

The German Great Banks

times, even worse experience than the other banks, as, for instance, in the case of the taking over of the *Heinrichshütte* (Heinrich Smelting Works) in 1857; the founding in 1872 and the subsequent development of the *Dortmunder Union*; the *Grosse Venezuela-Eisenbahn-Gesellschaft*, the *Internationale Druckluft- und Elektrizitäts-Gesellschaft* (Popp), founded in 1890, and the blasting works at the Iron Gate in Hungary taken over from the firm G. Luther. Between the years 1891-1894 the *Disconto-Gesellschaft* had to write off losses of about 10,000,000 marks on account of its industrial and other participations.

On the other hand, in 1873 it founded the *Gelsenkirchener Bergwerksgesellschaft* (G. Mining Co.), which became one of the most prominent concerns in the mining industry. Adolph von Hansemann, who at that time was one of the general partners of the *Disconto-Gesellschaft*, and its most talented manager, became the chairman of the supervisory board of the new mining company. In this way the bank secured numerous connections with industrial undertakings and cartels. These connections became even more important when on January 1, 1905, a community of interests was formed between the *Gelsenkirchener Bergwerksgesellschaft*, the *Aachener Hütten-Aktien-Verein Rote Erde* (Aix-la-Chapelle Smelting Company Rote Erde) and the *Schalcker Gruben- und Hütten-Verein* (Schalke Mining and Smelting Company).

The *Disconto-Gesellschaft* actively and successfully participated in the organization of the Rhenish-Westphalian Coal Syndicate, which was finally accomplished in 1893, after many grave obstacles had been overcome.

National Monetary Commission

In the eighties and nineties it effected a number of issues for the August Thyssen Mining and Smelting enterprises, especially the *Schalcker Gruben- und Hütten-Verein* and the *Gewerkschaft Deutscher Kaiser*. In 1874 it participated in a syndicate formed under the leadership of the *Seehandlung* (the Prussian State Bank) for the underwriting and issuing of a 5 per cent loan of 10,000,000 thalers for the Krupp Works. This operation deserves special mention because, on this occasion, for the first time in Germany, the loan took the form of fractional bonds secured by blanket mortgage and provided for common representation of the holders of these bonds, which since then has become the common form of such obligations.⁴⁶⁷

The Disconto-Gesellschaft maintains close relations with the *Rheinische Stahlwerke* (since 1877), the Stumm Works in Neunkirchen, the *Aktiengesellschaft Gute Hoffnungshütte* (Gute Hoffnung Smelting Company) in Oberhausen, the *Bochumer Verein für Bergbau und Gusstahlfabrikation* (Bochum Mining and Cast Steel Manufacturing Company) and the *Kattowitzer Aktiengesellschaft für Bergbau- und Hüttenbetrieb* (Kattowitz Mining and Smelting Company), the latter founded with a capital stock of 16,000,000 marks through the reorganization of the mining and smelting properties of the von Tiele-Winckler estate.

The Disconto-Gesellschaft through its connections with Herm. Schmidtman and the Schmidtman mining and other enterprises, especially the potash works in Aschersleben, stands in close relation to the potash industry. In the field of machinery construction it is closely related to the Schichau ship yards in Elbing and Danzig, the Henschel Machine Works in Cassel, the Saxon Machine

The German Great Banks

Works (formerly Richard Hartmann) in Chemnitz, the Berlin Machinery Construction Company (formerly L. Schwartzkopff) and the machine and milling machinery works of G. Luther in Brunswick.

The Disconto-Gesellschaft has always taken a prominent interest in the business operations of the Ludwig Loewe Company and in all the enterprises founded by this company, a managing partner of the Disconto Bank serving on the supervisory board of each of these undertakings. Thus it participated in the administration and the security issues of the *Deutsche Waffen- und Munitionsfabriken* (German Arms and Ammunition Works) in Berlin and Karlsruhe, the *Union-Elektrizitäts-Gesellschaft* (Union Electric Company), which took over the electrical department of the Ludwig Loewe Company, the *Gesellschaft für Elektrische Unternehmungen* (Corporation for Electrical Enterprises), etc.

It also cooperated in a large number of stock and bond issues of the firm of Siemens & Halske.

In the sphere of insurance it maintains close relations to the *Aachener und Münchener Feuerversicherungsgesellschaft* (Aix-la-Chapelle and Munich Fire Insurance Company), the *Lebens- und Feuerversicherungsbank* (Life and Fire Insurance Bank) in Gotha, the *Lebensversicherungsgesellschaft Nordstern* (Northern Star Life Insurance Company), which was organized in 1881 in Berlin, etc. It participated in the financing of minor and secondary railways (*Klein- und Nebenbahnen*) only through its close relations to the *Westdeutsche Eisenbahn-Gesellschaft*.

In the sphere of real estate business proper the Disconto-Gesellschaft participated only occasionally, assisting in the parcelling of some land tracts.

National Monetary Commission

In more recent times the Disconto-Gesellschaft developed an energetic activity in the petroleum field. (See above, p. 418 and following.)

Finally, the Disconto-Gesellschaft has been very active in the sphere of mortgage and agricultural credit. In 1864 it participated in the founding of the *Erste Preussische Hypotheken-Gesellschaft* (First Prussian Real Estate Mortgage Company), which was later (Mar. 4, 1870) taken over by the *Preussische Zentral-Bodenkredit-Aktien-Gesellschaft*; and in 1895 in the organization of the *Landbank*, which was intended to encourage domestic colonization and to promote German landed interests and agriculture in the eastern provinces. The presidency in the supervisory board of the new institution was taken by the managing partner of the Disconto-Gesellschaft, Ad. von Hansemann.

The picture so far presented of the industrial and kindred activities of the Disconto-Gesellschaft, while unusually varied and animated, does not, however, vary materially from the general picture of the activity of the other great banks in the same field.

As regards concentration the Disconto-Gesellschaft, as we shall show later in greater detail, was active as early as 1871, when it organized the *Provinzial-Disconto-Gesellschaft* in Berlin, which in turn became the parent institution of a large number of other provincial discount banks. We shall explain later the reasons why this first step necessarily failed. The failure caused the Disconto-Gesellschaft to refrain for a long time from founding any subsidiary institutions. It was only in 1880 (Feb. 13) that the Disconto-Gesellschaft participated in the reconstruction of the *Handels- und Plantagen-Gesellschaft* (Com-

The German Great Banks

mercial and Plantation Company) of Samoa, more particularly in the organization of the *Neu Guinea-Kompagnie* and in the preliminary negotiations during the years 1883 to 1885. By assuming certain obligations this company, on May 17, 1885, obtained a special charter giving it the rights of territorial sovereignty; also the exclusive privilege to acquire landed property.

These activities were followed in rapid succession by the organization of the *Brasilianische Bank für Deutschland* (Brazilian Bank for Germany) in 1887, the establishment of *commandites* in Buenos Aires and Antwerp (1890), the founding of the *Bank für Chile und Deutschland* (1895), the *Banca Generala Romana* (1897), the *Otavi-Minen- und Eisenbahn-Gesellschaft* (Otavi Mining and Railway Company) (1900), the *Banque de Crédit in Sophia* (1905), the *Deutsch-Ostafrikanische Bank*, and the *Deutsche Afrika-Bank* in 1905. Aside from this, the Disconto-Gesellschaft participated in all the enterprises undertaken jointly by the large banks, thus, in the founding of the *Deutsch-Asiatische Bank* (1889), the *Banca Commerciale Italiana* (1898), the two Shantung companies (1899), the telegraph and cable companies (1898-1908), and the *Kamerun-Eisenbahn-Gesellschaft* (1906).

From what has been said it appears that the special characteristics of the Disconto-Gesellschaft were the extensive and far-sighted assistance rendered by it to industrial exports, as well as to all foreign, particularly oversea commerce; also the fostering of the regular banking business, especially the current account business, begun in the first period and developed with great skill and success during the second period.

National Monetary Commission

The results in the various lines of operations, while very considerable, are not so steady as those of the Deutsche Bank. This is particularly brought out in the presentation, by ten-year periods, of the current account figures, as found in the jubilee report (1901) of the Disconto-Gesellschaft.

During the first nine years (beginning with 1852) the debits on current account amounted to 32,000,000 marks in round numbers. At the close of the decade they showed a decline in 1869 to about 29,000,000 marks, though rising again in 1870 to 30,500,000 marks.

The next decade since 1871, starts with the greatly increased figure of nearly 93,000,000 marks; at the close of 1880 the amount had fallen again to 49,000,000 marks. In the decade following we see the figures rapidly rise from 53,000,000 marks in 1881 to 112,000,000 marks in 1885, and then again decline to 82,500,000 marks in 1890.

Beginning with 1901, however, we find, with the exception of a few small interruptions, an almost steady growth of the debits on current account, which reached a total of 294,000,000 marks at the close of the fiscal year 1908.

The figures of credits in current account show a similar fluctuation. In 1860 they were about 13,000,000 marks, in 1865 they had fallen to 10,500,000 marks, while the closing year of the decade, 1870, showed a decided increase to 39,000,000 marks. In 1877 the amount had declined to 29,000,000 marks, in 1880 it had risen to 55,000,000 marks, and in the next decade, in 1885, again the maximum figure up to that time was shown, namely, 154,000,000 marks, which, however, declined at the close of the decade (1890) to 90,000,000 marks.

The German Great Banks

Similarly, beginning with 1891, and with much smaller fluctuations than before, a steady growth of the credit figures is shown, the statement for December 31, 1908, indicating a total of credits on current account of 235,000,000 marks.

In the discussion of the deposit business we gave the reasons why the deposit business of the Disconto-Gesellschaft showed similar and at times even greater fluctuations. We may disregard the first period because at that time, as we have shown (p. 73), there was no systematic fostering of the deposit business.

In 1870 the total deposits amounted to 3,500,000 marks only.

The new period begins, however, with 15,000,000 marks deposits (1870), which rapidly grew to nearly 65,000,000 marks in 1873, but dropped to 10,000,000 marks in 1880. Similar fluctuations occurred in the following decade, which began in 1881 with 20,000,000 marks. By 1887 the amount had declined to 8,000,000 marks, while at the close of the decade (1890) a total of 36,500,000 marks was reached. The next decade again starts with only 17,000,000 marks, but, beginning with 1895, when the Disconto-Gesellschaft, with the view of systematically fostering the deposit business, opened deposit offices, the amount increased steadily to 48,000,000 marks in 1900. According to its 1908 statement, in which, however, the deposits are calculated in a different manner, (p. 207), the deposits of the Disconto-Gesellschaft amounted to 218,500,000 marks.

Similar fluctuations are observed in the case of the commissions, which in 1870 amounted to about 1,000,000

National Monetary Commission

marks. From 1,333,000 marks in 1871 they increased to 4,660,000 in 1872, declined to 1,500,000 in 1876, rose to 4,500,000 in 1900 and to 6,500,000 marks in 1908.

The dividends on the commandite capital of the Disconto-Gesellschaft in the second period (those of the first period were shown on p. 68) were as follows:

Year.	Per cent.	Year.	Per cent.	Year.	Per cent.
1871.....	24	1884.....	11	1897.....	10
1872.....	27	1885.....	11	1898.....	10
1873.....	14	1886.....	10	1899.....	10
1874.....	12	1887.....	10	1900.....	9
1875.....	7	1888.....	12	1901.....	8
1876.....	4	1889.....	14	1902.....	8½
1877.....	5	1890.....	11	1903.....	8½
1878.....	6½	1891.....	8	1904.....	8½
1879.....	10	1892.....	6	1905.....	9
1880.....	10	1893.....	6	1906.....	9
1881.....	11½	1894.....	8	1907.....	9
1882.....	10½	1895.....	10	1908.....	9
1883.....	10½	1896.....	10		

There is no other German credit bank whose annual dividends ever came near the dividends of 24 and 27 per cent, which the Disconto-Gesellschaft was able to distribute in the years 1871 and 1872.

The capital stock of the Disconto-Gesellschaft on December 31, 1908, amounted to 170,000,000 marks, while the surplus amounted to 57,500,000 marks, or 33.88 per cent of the capital stock.

The manner in which the current banking business of the Disconto-Gesellschaft has increased is illustrated statistically in its Jubilee Report of 1901 (p. 25) by the amount of correspondence carried on in this branch of business.

The German Great Banks

Year.	Letters received.	Letters sent.
1852	6, 135	6, 292
1870	85, 800	87, 513
1880	204, 877	208, 240
1890	341, 318	452, 166
1900	533, 102	626, 043

The Disconto-Gesellschaft from the start was prominently connected with the Prussian Syndicate and subsequently with the Rothschild Syndicate, thus participating in the Prussian, Austrian, and Hungarian state loans. It was likewise a member of the syndicate organized for handling the Russian and Italian state loans and those of the German Empire. It took a leading part in the financial operations of the Chinese Government and participated to a very large extent in the issue of Brazilian and Argentine loans. It was also the leading member of the bank syndicate which handled the various Roumanian state and railway loans (for particulars see Append. V. and VI).

In reviewing the activities of the Prussian and the Rothschild syndicates as well as the other great international financial operations of the German banks during the second period, the jubilee volume of the Disconto-Gesellschaft contains the following remarks: "The small proportion of failures in carrying out the numerous enterprises of the last half of the nineteenth century * * * is a lasting glorious testimony to the honest and efficient management of the financial business of this period." A considerable part of this fully deserved praise may be claimed by the Disconto-Gesellschaft.

National Monetary Commission

THE DRESDNER BANK.

The Dresdner Bank, which was founded in 1872 and in 1881 transferred its center of activity to Berlin, by the establishment of a branch there, claims our special interest in a number of directions.

It achieved remarkable success in the deposit business within an unprecedentedly short period, although it was not until 1896 that it followed the example of the Deutsche Bank in establishing deposit offices. At the close of 1908 it was conducting an extensive deposit business by means of its 16 branches and 44 deposit offices.

Its deposits grew within less than twenty years from less than 3,000,000 marks in 1875 to 94,000,000 at the end of 1894, and reached an aggregate of 224,000,000 marks at the close of 1908, or fifteen years later. It thus overtook the Disconto-Gesellschaft in this branch of business, although the latter had been in this field a much longer time.

In the same rapid and brilliant manner it managed to develop its regular business, the first extensive increase of which, just as in the case of the Deutsche Bank, dates back to the seventies, when it participated in the liquidation of 4 Saxon banks. Its further growth is due largely to the founding of branches, the absorption of a large number of banks and private banking concerns, and the establishment of numerous communities of interest. Its branches numbered 16 at the close of 1908, this being the second largest number for any German bank. It also managed to secure a strong foothold in southern Germany by taking over in 1904 the banking house von Erlanger

The German Great Banks

& Sons at Frankfort-on-the-Main with its extensive ramifications, in the place of which it established a branch of its own. In the same year it secured a large clientele among the membership of the mutual credit societies by taking over the *Deutsche Genossenschaftsbank Sörgel, Parrius & Co.* For this new business it established a special mutual credit department.

The credits on current accounts rose from 4,000,000 marks in 1873 to 95,000,000 marks in 1894 and 371,000,000 marks in 1908; the debits from about 9,000,000 marks in 1875 to about 95,000,000 marks in 1894 and 445,000,000 marks in 1908. As a result of great alertness and liberal commission and interest terms, the bank succeeded in securing a large number of customers wherever it obtained a footing, first among the circles of Saxon industry, and soon after among wider circles. Its clientele increased considerably through the absorption in rapid succession of a number of banks and private banking houses, and later through the entering of community-of-interest relations with other banks in Rhineland-Westphalia and in Silesia, by following the example of the Deutsche Bank. The number of industrial undertakings, for which it acts as fiscal agency (*Zahlstelle*), is exceeded only by that of the Deutsche Bank.

Since 1892 it also undertook the systematic promotion of foreign and oversea business, by establishing, just as the Deutsche Bank, though not in the same order of time, branches in Hamburg (1892), where it absorbed the *Anglo-Deutsche* Bank, next in Bremen (1895) and finally also in London (1901).

National Monetary Commission

Moreover, as early as 1889 it participated in the formation of the Anatolian Railway Company and the Company for the Operation of Oriental Railways (*Betriebsgesellschaft der Orientalischen Eisenbahnen*), of the *Deutsch-Asiatische Bank*, and the *Deutsch-Afrikanische Bank*. In 1891 it took part in the foundation of the *Bank für Orientalische Eisenbahnen*, in 1894 in the organization of the *Banca Commerciale Italiana*, in 1899 in the establishment of the two Shantung companies, and during the period 1898-1908 in the organization of the *Deutsche Telegraphen-Gesellschaften und Kabelwerke*, in the establishment of the *Deutsch-Westafrikanische Bank* (1904-5) and of the *Kamerun-Eisenbahngesellschaft* in 1906.

About the end of 1905, jointly with the A. Schaaffhausen'scher Bankverein (with which it had entered in 1903 into community-of-interest relations, now practically dissolved) and the Nationalbank für Deutschland, it established the *Deutsche Orientbank*, and about the same time, in conjunction with the first-named institution, the *Deutsch-Südamerikanische Bank*.

It also promoted and fostered with growing success the over-sea "rembours" business (see p. 428), without, however, attaining in this field, as well as in the general field of international connections, nearly as favorable results as the Deutsche Bank or the Disconto-Gesellschaft.

In various ways it sought to extend its continental foreign connections. Thus, with the view of promoting business in Austria-Hungary, it entered into close relations with a number of Vienna banks. In order to gain a foothold in the Italian and Swiss markets, it participated in the foundation of the Banca Commerciale

The German Great Banks

Italiana and founded the stock company Speyr & Co. in Basle.

In the field of "minor," i. e., urban and interurban railway enterprises (*Kleinbahn-Unternehmungen*) the Dresdner Bank manifested considerable activity by founding the Central Bank for railway securities (*Centralbank für Eisenbahnwerte*) and the Continental Railway Construction and Operation Company (*Kontinentale Eisenbahnbau- und Betriebsgesellschaft*) in Berlin; also by participating in the Orenstein & Koppel Works for field and "minor" railways. In 1898 it took a prominent part in the formation of the Central Bank for railway securities (*Centralbank für Eisenbahnwerte*), a trust company, which issues bonds of its own on the basis of Austro-Hungarian and German railway securities acquired by it. Since 1909 it has been financially interested in the Orenstein & Koppel Works for field and "minor" railways, Berlin, amalgamated with and successors to the former firm Arthur Koppel.

According to Otto Jeidels (op. cit., p. 137), the number of industrial emissions under the auspices of the Dresdner Bank for the years 1895-1903 compares as follows with those of the other great banks: Dresdner Bank, 220; A. Schaaffhausen'scher Bankverein, 187; Berliner Handelsgesellschaft, 170; Disconto-Gesellschaft, 151; Deutsche Bank, 150; Darmstädter Bank, 148.

In the electro-technical industry the Dresdner Bank from the very beginning participated jointly with the Disconto-Gesellschaft and the Darmstädter Bank in the firm Ludwig Loewe & Co. and its subsidiary companies. After the absorption by the *Allgemeine Elektrizitäts-*

National Monetary Commission

Gesellschaft of the *Union-Elektrizitäts-Gesellschaft*, one of the Loewe creations, the bank became a member of the A. E. G. syndicate.

The bank from the outset maintained and fostered close relations to the bourse. It is this circumstance and the peculiar composition of its security holdings which caused the ofttimes undeserved criticism that this bank, more than any other great bank, showed speculative tendencies. It was also pointed out that the bank had considerable participations in gold-mining enterprises and that its debit accounts were at times largely composed of acceptances for which the bank stood sponsor. Fault was found occasionally also with the extensive participations of the bank in real estate corporations, though its operations in this field were always effected with great skill and success. The Dresdner Bank owned considerable real estate in Wilmersdorf (Berlin), was interested in the Moabit (Berlin) and the Hanover real estate companies (*Moabiter Terrain-Gesellschaft, Hannoversche Immobilien-Gesellschaft*); also in the Park Witzleben (Berlin) Real Estate Stock Company." It founded in 1893 the Berlin Real Estate Company (*Berlinische Boden-Gesellschaft*) and in 1898 the Kurfürstendamm Real Estate Company (*Boden-Gesellschaft Kurfürstendamm*). Among its larger losses there figures one of about 2,500,000 marks, caused to its Hamburg branch through engagements with the export and storehouse company J. Ferd. Nagel, which engagements, however, had been acquired from the Anglo-Deutsche Bank.

The bank distributed the following dividends:

The German Great Banks

Year.	Per cent.	Year.	Per cent.	Year.	Per cent.
1873.....	1.5	1885.....	7.5	1897.....	9
1874.....	6	1886.....	7	1898.....	9
1875.....	5	1887.....	7	1899.....	9
1876.....	5.5	1888.....	9	1900.....	8
1877.....	6.5	1889.....	11	1901.....	4
1878.....	7	1890.....	10	1902.....	6
1879.....	9	1891.....	7	1903.....	7
1880.....	9	1892.....	7	1904.....	7½
1881.....	9	1893.....	5.5	1905.....	8½
1882.....	8	1894.....	8	1906.....	8½
1883.....	8	1895.....	8	1907.....	7
1884.....	7.5	1896.....	8	1908.....	7½

A gratifying percentage of these dividends is derived from the profits yielded by the regular or current business.⁴⁶⁸

The share capital of the Dresdner Bank has been raised nine times from 9,600,000 marks in 1872, the year of its foundation, to 70,000,000 in 1904, the first increase taking place as early as 1878. In 1909 its share capital amounted to 180,000,000 marks (increased to 200,000,000 marks by 1910) while its reserves totaled 51,500,000 marks—that is, 28.61 per cent of the share capital.

The bank took a large part in the underwriting and emission of securities. In the international issue field it succeeded particularly in the emission of Mexican railway loans; it also participated, jointly with the Darmstädter and other banks in the emission of Portuguese securities. (See App. V and VI.) During most years, however, it managed to keep its syndicate participations within moderate limits. On the other hand, its security account shows large holdings of industrial shares, which were often used rather skilfully to support its industrial policy.

National Monetary Commission

On the whole it may be said that the Dresdner Bank has succeeded in very short time in gaining the permanent favor of a large clientele because of the skill and alertness of its management.

THE DARMSTÄDTER BANK.

Among the great banks the Darmstädter Bank during the first, and largely also during the second period took special care in guarding most carefully the liquidity of its resources and the principle of the distribution of risk, at times even refusing to engage in operations that might impair in any way the liquidity of its resources. If engagements of this sort were unavoidable, it showed the utmost endeavor to liquidate as soon as practicable its long-term engagements. This was the reason why soon after its foundation it passed quite successfully the crisis of 1857, and was able during that time to render effective aid both to its clients as well as to various corporations and other banks.

From the outset its reports contained many more particulars regarding its operations than those of almost any other bank. This is especially true of the information—given regularly up to 1900—regarding the composition of its security holdings and its syndicate participations.⁴⁶⁹

It was shown before that during the first period it took a most prominent part in the construction of the German private railways, in the underwriting of a large number of state and communal loans, and in promoting the rapidly developing industry. It may be said that during the first period, and to a large extent even in the beginning of the second period, it was almost exclusively a bank for

The German Great Banks

industrial promotions and only to a small extent a bank for the emission of state, communal, and railway securities. During the first epoch the bank, or at least its central office, made but few systematic efforts to develop its current-account business. Its industrial connections originated during those years mainly from its emissions of industrial securities, mainly industrial shares, which the bank from the outset retained in large blocks, thus preserving a permanent influence on the administration of the enterprises. This policy, while frequently the cause of heavy losses, on the other hand enabled the bank to keep a constant watch over those industrial undertakings which it had founded or transformed into stock companies. We showed above that during the single year 1856 it founded seven industrial companies, in which it retained a permanent participation extending to about one-third of the entire share capital, or about 800,000 florins. Since these holdings resulted not from emissions, but from promotions, it may be said that it engaged designedly in entrepreneur activity, the risks of which, it is true, were somewhat lessened by its continuous regard for the liquidity of its resources, but which, nevertheless, were quite apparent.

