,061,711	101,076,473
1891....	248,828,238	200,297,992	86,918,718	28,086,866	85,007,988
1892....	252,553,545	205,848,449	103,378,662	29,898,397	96,093,677
1893....	247,762,714	214,453,616	105,769,429	36,691,151	96,325,332
1894....	285,869,072	250,630,525	110,958,904	33,983,676	93,865,465
1895....	296,959,088	295,845,950	177,124,944	46,937,481	122,496,507
1896....	314,997,810	287,217,599	154,761,993	45,006,718	116,646,487
1897....	378,777,898	359,718,954	182,405,232	58,666,995	130,511,769
1898....	436,939,357	444,068,368	203,112,894	61,992,295	128,340,214
1899....	453,857,134	479,947,211	232,196,609	72,764,087	141,883,555
1900....	486,153,982	531,166,114	244,553,839	71,806,556	141,131,301
1901....	573,593,263	630,259,107	254,245,936	72,492,174	142,420,917
1902....	674,679,032	720,476,427	264,996,941	71,060,603	145,301,506
1903....	722,163,979	789,374,381	314,525,405	77,324,283	179,808,067
1904....	840,004,989	893,594,072	334,315,096	96,022,215	185,083,202
1905....	931,983,038	1,064,340,143	382,712,175	117,181,085	197,843,098
1906....	1,029,740,885	1,250,744,129	473,181,109	160,243,675	226,110,088
1907....	1,024,584,737	1,264,405,721	509,798,132	177,054,188	263,537,867
1908....	1,014,205,572	1,268,816,252	515,652,163	160,947,532	231,948,426

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ment of the Deutsche Bank.

Syndicate participations.	Capital stock.	Surplus. ⁴⁶⁶	Dividends.	Aggregate turn-over during year.	End of calendar year—
Marks.	Marks.	Marks.	Per cent.	Marks.	
.....	15,000,000	36,215	5	239,342,864	1870
830,932	30,000,000	161,972	8	951,445,036	1871
1,738,834	45,000,000	703,611	8	2,891,276,883	1872
1,894,900		1,308,987	4	3,765,140,668	1873
1,090,216		2,341,569	5	5,509,149,588	1874
2,494,231		3,434,506	3	5,512,596,634	1875
1,720,608		4,411,581	6	7,132,497,077	1876
1,267,186		4,857,429	6	7,325,231,848	1877
3,798,113		5,472,928	6½	7,129,850,865	1878
2,939,071		6,646,742	9	8,834,737,806	1879
6,942,299		7,776,419	10	10,484,497,746	1880
14,375,726	60,000,000	9,354,059	10½	12,898,953,540	1881
14,740,480		13,816,131	10	12,054,513,781	1882
16,146,000		14,381,884	9	13,205,456,803	1883
11,302,239		15,309,710	9	15,650,971,110	1884
8,773,322		15,748,039	9	15,147,999,465	1885
20,886,257		16,212,611	9	16,180,649,366	1886
23,549,785		16,659,769	9	18,062,819,201	1887
21,493,311	75,000,000	23,108,580	9	23,381,792,352	1888
29,710,209		23,852,467	10	28,125,250,988	1889
29,734,251		24,600,094	10	28,304,126,996	1890
26,901,840		25,162,756	9	25,559,236,637	1891
20,799,573		25,592,561	8	25,331,274,743	1892
21,794,852		26,025,280	8	29,152,668,706	1893
13,847,627		26,590,882	9	31,617,185,805	1894
30,938,125	100,000,000	38,634,390	10	37,900,537,501	1895
33,882,758		39,651,027	10	35,497,085,015	1896
31,634,568	150,000,000	45,275,637	10	37,913,360,703	1897
35,868,442		46,458,129	10½	44,395,084,329	1898
31,527,497		48,049,218	11	50,770,285,211	1899
35,056,687		49,340,262	11	49,773,486,885	1900
35,505,516		50,642,845	11	51,815,610,701	1901
32,355,392	160,000,000	55,283,295	11	56,783,415,833	1902
33,058,426		59,030,455	11	59,640,106,144	1903
23,563,873	180,000,000	76,662,853	12	66,897,131,338	1904
35,367,911		78,398,560	12	77,205,585,347	1905
45,341,545	200,000,000	100,000,000	12	85,590,594,109	1906
53,427,886		101,831,917	12	91,611,054,053	1907
36,841,129		103,699,003	12	94,470,721,268	1908

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THE DISCONTO-GESELLSCHAFT.

The Disconto-Gesellschaft was founded at first as a *Kreditgesellschaft* (credit partnership) by the later-day Prussian Minister of Finance, David Hansemann, and in 1856 transformed into a *Kommanditgesellschaft auf Aktien* (limited stock company), under the firm name *Direktion der Disconto-Gesellschaft*. As we showed above, this bank, as early as the first period (1851-1870), took a leading part in the fostering of the current-account business and in the underwriting and emission of German state and communal loans and railway shares.

Until the year 1900, however, i. e., for nearly fifty years, this company apart from commandite participations adhered strictly to the policy of strict business centralization. It was only through the fostering and extending of over-sea relations that it came to establish in 1900 a branch in London. In 1901 the liquidation of the banking house M. A. von Rothschild & Sons in Frankfort-on-the-Main led to the opening of a branch in that city. During the second period it was prominently connected, as a member of the Rothschild syndicate, with all the underwriting and issue business conducted by this group, especially the state loans and the railway enterprises in Austria and Hungary, also with the issue of Russian, Roumanian, Chinese, and Japanese loans.

It fostered industrial relations even during the first period with relatively good success, though refraining as a rule from speculative excesses. In so far, however, as it permitted itself to be led into financing and managing industrial enterprises, it had to suffer the same, and at