Neither did it make systematic efforts to foster the deposit business during the first period and even during a considerable part of the second period, for general reasons similar to those which are stated in the 1850 report of the Schaaffhausen'scher Bankverein. (See pp. 73 and 74.) The bank proposed to carry on its business, as far as practicable, with its own means, and in the interest of the safety of the institution did not regard it expedient

National Monetary Commission

to "bring about an increase of deposits by holding out more attractive terms." It was shown, however, that in the beginning of the second period its deposits amounted to about 11,000,000 florins, as against only 2,000,000 marks in the case of the Disconto-Gesellschaft and about 2,500,000 marks in the case of the A. Schaaffhausen'scher Bankverein. This relatively large amount most likely resulted from its close connections with various railway companies, such as the Hessian Ludwig Railroad Company, and from the credits on current account of large corporations and firms.

It was only in 1900, or much later than the other banks, that the Darmstädter Bank resolved upon the founding of deposit offices and thus upon a systematic fostering of the deposit business. But meanwhile the other banks had gained a considerable start and secured a growing number of permanent and reliable investors for the securities emitted by them and, what is more important, an ever-enlarging circle of current-account depositors.

To the credit of the bank it may be stated that it refrained from issuing long-term bank obligations. The charter of the Darmstädter Bank, following the model of the *Crédit Mobilier*, provided for the issue of such bank obligations which, secured indirectly by the newly created industrial enterprises, were to combine the scattered small capitalist forces in the launching of large enterprises.

The Darmstädter Bank as a rule kept aloof from excessive speculative dealings, except in a few cases, when it was subjected to particularly vehement criticism. Thus during the first period it lost heavily, having like many

The German Great Banks

other banks become involved in speculative contango and share transactions, which about the same time, i. e., in 1857, were compensated by improper profits from the trading in its own scrip (*Berechtigungsscheine*), the so-called *Darmstädter Enkel*.⁴⁷⁰

Even during the earlier period the bank took a considerable part in the foreign business in Italy, Belgium, and more particularly in Austria-Hungary, where in the beginning of the sixties, jointly with the Rothschilds and the Kreditanstalt, it had engaged in Austrian state and railroad finance operations, though joining the Rothschild syndicate only some time later. As a result of these and similar financial operations it felt constrained as early as 1855 to have its capital of 10,000,000 florins fully paid up (only 4,000,000 florins having been paid in up to that time), and to increase it to 25,000,000 florins in 1856. On the other hand, in 1857, when, according to the by-laws adopted, the capital was to undergo a further increase to the maximum of 50,000,000 florins, the increase was effected only to the infinitesimal extent of additional 46,000 florins, a larger issue being headed off by the crisis of that year.

The function of its offices in Frankfort-on-the-Main (agency opened in 1854) and in Mainz (branch opened in 1854) was to foster more largely than could be done by the central office in Darmstadt the bill and draft business and especially the current-account business. Until the eighties and even later the bank was extremely conservative in granting acceptance credit, so much so that during the middle of the seventies the acceptance obli-

National Monetary Commission

gations of the Berlin office and of the branch at Frankfurt-on-the-Main amounted to only a few million florins.

For the promotion of domestic and more especially foreign business relations, a large number of *commandites* were founded, which did not, however, justify expectations, as they proved to be in advance of the time.

As early as 1854 the first commandite in New York was formed with the firm G. vom Baur & Co., in 1857 the first commandite in Paris, and in 1867 a commandite in Vienna with the firm Dutschka & Co. The establishment of other commandites was planned in London, St. Petersburg, Prague, and even in Smyrna and Constantinople, but these plans failed of realization partly because of the unpropitious times, partly also because of legal difficulties. At all events the Darmstädter Bank may claim to have proceeded first designedly in this field in accordance with the program laid down in its very first report for the year 1853, which stated among others "that the bank's organs both at home and abroad were to facilitate the export trade as well as the innumerable relations of German industry to the money market."

How far-reaching the plans of some people were even in those early days may best be seen from the fact that in 1856 two of the founders and members of the supervisory council of the Darmstädter Bank—Gustav V. Mevissen and Abraham Oppenheim—quite seriously sounded the Disconto-Gesellschaft whether it would not be advisable to organize jointly a central bank for foreign commandites with a capital of about 100,000,000 thalers, whose function it should be "to prevent in the future the scattering of the capital of those German banks which strove after foreign

The German Great Banks

commandite connections and to bring about the most competent possible representation of their interests."⁴⁷¹

With the view of decentralizing its business, the bank from the early years until the nineties preferred the commandite system to the establishment of branches. This is largely accounted for by the unsatisfactory experience it had had with some of its branches founded about the end of the fifties and the beginning of the sixties. In 1863, "in order to reduce the number of institutions whose operations might lead to direct commitments of the bank," it thought it necessary to transform its branch at Mainz into a commandite. It was only in 1890 that it parted with this principle by opening a branch at Hanover, shortly afterwards followed by another in Strassburg (in Alsace). At that time it still had 8 commandites in Heilbronn, Mainz, Dresden, Halle, Mannheim, Bucharest, Berlin, and Neustadt, while in 1909 this number had fallen to 3.

The average rate of dividend for the period 1854-1862 was $6\frac{3}{4}$ per cent.

Between 1863-1872 the bank took over independently many German and foreign, including several Russian and Italian state bond issues, and participated in other similar transactions. Its main activity, however, consisted in the financing and the construction of the German and Austro-Hungarian railway systems, among others the financing of the Gotthard Railway. During that period it also founded a number of subsidiary banks (*Tochterbanken*); for instance, the *Amsterdamsche Bank* (in 1871), the *Süddeutsche Bodenkreditbank*, the *Süddeutsche Immobilien-Gesellschaft*, the *Ungarische Escompte-*

National Monetary Commission

und Wechslerbank in 1877, and the *Deutsche Gold- und Silber-Scheide-Anstalt*, preceded by the foundation of the Hessian Note Bank (*Bank für Süddeutschland*).

The average dividend for the period 1863-1872 amounted to 8.7 per cent.

During the following decade, 1873-1882, after safely passing through the crisis of 1873, finance operations in Austrian and German railway, state, and communal securities were effected, while beginning with 1879 the conversion of German state, railway, and municipal debentures was started, which attained increasingly large proportions in the following years.

The average rate of dividends for that decade (1873-1882) was $8\frac{1}{4}$ per cent.

As a result of the state purchase of the railroads in Germany and Austria the finance transactions with large railway companies greatly diminished. Instead, the bank, first among the great banks, during the decade 1883-1902, in conjunction with the railway constructing and operating concern Herrmann Bachstein, undertook on a large scale the construction, operation, and financing of the so-called minor railways (*Kleinbahnen*), in the first place in Hesse, Baden, and Thuringia. The same period witnesses the founding by the bank of several industrial companies and the participation in the underwriting of a number of state and communal issues and in the fusion of the Jura-Berne-Lucerne Railway with the Swiss Western Railway. During these years the bank jointly with a number of other banks and banking firms took over the issue of the Lisbon municipal and Portuguese state loans. Apart from the Lisbon municipal loan, interest on which

The German Great Banks

has been regularly paid, the other loans proved a source of great losses and annoyance to the bank and greatly hampered its subsequent activity, inasmuch as the bank felt in honor bound to mitigate, as far as practicable, the consequences of the defaults on the part of the State and railways, with regard to the holders of the state and railroad securities.

The average rate of dividends during that decade (1883-1892) was below $7\frac{1}{2}$ per cent.

During the following decade (1893-1902) its activity became concentrated chiefly in the field of minor railways. In 1895 it took a leading part in the founding of the *Süddeutsche Eisenbahngesellschaft*. This company amalgamated the small railways which had been completed by that time and on the whole were then in a fair financial condition. The bank also had a hand in a number of state and municipal issues and of industrial real estate transactions.

About the end of the decade the bank derived considerable profits from a number of reorganizations of several banking and industrial concerns such as the *Deutsche Grundschuldbank*, the *Preussische Hypotheken-Aktienbank*, the *Pommersche Hypothekenbank*, and the mining and iron works *Differdingen-Dannenbaum*, also from taking over in 1902 the *Bank für Süddeutschland* and the *Breslauer Disconto-Bank*. About the same time it entered into a community of interest with the *Ostbank für Handel und Gewerbe* in Posen.

Notwithstanding all these multifarious activities the average dividend rate for the decade was but $6\frac{3}{4}$ per cent.

National Monetary Commission

During the most recent period the bank paid special attention to the fostering of the current-account and deposit business. Its efforts in this field proved eminently successful, so much so that by skilful management it was able to restore the liquidity of its resources, which had become temporarily impaired. As a member of the Loewe group it participated in all the enterprises of that combination. It also took part in a number of state and municipal loans as well as in several industrial issues. In 1905 it established community-of-interest relations with the *Bayerische Bank für Handel und Industrie*.

The number of its deposit offices at the end of 1908 was 39, exclusive of 7 agencies.

In 1900 it strengthened its foreign connections by the founding of the Bankers' Trading Syndicate in London, in 1902 by entering into close relations with the *Wechselstuben-Aktiengesellschaft Merkur* in Vienna, and in 1903 by establishing community-of-interest relations with the *Nordwestdeutsche Bank* in Bremen. During the years 1904-5 it participated in the transformation of its former commandite in Bucharet into a stock company, which assumed the firm name *Banca Marmorosch Blank & Co., Societate anonima*. During the same period it absorbed the banking firm *Rob. Warschauer & Co.*, which had important foreign business connections, especially in Russia, and in which it had held a silent-partnership interest since 1898.

In 1889 the bank participated in the founding of the *Deutsch-Asiatische Bank*; in 1898, jointly with other domestic and foreign institutions, it took a prominent part in the founding of the *Banque Internationale de Bruxelles*.

The German Great Banks

During the years 1898-1908 it cooperated in the launching of the German Telegraph and Cable companies, in 1899 in the founding of the two Shantung companies, and in 1906 in the organizing of the Kamerun Railway Company.

In 1906, jointly with several domestic and foreign banks, it founded the *Amerika-Bank* for promoting business relations with the United States. This institution, however, was placed in liquidation in 1909.

It may be said in conclusion that the Darmstädter Bank from the very beginning acquired a high standing among large circles. Its management, while not always following a uniform business policy, adhered, however, almost steadily to the principle laid down in paragraph 10 of its first by-laws.⁴⁷² As a result, it continued to enjoy public confidence in an undiminished degree, at first in southern Germany and subsequently in the whole country, even during times which proved critical for many commercial undertakings and banks.

THE A. SCHAAFFHAUSEN'SCHER BANKVEREIN.⁴⁷³

This institution is the oldest German credit bank. Its foundation dates back to the year 1848, when it superseded the banking firm A. Schaaffhausen, which at that time had become involved in financial difficulties. The capital of the reorganized institution was fixed at 5,187,000 thalers, of which, however, only 3,199,800 thalers were paid in. As the firm A. Schaaffhausen had maintained extensive industrial connections in Rhineland-Westphalia, the new institution was in a more favorable situation than the other present-day great banks, which were able to

National Monetary Commission

acquire a steady clientele only after years of laborious efforts. Its primary task was to maintain and develop the connections of the old and well-renowned banking firm, whose clientele it had taken over, by means of transforming industrial undertakings into stock companies or otherwise to mobilize the industrial participations in which the capital of the old firm had been tied up, and to liquidate them as soon as the profitableness of the undertakings and general business and market conditions would permit such action.

On pages 71 and following we enumerated a long list of transformations and new foundations, effected by the A. Schaaffhausen'scher Bankverein during the years 1851-1858. We mentioned there that from the outset the far-sighted and expert management of the institution recognized clearly "that the permanent success of the Bankverein was inseparable from the prosperous growth of Rhenish industry in all its branches." Subsequent development fully proved the soundness of its position. The A. Schaaffhausen'scher Bankverein has grown great with the surprisingly rapid and strong development of the Rhenisch-Westphalian industry, which until the most recent period has been furnishing the very core of its industrial clientele.

The careful fostering of the current-account and underwriting business was a natural corollary of its industrial connections and the necessity to extend and strengthen these connections. The same can not be said of the deposit business, to which the Bankverein paid no systematic attention during the first period for general reasons mentioned in the chapter relating to the Darmstädter Bank. As a matter of fact, its total deposits about the end of the

The German Great Banks

first period, in 1869, amounted to 883,616 thalers only. The founding of branches, agencies, and commandites contemplated as early as 1853 did not at first materialize. Neither did the bank succeed, as it then intended, in opening a branch in Berlin, as such action presupposed a change of its by-laws, for which the then required state sanction could not be obtained. The Bankverein passed through the crisis of 1857 without being compelled to cancel any outstanding credits.

During the first epoch, while manifesting great activity in the founding and transforming business, it figured to a relatively small extent in the underwriting field, though participating in numerous syndicates organized during that period by other banks.

Even during the second period the Bankverein was an "industrial" rather than an "emission" bank. At the same time it was careful enough not to permit any undue swelling of its acceptance account. Having its central field of activity in the domain of the rapidly developing Rhenish-Westphalian industry, its importance during the second period as an industrial bank became preeminent. Owing to its old-established industrial connections, it continued during all stages and changes of business, notwithstanding severe competition, as the foremost industrial counsel, financial aid, and agent in the execution of the oftentimes ambitious schemes of a number of industrial establishments. Foremost among the latter is the *Hörder Bergwerks- und Hüttenverein*, founded as a stock company in 1852, whose rapid growth up to 1873 and financial troubles after 1873 claimed the energetic support of the Bankverein up to the reorganization of the concern by

National Monetary Commission

the Bankverein jointly with the firm of Deichmann & Co., of Cologne. It was only after some time and the general improvement of the business situation that this operation led to a series of profitable emissions and other transactions. Even at present a director of the Bankverein is the chairman of the supervisory council of the Hörder Verein, while, in turn, the general director of the latter is a member of the supervisory council of the Bankverein.

Close relations were established with a number of large industrial concerns, such as the *Harpener Bergbaugesellschaft*, the *Bochumer Verein*, the *Phoenix* and the *Hoesch* steel works. This necessitated the increase of the resources of the bank, and thus fostered its concentration tendencies. Both in the interest of successful industrial issues as well as for other reasons to be considered later closer relations with the leading bourse center became necessary. It was only in 1891, however, that the Bankverein established such relations by opening a branch in Berlin. Notwithstanding this action, the Bankverein by no means became a Berlin great bank. It preserved its essential character of a Rhenish great bank, though its importance at the new center grew, as a matter of course, with the absolute and relative growth of the branch, in contradistinction to the Darmstädter Bank, which by shifting its center of activity from the commercially unimportant town of Darmstadt to Berlin became to all intents and purposes a Berlin great bank, the more so as with the further growth of its business its clientele gradually ceased to be exclusively or mainly south German.

In proportion as the tasks of the Bankverein in the field of industrial credit and issues grew in size and number it had to increase in comparatively rapid succession its paid-in

The German Great Banks

capital from 9,600,000 marks to 36,000,000 in 1880, to 60,000,000 in 1895, and to 145,000,000 at the end of 1905.

During the second period it joined the concentration movement by the opening of branches, which numbered 10 at the end of 1908, and of deposit offices, the number of which increased to 13 during the same time; also by the establishment of a subsidiary bank (*Tochterbank*), the *Westfälisch-Lippische Vereinsbank, Aktiengesellschaft* in Bielefeld, and finally by the absorption of several banks and banking houses. It has only one commandite (in Dresden), and after the dissolution of the community of interest with the Dresdner Bank maintains such relations at present only with the *Pfälzische Bank* in Ludwigshafen (1901) and the *Mittelrheinische Bank* in Coblenz (1903).

From what has been said heretofore it may be seen that the Schaaffhausen'scher Bankverein possesses no extensive international connections. This probably was one of the main reasons which induced it to establish the community of interest with the Dresdner Bank, which maintains a large number of such connections. This community of interest became effective January 1, 1904, for a term of thirty years, but was essentially terminated January 1, 1909. One result, however, of the temporary combination was that the Bankverein had to take part in the common foreign enterprises of the other great banks, such as the *Deutsch-Asiatische Bank*, the *Banca Commerciale Italiana*, and to take even a leading part in the establishment of the telegraph and cable companies. It also participated in the founding of the *Banque Internationale de Bruxelles*, the Shantung companies, and the Kamerun Railway Company, and jointly with the Dresdner Bank in the founding

National Monetary Commission

of the *Deutsche Orient Bank* and the *Deutsch-Südamerikanische Bank*.

The special domain of the Bankverein is, however, the industrial field, especially that of the Rhenish-Westphalian district. It is particularly interesting and instructive to observe the various types of relations, as were shown by the example of the Hörder Verein, which the bank formed during the second period.

The bank as a rule and with good reasons avoided permanent large participations in industrial enterprises. Its holdings of the stock of the *Internationale Bohr-Gesellschaft* (International Exploration Company) at Erkelenz—devised to continue indefinitely—can hardly be regarded an exception, since it needed this stock to support its industrial policy in various directions,⁴⁷⁴ as, for instance, the maintenance of its influence in the second coal syndicate, the penetration into various mining branches in Germany and foreign countries, especially in Belgium, and, finally, for the purpose of developing the Roumanian petroleum business, entered into jointly with the Dresdner Bank. (See above, p. 419.) These latter connections brought it into contact with Silesian industrial interests, likewise interested in the Roumanian petroleum fields. The result was a new combination in 1904, which included, beside the interests named, also the Dresdner Bank, the International Exploration Company, and became known as the Petroleum Stock Company *Regatul Romana*.

The Bankverein also took a leading position in the group of the *Elektrizitäts-Gesellschaft vormals Schuckert & Co.* until 1898, when it withdrew, having failed in its efforts to bring about the amalgamation of the above group with

The German Great Banks

the Loewe group. It was only in 1903 that a combination with the Siemens & Halske group was effected. Since 1898 the Bankverein participated in all the enterprises and transactions of the Loewe group, viz, the British Thomson-Houston Company, the Benrath Machine Works, the stock company Boehler Bros. & Co., etc. The A. E. G. (*Allgemeine Elektrizitäts-Gesellschaft*) group and its activity assumed larger proportions in 1904 by the accession of the banks forming the Loewe group, after the taking over of the U. E. G. (*Union Elektrizitäts-Gesellschaft*) by the A. E. G.

As a result of its connection with the Dresdner Bank, the Bankverein was brought into contact with various transportation companies, in the first place with the Great Berlin Street Railway Company. It also became connected with the *Aktiengesellschaft für Verkehrswesen* (Stock Company for Transportation Enterprises) Lenz & Co., and the *Bank für Deutsche Eisenbahnwerte* (Bank for German Railway Securities). It was these corporations which for several operations brought about the joint action of the Bankverein with the close ally of the Lenz & Co. concern, the Berliner Handelsgesellschaft. Jointly with the latter it founded in 1895 the *Westdeutsche Eisenbahngesellschaft*, which, in turn, organized the *Vereinigte Westdeutsche Kleinbahn Aktien-Gesellschaft* (United West German Minor Railways Stock Company) with a capital of 6,000,000 marks, and in 1896 the *Bank für Deutsche Eisenbahnwerte* with a capital of 10,000,000 marks.

Through its current-account business the Bankverein as a matter of course came to arrange for and undertake the transformation into stock companies of industrial

National Monetary Commission

undertakings of its customers. Under this head fall the transformation of the firm Carl von Born into the *Hütten-Aktiengesellschaft vormals Carl von Born* at Dortmund in 1896; of the firm Bücklers & Jannsen into the *Dülkener Baumwollspinnerei A. G.* (Duelken Cotton Spinning Stock Company); of the firm Burtscheid, Ulrici & Co. in Dülken into the *Rheinische Webstuhlfabrik A. G.* (Rhenish Weaving Looms Manufacturing Stock Company), in 1897; and of the firm Mannstaedt & Co. into the *Kalker Walzwerk* (Kalk Rolling Mills) *Mannstaedt & Co.* in 1898. Other operations of the Bankverein originating in the same manner were: A commandite interest acquired in the firm C. Lückerath (Limited), cloth dealers, the transformation of the *Siegrheinische Gewerkschaft* (Sieg-Rhine Mining Concern (Limited), into a stock company (1897); the transformation of the *Selbecker Bergwerksverein* into a limited mining company (*Gewerkschaft*); the taking over in 1901 of the bankrupt worsted spinning works, *Eitorf, Karl Schäfer & Co.*, and its immediate transformation into the Worsteds Spinning and Weaving Works Eitorf Stock Company, and the reorganization of the machine tool factory, *de Fries & Co.*, stock company, in Heerdt near Dusseldorf. In the same class belong the amalgamation of two friendly concerns into the United Steelworks von der Zypen and the Wissen Iron Mills Stock Company, and the union of the works of two of its current-account customers into the *Eschweiler-Köln Eisenwerke Aktien-Gesellschaft*.⁴⁷⁵ In 1904 the Bankverein, in the interests of its clients, the *Kölnische Maschinenbau-Aktiengesellschaft* in Cologne-Bayenthal, for the purpose of settling the deficit in its balance sheet, purchased jointly

The German Great Banks

with other firms certain grounds owned by the works and transferred them to a newly formed real estate company.⁴⁷⁶

In connection with the operations just described, a number of other transactions were effected partly in the interests of the bank itself, partly in the interests of friendly business houses, as for instance, the sale of its participation in the above-mentioned *Hütten-Aktiengesellschaft vormals Carl von Born* in Dortmund to the likewise mentioned *Hörder Verein*.

The number of industrial issues of the Bankverein during the years 1895-1903 amounted to 187, as compared with 220 effected by the Dresden Bank, 170 by the Berliner Handelsgesellschaft, 151 by the Disconto-Gesellschaft, 150 by the Deutsche Bank, and 148 by the Darmstädter Bank. Among the 187 industrial issues of the Bankverein 103 were those of industrial bonds.⁴⁷⁷ The number of companies for which the Bankverein effected industrial issues during the period 1895-1903 was 207, compared with 181 served in this manner by the Dresden Bank, 154 by the Disconto-Gesellschaft, 149 by the Berliner Handelsgesellschaft, 140 by the Darmstädter Bank, and 139 by the Deutsche Bank. It is seen that in this field the Bankverein attained the highest record.

Of the various industries the Bankverein has been in closest touch with the mining and smelting industries. As shown above, it maintained particularly intimate relations with the *Hörder Verein* in Dortmund, also with the *Lothringischer Hüttenverein Aumetz-Friede* in Kneuttingen, which it reorganized in 1901 and again in 1903, and which was amalgamated in the same year with the *Fentscher Hütten-Aktienverein*. The indirect consequence

National Monetary Commission

of these close relations was that the Aumetz-Friede works ordered its machinery from a client of the Bankverein, the Cologne Machine Construction Stock Company, a practice which is often found among customers of the same bank. The Bankverein maintained also close relations to the Harpen Mining Company, which it had founded jointly with the Berliner Handelsgesellschaft, the iron works *Phoenix* in Laar, the Hösch Steel Works, and the *Bochumer Verein*, and through its connections with the firm *Spaeter & Co.*, part owners of the *Rombacher Hüttenwerke*, with the latter works.

By reason of the above-named and other close connections with the Rhenish-Westphalian industry, the leading element in the coal mining and metallurgical industries of the country, the Bankverein came to play a most important part in the development of the industrial cartels. Thus in 1899 it opened a syndicate office (*Syndikats-Kontor*) with a capital of 1,000,000 marks, which was to undertake the representation of industrial combinations and syndicates. The Steel Works' Union was formed after hard struggles mainly for the reason that the Bankverein held the majority of stock of the Phoenix Works and was thus able to force a resolution in the general meeting of stockholders to join the union against the wishes of the director of the works.

In conclusion, it may be said that the A. Schaaffhausen'scher Bankverein from the start to the present day was the leading institution in the Rhenish-Westphalian industrial region. When in the course of development the policy and management of these industries began to exercise a considerable influence on the other German

The German Great Banks

industrial districts, the Bankverein in its capacity as the leading institution in a special branch of business gained also an influential position among the great German banks.

THE BERLINER HANDELSGESELLSCHAFT.

The Berliner Handelsgesellschaft which was founded in 1856, was organized as a stock company "en commandite" for the reason that the latter form of organization did not require a state concession in Prussia. At the time of its organization its capital stock amounted to 15,000,000 thalers (45,000,000 marks) of which, however, only 3,740,150 thalers were paid in. Since the first period it has been a prominent flotation bank (*Emissionsbank*) with the result that in the matter of issuing and placing securities it may boast of methods technically equal if not superior to those used by any other bank. As shown above (p. 75 and following) it participated during the first period in the underwriting of a large number of domestic and foreign state and railway loans, including the issue of Russian railway bonds.

In section 2 of its constitution it was expressly stated that its activities should comprise especially "industrial and agricultural enterprises, mining, smelting, the construction of canals, highways, and railways, as well as the creation, fusion, and consolidation of joint stock companies and the issue of stock or bonds of such companies."

Although during the earlier period it ventured but comparatively little into the industrial field and conducted neither a current-account nor a deposit business, yet it succeeded in earning large and almost steadily increasing

National Monetary Commission

gains from its business of reorganizing and floating enterprises and from its operations in the underwriting and issue field. Its dividends in the first period were as follows:

	Per cent.		Per cent.
1857.....	5½	1864.....	8
1858.....	5½	1865.....	8
1859.....	5	1866.....	8
1860.....	5¼	1867.....	8
1861.....	5	1868.....	10
1862.....	9	1869.....	10
1863.....	8		

Negotiations for the establishment of "*commandites* in other localities," provided for in the by-laws and mentioned in the report for 1857, had to be abandoned on account of the crisis of 1857.⁴⁷⁸

Among serious losses which the *Handelsgesellschaft* suffered during that period may be mentioned that of 150,000 thalers on account of the *Dessauer Kreditanstalt*, or more correctly, the latter's New York *commandite*, besides a loss growing indirectly out of the failure of an export firm in Danzig. This failure involved the banking house of Breest & Gelpcke, of Berlin, which was conducted on account of the *Berliner Handelsgesellschaft* since January 1, 1857. No difficulties were experienced by the bank during the crisis of 1857. During the second period the bank devoted itself systematically and with correspondingly good results also to the current-account business, though keeping aloof from the deposit business. It also took a leading part during the first years in the foundation and transformation of industrial enterprises. These operations, while a source of rich returns, naturally resulted also in some losses. In 1871 it was able to increase its capital to 10,500,000 thalers. Its attempts at

The German Great Banks

entrepreneur activity at the beginning of the second period proved, however, disastrous, as mentioned on a previous occasion. The construction of the Muldetal Railway, which was financed by the bank, consumed, according to the report of 1876, a large part of its available resources. This necessitated a call for the payment of 30 per cent on the new stock.

The dividends during the first thirteen years of the second period were as follows:

	Per cent.			Per cent.
1870.....	9	1877.....		0
1871.....	12½	1878.....		0
1872.....	12½	1879.....		5
1873.....	6½	1880.....		5½
1874.....	7	1881.....		6
1875.....	5	1882.....		0
1876.....	0			

The losses occasioned by the Muldetal Railway enterprise caused the passing of dividends during the years 1876 to 1878, which in the year 1872 were as high as 12½ per cent; in fact, they caused even a deficit.

In 1878, after the sale of the railway to the Saxon government, which entailed a loss to the bank of 6,500,000 marks, its capital stock, which had grown to 15,000,000 thalers (45,000,000 marks), was reduced to 30,000,000 marks, and the profits from this operation were devoted to the creation of a large special reserve fund for pending industrial business.⁴⁷⁹ During the following years, 1879 and 1880, the bank was able again to pay dividends of 5 and 5½ per cent, respectively.

During the year 1880-81 the bank again suffered on account of its participation in two industrial enterprises, viz: The *Deutsche Lokal- und Strassenbahngesellschaft*

National Monetary Commission

(German Local and Street Railway Company) and the *Petroleum-Bohr- Gerechtsamen- und Ölland- Gesellschaft* (Petroleum Drill Privilege and Oil Land Company), as well as on account of extensive speculations in shares of the bank's own capital and in Russian paper currency by one of the partners of the institution. The losses resulting from these operations necessitated in 1882 a reduction of the capital stock from 30,000,000 to 20,000,000 marks. The above-mentioned speculation alone entailed a loss of 8,250,000 marks.

There is no doubt that many present-day economists, who on such occasions as well as after every general crisis demand government intervention, including official supervision, control, and inspection, or restrictive legislation, would at that time have seen the only salvation in the carrying out of similar demands with regard to the Berliner Handelsgesellschaft and for that matter to all German credit banks. But there is likewise no doubt whatever that such measures would have caused only further disaster, and would have prevented or restricted the splendid development of German banking, which was so very essential to the interests of the nation. In this respect, as in many others, the practical wisdom of the English, resulting from greater business experience, and finding expression in the maxim, "Not measures, but men," has proved far more successful.

Splendid results followed the inauguration of a new management by careful as well as skilful partners (of whom one is still on the board of management) and the adoption of a business policy based on new principles, and this notwithstanding the fact that confidence in the

The German Great Banks

bank, which had been almost completely lost, had to be regained by the new partnership.

Even for the first year after the reorganization (1883) a dividend of 7 per cent could be declared, and ever since, with the exception of slight interruptions from time to time, due to general economic conditions, the Berliner Handelsgesellschaft has been following a career of continuous and increasing success.

Its dividends during the following years were as follows:

	Per cent.			Per cent.
1883.....	7	1896.....	9	
1884.....	9	1897.....	9	
1885.....	8	1898.....	9	
1886.....	9	1899.....	9½	
1887.....	9	1900.....	8	
1888.....	10	1901.....	7	
1889.....	12	1902.....	7½	
1890.....	9½	1903.....	8	
1891.....	7½	1904.....	8	
1892.....	6	1905.....	9	
1893.....	5	1906.....	9	
1894.....	7	1907.....	9	
1895.....	8	1908.....	9	

On December 31, 1908, the "commandite" capital of the Berliner Handelsgesellschaft was 110,000,000 marks, while the surplus amounted to 34,500,000 marks, or 31 per cent of the capital stock. The debits on current account amounted to 192,250,000 and the credits to 206,250,000 marks.

The peculiar character of the Berliner Handelsgesellschaft among the other great Berlin banks grew out of its relations to:

1. The electrotechnical industry.
2. The so-called "heavy" industries, especially mining and smelting enterprises.

National Monetary Commission

3. The street railways and minor steam railways.

It was particularly in the first-mentioned field that the Berliner Handelsgesellschaft developed a many-sided and fruitful activity. The great success achieved by the *Allgemeine Elektrizitäts-Gesellschaft* (General Electric Company) was due as much to the marvelously efficient management of its general director, Emil Rathenau and his associates, as to the intelligent and skilful financial cooperation of the Berliner Handelsgesellschaft. The latter, as the chief financial adviser of the General Electric Company, proved as successful as did the Deutsche Bank in the case of the firm of Siemens & Halske.

The Handelsgesellschaft undertook a large number of financial transactions of all sorts as a result of its connection with the General Electric Company. Aside from the numerous issues which it carried through for the General Electric Company and other concerns which were either allied with or subsidiary to it, such as the *Berliner Elektrizitätswerke*, I may mention its organization of separate electrical companies in Seville and Barcelona (1894), in Warsaw and Bilbao (1896), the foundation of the *Bank für Elektrische Unternehmungen* in Zurich (1897); the *Deutsche Ueberseeische Elektrizitätsgesellschaft* (German Transmarine Electrical Company) in Berlin, and the *Aluminium-Industrie-Aktiengesellschaft* (Aluminum Manufacturing Company) in Neuhausen (1898), the *Elektro-Chemische Werke* (Electro-Chemical Works) in Bitterfeld and Rheinfelden (1896), which were consolidated in 1899 and, finally, the *Elektrizitäts-Lieferungs-Gesellschaft* (Electric Light and Power Company), etc.

The German Great Banks

After the Union-Elektrizitäts-Gesellschaft (U. E. G.) was taken over by the General Electric Company in the year 1904, the bank group which financed the General Electric Company was strengthened by the alliance with the bank group which financed the Loewe enterprises (viz, the Disconto-Gesellschaft, the Dresdner Bank, the Darmstädter Bank, and the A. Schaaffhausen'scher Bankverein). This group thus represents an enormous power alongside that of the bank group headed by the Deutsche Bank, which finances the Siemens & Halske concerns and the newly organized limited stock company (G. m. b. H.) of the Siemens-Schuckert Works, which grew out of a combination in 1903 of some of the Siemens-Halske works with the Schuckert Company. This latter combination presents many points of contact and common interests with the groups mentioned. The Berliner Handelsgesellschaft is, moreover, represented in the syndicate for handling the Siemens & Halske securities.

In the "heavy" industries, especially in mining and smelting, the Berliner Handelsgesellschaft also played an important and at times even the leading part alongside the A. Schaaffhausen'scher Bankverein. Together with this institution, it is largely interested in the *Harpener Bergbaugesellschaft* (Harpen Mining Company), is closely connected with the *Rombacher Hüttenwerke* (Rombach Smelting Works), and wields an important influence in the Ruhr coal district through its intimate connection with the *Konsolidation* and the *Hibernia* mining companies. In conjunction with the banking house of S. Bleichröder and other banks, it succeeded in preventing the acquisition of the Hibernia mines by the Government.

National Monetary Commission

The Berliner Handelgesellschaft, furthermore, is well connected with the Upper Silesian iron and coal district through its close business relations with the *Oberschlesische Eisenindustrie-Aktiengesellschaft Caro-Hegenscheidt* (Upper Silesian Iron Company Caro-Hegenscheidt) and the firm Emanuel Friedländer & Co. in Berlin, one of the two sales agencies of the upper Silesian coal combination.

Finally, in the field of street and minor railway enterprises the activities of the Berliner Handelgesellschaft had a particularly wide scope. It assisted the General Electric Company in 1895 by the founding of the Leipzig Street Railway Company and through the issue of the securities of the Karlsruhe, Breslau and Stettin street railway companies and those of the *Allgemeine Lokal- und Strassenbahngesellschaft* (General Local and Street Railway Company). Like the Darmstädter Bank, but at a later date, it undertook also the promotion on a large scale of minor railways (Kleinbahnen).

In this field its relations with the Stettin Railway Construction and Transportation Concern, Lenz & Co. were as close as those of the Darmstädter Bank with the firm Herrmann Bachstein. In view of its own former disastrous experience and that of other large banks, it began its activity in this field by organizing in 1895, in conjunction with the A. Schaaffhausen'scher Bankverein, a trust company at Cologne, known as the *Westdeutsche Eisenbahngesellschaft* (West German Railway Company), which took the place of the Handelgesellschaft in the operating and financing of the Lenz enterprises. In 1896 another trust company, the *Bank für Deutsche Eisenbahnwerte* (Bank for German Railway Securities) was organized,

The German Great Banks

while the *Badische Lokaleisenbahnen*-A. G. (Baden Local Railway Company) was founded to take over a part of the Lenz railway system located in Baden and the *Ostdeutsche Eisenbahngesellschaft* in Bromberg (in 1899) to take over another part of that system. In 1899 the *Vereinigte Westdeutsche Kleinbahn-Aktiengesellschaft* (United West German Minor Railway Company) was founded, which controlled as separate enterprises a large part of the railroads of the West German Railway Company. In 1901 the *Handelsgesellschaft* founded, alongside the older limited company, Lenz & Co., a new *Aktiengesellschaft für Verkehrswesen* (stock company for transportation), with a capital of 10,000,000 marks, which took over all the shares of the former company. The *Berliner Handelsgesellschaft* engaged, in a large measure, also in speculative dealings in urban land tracts (*Terraingeschäft*).

We saw above (in the discussion of the A. Schaaffhausen'scher Bankverein, page 515) that with reference to the number of industrial issues effected during the years 1895 to 1903, the *Berliner Handelsgesellschaft* ranked third, with 170 issues (as against 220 effected by the *Dresdner Bank* and 187 by the A. Schaaffhausen'scher Bankverein). It ranked fourth if the number of financed companies is considered, this number being 149.

It is also represented by its managing partners on the supervisory boards of a large number of industrial corporations. The international connections of the *Handelsgesellschaft* are extensive and of a high order. The company took a leading part in the formation of the *Deutsch-Asiatische Bank* in 1889 and of the *Banca Commerciale Italiana* in 1894. It also participated during the years

National Monetary Commission

1898 to 1904 and in 1908 in the organization of all the German telegraph and cable companies, in 1899 in the organization of the two Shantung companies, and in 1906 in the founding of the Kamerun Railway Company.

Among its connections in the countries of continental Europe we may note the following institutions in the foundation of which it took part:

Schweizerischer Bankverein in Basle (1872), the *Banque Internationale de Bruxelles* (1898), the *Banca Marmorosch Blank & Co.*, *Societate anonima* in Bucharest (1904-5) and the banking company, formerly *Andréevics & Co.*, in Belgrade (1908). Since 1905 it has been operating the Usambara Railway in German East Africa, and in conjunction with the firm of Lenz & Co. it is engaged in the construction of the railway from Lüderitzbucht to Kubub.

It participated, in some cases most prominently, in all of the Russian, Chinese, and Japanese bond issues effected during the second period and emitted several Servian state and railway loans. (See App. V and VI.)

The prominent place among the large Berlin banks attained by the Berliner Handelsgesellschaft proves in a striking way the truth established by years of experience that the fate of banks as well as of industrial and commercial enterprises depends chiefly upon the ability and trustworthiness as well as the energy and farsightedness of the management.

The German Great Banks

SECTION 7. THE SO-CALLED EXPORT CAPITALISM—THE INVESTMENT OF GERMAN CAPITAL IN FOREIGN INDUSTRIAL AND COMMERCIAL ENTERPRISES, AND SECURITIES. THE ESTABLISHMENT OF SUBSIDIARY BANKS (TOCHTERBANKEN) EXCLUSIVELY FOR FOREIGN BUSINESS, WITH SPECIAL REFERENCE TO ITS CONNECTION WITH THE INDUSTRIAL EXPORT POLICY.⁴⁸⁰

(A) In a previous part (sec. 4, sub. 1) it was shown that the development of the foreign, and especially the over-sea banking business during the second period,⁴⁸¹ which was started by the energetic activity of the Deutsche Bank represents the outcome of a well-designed business policy⁴⁸² on the part of the great German banks which is directly and inseparably connected with the general industrial export policy.

In order to judge whether this business policy has been proper, necessary, or desirable from the point of view of the public welfare, we must bear in mind the facts presented in Part III, Chapter I, page 87 et seq., bearing on the development of the general economic conditions in Germany during the second period (1870 to the present time).

We saw that German agriculture and forestry during this period were not in a position to supply the domestic demand by their own products. We also know that in view of the large and continuous growth of our population, notwithstanding the best efforts and zeal, this deficiency in the domestic supply could not be made up by the application of more intensive methods in agricultural production or by the extension of the cultivated area. Our deficiency in agricultural products,

National Monetary Commission

therefore, had to be made up to an increasing extent by the foreign importation of foodstuffs.

Moreover, German industry was not in a position to supply its needs at home, especially in the matter of raw materials, and was compelled on the whole—i. e., apart from single branches—to supply the demand for raw materials largely and, in some instances almost exclusively, by importation from abroad.

It is self-evident that we can not pay in cash for these very large imports of agricultural products and raw materials used in manufacture without impairing our national capital resources. These imports must be paid, therefore, in some other way; and this is unavoidable, because we need these imports for the existence of our agriculture and our industry—that is, for the sustenance and the employment of our population.

Such payment has been made thus far in an unimportant degree by the exchange of such raw products as we do not need for home consumption, but mainly by exporting manufactured products⁴⁸³ to the countries from which we import foodstuffs and raw products.⁴⁸⁴

The necessity for these exports of manufactured products is thus growing in proportion to the increasing deficiency in the supply of domestic foodstuffs and raw materials. Under present conditions, therefore, especially in view of the constantly increasing population, our industrial export policy can not be said to have been a device arbitrarily adopted, and therefore one eventually to be abandoned. Nor is it an end in itself, but on the contrary a means, indispensable to our entire economic existence,⁴⁸⁵ of paying to a very material extent for our absolutely necessary imports.

The German Great Banks

As stated before, the German banks regarded it as one of their chief functions actively to support both at home and abroad domestic industry⁴⁸⁶ and the export policy adopted by the latter by promoting energetically German foreign commerce. In connection with this general policy they came to establish branches in foreign countries and to organize for the foreign business special subsidiary banks both at home and abroad, which, it is true, in many cases proved at the same time the means of securing new and profitable business. They also cooperated with the government policies regarding the colonies, navigation, canals, the navy, and cable connections, all of which bore the closest relations to the above business policies.

It is plain, therefore, that the activities of the banks in all these fields were of national importance. For upon the successful discharge of the above functions depends not only the maintenance and the extension of our influence and our importance abroad, but, what is more, our entire economic existence.

It may be said that for some time at least the necessity of this development from the point of view of the common national interests did not appeal to wide circles, especially to those classes which were injuriously affected by this development. For it goes without saying that in the course and as the result of the industrial export movement, as in the case of any other fundamental economic change, serious disadvantages manifested themselves. With the steady growth of population the industrial export policy continued to be emphasized more and more until about 1882, when it may be said to have reached its point of culmination. During all these years agriculture,

National Monetary Commission

notwithstanding all its importance to the economic well-being of the nation, received but scant support, losing much of its former strength, means, credit, and labor. It is that policy which is partly responsible for the fact that the percentage of population engaged in agriculture decreased from about 61 per cent of the entire population in Prussia in the middle of the past century to 28.6 per cent of the entire German population in 1907, while at the same time the population engaged in commerce and industry increased from about 24 per cent (in the middle of the past century in Prussia) to 56 per cent of the German population engaged in gainful occupations in 1907. The latter circumstance has contributed materially to the enormous growth of the manufacturing towns (up to 17 and 18 times the figures for the middle of the past century).

(B) The above-mentioned activities represent, however, only part of the functions of the banks in this field.

For as was made clear from the statistical compilations, which were closely scanned by the banks as well, notwithstanding all efforts in the fields of industry and foreign trade, only part, though quite a considerable part, of our imports of foodstuffs and raw materials could be compensated by means of exports of manufactures and similar products. After deducting the value of our exports of manufactures there still remained a very considerable balance in favor of the foreign countries. The excess of imports for consumption over domestic exports at the close of 1907, as we saw above (p. 112), amounted, in round figures, to 1,300,000,000 marks. To this extent, therefore, the balance of trade was against us.

The German Great Banks

Now, there is no doubt that the claim that an unfavorable balance of trade in itself is disastrous for a country can not be maintained as a general proposition, since numerous countries may be cited which show an unfavorable balance of trade, but which with a particularly favorable balance of payments, enjoy the utmost prosperity. These are the countries which utilize the available surplus of large capital accumulations, derived from their industrial, agricultural, or colonial successes, for the improvement of their balance of payments. The more favorable the balance of payments of such a country the less perilous will be an unfavorable balance of its trade. In other words, the more favorable its balance of payments becomes, the less a country may hesitate to let other countries "work for it," that is to say, permit itself to be supplied by other countries with raw materials and foodstuffs, even though as a result of such a policy its balance of trade may become unfavorable. For Germany the problem presented itself of compensating the unfavorable balance of trade by the utmost practicable improvement of our balance of payments, in order to escape ultimate disaster through a constant accumulation of unfavorable trade balances. In this respect, as well, there was no choice of means.

The problem was primarily one of creating debits in our favor on the part of those countries which had a favorable balance in their trade with us,⁴⁸⁷ debits at least large enough to counterbalance the credits due them from us by reason of the excess of their sales over their purchases in their trade with us. In the case of industrially-developed countries, the activities accomplishing this result develop to a considerable extent automatically,

National Monetary Commission

i. e., as natural consequences of the industrial relations to the less developed foreign countries, and to a smaller extent, as the result of fixed plans and designs.

Foreign countries may become our debtors—

(1) Through business operations which we carry on in and with foreign countries, which include exchange, arbitrage, and commodity transactions with these countries undertaken either for speculative purposes, to secure payment, or to attract gold from them, and through services which we render those countries, or through mercantile, industrial, or transportation enterprises which we establish in the foreign countries or in which we participate.

The German enterprises established in foreign European countries, which were mentioned in section 4, sub. II (p. 432 et seq.), include the foreign branches of the German banks, such as the Deutsche Bank, the Disconto-Gesellschaft, and the Dresdner Bank in London. The foreign German participations include the ownership by German banks of stock in foreign banking institutions, such as the ownership by the Commerz-und Disconto-Bank of shares in the London and Hanseatic Bank, by the Dresdner Bank of stock in the General Mining and Finance Corporation (Limited) in London, etc. According to the report of the Central Federation of German Banks and Bankers (*Centralverband des Deutschen Bank- und Bankiergewerbes*) of December, 1903 (concerning the effects of the stock exchange act and the stock exchange tax act), since the stock exchange act of January 1, 1897, went into effect, numerous time transactions and other dealings of the German public in (American) rail-

The German Great Banks

way stock and in mining shares transacted in many foreign countries, particularly in London, Paris, and New York, have to be considered in which, to escape the German tax on securities, the securities to a large extent remained abroad. According to the inquiry of the central federation (see above report, p. 48), which was only partially successful, the securities (for the most part probably of the classes above mentioned)⁴⁸⁸ which the 18 largest banks and banking houses of Berlin, namely, the members of the so-called *Stempelvereinigung*, had in foreign depositories on December 31, 1902, on their own and outside accounts amounted to 602,268,000 marks, while the value of securities which only 149 other German (provincial) banks and bankers had at the same time in foreign depositories amounted to 454,151,000 marks.

According to Paul Dehn⁴⁸⁹ the total investments of French capital in foreign countries in the middle of the year 1902, according to official investigations, amounted to 24,000,000,000 marks (30,000,000,000 francs).⁴⁹⁰ Dehn further states:⁴⁹¹ "It is reported that the English draw annually 1,000,000,000 marks in interest from American securities which they hold, from plantations, factories, constructions, etc., which they have instituted and with which they pay for the foodstuffs which they import from the United States." According to an address of Sir Edgar Speyer before the Institute of Bankers, made on June 7, 1900, on "Some aspects of national finance," the total amount of British working capital invested in foreign countries was estimated to aggregate £2,500,000,000 or 50,000,000,000 marks. According to Helfferich,⁴⁹² the former director of the *Crédit Lyonnais*, German, estimated

National Monetary Commission

that during recent years France invested annually about 1,500,000,000 francs in foreign securities.

(2) Through our acquisition of foreign securities the interest or dividends on which are to be paid by foreign countries, or the capital amounts of which we are to receive when they become due, or when the securities are sold abroad.

It may be objected that these investments in the first place require means which must be drawn from domestic sources and which go abroad (as, for instance, when a foreign loan is taken up at home) in consequence of such investments, and that in the beginning at least we become debtors of the foreign country, while any improvements in this balance begin to show only later from the earnings of our investments, and that, for the time being, our balance of payments is not improved but rather made more unfavorable. But while there are doubtless cases where this argument is effective, yet in the majority of cases the amounts which we invest abroad—that is, which we have to pay to foreign countries in gold—are paid out of the earnings on other foreign securities which are in our possession or through the sale or exchange of other foreign securities, or else are paid with goods which we furnish to the foreign countries, it being as a rule agreed, when loans are made to foreign countries, that our industries shall be favored with the contracts and orders for the payment of which the loans were contracted. A portion of the securities which have been taken up eventually find their way back to the foreign countries, or other changes in the international balance of payments may take place with which we must also reckon. Such changes happen con-

The German Great Banks

tinually and daily through the importation and exportation of securities. Absolutely no information exists as to the course in time or the volume of these movements, although such data only would enable us to perceive more fully the significance of the imports and exports of merchandise and specie, i. e., of the international commercial exchanges.⁴⁹³

In so far as the German banks, either on their own account or as intermediaries, have been active in both directions named, and granting that they have observed the necessary care and foresight in preventing or arresting a dangerous decline in those earnings of our foreign investments, which might be applied to improving our unfavorable balance of payments, they have undoubtedly rendered valuable service, absolutely essential in the interests of our national economy. The following important limitations, however, must be made:

The undertaking of or participation in foreign investments is practicable only when there is a considerable surplus of capital at home and permissible only after the domestic demand for capital is fully met. Even if these conditions exist such investments are not to be favored, when in the long run they result in the strengthening of foreign industry and the enhancing of foreign competition against our domestic trade and industry.

Such participations of German capital in foreign countries comprise chiefly banks, manufacturing, colonization, plantation, mining, light, power, and railway undertakings and other land and water transportation enterprises. The earnings from these participations increase the credit side of our balance of payments only to the extent that

National Monetary Commission

they exceed the earnings of foreign investments in Germany. The latter are chiefly gas works and street and local railway enterprises.

One of the important, if not the most important, item in the balance of payments is represented by the credits which we grant to foreign countries in our commercial dealings with them. Since these amounts can be obtained only from the books of the individual concerns which grant these credits, it follows again that a total of the item in question can at best be but approximately estimated.

On the other hand domestic enterprises and participations abroad, in so far as they do not merely benefit foreign industry, are to be regarded favorably as a rule, especially when proper care is used in their selection, when, in the main at least, they are conducted on domestic account, and when they are either intended or suited to extend the domestic sphere of influence and to serve as a basis for larger activity of domestic industry. These factors do not affect immediately the balance of payments, though sooner or later they are bound to find expression in ponderable items in our necessarily inexact balance of payments.

The above considerations, it is true, do not justify foreign investments, whenever and in so far as the earnings from our foreign investments and enterprises exceed the amounts required to pay for our excess of imports. As a matter of fact the returns from our foreign investments by far exceed the latter amount (see below, p. 545).

But we must always reckon with the possibility that our domestic exports may decline, while our imports will remain the same, or even increase. This would result in a steadily growing adverse trade balance, which

The German Great Banks

might become the more portentous the smaller the credit items in our balance of payments, i. e., our foreign investments which render the foreign country tributary to us, and the returns from which can be used to counter-balance the debit items in our trade balance. Furthermore, unless we render foreign countries tributary to us to an increasing extent, the time might come when, with the growing importance of their own home market, these countries would no longer be constrained to furnish us with their foodstuffs and raw materials. As it is, these exports or the money equivalent thereof go to meet their obligations toward us in the shape of profits and interest.

A large decline of our imports would also tend to destroy our industry, and thus our export trade, which furnish food and employment to our population, and which, as it is, is greatly jeopardized by the growth of imperialistic and protectionist tendencies in countries which are at present our principal customers.

(C)_m It is clear even from what has been said that our foreign investments, as a whole, must necessarily go beyond the lowest limits set by our adverse trade balance. But for a number of special classes of investment, the returns from which serve to improve our balance of payments, the necessity and utility is proven by other important and cogent reasons, which retain their validity, even if the above general considerations be regarded of insufficient strength.

(a) As regards the German insurance business in foreign countries, it is desirable for the domestic insurance business for the reason, among others, that by extending the scope of the business a broader distribu-

National Monetary Commission

tion of the risks is effected in time and place.⁴⁹⁴ The returns from the foreign business of the German insurance enterprises naturally increase the credit side of the balance of payments only in so far as they are not counterbalanced by the earnings of foreign insurance companies in and on account of Germany.⁴⁹⁵

(b) The oversea banking business makes it possible for our domestic exporters and importers, as well as for our general commercial activity in foreign countries, to dispense with foreign intermediaries for their financial transactions and credit needs. Through the financing of the foreign business of our merchants German bank acceptances have been introduced to foreign markets, with the result that the oftentimes considerable earnings of foreign concerns in this field have been turned into German channels and have thus become available for improving our balance of payments. Thus, for instance, as late as 1888, according to consular reports, the commercial exchanges between Germany and Chile valued in the aggregate at 60,000,000 marks yielded about 500,000 marks of profits to British bankers, merely because all acceptances by means of which these exchanges were effected had to be liquidated in the British market.⁴⁹⁶

In the excellent "*Tabellen zur Wahrungstatistik*"⁴⁹⁷ (tables regarding currency statistics) of the Austrian Ministry of Finance an estimate is mentioned—according to which out of the total value of the oversea trade of the European Continental countries more than 6,000,000,000 marks is yearly drawn on England. According to estimates of the British board of trade, which relate to the year 1898,

The German Great Banks

bankers' and other commissions aggregated in that year 18,000,000 pounds sterling (that is, about 432,000,000 marks).

The over-sea banking business, furthermore, opens up possibilities for the investment of the domestic surplus capital (see above, p. 92). This annually growing surplus increases the demand for investment opportunities, which can not be met fully by the issue of domestic state, communal, and other loans.

Our foreign banks are also in a better position to obtain timely information regarding more important contracts, works, and government orders about to be awarded or regarding the impending issue of foreign loans, and are thus able to lend much more effective assistance to German concerns seeking the awards. Through their connections with the foreign markets they are also in a position to call the attention of foreign purchasers to German firms and, vice versa, to bring to the notice of German manufacturers and traders suitable representatives and purchasers in the foreign countries.

Under the same head come also the profits of domestic banks from trading in foreign securities and returns from other foreign business. Against these earnings have to be set, as elsewhere, the corresponding earnings of foreign banks from German business, including the commissions paid to foreign fiscal and disbursing agencies on account of our coupons and bonds, loan conversions, talon renewals, etc.

There is no means of estimating even approximately the volume of the foreign business, including dealings in foreign securities effected by our banking institutions, nor

National Monetary Commission

of the returns from this business in the shape of interest, commissions, etc. They include chiefly the earnings from underwriting, emitting, converting, unifying, and rehabilitating foreign state, railroad, and private securities; from the financing of foreign operations and enterprises, from the granting of credit to foreign firms, institutions, enterprises, concerns, and individuals by way of current account, bills and other credit operations; profits from the loaning of domestic securities abroad, from the foreign bill business, including brokerage and remittances; from the foreign trade in specie, also earnings of interest, commissions, and brokerage in international commercial transactions; profits from the purchase of foreign bills of exchange and the accumulation of credits (payable in gold) abroad;⁴⁹⁸ from services in connection with the payment of foreign coupons, from the redemption of drawn or otherwise matured debentures, the delivery of new coupon sheets, as well as the talon renewals of foreign securities.

(c) The earnings of the German merchant marine from oversea shipping also constitute an important factor in our balance of payments. The above-mentioned "*Tabellen zur Währungsstatistik*," prepared by the Austrian Ministry of Finance, estimate the freight receipts of the Austro-Hungarian merchant marine in the foreign trade at 60,000,000 crowns and the credit accruing therefrom to the international balance of payments of the country at 30,000,000 crowns.⁴⁹⁹ It is unnecessary to demonstrate that the services of our merchant marine in the oversea trade have proved of immense value in the development of our export trade and have contributed largely to increase our prestige among foreign nations, our national power and influence, as well as our financial strength.

The German Great Banks

(d) Furthermore, we must take into account the earnings on account of foreigners traveling in Germany, which are, however, more than fully set off by the corresponding foreign earnings on account of Germans travelling abroad.

(e) Other items in the balance of payments are: The charges of domestic railways for carrying goods in transit to foreign countries; the excess charges for the mutual renting of railway cars; clearance balances received in the international postal, passenger, telegraph and telephone services; the expenditures of foreign vessels in the home ports (minus our own payments in foreign ports); the charges for the construction of vessels on foreign account in our dock yards and our claims from the sale of domestic vessels to foreigners; the claims arising from the international exchange of patents and copyrights; the claims of members of the liberal professions, i. e., technical experts, teachers, physicians, actors, musicians, etc., engaged abroad; the claims resulting from the ownership in foreign countries of land and mortgages, from liquidated inheritances and from marriage contracts concluded abroad, and, according to Ad. Soetbeer,⁵⁰⁰ also the extraordinary payments⁵⁰¹ which one country must make to another as the result of political relations or events (war indemnities, subsidies, pensions, cost of administration).

Finally, an important factor in the balance of payments is presented by—

(f) The investments of home capital in foreign securities, the utility and necessity of which are based on a number of weighty reasons besides those mentioned above.

Any attempt to liquidate the very considerable adverse balance of our trade with foreign countries by means of

National Monetary Commission

cash remittances instead of the interest and dividends on foreign securities or the sales of such securities would prove to be very expensive. It would lead to serious disturbances in the money market, at times even to crises, and might endanger in a large measure our currency and credit systems. Besides we need proper foreign securities, i. e., such as are payable in gold to secure our financial readiness for war (see p. 22 et seq.) as a necessary means of compensation against eventual withdrawals of large foreign credits.

We need them, furthermore, in order to be able to draw gold from abroad to satisfy the urgent and pressing needs for credit and instruments of payment which usually occur in the last days preceding and the first days following a declaration of war,⁵⁰² as well as to meet the violent demand for cash, which is apt to occur at such times during a temporary loss of confidence in any form of currency except gold. The holdings of such international securities which can be realized at the various international bourses present, therefore, the best protection against the excessive fall during warlike times in the quotations of our domestic securities and against the weakening or glutting of our own stock exchanges.

In this connection it must be remembered what important political results have been brought about by the granting or refusing of loans to foreign states and to what extent the home government may use for political purposes its power of permitting or prohibiting the issue, official listing, and pledging of foreign securities, especially at times when the foreign state, either because of the closing

The German Great Banks

or overstocking of other foreign markets, is confined to our exclusive assistance and when it is in our power to inflict great damage on it by our refusal or prohibition. The skirmishes of the political advance posts are fought on financial ground, though the selection of the time and the enemy as well as the manner in which these skirmishes are to be fought depends upon those responsible for the direction of our foreign policy.

Much more than ever before we Germans will have to bear in mind that industrial contracts, commercial enterprises, and capital investments are conveying from one country to another not only capital and labor but also political influence.

Dehn very properly shows how French capital, for instance, has rendered pioneer services to the French foreign policy in Tunis and Morocco, in Turkey and Greece, and, above all, in Russia, while Sombart goes so far as to characterize "the whole Franco-Russian alliance as a bankers' creation" (*Bankiergebilde*),⁵⁰³ an assertion which is rather extreme. In the same vein, Georg v. Siemens, in his article on "The National Importance of the Bourse" (in the *Nation*, Oct. 6, 1900), calls attention to the great political advantages which we gained in Italy, after political discord had grown up between Italy and France, when we immediately placed at Italy's disposal our capital and stock exchanges, and that the battle between Russia and England about Persia was primarily fought "on financial ground."

In more recent times we witnessed the beginning of better political relations between France and Italy, brought on primarily through financial reconciliation, particularly the taking over a few years ago by a French

National Monetary Commission

banking group of a large amount of stock in the *Banca Commerciale Italiana*, created at the start without the cooperation of French capital. We saw only recently that the French Government threatened to withdraw the listing privilege from the Turkish state bonds unless certain contracts were awarded to French industry. The British Government sought to prevent in every way the granting of a banking concession in Persia to the German *Orientbank* for fear that such a grant might lead to a diminution of its own political influence.

The taking over of loans for China and Japan became an object of contention among all great nations, for the well-known reason that financial influence merely paves the way for political influence. France and England are competing in Spain and Portugal—and nearly all the great powers in Turkey—to gain political influence by means of financial aid. Notwithstanding some painful experience in Argentina, the English banks and capitalists have been tenaciously lending financial support to the efforts of their Government to maintain and strengthen the British political sphere of influence in that part of the world. In Canada and Mexico and in Central and South America the Americans are systematically planning by investments of capital and all sorts of financial measures to drive out both European political interference and European commerce.

In view of the above facts and considerations, the question whether issues of foreign securities even beyond the amount required to balance the excess of our foreign imports are economically correct in principle must be answered in the affirmative.

The German Great Banks

The presumptions under which, in each individual case, the issue of foreign securities is permissible and unobjectionable from the national point of view have been discussed in detail above (p. 384 et seq.).

(D) With regard to the volume of the foreign investments of home capital,⁵⁰⁴ the report of the Reichs-Marine-Amt of December, 1905, on *Die Entwicklung der Deutschen Seeinteressen im letzten Jahrzehnt* (the development of German marine interests during the last decade) gives, on the basis of consular reports, the following estimates. The latter, of course, are based in turn upon estimates more or less accurate of others furnished to the consuls at their respective seats.

(a) The amount of German capital invested in foreign undertakings, plants, business enterprises, and participations is estimated at 7,700,000,000 to 9,200,000,000 marks, equivalent to an income, reckoned at an average of 6 per cent, of 462,000,000 to 552,000,000 marks.

Concerning this estimate the report remarks as follows (Introduction, p. XI): "In these amounts (7,700,000,000 to 9,200,000,000 marks) the current German merchandise credits, which amount to at least one-fourth to one-third, perhaps even to one-half, the amount of the yearly German exports—that is, to 1,500,000,000 to 2,750,000,000 marks—are included only in part, and the same is true of the credits frequently advanced on account of imports." We have already remarked above that there are no means of even estimating the total credits granted by us to foreigners in international trade, and the same is true of our charges for services of all sorts rendered by us.

National Monetary Commission

(b) The amount of foreign securities in the possession of German holders is estimated at least at 16,000,000,000 marks (ib., introduction, pp. XII, and 169), equivalent to an income of 800,000,000 marks, reckoned at 5 per cent.

Accordingly the total amount of our foreign capital investments for the year 1905 may be estimated at a minimum of 24,000,000,000 to 25,000,000,000 marks (with yearly earnings of about 1,352,000,000 marks) an amount which very likely falls considerably short of the true amount. (See note 20, p. 803.)

As a matter of fact, as was illustrated before in a few important instances, the true volume of the foreign investments of domestic capital in the main fields, on account of the lack of safe statistical bases, can not be estimated even approximately. This is shown strikingly and in great detail by the "*Tabellen zur Währungsstatistik*"⁵⁰⁵ prepared in the Austrian Ministry of Finance, especially in the chapter dealing with "earnings in foreign countries" (*Erwerbstätigkeit ausser Landes*), although the subject is treated in the report with the utmost care and thoroughness.

SECTION 8. REFORM PROPOSALS CONCERNING BANK DEPOSITS AND THEIR JUSTIFICATION⁽⁵⁰⁶⁾.

I. GENERAL OBSERVATIONS^(506 a).

It was pointed out in an earlier chapter how the German banks developed hand in hand with the scanty means of the German people and in accordance with the demands of German trade and industry. In England a different development took place, which, while in equally close touch with English requirements and the given

The German Great Banks

concentration in the fields of distribution, credit, and national wealth—all of which was entirely lacking in Germany—led from the outset to a sharp differentiation between the deposit banks and other banks. This is sufficient ground for a large number of Germans, who are wont to underrate domestic as compared with foreign achievements, to point to the English system as the only true one, and to demand its unrestricted adoption at home. Similar views are, however, held in certain notable scientific quarters. It is particularly Adolph Wagner who has been advocating for a long time a reform along English lines, based in his case upon scientific conviction, which, as is well known, is least apt to change under the influence of mere practical experience.

To my mind it was a fortunate fact that the German banks, from the very start, placed themselves at the particular service of trade and industry. But at all events it will be granted that this was due to the historically given German conditions and requirements. As a result of this connection the banks have taken a considerable part in the splendid industrial and commercial development of the country, which is characteristic of the last decades. Starting at a time when domestic agriculture was no longer in a position to provide sufficient food and work for the greatly increased population the German banks contributed indirectly toward transforming Germany from an agricultural country, if not into an exclusively industrial and commercial country at least into one where these two economic interests are of preponderant importance. This is sufficient to arouse against the banking interest all those who detest the whole trend

National Monetary Commission

of "industrialization." The charge is made against the banks that through their deposit system they deprive agriculture of considerable funds, which they use instead for the support of industry, especially of the export industries. Political circles sharing these views are supported in this campaign by the extremists on the opposite side—i. e., the social democrats, who oppose the banks as the most powerful and dangerous representatives of movable capital.

A regrettable feature of German banking in common with other industries is the gradual ousting of small enterprises by large-scale enterprise. This development has caused a number of members and spokesmen of the "middle classes" (in this case the smaller bankers—for instance, Caesar Straus) to attack the German banks on the ground that they were pursuing an altogether wrong course. Notwithstanding the heterogeneity of political and economic views and the great variety of motives and mutually exclusive purposes of those who have been advocating "reform" in the field of deposits during the last few decades, there is unanimity on one point, namely, that "something must be done" that in some way or other the funds flowing to the banks should be diverted in a larger degree to agriculture, or "national economic ends," to use the more popular catchword. As soon, however, as practical proposals are called for, various currents and parties appear with often obscure and contradictory demands, despite the fact that the several parties and assailants very often contrive to veil their true ends and purposely move in separate columns with the view, however, of combined attack. Moreover, each time a

The German Great Banks

crisis occurs, an event which can hardly ever be avoided in economic life under any banking system, there appear on the scene any number of patented critics or persons who have become experts overnight, who, to say the least, try to impress the public that had the German banking system been intrusted to their care it would have worked faultlessly, and who use such favorable occasions to prove their capacity of "saving the country" by means of the most radical proposals.

I. SAFETY OF DEPOSITORS—A REASON FOR REFORM PROPOSALS.

The majority of known reform proposals hitherto made are based on the following considerations:

The German banking system, which, unlike the English system, combines the issuing of securities and speculating activity on own and outside accounts with the receiving of money deposits endangers, of necessity, the safety of the deposits. These are intrusted to the banks with the confidence in their absolute security. The banks, however, use them in providing the means for their own enterprises and for speculation in securities on outside account.⁵⁰⁷ In Germany the detrimental effects of such a system have already become evident in a marked degree through overspeculation, excessive security issues,⁵⁰⁸ crises,⁵⁰⁹ and bankruptcies, which have caused great losses to depositors.

2. THE PARTICULAR PROPOSALS, MADE WITH THIS END IN VIEW BY CÆSAR STRAUS, OTTO WARSCHAUER, AND COUNT VON ARNIM-MUSKAU.

We are therefore urged to adopt the British banking system. The latter, it is said, provides for a strict division of the field and for the complete divorce between

National Monetary Commission

stock exchange and deposits, and thus guarantees the safety and prudent administration of the moneys deposited. In other words, it is imperative to effect a complete separation between the deposit business and the issue and flotation business. This is the general trend of the proposals of the late Cæsar Straus, a former private banker in Frankfort-on-the-Main, and of Otto Warschauer.

Straus advocates the establishment of a central deposit bank for the whole German Empire by private means, but under government supervision, with a capital of 60,000,000 marks, of which 25 per cent, that is, 15,000,000 marks, is to be paid in; the bank to maintain branches in all important trade and money centers and to transact business in other places through the intermediary of the Reichsbank.⁵¹⁰

Warschauer advocates the establishment of a *Reichsdepositenbank* (Imperial Deposit Bank) with a share capital of 50,000,000 marks, of which 50 per cent, that is, 25,000,000 marks, is to be paid in. Alongside this imperial institution, deposit banks for the individual States might be founded, which would bear the same relation to it as the present private note banks do to the Reichsbank.⁵¹¹ The proposed institution, just as the Reichsbank, should follow a plan of decentralizing its operations through the opening of a large number of local offices in the various confederated States. He presages for the proposed central deposit bank, the deposits of which, in his opinion, would reach the total of at least 1,000,000,000 marks, a dividend of 21 to 22 per cent ("an extremely low estimate," as he expresses himself).

The German Great Banks

Judging by the average profits of the London stock banks, he assumes as "extremely probable" a dividend in the long run of 12 per cent. The above prediction may possibly explain the fact that, according to Warschauer, the proposed deposit banks are to be permitted to acquire first-class mortgages as well as to advance money on industrial securities and bank shares, to be sure with the limitation that only "first-class securities" are to be considered. This he thinks will cause a gradual defection of depositors from the credit banks. The latter, in his view, represent merely private interests with no claim to special protection by the Empire, and through their alertness will undoubtedly soon find new and perhaps even more profitable fields of operation.⁵¹²

At the same time both Warschauer and others before and after him made a number of substitute proposals to be applied to those of the existing banks which receive deposits. Most important among these are the following:

The proportion of deposits, in so far as they are savings deposits,⁵¹³ to the share capital—in other words, the maximum amount of deposits a bank might be permitted to receive should be fixed by law at about 200 per cent of the share capital, as against 50 per cent, which is the legal maximum for mortgage banks, since the smaller the working capital the less secured were the rights of the creditors.

Furthermore, the principle of publicity should be adopted more largely than heretofore with regard to "savings deposits" (*Spareinlagen*), which should be stated separately in the balance sheets either by all⁵¹⁴ banks, banking associations with limited liability, and

National Monetary Commission

mutual credit societies,⁵¹⁵ or by such professional depositaries, who receive the funds of the general public to the extent of 50 per cent over and above their own invested capital, who carry on a flotation and speculation business, or who participate in industrial undertakings,⁵¹⁶ which would again be inclusive of all present-day banks and even bankers. All of them should be held to publish quarterly (as proposed by Count v. Arnim-Muskau before the Bourse Law Committee under date of March 10, 1896) or monthly reports, the form of which should be fixed by law, and which should also state the percentage of savings deposits to share capital.

These summary balance sheets should state:

(a) The total amounts of undertakings or flotations on own or outside account.

(b) The total liabilities on the date of the statement on account of participations or undertakings of any kind whatever.

(c) The amounts of stock held apart from securities of other classes.

(d) The amounts used for contango or collateral credit.

(e) The total liabilities incurred through the hypothecation or "carrying over" (*Reportierung*) of securities and participations owned by the bank or through the hypothecation or "carrying over" of securities and participations owned by outsiders.

Other proposals include the demand, either that the savings deposits, as in the case of the national banks in the United States, should be granted a prior lien as over

The German Great Banks

other creditors⁵¹⁷ or else that a certain percentage of the deposits should be invested in a special manner to be prescribed by law.

3. REFORM PROPOSALS BASED ON OTHER CONSIDERATIONS.

Under this head comes the recent proposal made by Heiligenstadt, the president of the Prussian *Zentralgenossenschaftskasse* (Central Bank of Mutual Credit Societies). Without desiring to prejudice further necessary legal enactments, and pointing to American regulations, he demands that at least a beginning of legal regulations be made by requiring that "whoever makes a profession" of lending or administering moneys shall maintain at the Reichsbank a cash reserve of 1 to 2 per cent of all funds held on current account or deposit.⁵¹⁸

This proposal, which was advocated on nearly the same grounds also by two experts before the bank inquiry commission, is not based on the claim that the German credit banks do not present sufficient safety for their deposits, but primarily on the consideration that mainly through the fault of the banks, the proportion in German trade and commerce as a whole of invested capital to the necessary liquid working capital and the proportion of the liquid assets of the banks to their liabilities, which represent their working capital, is unsound and should be improved.

At the same time, and perhaps even in the first place, the proposed reform, together with other measures, advocated by him, is intended, as Heiligenstadt expressly states,⁵¹⁹ "to strengthen the operating resources of the

National Monetary Commission

Reichsbank" and to raise it to the position of "steward of the national reserve," with the view of providing greater security for the constantly increasing deposits on current-account and other bank deposits.⁵²⁰

It is probably in this sense that the resolution of the Tax and Economic Reform Association (*Vereinigung der Steuer- und Wirtschaftsreformer*) dated February 13 and 14, 1906,⁵²¹ is to be interpreted, in which the imperial chancellor is requested "to provide for the legal regulation of the modes of securing the deposits at the Reichsbank (!) and other banks, especially in view of the growing proportions of the giro and deposit business ever since 1875, that is, the year of the foundation of the Reichsbank.

So far as the Reichstag is concerned it confined itself until the present to point out the presumed insecurity of the deposits by passing on June 17, 1896, the following resolution, proposed by one of its committees:

Whereas the professional use by banks and business men of current account- and other deposits urgently demands protective measures in the interests of the depositors, the Chancellor is requested to inquire into the subject with the view of ascertaining how such measures can best be taken, to examine the principles underlying the present draft and the accompanying report, and to lay before the House as soon as practicable a bill in regulation of the matter.

4. CONSIDERATIONS ON WHICH THE FIRST-NAMED REFORM PROPOSALS ARE BASED.

Before proceeding to a critical discussion of the individual reform proposals, it seems proper to inquire whether reforms in the field of bank deposits—that is, protective measures in the interests of depositors—are at all necessary or even urgent in the present state of affairs or in view of past experience. It is such measures that are

The German Great Banks

advocated in the first batch of proposals, mentioned on page 550 and following and in the Reichstag resolution.

(a) SUPPOSED SUPERIORITY OF THE ENGLISH BANKING SYSTEM.

It has been asserted repeatedly that the English banking system, with its division of labor between deposit banks proper and other banks engaged also in the flotation and underwriting business, necessarily presents a larger degree of security for depositors, as compared with the German "mixed" system. For the underwriting and flotation business, it is argued, as is amply proved by the experience of the various countries, carries with it great dangers, which in the case of the regular banking business do not exist at all, or at least, only to smaller extent.

As a matter of fact, however, it has been incontestably proven, especially by Ad. Weber and Edgar Jaffé that it is precisely the English deposit banks—not to mention the most recent experience of the American note banks—which despite their theoretic superiority have in practice shown the most serious evils and abuses.

It is true, that the English joint-stock companies, conforming to theory, have abstained in a *direct* way from flotations and the underwriting business as well as from bourse speculation. But this very fact causes another great evil, namely, that the banks have never shown any interest in the newly founded companies or in the securities issued by these companies, while it is a distinct advantage of the German system, that the German banks, even if only in the interests of their own issue credit, have been keeping a continuous watch over the development of the companies, which they founded.

National Monetary Commission

On the other hand the English banks have been promoting stock exchange speculation, company flotations and security issues to an alarming extent by their practice of placing at the disposal of the larger jobbers and dealers their daily surplus money against the hypothecation of securities of all kinds.⁵²² This went so far that the Journal of the Institute of Bankers referring to this practice in its issue of October, 1899, page 409, used the following strong terms: "Nearly the whole of the professional speculation on the Stock Exchange is carried on with bank money." Among the securities hypothecated during the last decade there was an enormous number of gold-mine and American railway shares, which during critical times can either not be realized at all or only at great sacrifice; thus it is just in critical times that the joint-stock banks have had to fall back for assistance on the Bank of England.⁵²³ During critical times therefore the joint-stock banks have to depend upon the "single-reserve system," that is, upon a system, which even English authorities have long ago condemned as inadequate and dangerous, the more so as the Bank of England in turn is lending out the funds deposited with it.⁵²⁴ It is these large sums, indirectly placed at the disposal of the stock exchange and speculators, which in the statements of the joint-stock banks constitute the largest part of the item "money at call and short notice."⁵²⁵ In Germany these sums would figure under the head of "Reports and Lombards," whereas Caesar Straus, strangely identified them with the item "*Kupons und Sorten*" (coupons and specie) of the German balance sheets, and therefore regards them as perfectly harmless.⁵²⁶

The German Great Banks

It is these amounts loaned by the deposit banks and looking so innocent in the summary balance sheets, which are mainly responsible for the conditions, which Edgar Jaffé⁵²⁷ characterizes in the following caustic expressions:

Nowhere are there so many swindling promotions as on the London Stock Exchange, nowhere else has the general public lost such enormous sums.

On the other hand it is also a fact⁵²⁸ which I believe to have amply proven in another work of mine,⁵²⁹ that during the great crises, through which England, like other countries, has had to pass, an alarmingly large number of deposit banks have failed.

It may also be shown that in other respects as well the much-vaunted merits of the English joint-stock banks are but illusory. The paid-up capital of the English deposit banks is extremely small, both taken by itself as well as in proportion to the liabilities. In 1904 it amounted for 87 deposit banks to 65,250,000 pounds sterling in round figures, equal to 1,305,000,000 marks, or an average of only 15,000,000 marks per bank. On the other hand the proportion of surplus funds to the paid-up capital, but not to the total liabilities is shown to be exceedingly high, ranging between one-half to two-thirds and even up to 100 per cent. This is the sole cause, why even with small gross profits the banks have been able to declare the high dividends⁵³⁰ (on their paid-up capital, of course) to which Warschauer refers, though advocating a much larger paid-up capital for his proposed Imperial deposit bank.

Finally Jaffé⁵³¹ showed that "with the exception of a small number of the very best banks, which have a cash-reserve of 5 to 10 per cent, the English deposit banks kept

National Monetary Commission

no amounts on hand, which may be regarded as reserves in the above sense." In view of the large amount of time deposits and deposits on current account and the small paid-up capital of the English deposit banks, Jaffé rightly considers it impossible to class under this head the item "money at call" (contango—and other loans to bill-brokers and on exchange), since a portion of the money lent out on the stock exchange could not be realized in the event of a panic.

Neither can the item "cash" (i. e., cash on hand plus credits at the Bank of England), the only one that might be regarded as reserve, be classed as such in its entirety, since part of it is absolutely necessary for the daily use of the banks themselves. But even this, he emphasizes expressly, is probably too favorable a picture, since, according to his experience, a large number of the English deposit banks—and some of the largest banks are the worst offenders in this regard—in order to make the item "cash on hand" appear as large as possible in their public statements, withdraw from the market large amounts at the end of each month and particularly at the end of each half year.⁵³² It may be said, though, that this statement no longer holds true for the most recent time, since under the pressure of public opinion and following the example of the leading institutions, nearly all the English deposit banks maintain at present reserves in the above sense which amount from 10 to 15 per cent of the liabilities. It may thus be seen how far the practical operation of the English system justifies the enthusiasm for it as a model to be adopted by us.

The German Great Banks

We shall now take up the discussion of the reform proposals, which start with the assertion that the German banks do not accord sufficient security to their depositors, and examine the validity of the underlying assertions that in Germany, as distinct from England, the proportion of share capital and reserves to liabilities, also the proportion of liquid assets to immediately or shortly due liabilities, is far too small; further, that deposits are used in Germany for syndicate business and stock speculation, and finally that the combination of the deposit business with the underwriting and issuing business has caused great injury to the public.

We shall start with the first and most prevalent charge.

(b) THE ALLEGED SMALL OWN RESOURCES (SHARE CAPITAL AND SURPLUS) OF THE GERMAN CREDIT BANKS AS COMPARED WITH THEIR LIABILITIES.

The 169 German credit banks with a capital each of 1,000,000 marks and over, of which nearly all are holding deposits (totaling about 2,750,000,000 marks) separately mentioned in their balance sheets, show under date of December 31, 1908:

	Marks.
Share capital.....	2,646,000,000
Surplus.....	607,000,000
Total own resources.....	3,253,000,000

As against these items there stand—

	Marks.
Credits on current account, including acceptances.....	4,510,000,000
Deposits.....	2,746,000,000
Or total liabilities.....	7,256,000,000

In other words, the own resources of these 169 banks constituted almost one-half of their total liabilities, including acceptances and deposits, whereas in England the paid-up

National Monetary Commission

capital constituted only about 10 per cent of deposits of all kinds (*fremde Gelder*).⁵³³

The 2,746,000,000 marks of deposits in the German credit banks were more than fully covered by the share capital and the surplus.⁵³⁴

As far as the eight great banks are concerned, the proportion between deposits of all kinds (liabilities) to share capital and to share capital plus surplus, or to the bank's own operating capital (*eigenes werbendes Kapital*), may be seen from the following table:

Banks.	Share capital (1,000 marks).	Share capital plus surplus, i.e., own operating capital (1,000 marks).	Deposits (<i>Fremde Gelder</i>) (1,000 marks).	Liabilities in per cent of the—	
				Share capital = 100.	Capital plus surplus = 100.
Deutsche Bank	200,000	301,831	1,274,648	637	422
Dresdner Bank	180,000	231,500	599,643	333	259
Disconto-Gesellschaft	170,000	227,593	463,551	273	204
Bank für Handel u. Industrie. Schaaffhausen'scher Bankve- rein	154,000	184,358	395,122	257	214
Berliner Handels-Gesellschaft. Comm.-u. Discontobank	145,000	179,157	297,440	205	166
Nationalbank für Deutsch- land	110,000	144,500	209,103	190	145
	85,000	97,702	210,179	247	215
	80,000	92,820	184,458	229	198

It goes without saying that the own resources of the German credit banks have grown far less than the liabilities, for it must be borne in mind that during periods of depression, when only small dividends were paid, fresh issues of stock were altogether out of question. At all events, there was no inducement then for working with excessively large capital on which no adequate returns could be expected.

The German Great Banks

The surplus funds alone of all credit banks steadily increased from 12.90 per cent of the share capital in 1885 to 22.90 per cent in 1908, amounting then to 607,070,000 marks. In the case of the Berlin banks these percentages grew from 17 per cent in 1885 to 29.10 per cent in 1908.

It is my opinion, however, that this splendid showing is due not so much to the superiority of our banking methods, as is thought by Ed. Wagon,⁵⁸⁵ as to the excellence of our corporation laws. These surplus funds contribute at present more than $1\frac{1}{4}$ per cent of the dividend earnings of all the banks and 1.73 per cent (as against 1.87 per cent in 1906) of the dividend earnings of the Berlin banks.

It should be stated, though, that while the share capital and surplus are "guaranties," and while the increase in their size improves the financial condition of the bank and diminishes the danger of bankruptcy, yet they, as well as the part of the debits which is not required to meet the claims of creditors, are on the main guaranties for the stockholders.

(c) THE LIQUIDITY OF THE RESOURCES OF THE GERMAN CREDIT BANKS—
COEFFICIENT OF LIQUIDITY (*Liquiditätsschlüssel*).

The guaranties for the creditors, especially for the depositors, are represented in the first place by those assets in which the capital of the bank is invested, since the creditors must have assurance not merely of the solvency of the bank, but even more so, that their demand claims will be paid upon presentation and that the other claims which are due on stated terms will be met when due. In other words, the security of the creditors, especially of

National Monetary Commission

the depositors, depends primarily upon the amount of liquid assets which the bank possesses and the mode of their investment.⁵³⁶

The liquid assets for securing the demand and short-term liabilities must be large enough and of such a kind that the bank may be able to pay without delay those liabilities, the presentation of which might be expected during a crisis. The question as to what percentage is likely to be presented for payment during a crisis can be answered only according to rules of probability,⁵³⁷ differing according to circumstances (time, state of the market, etc.), which are learned only from practical experience, change with it, and can not therefore be fixed by law. Similarly only experience during a long period can teach what kind of assets may be regarded in a general way as liquid assets, though it is much easier to determine those which can not be so regarded.

It is perfectly obvious, therefore, that there is no fixed method of calculating the degree of liquidity applicable at all times and places and to all institutions. Any method may and will be objected to in one point or another. There is the further drawback that the manner in which the balance sheets are drawn up have varied greatly, at least until the most recent period. Moreover, there is no means of telling to what extent the various items which, like bills, contango, advances on collateral, may be regarded generally as liquid assets, contain amounts that are not liquid, and inversely, to what extent an item which, as a rule, does not come under the general head of liquid assets does not comprise, in any concrete instance, consols or other securities which can be quickly realized under all circumstances or at least during normal times.

The German Great Banks

Finally, in calculating the degree of liquidity, exact and correct results may be obtained only if a distinction is made between the daily liabilities, including commercial deposits, and those which fall due after some time, since it is only the former which require security by means of quick assets, while the latter may be properly secured by those assets which will be realized on some future date.⁵³⁸

After these preliminary remarks we may state that, according to the method most commonly used in calculating the liquidity of bank resources, the liabilities include the following items:

Credits on current account, including acceptances,

Deposits (*Depositen*),

Claims to net profits, undivided at the end of the business year;

while the liquid assets include:

Cash on hand,

Contango and loans secured by collateral (the two, however, appearing in most balance sheets under one common head),

Bills,

Securities.

Debits on current account are *not* included among the liquid assets.

There is no doubt that this method, which is followed by the daily press, especially the *Frankfurter Zeitung*, and special periodic publications, as the *Deutscher Oekonomist*, is extremely schematic, as no distinction is drawn in the case of credits on current account and deposits between those claims which are daily due and those which

National Monetary Commission

fall due at a later date. Nor is it borne in mind that as a rule, even during critical times, the majority of the clients will forward to the bank at maturity funds to secure the payment of their acceptances. The scheme is also faulty for the reason that it includes among liquid assets all securities—an altogether too optimistic an assumption—while it excludes all debits on current account, notwithstanding that even during critical times a great number of the debtors may be expected to pay up their due debts within reasonable time after demand.

All these faults of classification are, however, of no serious account, since the errors are not only in favor of greater liquidity (as, for instance, when securities are included among the liquid assets) but also against it⁵³⁹ (as, for instance, when all debits on current account are excluded from among the liquid assets and all acceptances are included among the liabilities), and thus compensate each other to a certain extent; also because the same methods of calculation are used in the comparison of the more recent with the older balance sheets.

This can be proved arithmetically by changing slightly the schedule so as to avoid the errors named, for instance, by omitting acceptances from the liabilities or considering them only to the extent of one-third of the total, by including at the same time among the liquid assets debits on current account to the extent of one-half or one-third of the total, and by including *not* the total securities, but only one-third or 10 per cent of that total. It will be seen that even with such a change of the schedule very similar results will be obtained.

The German Great Banks

According to the customary schedule the coefficient of liquidity—that is, the proportion of the immediately available or quick assets to all liabilities, without distinction between those daily due or those maturing after some time ⁵⁴⁰ has been as follows since 1893:

	For all German credit banks.	For the Berlin banks.		For all German credit banks.	For the Berlin banks.
	<i>Per cent.</i>	<i>Per cent.</i>		<i>Per cent.</i>	<i>Per cent.</i>
1893.....	85	88	1901.....	70	70
1894.....	81	83	1902.....	72	76
1895.....	72	73	1903.....	67	71
1896.....	73	75	1904.....	66	70
1897.....	75	79	1905.....	62	65
1898.....	72	76	1906.....	61	63
1899.....	73	78	1907.....	60	63
1900.....	70	73	1908.....	62	64

The proportion has grown constantly worse during the last fifteen years (except for the years 1896, 1897, and 1902) up to 1907, and it is mainly this fact which supplies grist to the mills of the heterogeneous elements opposing our present banking system. There can be, however, no doubt that this falling off can be traced on the one hand to the strong concentration movement in banking and industry, particularly characteristic of this period, and on the other to the unexpectedly large demands of industry and the accompanying growth of speculation. It would not be difficult to trace in detail the influence of the above factors through the growth of debits on current account and the long-term credits. The working of the first factor, particularly in the shape of the so-called communities of interest, is discernible in the increase of the

National Monetary Commission

permanent participations; the two last factors are mainly responsible for the growth of debits on current account and of acceptances. The expectation seems, however, justified that with the abatement of the concentration movement and the strengthening of the numerous branches, agencies, etc., founded by the banks during the period, all of which make large demands upon the parent institutions until they are able to stand on their own feet, these items will show some reduction. An adverse change in industrial activity may contribute to the same result while causing a similar reduction of the bank discount and general interest rate. The picture presented by the balance sheets of the banks must necessarily reflect that of the entire national economy, since the banks are the cash keepers of the nation. It is, therefore, hardly in accord with the truth to speak of or object to the banks as the "leaders of national enterprise" or of domestic economic activity.

As it is the above table shows that the proportion of the quick assets of the banks to their liabilities or the coefficient of liquidity of their resources even for the worst year of the period (1907) was 60 per cent for all credit banks, taken as a whole,⁵⁴¹ and 63 per cent for the Berlin banks. That is to say, the liabilities of the German credit banks to the extent of almost two-thirds of the total were secured⁵⁴² by liquid resources.⁵⁴³

The coefficient of liquidity in 1907 for 11 great Berlin banks has been calculated by Heinemann in an article in the *Nation* (No. 32, dated May 7, 1898) at 61 per cent, while for 1906⁵⁴⁴ (by disregarding the item of securities)⁵⁴⁵ he reckons it at a little over 50 per cent. Similarly A. Kop-

The German Great Banks

pel, writing for the *Plutus* of May 26, 1906, figures out a decrease of liquidity for the 5 largest banks from 75 per cent at the end of 1890 to 50 per cent at the end of 1905. In this calculation he fails, however, to include securities among the assets, while including among the liabilities even the so-called *Avale* (i. e., bank sureties for the payment of railway freights, excise, and import duties).

An article of the *Frankfurter Zeitung*, dated April 4, 1907 (No. 93), discussing the coefficient of liquidity for 45 banks (9 Berlin great banks and 36 provincial banks, each of them with a minimum capital of 10,000,000 marks), with a total nominal capital of 2,198,800,000 marks, follows the customary method (without, however, considering the net profits) and places this coefficient at 67.8 per cent for the 8 Berlin great banks, arriving thus at the same proportion of two-thirds security for the outstanding liabilities.

Finally, the *Deutscher Oekonomist* of November 23, 1907, page 561, by using the customary method of calculation, but omitting acceptances from the liabilities and securities from the liquid assets, places the coefficient of liquidity on December 31, 1906, for 143 banks, with a minimum capital of 1,000,000 marks each, also at about two-thirds (credits on current account and deposits, 6,304,000,000 marks; cash on hand, bills, and loans on collateral, 4,043,000,000 marks). Almost the same result would have been attained by reckoning in the case of these 143 banks the acceptances among the liabilities at the ratio of one-third of the total and placing with deposits and net profits the credits on current account at the ratio of one-half of the total, i. e., by considering

National Monetary Commission

merely the immediate liabilities (as distinct from those maturing after some time), according to the average ratio between the two and by including among the liquid assets, besides cash on hand, bills, and loans on collateral, including contango, also one-third of the securities, but excluding from the liquid assets any debits on current account. The amounts thus obtained are 7,394,000,000 marks of liabilities, as against 4,406,000,000 marks of quick assets.

These results tally fairly well with the coefficient of liquidity of 62.76 per cent, which Waldemar Mueller assumed for 45 banks with a minimum capital of 10,000,000 marks each, at the Hamburg bankers' convention, although he counted among the liquid assets one-half instead of one-third of the securities and omitted the net profits, but, on the other hand, placed among the liabilities all credits on current account. By excluding the total of acceptances from the liabilities, which I regard, however, as improper, he obtained an even higher coefficient of liquidity of 81.92 per cent.

It will hardly be denied that the coefficient of about two-thirds obtained by the various methods, even for the worst year, unless the methods used were altogether arbitrary, is sufficiently satisfactory, although in this regard conditions in the English banks, for reasons already stated, are far more favorable. But even for the German credit banks the coefficient would be far more favorable if we compared their quick assets merely with their immediate liabilities. This, however, is impracticable, at least for the present, since the balance sheets of many banks contain no information on that point.

The German Great Banks

The composition of the liquid assets may likewise be regarded, on the whole, as satisfactory.

On December 31, 1908, cash on hand in all banks amounted to 537,500,000 marks,⁵⁴⁶ i. e., almost to 8 per cent of the 7,256,000,000 marks, the combined credits on current account and deposits, exclusive of acceptances. In England, as we saw, even the best joint-stock banks show a cash reserve of only 5 to 10 per cent, whereas the majority of the banks have no amounts which may be regarded as reserves in the sense used by Edgar Jaffé. In the case of the German banks, the item cash is supplemented by the bill holdings, which on an average⁵⁴⁷ present a very satisfactory amount, amounting to 2,742,400,000 marks, on the above date, so that on December 31, 1908, the items cash and bills alone constituted 3,279,900,000 marks, as against deposits of 2,745,800,000 marks.

The statement was made and assiduously propagated in the foreign press that part of the funds entrusted to the banks, and even part of the deposits, are being used in syndicate operations or speculation. This is refuted by the mere fact that at the end of 1908 the combined total of the items—securities, mortgages, and syndicate participations—in the case of the above-mentioned 143 (169 in 1908) credit banks, with a minimum capital of 1,000,000 marks each, was 1,298,052,000 marks, or less than one-third of the combined capital and surplus funds of these banks, viz, 3,253,673,000 marks.⁵⁴⁸ About two-thirds more of this amount would therefore have to be invested in this manner before there could be any talk that outsiders' funds, not to speak of deposits, were invested in speculative securities or participations.

National Monetary Commission

The above, it is hoped, will afford sufficient proof that neither the amount nor the composition of the liquid resources, nor the coefficient of liquidity afford any cause for demanding the "reform" of our banks for the sake of increasing the security of the deposits. Finally, the statement, that the combination of the deposit business with the promoting and issuing business has led to grave losses, is correct only to the extent that in a number of failures of credit banks as well as cooperative credit societies and private banking firms depositors have also suffered. So far as private firms were concerned, these failures were brought about by the criminal acts of the bank management, which had no connection whatever with promoting or issuing transactions. Similar experience, only on a larger scale, was had with the English deposit banks and is not likely to be avoided through any legal regulations.

The figures of such losses as given by Otto Warschauer⁵⁴⁹ brought down to the year 1907 by the managing partner of the Disconto-Gesellschaft, Dr. Arthur Salomonsohn, were presented to the bankers' convention at Hamburg.⁵⁵⁰ These data, the accuracy and completeness of which will hardly be doubted, relate to nine credit banks, nearly all of them with very small capital, and two other institutions, the *Hannoverscher Hypothekenverein* and the *Spar-und Vorschussbank*, in Dresden, which either at the opening of bankruptcy proceedings or before were cooperative societies. The total losses sustained by depositors by reason of all these failures during the fourteen years between 1894 and 1907 are calculated at about 24,000,000 marks. It is rather difficult to ascertain the proportion

The German Great Banks

which these losses bore to the total deposits of the German credit banks.

It would not be correct to compare the total losses with the amounts due to the depositors on December 31 of each of these fourteen years, since the amount for each successive year includes those for the preceding years. Even if only the amount for December 31, 1906 (2,700,000,000 marks), were taken the total would be altogether too small. For what we are concerned with are the total amounts deposited during each year, and these naturally will be much larger in view of the withdrawals, which are especially heavy during the last months of the year. This maximum amount of 2,700,000,000 marks represents, therefore, a total far below the actual amounts deposited.

On the other hand, the total loss of 24,000,000 marks, as estimated by Salomonsohn is probably far too high, since according to his explanation the claims of the depositors were figured from the last bank statements preceding the failures. In many cases, however, the opening of bankruptcy proceedings is preceded by a run, during which part of the deposits is repaid. It is plain, therefore, that the amount of deposits—of which only part represents savings deposits—is estimated too low, while the losses are estimated too high. But even if we accept both figures without change and divide the total loss of 24,000,000 marks by the total deposits of 2,700,000,000 marks it will be seen that the average loss on all bank deposits in the German Empire during the fourteen years from 1894 to 1907 was about nine-tenths of 1 per cent; in other words, of every 100 marks deposited during the fourteen years, from 1894 to 1907, not quite 90

National Monetary Commission

pfennigs was lost. This period includes the crisis years of 1901 and 1906, during which the German banks and banking system, on the whole, proved their utmost soundness despite all difficulties and dangers. It is true that subsequently, in 1907 and 1908, new important cases occurred, when banking institutions which were receiving deposits failed and the depositors suffered losses. According to my own inquiries these cases include 29 private banking establishments, 11 registered cooperative credit societies with limited liability, 1 industrial bank, 1 savings and credit bank, 2 loan and credit societies, 1 people's bank, not registered as a limited credit society, and only 2 credit banks, viz, the *Solinger Bank* in Solingen and the *Bonner Bank für Handel und Gewerbe* in Bonn.⁵⁵¹

After the foregoing discussion it would seem rather unreasonable to maintain that deposits are being used for syndicate participations or speculative operations or that "grave losses" have been caused to German depositors by our banks and banking system, and to demand in the same breath the introduction of special deposit banks or special "safeguards, the more so, as failures have by no means been rare even among the special deposit banks in England. It is not surprising that the constant reiteration of such statements, hurtful to German credit abroad, in the long run finds a loud echo in foreign countries, which are only too anxious for such news, and that even the *London Economist* could treat his readers in a recent issue to the news that the German banks were "investing their deposits in mortgages."⁵⁵²

The German Great Banks

II. CRITICISM OF THE INDIVIDUAL REFORM PROPOSALS.

I. THE CREATION OF A CENTRAL PRIVATE DEPOSIT BANK OR OF A GOVERNMENT DEPOSIT BANK FOR THE GERMAN EMPIRE AND OF SIMILAR DEPOSIT BANKS FOR EACH OF THE GERMAN STATES.

In order to bring German banking into conformity with the English model, Caesar Straus proposes the creation of a private central deposit bank and Otto Warschauer the establishment of a government deposit bank for the German Empire alongside of a series of deposit banks for the individual States.

In view of the above discussion and the German and English experience in this field, the change does not seem justified in the interests of greater security for the depositors. Furthermore, the proposed changes are either impracticable or dangerous. Straus's idea of a central (*einheitliche*) deposit bank is impracticable, even if only for the reason that neither the German great banks, nor the other banks or bankers, are likely to join in the foundation of such a central bank, since, being more conservative in their business views, they believe that, contrary to Warschauer's calculations, such a bank for the present and a considerable time to come is not likely to prove profitable.

The idea is impossible of realization, also, because the Reichsbank, for obvious reasons, will never agree to transact the business of the deposit bank in those places, where the former only, but not the latter, may have branches of its own. If I am rightly informed the proposal met with scant favor at the time, just in the last-mentioned quarter.

National Monetary Commission

For various reasons the Warschauer proposal of an imperial special government deposit bank, either singly or in conjunction with like banks for the individual States, is likely, at least for the time being, to share the same fate.⁵⁵³ In the first place our authorities would hardly disregard the reasoning that it would not do to substitute bodily a foreign credit system, which owes its development to special local conditions, for a domestic system, which is no less the result of peculiar conditions at home. It will also be recognized that our banks have had a considerable share in the brilliant economic development during the last decades, and that, therefore, any attempt to paralyze their activity is likely to inflict grave injury on our national industry. There will be the more hesitation about making the change when it is borne in mind that the coming decades will undoubtedly bring a very severe struggle for our national industry against foreign competition, in which the unimpaired assistance of our banks will be needed more than ever before.

Nor is it likely that there will be much sympathy with any plan that is likely to diminish the "highly appreciated" and always welcome ability of our banks to contribute their share of taxation. In the case of the Reichsbank, which has had to pass through a severe struggle with the competing note banks, there would be the additional danger that the newly established state deposit banks might interfere with and thwart its discount policy. That such a danger exists, is shown by conditions in England,⁵⁵⁴ where the Bank of England's own bill business has been declining for some years past, and where the bank, owing largely to competition with the

The German Great Banks

large deposit banks, is compelled to discount bills at the prevailing market rate, which in most cases comes nowhere near the official discount rate. It may also be shown that the Bank of England no longer controls the market for loans on collateral, as the large deposit banks find it possible to supply the market with vast amounts for such loans and are thus in a position to oppose successfully any increase of the discount rate which the Bank of England might deem expedient. Thus it has come to pass that of all the functions devolving upon it, and of which no one can be eliminated without injury to the community, the Bank of England exercises successfully only one, viz, the regulation of the currency.

This also proves the error of the writers who hold⁵⁵⁵ that "no conflict of interests between the Reichsbank and a private central deposit bank need be feared," that, on the contrary, "they have common interests," and that both institutions, with the Reichsbank as "the leading institution," would "cooperate in maintaining and supporting the proper monetary circulation" of the country. The establishment of state deposit banks would, moreover, involve a radical change for the worse, and not for the better, of the entire German banking system.

It is not likely that the German credit banks will resort to any measures of self-protection during the early stages, believing, no doubt, that for some time at least, their deposit business will not be seriously endangered by the fresh competition. Should, however, the founding of government deposit banks, or even a more energetic quest after deposits on the part of the *Seehandlung* and other state institutions, come to be regarded as a serious danger

National Monetary Commission

to their own deposit business, the credit banks would, as a matter of course and of self-protection, have to enter the competitive struggle with all the means at their disposal. In such a case they would proceed to transform, as far as practicable, their present deposit departments into separate deposit banks or to found new ones, and in either case take over or keep the control,⁵⁵⁶ management, and shares of the new deposit banks.

We should then have an imperial deposit bank, deposit banks for the individual States, and a large number of competing private deposit banks, all of which, including the state and private banks, would be compelled to cover the country with a network of branches. Sooner or later all these institutions, possibly in conjunction with the then surviving state note banks, would be found seriously hampering, if not entirely blocking, the discount policy of the Reichsbank.⁵⁵⁷ This, contrary to Ad. Weber (op. cit., p. 262), we regard by no means as a "*cura posterior*." Such a picture of the future is by no means exaggerated, if we are to judge by English experience. Warschauer's proposal is based upon the erroneous view that our banking system is inferior to the English system and must give place to the latter. In order to refute his views, it may suffice to state that for a long time the English have been energetically demanding a reform of their own banking, while pronouncing our system superior to their own, until their usual keenness of perception became blunted by the agitation which had sprung up in our own midst. As late as July, 1906, the following expressions were used in an article on "The future of international banking," which appeared in the Bankers' Magazine (No. 748, p. 51):

The German Great Banks

"In Germany we find a banking policy which, though in minor points borrowed from other countries, differs essentially from all others in giving full expression to the national genius. It is as scientific and thoroughly coordinated as English banking is unscientific and haphazard. German banking does not stand aloof from industry and commerce, as ours does. The three are all closely associated. They have a common understanding and a strong sentiment of solidarity."

This is a foreign opinion.⁵⁵⁸ In Germany the mere fact that a hen is laying golden eggs suffices to call forth in many quarters the desire to have it killed.

In view of the above considerations and the negative attitude assumed by the imperial chancellor at the opening of the deliberations of the bank inquiry commission toward the proposals to change by law our existing mixed banking system, it would seem unnecessary to repeat again the arguments propounded in the second German edition of this work (pp. 155-160), that the profits of the new central deposit bank, at least during the early period, would most likely be very moderate and not, as Warschauer believes, 21-22 per cent (!), or at least 12 per cent.⁵⁵⁹

2. THE GRANTING OF PRIORITY RIGHTS TO DEPOSITORS.

It was shown above that our past experience does not justify the demand that priority rights be granted to depositors. Such a demand, even if better founded, could hardly be conceded, as such a preferment of depositors to other creditors of the bank, who may have entrusted their cash to the bank in current account or

National Monetary Commission

otherwise, would be a death blow to the credit of the banks. It may be also argued against it that the very conception of deposits is not fixed either in theory or in practice and still less defined in law with regard to their manifold and constantly varying relations to credits on current account, contango, etc.⁵⁶⁰

3. THE FIXING OF A LEGAL RATIO BETWEEN SAVINGS DEPOSITS AND THE SHARE CAPITAL.

The objection to a fixed ratio between share capital and deposits "in so far as they are savings deposits" is directed mainly against Warschauer,⁵⁶¹ who advocates a scheme similar to that legally prescribed for our mortgage banks.

This scheme would be unacceptable even if the words "in so far as they are savings deposits" were omitted. As a matter of fact, while it might have been desirable to fix such a ratio in the case of the mortgage banks, which are engaged in what may be called the standard business of issuing mortgage bonds, such or other regulations would be ill adapted to the credit banks with their innumerable and constantly varying business relations. Warschauer's proposal is based on the premise that the share capital (he wrongly disregards entirely the surplus funds) ought to bear a certain ratio to the deposits, whereas it was demonstrated above that the foremost protection of the creditors, including depositors, are the liquid assets⁵⁶² and not the capital (and surplus), and that in Germany large share capitals are required mainly in view of the diversity of business transacted by our banks. This view is shared in England, to which our opponents are in the habit of turning for their authority.

The German Great Banks

4. LEGAL REGULATIONS REGARDING THE INVESTMENT OF DEPOSITS.

Proposals were made by certain experts who appeared before the bank inquiry commission of 1908, to the effect that those modes of investment of deposits which were found correct and had been carried out at that time by most of the great banks should be made the basis for legal regulation, as it was intolerable that the "administration of the national wealth"⁵⁶³ should be entrusted to 10 or 12 persons without any legal safeguards. This remark occurs frequently in banking literature and in other connections.

Accordingly a legal regulation is demanded requiring that a certain proportion of the deposits is to be invested in German government bonds, the price of which would thus incidentally be raised. As an alternative it is proposed that about one-third or 35 per cent of the deposits in savings banks, cooperative societies, and credit banks be required by law to be invested as follows: Twenty per cent in bills of exchange in accordance with the Reichsbank regulations, i. e., provided with three signatures and running for a term not exceeding three months, and 15 per cent either in other bills, in accounts at "giro" banks, and in loans on collateral not exceeding a term of three months on securities quoted at a German bourse (excepting the bank's own shares or those of a "concern" bank, or such securities as have been put on the market by the institution in question within three years preceding), or in German state loans or German imperial government bonds, or finally, in first mortgages.

Against this it may be urged that even if the above demand were complied with, the depositors, having no

National Monetary Commission

exclusive lien on these securities, would run the same risk as they do now in the case of bankruptcy or crisis, the only difference being that believing themselves guaranteed by law against all losses they would have all the more reason to complain.

Unlike the mortgage banks and insurance companies, whose business moves along beaten paths, the German credit banks engage in an immense variety of complicated enterprises. Hence no regulations of the kind above described could be applied to them without injury to the special activity of each bank and of the credit business in general. It seems impossible to imagine how any set of regulations, suitable for all times, places, and conditions, could be devised to determine the manner in which the working capital is to be invested. At any rate, the attempt to do so would be a very risky undertaking. Moreover, it is more than doubtful whether any manner of investment could be legally prescribed that would under all circumstances guarantee the liquidity of the investments.

5. DEPOSITING A CERTAIN PORTION OF THE PRIVATE DEPOSITS AT THE REICHSBANK.

Heiligenstadt's proposal⁵⁶⁴ that the credit banks should be required to deposit one to two per cent of the average annual amount of all their credit items in cash at the Reichsbank represents a totally different and broader standpoint. The proportion was raised to 5 per cent by some experts of the bank inquiry commission, who in all other points adopted bodily the proposal and its argument.

Starting with the alleged fact that on an average only 50 per cent (between 1895 and 1905 only 37 per cent) of

The German Great Banks

the annual national economic working capital ("*volkswirtschaftliches Betriebskapital*") placed in the hands of the banks between 1886 and 1895 was used for working purposes in the shape of cash, bills, and loans on collateral (p. 83 loc. cit.), Heiligenstadt concludes that the balance (i. e., during the latter period 63 per cent) of the money belonging to the creditors or depositors was used for purposes of investment; in other words, that an excessive part of the nation's working capital was converted into investment capital through long-term credit or otherwise.

The above proposal was therefore considered justified, inasmuch as the increase of the capital of the Reichsbank (the regulator of the money circulation and of the credit business) would be the best means to keep an adequate portion of German working capital permanently liquid for working purposes (p. 87) and to take the power of deciding the mode of employment of capital, at least to a certain degree, out of private hands (p. 85).

Thus the proposal is said to be intended, first and foremost, to strengthen the working capital of the Reichsbank (p. 98, under X), and at the same time to prevent the banks from tying up an excessive proportion of their resources and thus endangering the security for their liabilities (p. 95).

The supporters of this proposal described the sum to be deposited in cash at the Reichsbank as "the national working reserve," or "iron reserve" ("*eiserne Reserve*") which would enable the Reichsbank to issue three times the amount in bank notes, the security for which could not be withdrawn, and by which the nation could be constantly supplied with liquid working funds.

National Monetary Commission

When subjected to analysis, both the premises on which these views are based and the aims, as well as the conclusions arrived at, prove untenable.

As regards the premises, the facts set forth on previous pages of the present work suffice to disprove the assertion that German credit banks are in the habit of tying up an excessive part of their resources (p. 83), and thereby endanger the security of their liabilities. On the contrary, we saw that all the liabilities of the German credit banks are covered almost up to two-thirds of their amount by liquid resources, whereas the law requires that even bank notes payable on sight may be covered by cash reserves only up to one-third of their amount.

Heiligenstadt's method of calculating the coefficient of liquidity (p. 83) is altogether too unfavorable. I can not see on what ground cash, bills, and even loans on collateral, are by him considered only partly as liquid means, *contango* and securities being omitted entirely.⁵⁶⁵

As regards the purpose aimed at by the proposal, it is not clear how the Reichsbank (in the event of its note-issuing power being increased by the 2 per cent or 5 per cent of fresh cash funds to be furnished by the banks) will be able to keep these funds in any more liquid form than that in which they are furnished by the banks; for the banks would have to withdraw these very cash funds from their most liquid resources, namely, cash balances, bills, loans on collateral, etc. The same cash funds would thereupon be invested by the Reichsbank in practically the same form, namely, in bill discounts and loans on collateral, for which it would issue its notes.

The German Great Banks

Most probably, however, no fresh cash would flow into the Reichsbank at all in this manner. The banks would deduct from their "giro" account (which almost always exceeds the contemplated "iron reserve") and place to the credit of the Reichsbank whatever amount they might be required to deposit, just as they would probably do in case of a direct increase of the Reichsbank capital in which they were to participate.

Nor can it be maintained that even in this case the Reichsbank, by reason of the sums placed to its credit, would become possessed of a permanent security for a threefold issue of bank notes. A permanent deposit, or "iron reserve," is out of the question for the reason that the sums which, it is supposed, can not be withdrawn from the Reichsbank directly can be withdrawn indirectly in the form of larger loans, through bills, discounts, or loans on collateral, or through deductions from the giro balances exceeding the minimum deposit.

During a crisis—and Heiligenstadt's proposal is essentially intended for times of crisis, since for times of prosperity no reform proposals are needed—very many deposits will be withdrawn from the banks, and they will themselves be forced to withdraw from the Reichsbank at least a part of their 2 to 5 per cent reserve.

But even if this were not the case, the Reichsbank in time of crisis, in order to prevent a run or bankruptcy, would have no other means than to put in circulation all or part of the "national working reserve," whereas in times when money is plentiful this reserve would prove a useless ballast.

National Monetary Commission

This brings us to a question which is by no means unimportant, namely, whether the 2 to 5 per cent reserve at the Reichsbank should bear interest or not.

If it is to yield interest, then all the grave reasons become valid that may be urged against the acceptance by a central note bank of interest-bearing deposits, and which have caused the most prominent of these banks, upon repeated deliberation, to refrain from accepting interest-bearing deposits. This attitude is mainly dictated by the consideration that, if the central note bank does not wish to bear the loss involved in the payment of such interest—and it is hard to see why it should bear such loss with indifference—it would be compelled to seek lucrative business in the form of discounting and loans on collateral, and possibly just at a time when it ought to employ all the resources at its command to combat an excessive demand for credit throughout the country, especially by raising the discount rate.

On the other hand, if the 2 to 5 per cent reserve is not to bear interest, that would mean a considerable loss for the credit banks carrying those reserves. They, too, would of course not regard that loss with indifference, but would be compelled to reimburse themselves in one way or another, especially by paying their depositors less interest—a decidedly undesirable result. Furthermore—a still more undesirable result in normal times—they would have less funds to place at the disposal of the credit business. An increased demand in the money market being thus met by a diminished supply, the result would be a rise in the rate of interest. Finally—and this would be the most undesirable result of all—the banks, judging by past ex-

The German Great Banks

perience, would probably diminish their noninterest-bearing cash reserves necessary for their liquidity by an amount corresponding to their share in the "national working reserve" carried at the Reichsbank.

The ultimate result would be that the liquidity of the banks, and with it of the body economic, would be impaired to exactly the same extent that Heiligenstadt intended to improve it.

In substance, if not in form, this proposal amounts to the same thing as the proposals which the Reichstag committee, for good reasons, had rejected on the occasion of their deliberations on the stock-company bill of 1884.⁵⁶⁶ These proposals, which aimed at prescribing a special mode of investing the legal reserve funds in cash, or in trust-fund securities, were revived in 1901 in an article in the *Gegenwart* by Imperial Bank Director Doctor Vosberg. They are, however, liable to serious objections, at any rate so far as the joint-stock banks are concerned; and the same objections, therefore, apply also to the proposals now under discussion.⁵⁶⁷

If the banks were compelled to keep their surplus in cash, or to maintain a cash reserve at the Reichsbank, they would have to withdraw this sum from their fully employed working capital (for the suggestion that only surplus capital is to be withdrawn is absurd), to wit, such assets, as the bill holdings, securities, etc.

Thus they would be compelled either to restrict their business operations, i. e., to call in credit previously granted and refuse to grant new credit, a proceeding which might lead to a crisis, especially in industry; or they would have to attempt to make good this deficiency

National Monetary Commission

in working funds by the issue of fresh shares, which course, if successful, would lead to a fresh strengthening of concentrative tendencies and, furthermore, to a fresh withdrawal of ready money from the market to an amount equal to the total value of the share issues. If the attempt to issue fresh shares proved unsuccessful, the calamitous state would continue, namely, the injury to trade and industry, which were to be protected by the proposals in question. In many cases, however, the issue of fresh shares would not be possible, because the deposit of ready money would either lead directly to a curtailment of business transactions, and hence of dividends, or would create the fear of such curtailment, the result in either case being a fall in the market value of the shares.

If the banks, despite the curtailment of business, endeavored to obtain satisfactory dividends—which is necessarily the aim of the business management of every joint-stock company—they might easily find themselves compelled to resort to hazardous transactions, particularly to force the founding and issue business more than ever. Since, moreover, after the deposit of the guaranty reserve, they would possibly and even probably pay less regard to their liquidity, that liquidity, as well as the quality of their investments, might in the event of a run turn out to have been impaired to a greater extent than ever. If, however, securities were deposited instead of cash, most of the banks, being compelled, in case of a run, to sell the deposited securities, might not be able to do so at all or only at a great loss. If these happened to be trust-fund securities their market value would become unduly depressed during the time of panic.

The German Great Banks

Heiligenstadt's proposals would thus deprive the business community of productive capital in two ways—through the deposit of a cash reserve at the Reichsbank and through the issues of shares that might become necessary. Some of the supporters of the proposals have already raised the amount of the proposed reserve from 1-2 per cent to 5 per cent; in fact, the amount would be variable at pleasure in an upward direction. I assume that this amount is to be deposited at the Reichsbank, without the creditors having a lien—that is to say, a right of segregation of these deposits (*Absonderungsrecht*) in case of failure of the credit banks. If this be the case, the Reichsbank, as has been pointed out, would have to part with this cash reserve in the case of a run, which might result in the claims of other creditors than the depositors being satisfied, on the principle of "first come—first served," and the depositors might be turned away empty handed.

If this is not to be the case, that is to say, if all creditors are to be given a lien on the cash reserve, or the right of segregation, then the Reichsbank, according to general regulations, would not be permitted to part with this reserve in case of a run, so that the failure which the cash reserve was intended to ward off would in that very case become inevitable.

It is also clear from the above that the practical consequences of these proposals would be directly opposed to the efforts, recently made with such commendable zeal, of expanding the check and transfer system, and thus dispensing with the use of ready money in payments and making it available for credit transactions.

National Monetary Commission

Again, it should be borne in mind that a cash reserve, even of 5 per cent of all credit accounts at the German credit banks, that is to say, about 200,000,000 to 250,000,000 marks, could in nowise influence "the ratio of working capital to invested capital" in German trade and industry to any appreciable extent. Furthermore, while Heiligenstadt's proposal lays special stress on the strengthening of the working resources of the Reichsbank, a bill (since then disposed of) "to change the bank act" (No. 1178 of Reichstag documents) admitted that the Reichsbank's own means had sufficed hitherto for the purposes they were intended to serve, and that consequently there was no need of increasing them. Accordingly provision has been made merely for a gradual increase in the working resources, by a gradual strengthening of the surplus. Lastly, it must not be forgotten that the Reichsbank will, as a matter of fact, be placed in possession of considerable and increasing working resources, through an agreement by which it undertakes the administration of the sums which the postal administration collects through the postal transfer and check systems.

The fact that Heiligenstadt began by proposing a reserve of 1 to 2 per cent, that the experts before the bank inquiry commission afterward thought a reserve of 5 per cent appropriate, and that since then one of these experts has felt prompted to raise the proportion to 10 per cent,⁵⁶⁸ ought to suffice to demonstrate the inept and dangerous nature of all these proposals. For why stop at 10 per cent? Someone is sure to turn up, whether inside or outside the Reichstag, who, with "holy

The German Great Banks

zeal" and with perfectly incontestable logic, will declare even the 10 per cent insufficient, for it is obvious that 50 per cent at the Reichsbank are a far better safeguard than 10 per cent. The banks, to be sure, would in that case fare like the donkey who was just getting accustomed to live without food when he died.

My attitude toward the proposals here discussed, as well as toward any reform proposals in the banking business, is based on the fundamental principle that all those proposals are to be condemned which, without being of any appreciable benefit to the community as a whole, are injurious to so important and necessary a factor in German national economy as the banks. In the same way I am opposed to those proposals which do more harm than good to the community at large, or which are obscure in their motives and aims, and of whose consequences no estimate can be formed. On the other hand, I should not a priori be opposed to measures the execution of which would impose certain sacrifices on the banks, provided such proposals promise to result in notable benefit to the whole community and thus perhaps in indirect advantages to the banks.

6. THE PUBLICATION OF SUMMARY BANK STATEMENTS (ROHBILANZEN) ACCORDING TO A LEGALLY PRESCRIBED FORM.

Such a benefit to the general public and to the banks is put forward as an argument for the publicity proposals, especially that of Count Arnim-Muskau.⁵⁶⁹ Though not worded to that effect, yet the meaning of this proposal, in view of the nature of the German banking business, amounts to this, that all banks and merchants who as a part of their business accept deposits to amounts exceeding on an annual average half (?) of their liable capital

National Monetary Commission

shall be under legal obligation to publish summary statements on the first of every quarter. These statements, it is proposed, are to conform to a legal schedule, a draft of which is given, and are to be published at the latest on the first of the following month in newspapers publishing official communications.

I do not believe that such statements would fulfill the purpose of adequately enlightening the general public, and especially the depositors, as to the condition of the bank to which they have entrusted or intend to entrust their deposits, no matter what schedule may be adopted. If the schedule goes into minute details, it will as a rule not be read any more than long prospectuses. If it does not go into details, but merely gives "total amounts" for the various items, as is natural, and as is in fact contemplated in the Arnim proposal, it will be read, but will seldom fulfill its purpose of enlightenment, since it will leave the reader in the dark on those very points that are of the greatest importance as regards the soundness of the banks.

In particular, if the statement draws a distinction between the secured and unsecured debit accounts, the essential point will be the kind of security given in the individual case, whether a mortgage on improved rural or urban real estate, a factory, or unimproved ground, and whether the mortgage is first or second, whether securities have been deposited, and if so, what is their quality, whether bond has been given, and if so, what is the financial standing of the bondsmen, etc. On all these points the balance sheet will fail to enlighten the reader. Neither will it be possible to gather from it the

The German Great Banks

composition of the various items, such as the security and syndicate accounts. In particular, it will be impossible to tell whether the securities, bills, contango, loans on collateral, debits on current account enumerated in the statement are good or bad; and yet the quality of the assets is the main point, the quantity being of secondary importance. Further, acceptances may quite properly have been substituted for book credit, and vice versa. Business discretion, which is an imperative necessity, will of itself forbid the publication of details, but even if such publication were attempted it would simply cause the statement to remain unread. This is precisely what took place with the prospectuses, the publication of which was vehemently demanded some time ago in the interest of public enlightenment. If they are too long they are never read, except long after their publication, for the purpose of constructing a claim for indemnity when the market value of the securities has greatly declined.

Further "total amounts" fail to indicate the most dangerous cases of credit granting, which have so frequently caused banks to fail⁵⁷⁰ in England as well as in Germany—I need only refer to the Leipziger Bank—for instance, the case in which a bank has granted excessive credit to one and the same person, firm, company, or institution, or to one and the same branch of industry. The obligation imposed on American note banks never to grant individual credit beyond a certain portion (one-tenth) of their share capital, does not take sufficiently into account the situation and status of each bank. It is, therefore, on the one hand, too schematic, while on the other hand, as experience has shown, it can easily be evaded.

National Monetary Commission

Experience has proved, moreover, that the most disgraceful failures, such as those which took place in England, particularly in time of crisis, occurred among those very deposit banks that had published their statements. The collapse frequently occurred immediately after such publication, perfectly legal in form, without anyone being able to gather from these documents even the slightest hint of the impending crash.

Space does not permit all the details of the Armin proposal to be discussed here. I should only like to make the following remarks in reference to the oft-repeated demand for a statement of all assessments due on account of participations. Even the managers of a syndicate are often unable to foretell the amount of these assessments with any degree of certainty. Such is the case with the liquidation of long-term engagements resulting from the taking over of railways or factories or other establishments, with the rehabilitation of distressed or wrecked undertakings, with international business whose management and central offices are located abroad. Again, there are cases in which it is utterly impossible at the time of publication of the statements to foretell the amount to be ultimately invested in an enterprise (perhaps *à fonds perdu*) or the date of maturity and the amount of subsequent assessments, or—a case of particularly frequent occurrence—the amount of the repurchases (*Rückkäufe*) which have to be undertaken so often and to such extent even after the syndicate business proper is ended. Syndicate assessments are like household budgets; those expenses that could not be foreseen at the time the estimate was made are the very ones that

The German Great Banks

crop up most frequently and are surest to disturb the whole forecast.⁵⁷¹

Finally, summary statements may be misleading, because frequently losses to be written off and other deductions (*Rücklagen*) can only be ascertained in the course of the business year or at or even after its close, just before the drawing up of the annual balance sheet; and yet the necessity and amount of these items are of essential importance in gauging the bank's position. Again, in a summary bank statement credit and debit items appear without anything to show whether a creditor is at the same time a debtor, and vice versa, and whether compensations must accordingly be allowed for to a large extent.⁵⁷²

But while I do not believe that the periodical publication of summary statements can contribute much toward the enlightenment of the public regarding the true condition of a bank, yet I will not dispute the beneficial effect of the public criticism that may be elicited by such publications. The comparison of statements of different banks, published simultaneously, would afford a far broader and more reliable basis for such criticism than can be expected of a single statement.

I also regard these publications as a very excellent means of self-education for the banks. Their mutual criticism, based on the published statements, may gradually lead to uniform or approximately uniform principles of business management, especially regarding the manner and extent of credit granting, and gradually to an understanding concerning some lines, at least, of business policy. This understanding might thereupon develop in

National Monetary Commission

all these directions into firm and sound traditions, which hitherto have largely been lacking.

For theoretical and practical reasons I should also consider it a very desirable and beneficial result if these periodical statements should lead to uniformity in their compilation, and gradually also to uniform annual balance sheets. This would facilitate the comparison of the balance sheets of all the credit banks, a matter which at present is attended with great difficulties.

Finally, it must not be forgotten that every new device which enables us, unswerved by the current of phenomena, to read, as it were, from a barometer, the present and the near future of economic conditions must naturally restrict the limits of error, which in this matter are necessarily so wide. Summary statements of credit banks,⁵⁷³ published periodically, would serve that purpose, just as does the publication of the condition of the Reichsbank, or of the fluctuations of the Reichsbank discount (official) rate and of private discount rates, of the demand for labor at the German labor exchanges, as well as the publication regarding the revenue from the stamp tax, from which the amount of bills in circulation at any moment can be ascertained, and of the receipts from railway traffic, from which the existing condition of industry can best be gauged. These publications supplement each other.

Despite the undeniable and considerable advantages which the periodical publication of summary bank statements thus affords, I am decidedly opposed to the legal enforcement of such publication. My objections are based on what seem to me the following cogent reasons:

In the first place, I consider it an ill-advised step on the part of the legislator to give rise to the belief (which

The German Great Banks

would naturally gain ground among wide circles of the general public) that from a publication of this kind, which has never yet been adopted in England, depositors could gain a clear idea as to the status, and therefore as to the soundness, of the bank to whose charge they have entrusted or intend to entrust their deposits. This belief would be an erroneous one, no matter what form of publication might be adopted, and it is not becoming or incumbent on the legislator to aid in propagating such errors. Cases like those of the Leipziger Bank and the Marienburger Privatbank would most probably have occurred under the same management, even if those banks had published summary statements. As a matter of fact, they did publish most handsome annual balance sheets, which were, moreover, accompanied by a "business report."

My second reason, which to my mind is decisive, is that a compulsory legal regulation of this kind can not be conceived without a legal schedule for drawing up the statement. In fact, a multitude of such schedules have already been suggested by competent and incompetent persons.

Now, a legal schedule, unalterable for a series of years, is an absurdity, for the business spheres of banks are constantly changing, and accordingly the schedule would of necessity be subject to constant changes, dictated by practical experience. A schedule drawn up by the bank themselves to-day would of necessity be different from one drawn up ten years ago and from one that might be drawn up ten years hence.

If ever the impotence of legislation in any field was evident *a priori*, it is in this field, where the business in

National Monetary Commission

question does not proceed in a stereotyped and automatic manner, as is in the main the case with note-issuing banks, insurance companies, and mortgage banks. The latter are, on that account, much more susceptible of government regulation, which our German habit, the result of centuries of drill, still prompts us to regard as the last resort (*ultimum refugium*) in all cases demanding a remedy.

In the third place, practical experience, in Germany especially, has abundantly shown that legislative capacity and skill are as yet imperfectly developed among us, especially in economic matters. Such matters as the publication of bank statements or the deposit of cash reserves for the security of deposits, which to the layman seem self-evident, urgently necessary, and simple in execution—"simple solutions are always seductive to simple minds"—are in reality exceedingly difficult and complicated. Hence it is to be feared that the advocates of these proposals, starting from the most diverse premises and pursuing the most diverse purposes, would carry them into execution in a form which can not fail to lead to the gravest embarrassments, as experience has repeatedly proved. Above all, there is imminent danger—as illustrated by the very wording of the Arnim resolution—that, aside from credit banks, not only savings banks and mutual credit societies would be compelled to publish statements, but also private bankers, which, to my mind, is utterly inadmissible, for deposits are entrusted to a private banker not so much in consideration of the amount of his private means, but in consideration of his supposed integrity. To compel him to publish a statement of his financial position would injure and paralyze

The German Great Banks

him in the competition within the private banking profession. Legislators should under all circumstances guard against ill-advised measures likely to cause injury to and to hasten the suppression of the small bankers and thus repeat the mistakes of the Bourse law.

Impressed with these considerations, I heartily welcomed the decision of the Berlin great banks to publish voluntarily (beginning with 1909) at the end of February, April, June, August, and October (in December the annual statement is issued) summary statements according to a schedule discussed and agreed on among them which essentially corresponds to the schedule of the "Deutsche Bank." This example has been followed to a great extent by the joint-stock banks, and will doubtless in time become the universal practice. During the early deliberations of this question I pointed out that whatever schedule was chosen, it would be sure to be criticized. However, it is not easy to conceive a schedule which would not be condemned by some critics, no matter whether it was drafted by the banks or by other critics.

7. PENALTY FOR "BANKS AND BANKERS WHO BY PUBLIC OR WRITTEN APPEALS OR THROUGH AGENTS SOLICIT (*anreizen*) DEPOSITS OR SAVINGS."

On the occasion of the passing of the bank-act amendment of 1909 the Reichstag petitioned the imperial chancellor for a bill to ward off the danger caused by banks and bankers who by public or written invitation or through agents solicit (*anreizen*) the public to "invest with them their deposits or savings."

According to the debate in committee, the bill aims at the suppression of low-class or touting bankers

National Monetary Commission

(*Winkel-oder Animierbankiers*), or of business men who have no claim to the name "banker," but who, by promises of specially high rates of interest or other advantages, entice the public to hand over to them their savings, while the persons making these promises are neither able, nor in many cases willing, to return the deposits.⁵⁷⁴

Certainly these are the only cases in which there exists any danger for the public, and some of these cases may at once be eliminated from the discussion. If a written invitation to open an account is issued by a business man who at the time of invitation is not willing to return the deposit, nor likely to be able to do so at that or some future time, it should be considered as an attempt to defraud.

Under the law relating to unfair competition, the Central Union of Bankers and Banks at Berlin ("*Centralverband des Deutschen Bank- und Bankiergewerbes zu Berlin*") established for the protection of banking and bankers' interests, is empowered to proceed against persons who by their occupation are not entitled to call themselves "bankers," with a view to enjoining them from making public use of that designation. I am in a position to state that such action has been taken on several occasions.⁵⁷⁵ But neither these sham bankers (*Nicht-Bankiers*) nor savings banks, whose resources, as we have seen, are often far from liquid, are aimed at in the badly worded Reichstag resolution, which only demands that steps be taken against banks and bankers. Besides this the two absolutely different terms "deposits" and "savings" are once more lumped together. Furthermore, the resolution recommends that legal action

The German Great Banks

be taken even when the invitation to invest deposits (?) or savings (meaning, probably "investment of funds in the form of deposits or savings") (*zur Anlage von Depositen*) is not made publicly, provided it be in writing.

But such a written invitation, which certainly is one form of "solicitation," may under certain circumstances become the duty of a bank or banker in a case where through negligence or ignorance a customer whose business they look after leaves money deposited without interest.

Moreover, as the word "solicit" (*anreizen*) used in the resolution is extremely elastic, having received the most diverse interpretation both in theory and in practice, I do not believe that the measure proposed in the Reichstag resolution can lead to any practical results. It is hard to say which is the graver mistake, to enact penal laws whose effect far exceeds the desired and economically correct purpose or such as are rendered nugatory in practice.

8. A SUPERVISORY BOARD.

I am equally unable to approve the idea of a government board of supervisors recently advocated in many quarters, especially by Obst. Such an institution has never yet afforded protection against fraudulent manipulations, while on the other hand it is very apt to lull the public into a feeling of security which such a board, from its very nature, is not able to provide. Even though possessed of the most thorough expert knowledge, such a body would not be in position to obtain a sufficiently correct estimate of the quality of the assets of a bank, to say nothing of the fact that no bank can be expected to allow

National Monetary Commission

its competitor who might be called upon to act as expert adviser to the board to gain an insight into its business.⁵⁷⁶

The experience of all countries and at all times in regard to the natural inadequacy of state supervision (see note 23 on p. 789, also pp. 54 and 601) should serve as a warning against any repetition of such experiments.

Herewith ends the discussion of the reform proposals hitherto made. In obedience to the prevailing tendency in Germany and to the current of the times, nearly all these proposals aim at some intervention by the State or by legislation, which, as far as deposit banks are concerned, has always been most decisively condemned in England, the very country which is assumed to be the pattern for Germany to follow in this matter. Although I am by no means an adherent of the defunct Manchester theory, I must confess that in this important, complicated, and difficult question I share the opinion expressed fifty years ago by a prominent authority in this very matter, an opinion which unfortunately has not lost its actuality and correctness: "The unfortunate system of tutelage has never yet stood the test of practice. It merely leads from step to step, and when it has once been adopted, there is nothing in which the State does not think itself called upon to interfere in the interest of its citizens and for which the latter do not look hopefully and imploringly to the State, while they themselves limit their activity to complaints."

The man who wrote these words in 1857 was no other than Adolph Wagner.⁵⁷⁷ I frankly admit that I find this confession written during his younger years more con-

The German Great Banks

vincing than his later views and proposals, which, I regret to say, are quite different.

No State measures will avail against a criminal or negligent treatment of deposits, especially no legal regulations nor any supervisory board, such as Wagner proposed some years ago while under the immediate impression of the crisis of 1901, that is to say, at a time least suitable for judicial and matured proposals.⁵⁷⁸ I feel convinced that the German banking community did not in any way deserve such a manifest vote of censure—for a vote of censure it was; there is no use in blinking the fact. The one thing that is essential above all in this matter is the honesty, trustworthiness, and efficiency of the bank managers. In the United States⁵⁷⁹ the Comptroller of the Currency, who may order an investigation of the national banks by special examiners, declared in his official report for 1895 (p. 57 et seq.) that as a rule the examiners detect mistakes, defects, and crimes only after the failure has occurred, and that no supervision by outsiders can serve as a substitute for the honesty and competency of bank managers.⁵⁸⁰

PART IV. THE PROGRESS OF CONCENTRATION
IN GERMAN BANKING DURING THE SECOND
PERIOD (1870 TO THE PRESENT).

CHAPTER I. CAUSES OF THE CONCENTRATION
MOVEMENT.

I. GENERAL CAUSES.¹

As was shown in the first part of the volume, the German banks entered upon the present period with very limited capital. The question therefore remains to be answered: By what means have they managed to meet the ever-increasing duties imposed upon them by the tremendous industrial development of this period? In a general way the answer is as follows: The same factors which we have shown above to have been dominant in the general economic development of the period appear again in the development of banking, viz, the expansion and concentration of capital, resources, and industrial enterprise. These two factors appear to the superficial observer to be mutually exclusive. In fact, however, they are related to one another as cause and effect.

Concentration, a child of the capitalist system, is peculiar neither to modern development nor to German conditions. It is as old as the capitalist system itself and equally international. It appears with practically all its concomitants in the activities of the state as well as in private industry.

The German Great Banks

As proof of its age we may quote one of many examples. As early as "the last quarter of the fifteenth and the first quarter of the sixteenth century there took place a concentration of capital invested in mining with a rapidity scarcely equaled in our time."² Certain forms of concentration such as the combination in one enterprise of successive stages of industrial production may be traced back to the very beginnings of large-scale industry.

Its international character is evident from its appearance in England and America, in France and Belgium in the same or even in a more pronounced form than in Germany,³ both in industry and in banking.

It is present equally in public and in private industrial activities. This is but natural, for the same causes are at work in both spheres even if not to the same extent. Above all there is the necessity for uniform management of all industry from one center. Thus the postal system was united practically under one authority after all the original enterprises, systems, and regalia had been abolished. In the same way the railroads passed out of the control of the innumerable private companies, to be operated, in the first place independently by the various States. Ultimately, after passing through intermediary stages, they may be operated by the Imperial Government or form part of an imperial railroad union. Even now, there are some unmistakable signs of a movement in that direction. Thus, for example, there is the Prussian-Hessian Railroad Union, entered into by two States, and the agreements regarding the joint use of operating material among a number of the States of the Imperial Federation.

National Monetary Commission

A similar development is shown in the absorption of capital, industrial enterprise, and labor forces by large cities; in the ever-increasing migration of rural laborers to the cities during this period; in the great increase of the urban population, particularly in the industrial cities; in the conflict between commerce and industry on a large scale and the retail trade, house industry, and handicraft, between large and small industrial establishments; in the ascendancy of "mixed" over "pure" establishments; of commercial distribution on a large scale, including department stores over the small retail trade; of the large landowner over the small peasant proprietor, the large flour mill over the small milling establishments, etc.⁴

The difference in this period has been only in the intensity and rapidity with which the tendencies toward concentration have manifested themselves. This has been the result of certain factors which completely revolutionized the conditions and scale of production and marketing, to wit: The extension and greater reliability of the means of transportation as well as the great discoveries and inventions which revolutionized entire industries and imposed new tasks on them or created new industries.

It was inevitable that the movement toward expansion and concentration during this period should have proceeded with particular rapidity in German industry, which at that time was developing by leaps and bounds. This applies also to the German banking system, united for weal and woe with German industry by a thousand and one ties, due to its current-account, check, giro, and credit business, and to the banks' activities in the fields

The German Great Banks

of flotation of securities, organization of firms into corporations, the rehabilitation of companies, consolidations, and loans.⁵ The main reason of this development was that the German banks, with scarcely an exception, appeared on the scene organized as stock companies or in the kindred form of stock companies "en commandite."

The stock company is the keenest and surest, and hence the favorite weapon which the capitalist system can use in its struggle for concentration. In itself the stock company represents a form of concentration, viz, the union of small and scattered units of property, in most cases too small to be fitted for productive uses, into a single mass of capital suited and intended for industrial or productive purposes under single management. The facility with which the shares can be marketed or transmitted by inheritance, the probability of a longer term of existence for the corporation, owing to the far greater degree to which it is independent of the personality of the entrepreneur as compared with other forms of business organization, and finally the absence (at least in theory) of any limitation on the amount of dividends that may be expected on the combined capital—all these elements give the corporation great power to attract available capital. More than any other form of business organization, the stock company has the means of satisfying its needs for credit and for expansion by capital increases. The ease with which additional capital can be secured naturally stimulates the tendency toward capital increases. This tendency grows in constantly increasing ratio by reason of what may be regarded as an economic law in the realm of industry, trade, and banking alike, according to which a twofold

National Monetary Commission

increase of capital means more than a twofold increase of production and sales.⁶ For this reason the tendency toward capital increases is enhanced by this very growth of capital.

2. SPECIAL CAUSES.

As stated above (p. 383) the period under consideration was characterized by an unforeseen, suddenly developing demand for capital on the part of the state and communes and particularly industry and trade. This demand naturally made itself felt in the two important fields of banking activity, viz. that of national and international clearings and payments, and mainly in that of credit. It became, therefore, an imperative necessity for the banks to strengthen and extend the exceptionally weak foundation of capital and credit with which they had entered upon this period.

Accordingly, the available funds of the country were forced under great pressure to the central institutions of credit—the banks which served, so to speak, as the distributing reservoirs for the collection of the resources of capital and credit. From there, as from a higher altitude, it was easiest to survey the extent of the general needs, to calculate the proper mode of distribution of the available resources and to direct them more readily and quickly into the various channels below. In other words, the concentration of banking capital brought about in the first place through an increase in the capital stock of the banks meant the progressive accumulation in the banks of the funds needed for industrial credit.

In this field concentration became especially urgent, on account of the imperative necessity for distributing and

The German Great Banks

minimizing risks⁷—a principle which can be applied most thoroughly where business is conducted on a large scale. There are a number of purely technical factors which work in the same direction. When the banks are relieved by central banks of issue of the task of providing the necessary currency, they concentrate their activity in the field of credit. The latter has the unmistakable tendency to increase much faster than the cash resources on which it is based. Moreover, the difficulty of securing these resources, especially by way of capital increases, grows more rapidly than the demand for credit. This is because the ability of a bank to increase its capital depends not only on the dividends which it has been paying and on the market value of the old shares, mainly though not exclusively determined by these dividends, but also on the condition of the money market. The value of bank stock, like that of industrial securities, fluctuates with variations in industrial prosperity and the prospect of dividends. At a critical moment it may easily happen that no market, or only a very limited market, can be found for new issues and for new bank stock in particular, as the market may be paralyzed by blundering legislation or by the fact that new issues had been made in excessive amounts or in too rapid succession.

Furthermore, there are special technical or business limitations on a bank's ability to increase its capital. Hard times are never entirely absent, and these affect the profits from the flotation of securities as well as from the regular banking business. Under such conditions it may become difficult for abnormally large stocks of capital to earn adequate dividends, though we may question

National Monetary Commission

the remark made to the writer in 1889 by the head of one of the largest private banking firms, that in the long run, with their larger capital, the banks could not earn more than the current rate of interest—a pessimistic view, which has since been proved to be entirely groundless.

There being thus limits—differing, of course, with particular circumstances—beyond which the banks' own capital can not be increased, it becomes evident that the banks must attract outside funds for use in their expanding business. The accession of these funds enables the banks to do more than merely increase the earnings of the business—i. e., the rate and, what is more, the steadiness of dividends. In establishing special deposit offices for the purpose of attracting available funds the banks are able to increase the size of their clientele, particularly among the investing class, to greatly extend their capacity to float securities on their own or outside account, and to place them securely and permanently among customers whose circumstances and reliability are accurately known. Every successful flotation of securities tends in turn to increase the bank's power through its psychological effect, which in this matter counts for a good deal. Every increase in the power of the bank tends to augment largely the tendency toward concentration. It also serves to enlarge the volume of the bank's business. Furthermore, the bank gains the custom of the provincial bankers, who form such an important part of the clientele of the Berlin banks. These as well as other customers naturally prefer to deal with those banks from which they are likely to derive, in addition to the ordinary benefits, the largest financial advantages in connection with the issue of

The German Great Banks

securities, either by being allotted subsidiary participations, by being designated as offices for the receiving of subscriptions or instalment payments, or by being given special bonuses.

To accomplish successfully the flotation of securities presupposes very large capital resources on the part of the bank undertaking the operation, for it must be in a position to carry for a long time unsold securities without detriment to its other business. The flotation of securities promotes concentration in another direction. Every issue of securities naturally seeks a center where a strong stock exchange offers the best prospects for the ready and permanent sale of the securities. Accordingly, from the very beginning of this period, Berlin was preferred to all other places, because from 1870 to the time when it was greatly weakened by the stock exchange act (Jan. 1, 1897), the Berlin bourse greatly surpassed all other German exchanges in strength—that is, in its ability to absorb securities in good times and in its power of resistance in bad times, and was able to exert a great and at times decisive influence on the other markets, especially those of London and Paris.

This gave to the Berlin banks another advantage over the other banks. Besides, they were first to attract outside funds, particularly in form of deposits. In this they were successful partly for general reasons and partly as a result of the system of deposit offices which they had inaugurated. Thus the business of issuing securities again stimulated concentration of capital in the metropolis—that is, in the Berlin banks.

This increased power to float securities of necessity proved important in a number of ways in the international

National Monetary Commission

business of the banks. For in the case of large international operations in the issue field the preference is naturally given to those banks which by previous success in that field have proved their power to issue and dispose of securities. Whenever the German market is resorted to in the quest for a larger sale of securities—a practice which has become less and less frequent since the end of the nineties owing to wrong legislation, which impaired the power and importance of our exchange—the bank that will naturally be favored above all others is the one that shows the greatest strength both by reason of the large number of its customers and the extent of its business.

The same or similar considerations will hold in other instances, where it is not so much a question of extending the market for the securities, of giving them a wider currency, or of facilitating arbitrage transactions, as a question of the successful and prompt accomplishment of tasks dependent on international cooperation, such as the conversion of large amounts of securities which have been listed and placed in many countries. In such cases preference will again be shown for the bank which has given evidence that it is likely to prove a valuable ally for the successful liquidation of the business in hand because of its demonstrated ability to float successfully its own issues, and of its large circle of customers, extensive international connections, and the large amount of coupon redemptions on account of the loan in question.

As the number of issues and the amounts involved increase, it becomes more and more necessary and advantageous for the banks to follow a policy of expansion and simultaneous concentration, so as to be in a position to

The German Great Banks

meet all the demands of the domestic and international security market. This involves the flotation and sale of securities on a large scale and can be done successfully only by powerful establishments, whose extensive business operations and exact knowledge of the character and financial standing of their large clientele enable them to dispose of securities permanently and securely by placing them "in strong hands."⁸ Such banks free themselves and their domestic or foreign associates of the very unpleasant necessity of having to intervene and to take up securities thrown back on the market immediately after they have been issued.

Similar phenomena may be observed where the banks have built up an extensive bill business. The bills of customers flow most abundantly toward those banks which have learned first how to extend their industrial and commercial connections. With the growth of these connections there goes a simultaneous concentration of capital and an expansion of operations which in turn leads to still more extended business connections, also to constantly increasing activity in the international money market, and thereby to business in foreign bills of exchange. The processes here involved are both cause and effect of progressive concentration.

The same is true of the acceptance business of the banks. The extent of these transactions, as we have seen, has been largely increased by the development of oversea relations (cf. *supra*, sec. 4, I-III). These in turn lead to the establishment of branches or the founding of special banks abroad, of *commandites*, or other connections of various kinds. This serves largely to increase the tendency toward concentration, for it is but natural that in a

National Monetary Commission

foreign market particularly the acceptances of a well-known large bank with extensive capital should be taken and circulate for larger amounts and on more favorable terms than the acceptances of a small bank unknown abroad.

When provincial bankers or traders want bank acceptances their preference will be not merely for those banks which can offer better terms or other conveniences, and in addition further favors outside of acceptances, but rather for those banks whose acceptances can be discounted with the least difficulty at the private rate, regardless of the number of bills and their amount.

The development of clearing and giro methods⁹ likewise makes for concentration in the sense that this service becomes of greater value in proportion as the connections of the bank extend and the number of customers benefited by that service increases. The latter moreover presupposes the carrying of a minimum account, the amount of which has been considerably increased during recent years.¹⁰ For after all the giro, check, and clearing methods constitute merely a system of making payments through the banks which, while carried on without the transfer of cash, nevertheless rests on the presence of a cash reserve.¹¹

Aside from the special economic causes enumerated, as making for expansion and concentration in German banking, we must refer also to such influences which were not purely economic or commercial in nature, but were due to other external motives such as etiquette, competition, and so forth.

The German Great Banks

Thus quite often a bank would feel impelled to follow suit after another bank had led, as for example in establishing a branch at the identical place where it had been established by another bank, though not in the same order.¹² In determining the amount by which the capital should be increased banks would be guided not merely by consideration of their needs, but also by the determination not to be outdone in the capital increase by a competing bank.

CHAPTER II.—CAUSES DETERMINING THE EXTENT AND RAPIDITY OF THE CONCENTRATION MOVEMENT.

SECTION I. GENERAL CAUSES.

The extent to which concentration may go in banking is a priori unlimited. In theory at least there are no bounds to capital in this field. Here concentration meets with less resistance and fewer technical difficulties and obstacles of the kind likely to be met with in industry, for instance, when it is intended to enlarge the plant or establishment. On the contrary, banking capital not only permits but even incites constant and continuous expansion and concentration. This inherent tendency of banking capital grows with the increase of the country's wealth, i. e., with the growth of capital available for productive use. It is strengthened in proportion as this productive capital comes to be distributed among increasingly larger strata of the population. Nor is there any such powerful counterweight to this tendency of capital as there is in trade, where business on a small scale still predominates and offers very serious resistance to the progress of large-scale enterprise. The situation is also different from that

National Monetary Commission

in industry, where, at least at times and in some branches, the cartels have to a certain extent done more to help and maintain than to hamper the existence of small and weaker establishments.

SECTION 2. SPECIAL CAUSES.

Both the intensity and the rapidity of the movement toward concentration are greatly enhanced whenever special causes, operative in banking to a greater degree than elsewhere, remove existing obstacles in the way of the movement, or introduce new factors which initiate this development with great suddenness, or cause it to develop more powerfully and rapidly than might otherwise have been the case. In such instances the movement toward concentration precipitates itself headlong like a flood and proceeds with awful violence, as if all contrivances for stemming the tide had been swept away and all dams had been destroyed by some natural catastrophe. In both directions just mentioned there have been at work during the last period three factors of particular importance.

I. The liquidation of banks (*Entgründung*), which set in after the panic of 1873. The course of this movement is described more fully below (p. 636 and following).

II. The cartel movement in industry, which had begun as early as the seventies, but became most noticeable in the nineties. In this connection the most important events were the formation of the Rhenish-Westphalian Coal Syndicate in 1893 and of the Rhenish-Westphalian Pig Iron Syndicate in 1897.¹³

The psychologic effects of the formation of these combinations were felt all over Germany, and not the least

The German Great Banks

among banking circles, which naturally were first to appreciate the commercial advantages of the new development. In the first place, it was universally assumed that the concerted action of these syndicates would soon put an end to reckless cutting of prices at home and to competition abroad and usher in a period of prosperity in the mining and smelting industries and with it also in banking. But in order to win the struggle both within and without, and also to be prepared for the boom period which was believed to be imminent, large funds were needed. These funds had to be provided in the first place by the banks, which, as many financial reports in those days kept emphasizing, were in duty bound to stand by industry in its struggles. On the other hand, the banks might naturally expect decided business advantages from the development of more intimate relations with industry, and particularly with the mining and smelting industries in Rhenish-Westphalia and Upper Silesia. Furthermore, the assumption seemed justified that, with constantly increasing operations, the mining industry would not content itself with the capital and credit which the banks heretofore connected with the industry were able to supply, although some of these, like the A. Schaaffhausen'scher Bankverein, had from the start made the mining industry their special field. Intimate relations with the mining industry and particularly with the newly created coal and iron syndicates in the Rhenish-Westphalian and Upper Silesian districts held out the hope of profitable business both in the fields of current account and credit; they also promised a large influx of available funds, and in addition increased power and influence in various directions.

National Monetary Commission

It was these reasons primarily which prompted the Deutsche Bank in 1897, the year in which the Rhenish-Westphalian Pig Iron Syndicate was organized, to carry out at one swoop a plan which had probably been conceived as early as 1893, the year of the formation of the Rhenish-Westphalian Coal Syndicate, whereby the bank secured a firm foothold in both the Rhenish Westphalian and Upper Silesian districts. This was the establishing of communities of interest on the one hand with the *Bergisch-Märkische Bank* in Elberfeld, a bank with an old and well-established standing in Rhenish Westphalia, having numerous branches and old-time connections with industry in general and mining in particular, and, on the other hand, with the *Schlesischer Bankverein*, which had likewise developed extensive and highly-profitable industrial connections in Upper Silesia. In this manner the Deutsche Bank achieved the purposes which had prompted it to enter upon these communities of interest with a skill equalled only by the large scale of the operations involved.

Only after some time did the other banks follow suit, and then with more or less energy and success. Competition set in for the creation in one way or another of close industrial connections, as we shall have occasion to point out more fully in a subsequent chapter.

As coming under the head of the cartel movement, we may mention here the fact, already pointed out in another connection, that in 1897 the A. Schaaffhausen'scher Bankverein organized a limited-liability company under the firm name of the *Syndikatskontor des A. Schaaffhausen'schen Bankvereins G. m. b. H.*, which was to serve as the sales agency and clearing office primarily for the Federation of

The German Great Banks

German Wire Rope Manufacturers (*Verband Deutscher Drahtseilfabrikanten*), but later also for other syndicates, cartels, and combinations. Moreover, many banks which had not yet secured a firm position in this respect now began gradually to obtain representation on the supervisory boards of those mining and smelting companies which had large influence in the management of the important syndicates. Gradually the Dresdner Bank, Deutsche Bank, and Darmstädter Bank obtained representation on the board of the *Harpener Bergbau-Aktiengesellschaft* and became members of the bank group identified with that company, and the first two entered the board of the *Gelsenkirchener Bergwerks-Aktiengesellschaft* and joined the group of banks connected with the latter concern. The Dresdner Bank joined the board of the consolidated *Königs- und Laurahütte* and the group of banks which stand behind that concern. The Deutsche Bank attained the same position with regard to the *Konsolidation Bergwerks-Aktiengesellschaft* at Schalke, the *Phoenix*, etc. Inversely, representatives of large industrial interests, especially persons of great influence in the mining industry, joined in increasing numbers the supervisory boards of the large banks. Thus at the end of December, 1908, representatives of industrial interests appear on the boards of the banks in the following numbers:

Bank für Handel und Industrie.....	4
Berliner Handelsgesellschaft.....	15 ⁽¹⁴⁾
Deutsche Bank.....	4
Disconto-Gesellschaft.....	4 ⁽¹⁵⁾
Dresdner Bank.....	11 ⁽¹⁶⁾
A. Schaaffhausen'scher Bankverein.....	19

On the other hand, the intimate relations with the large banks and their extensive resources served as a new

National Monetary Commission

stimulus for various industrial establishments to extend their operations and influence in their respective districts, to establish more firmly their position as against other establishments, groups, and particularly cartels, as well as within the cartels, by way of combinations, consolidations, and fusions of all sorts. In this way concentration in banking, which had been greatly influenced both in the extent and rapidity of its progress by developments in industry, and particularly by the formation of cartels, in turn helped to bring about concentration in industry.

III. Mistakes of legislation.—The stamp and stock-exchange laws.—The rapidity of the movement toward concentration was heightened by the heavy burdens imposed on the trading in securities by the imperial stamp acts of April 27, 1894, and June 14, 1900, and by the stock-exchange act of June 22, 1896, which entered into force on January 1 of the eventful year 1897.

1. As early as 1884, when it was proposed to impose a percentage tax on stock transfers (as was done by act of May 24, 1885), it was pointed out by experts that the effect would be "to monopolize the banking business in the hands of a few powerful concerns."¹⁷

Nevertheless the policy once entered upon was continued. The imperial stamp tax of April 27, 1894, doubled the existing tax on transfers (increasing it from one-tenth to two-tenths per mille) and prescribed that the tax should no longer be levied as before on every full thousand marks, but also on any additional fraction of a thousand marks. It left, however, transactions of less than 600 marks exempt as heretofore.

The German Great Banks

The act of June 14, 1900, not only abolished this exemption,¹⁸ but increased substantially all the rates of the stamp tax on securities, raised the stamp tax on the final certificate of transfer (*Originalschlussnote*) of shares and bonds of foreign corporations to three-tenths per mille, and introduced a tax on the issue and transfer of mining stocks (*Kuxe*).

Under the act of October 1, 1885, the provincial banker, who had forwarded his customer's order to a central banker on the stock exchange, was at least permitted under certain circumstances to hand over the original transfer certificate to his customer without paying a new tax. However, the provincial banker could not avail himself of this relief unless he was willing to disclose the name of the central banker to his customer. Accordingly until a more practicable method was introduced by the act of April 27, 1894, the provincial banker had to affix a stamp also to his own certificate to the customer. The result was an increase in the expense of the business, to which there had to be added the commission of the provincial banker and the commission and brokerage fees of the central banker, which at the time were more equitable and in accord with the trouble and the general expense involved than they are at present. The direct result was that, in order to save expense, the customers of the provincial bankers, in spite of all efforts on the latter's part, began to deal directly with the central banker or with the branches established in the district by the great banks. This trend assumed ever larger proportions when the banks started to propose to their customers to participate in the issue of securities as well

National Monetary Commission

as to hold out to them more favorable terms and lower commissions with the view of attracting orders in the field of security business.

There were further defects in the stamp-tax legislation which contributed to bring about a reduction in the rates of brokerage. The banks to an increasing extent were able to offset against one another within the bank the large number of buying and selling orders that came pouring in from customers. As long as this procedure of offsetting orders continued to be exempted from taxation they were able to gain at least the equivalent of the entire stamp on every transaction settled within the bank. Owing to this profit, they were able to cut lower and lower the rate of commission for their services until it reached the unprecedented rate of one-half per mille, a rate which nowhere comes near a reasonable compensation for the trouble, expense, and risk involved, and which probably is not found in any foreign country. These "compensatory transactions" became subject to taxation only three and a half years after the stock exchange act went into effect under section 12 of the imperial stamp tax law of June 14, 1900. In other words, they remained untaxed until the extensive increases in bank capital, which had been made as a result of the stock exchange legislation, and the large number of branches and deposit offices which had meanwhile been established, made it seem hopeless for the smaller provincial bankers ever to overcome the lead which the banks in the meantime had gained on them.

Moreover, the increase in the stamp tax rendered it impossible for the smaller private banker, or at least for

The German Great Banks

a large proportion of them, to engage in what had been in former years important and lucrative branches of business. Under this head comes speculation in daily exchange quotations. This consists in taking advantage of fluctuations in the daily quotation of securities. Its effect is to bring about more stable and uniform quotations by eliminating small variations in the daily quotations. This function of the banker has ample business justification and renders a valuable service in the formation of prices. However, as the margin of profit is small it can not stand a tax of three-tenths per mille.¹⁹

Under the same head comes the so-called arbitrage business. This consists in taking advantage of variations existing on different exchanges in the quotations of domestic securities and of so-called international securities dealt in also on foreign exchanges. This activity serves to a great degree to equalize and establish a uniform level for prices of securities and, moreover, renders valuable economic service in facilitating the settling of our international balance of trade and payments.²⁰

Furthermore, a part of what had been the business of the private banker was now taken from him partly as a result of the tax burden imposed and partly in consequence of the provisions of paragraph 8 of the bank-deposit law of July 5, 1896,²¹ and of the restrictive stock exchange legislation to be discussed below. I refer to trading in foreign securities. This part of the business went to foreign countries and came to be attended to by foreign bankers in place of our own bankers. As a result of all this the brokerage business in securities left to the smaller private bankers fell off from year to year and

National Monetary Commission

became progressively less profitable. The only way to increase profits, given the ruling low rates of commission, was to increase the scale of operations. This, however, was out of the question, since the bulk of the business now went more and more to the banks, and primarily to the Berlin banks and their branches.

2. We can not enter here upon the extent of the injury inflicted by the stock exchange legislation on the German bourses, and indirectly also on the strength and competitive power of German banking. On this point I must refer particularly to the discussion and the data contained in the two memorials of the *Centralverband des Deutschen Bank-und Bankiergewerbes* (Central Union of German Banks and Bankers) of June, 1901, and December, 1903.²² Here only a particular aspect of the question can be dealt with, namely, to what extent this legislation tended to hasten the movement toward concentration.

The prohibition of "future" dealings in securities, affecting large and very important classes, particularly mining and industrial securities, and the extensive limitations on "future" dealings in other securities,²³ accomplished but little more than the bringing to the fore of cash dealings in the stock exchange business. The result was that since 1897 "a larger amount of cash was made necessary for the same amount of transactions and that the total requirements of currency on the part of the German business community was increased still further just at a time when the volume of business showed extraordinary gains."²⁴

The German Great Banks

The smaller private bankers were naturally in no position to meet with their own funds the increased requirements of ready money for cash transactions, neither could they afford to tie up their funds in this way. On the other hand, as soon as the stock exchange legislation was proposed the banks foresaw that the restrictions of future dealings would necessitate the use of larger amounts of cash.²⁵ Accordingly, when the law went into effect, and even before, they largely increased their capital and available funds without difficulty,²⁶ and as a result were able to draw to themselves even more effectively than before the custom of the private bankers.

Granted even that the tendency toward unification and toward operation on a large scale is common to all branches of industry, and that, judging by the experience of foreign countries (except the United States for the time being), sooner or later the position of the private bankers as a class would gradually have become weakened as a result of the general concentration tendencies²⁷ there can be no doubt that the provisions of the stamp tax and the stock exchange legislation did much to hasten this movement, or, in other words, to accelerate and aggravate the decline of the economic power of private banking.²⁸

In judging of this development the main question is whether there has been an essential decline, and not whether there has been a decrease in numbers. It is only the former question which may claim economic and scientific interest. There may be a decline of a profession in spite of an increase in the number of persons or establishments belonging to it.²⁹ This is particularly so when the increase is only the natural and proportionate result of the

National Monetary Commission

general growth of population or when the gain is due to numerous accretions, though all insignificant in point of capital, while the losses, though small in number, involve a large exodus of capital.

Again, a profession may be highly flourishing and improving in position and influence, even when the number of individuals or establishments is declining. This has happened frequently abroad, notably in England and France, where the number of banks decreased because of the absorption of a large number of small concerns by large establishments, which have thereby increased their power.³⁰

It is, therefore, unscientific to base any general conclusions merely on an observed increase or decrease of absolute numbers without making a most careful analysis of the underlying causes. It is self-evident that we do not mean to deny that an absolute numerical decrease or increase in the number of establishments or persons may go hand in hand with the decline or advance of the particular class, but this is not necessarily so. This much by way of preface. We may now take up Ernst Loeb's data.³¹ According to the table prepared by him, during the period 1892-1902—the decade including the great boom period of 1898-1900—the number of private bankers rose from 2,180 to 2,564. In all, there was an increase of 380 for the whole of Germany. Even if there were no doubts of the accuracy of the statistics, they would prove very little. An increase so small as not to be proportionate, either to the growth in population during this period or to the economic progress of the decade mentioned, would tend to confirm rather than to refute the view that the class, as a

The German Great Banks

whole, had been on the decline, even though there might be no falling off in absolute numbers.

As a matter of fact, however, the table, in my opinion, is not correct; in fact, it is out of question that it be so. In the *Deutsches Bankierbuch*, on the basis of which the table is prepared, the names of extinct firms or of firms which have gone out of business are frequently continued for some time. This is easily comprehensible. Moreover, as Loeb himself admits (op. cit., p. 248), a large number of persons who appear in the table as bankers are either brokers or curb dealers (*Remisiers*). For Berlin alone this is true of at least 93 names as early as 1896, and of more than 120 at present. In Frankfort-on-the-Main there were between 30 and 50 names of persons who style themselves bankers, but who are, in fact, merchandise dealers engaged in the grocery or other trades, who do banking only incidentally and as occasion offers. This view is confirmed by the investigations made by the Central Union of German banks and bankers among 154 official trade bodies.³² The returns made are surely not "consciously falsified as to facts and figures in order to mislead public opinion."³³ The answers of 115 of the trade bodies cover both the newly organized establishments and those that had retired from business. The answers show that in the districts of these 115 chambers of commerce for the years 1891-1896, or before the stock-exchange law was enacted, the number at the close of the period as compared with the number at the beginning was 65 more for banks and 32 less for private bankers. In both cases branches are included. For the years

National Monetary Commission

1897-1902, however, the number of banks and their branches at the end of the period was 207 greater than at the beginning, whereas the number of private bankers, including branches, was at the close of the period 125 less than at the opening. There seems thus to have been, also, an absolute decline in numbers.

As has been explained before, without a detailed examination of the phenomena under discussion, no conclusive scientific proof can be attached to the absolute figures. Relative numbers are, however, much more important when and in so far as they permit of definite conclusions. In this respect even Loeb³⁴ calls attention to the fact that for the ten-year period 1892-1902, in which, as he thinks, there has been an absolute increase by 380 in the number of private bankers, the growth of the banks, both in number, in capital, and in the number of branches and deposit offices, has been incomparably greater. The number of joint-stock banks grew in this period from 379 to 616, the number of branches (even if we disregard the branches of the Berlin banks) from 73 to 264, while even in the briefer period from 1894 to the end of 1899 the amount of their capital stock had grown from 449,000,000 to 871,000,000 marks.³⁵

The decline of private banking,³⁶ in part absolute and in part relative, is more striking in comparison with the rapid strides toward concentration among the banks. It is, moreover, marked by a variety of other phenomena. In the first place it is notable that in Berlin, the seat of the greatest stock exchange, there was a great decline in the absolute number of private bankers. According to Loeb³⁷ the decrease was from 538 in 1892 to 370 in 1899. In the other larger cities the number appears

The German Great Banks

either to have remained stationary or to have increased somewhat.

More important, as showing the decline of the private bankers as a class, is the relative number of those participating in the giro business. As these statistics include only the better class of private bankers, they give evidence not only of the numeric but also of the more serious qualitative decline of the private bankers as a class.

Number participating in the giro business within the German Empire.

At the end of—	Banks and their branches.	Private bankers and their branches.
1876.....	130	974
1890.....	203	1,413
1896.....	245	1,475
1900.....	413	1,496
1902.....	459	1,504

These figures are very eloquent. They prove an enormous growth of giro accounts for the period from the beginning of 1877 to the close of 1890. It is seen that the number of accounts of banks and their branches had increased by only 73, while those of private bankers and their branches had grown by no less than 439. On the other hand, in the period affected first by the stock exchange legislation and later by the imperial stamp-tax legislation of June 14, 1900—the period from the beginning of 1897 to the end of 1902³⁸ the giro accounts of the banks and their branches had increased by 214 and those of private bankers and their branches by 29 only.³⁰ Little as this increase is, nearly all of it is to be ascribed primarily to banking in the large cities, to which this business has drifted along with business in general. It shows

National Monetary Commission

a tremendous speed of the movement of concentration, notably in these six years, and a corresponding decline during the same period in the position of private bankers as a class.

In view of the notorious outcome of the entire development, it may be doubted whether it is still worth while at this time to differentiate and contrast the rate of growth of the Berlin banks for this period with that of the provincial banks. The clearly established fact is that the same concentration which went on among the large banks took place also among the provincial banks, though the rapidity of this movement was not the same for the provincial banks in the various parts of the country.

Thus, for example, during the years 1893-1900, inclusive—the period when with the exception of the Bergisch-Märkische Bank (to be sure the most important of these banks), the Rhenish-Westphalian banks had not yet become “affiliated”—the 12 most important banks of the district increased their capital from 107,000,000 to 350,000,000 marks, or about 226 per cent.⁴⁰ The following statistics compiled from the returns in the memorial of the Centralverband, under date of December, 1903, show that as contrasted with the average for the period 1883-1890 the average capital and surplus funds (*werbende Kapitalien*) had increased as follows:

	Between the years—	
	1891-1896.	1897-1902.
	<i>Per cent.</i>	<i>Per cent.</i>
22 institutions at that time independent of the Berlin great banks	14.9	53.9
10 Berlin great banks	43.7	153.2 ⁴¹

The German Great Banks

After a large part of the provincial banks had become "affiliated" with the several Berlin great banks, there can be no question but that their striking growth in capital, number of branches, etc., was naturally affected in a large degree by their connection with the great banks. On the other hand, since 1905 and as a result of the very rapid growth of the great banks and their chains of banks outside of Berlin, the provincial banks which had not become affiliated with the great banks sought to extend their sphere of operations, with a view to maintaining their independence and field of action. This was particularly the case during 1906 and 1907, when the process of concentration among the great banks had become arrested.

I shall call attention here only to a few striking examples. Thus in central Germany the *Magdeburger Bankverein*, founded in 1867 as a stock company *en commandite* under the firm name of Klincksiek, Schwanert & Co., incorporated under the above name in 1897 with a capital of 15,000,000 marks, had on December 30, 1908, seven branches (in Aschersleben, Burg near Magdeburg, Dessau, Hildesheim, Nordhausen, Peine, and Stendal). In 1909 a branch at Braunschweig was added. It also has a deposit office (in Greussen) and a *commandite* (G. Vogler in Quedlinburg). It has absorbed the following banking firms: 1905, S. Frenkel, Nordhausen; 1905-6, Herzfeld & Büchler, Aschersleben; 1906, H. Bach, Nordhausen; 1907, Gebrüder Dux, Hildesheim; 1907, Friedrich Franz Wandel, Dessau; 1908, I. Wertheimer, Peine (1909, Otto Weibezahl, Braunschweig).

Since 1907 it has been intimately connected with the Disconto-Gesellschaft. A director of this bank is a member of the supervisory board of the Bankverein.

National Monetary Commission

Thus between 1905 and the close of 1909 alone the Magdeburger Bankverein absorbed seven banking firms for the purpose of establishing branches.

The *Magdeburger Privatbank* of Magdeburg and Hamburg (founded 1856, capital stock 36,000,000 marks, surplus about 4,000,000 marks) has—

Thirteen branches (Dessau, Eisenach, Eisleben, Erfurt, Halberstadt, Halle-on-the-Saale, Langensalza, Mülhausen in Thuringia, Nordhausen, Sangerhausen, Torgau, Weimar, Wernigerode a. H.).

Twenty-eight deposit offices (Aken a. E., Bismark in the Altmark, Burg near Magdeburg, Calbe a. S., Egelu, Eilenburg, Finsterwalde N.-L., Frankenhausen, Gardelegen, Genthin, Helmstedt, Hettstedt, Merseburg, Neuhaldensleben, Oschersleben, Osterburg, Osterwieck, Perleberg, Quedlinburg, Schönebeck a. E., Sondershausen, Stendal, Tangerhütte, Tangermünde, Thale i. H., Wittenberg (district of Halle), Wittenberge (district of Potsdam), Wolmirstedt).

One commandite (Ascherslebener Bank, Gerson Kohen & Co., Kommanditgesellschaft in Aschersleben).

The Magdeburger Privatbank has absorbed the following banks and banking firms:

1905. Nordhäuser Bank, Nordhausen; Wilhelm Hauffe, Eilenburg; Julius Elkan, Weimar; Tobias Fricke, Gardelegen.

1906. F. W. Quensel, Sangerhausen; Diskonto-Gesellschaft, Hettstedt.

1907. F. Unger, Erfurt; Wittenberger Spar- & Leihbank, Registered Mutual Society (Limited), Wittenberg; Paul Thiele, Merseburg; Eislebener Bankverein, Ulrich, Zickert

The German Great Banks

& Co., Eisleben; Kreditbank Eisenach (Incorporated), Eisenach (capital, 1,500,000 marks); Vereinsbank Mühlhausen (Thuringia) with a branch in Langensalza (capital 2,100,000 marks); Torgauer Bank, Torgau (capital, 1,000,000 marks); Sangerhäuser Bankverein, Sangerhausen (capital, 898,000 marks); Wernigeröder Kommanditgesellschaft auf Aktien (stock company en commandite) Fr. Krumbhaar, Wernigerode, with a branch in Osterwieck i. H. (capital, 1, 500,000 marks); Wechslerbank, Hamburg (founded 1872; capital, 7,500,000 marks).

1908. Erfurter Bank Pinckert, Blanchart & Co., Erfurt (capital 3,008,100 marks); A. Sonnenthal, Dessau; Vorschuss- & Sparverein, Weimar, Registered Mutual Society (Limited), continued under the name Thüringische Landesbank, A. G. Weimar, which in 1908 absorbed the Gewerbe- und Landwirtschaftsbank G. -m. b. H. Jena.

1909. Dresdner Bankverein, Dresden (founded in 1887; capital 21,000,000 mark). This bank had absorbed the following: 1887, Weimarische Filialbank, Dresden; 1890, the branches of the Geraer Bank in Dresden, Chemnitz, and Leipzig; 1900, Hch. Wm. Bassenge & Co., Dresden, continued under the old firm name. This firm in turn has branches in Meissen (1904) and a deposit office in Lommatzsch; 1907, Ernest Petasch, Chemnitz, and Kröber & Co., Meissen.

In addition to the branches growing out of these banks and firms which had been taken over, the Dresdner Bankverein has branches in Wurzen, Kamenz, and Sebnitz, and a deposit office in Oederan.

After the consolidation (effective January 1, 1909) the Magdeburger Privatbank adopted the firm name of

National Monetary Commission

Mitteldeutsche Privat-Bank Aktiengesellschaft and increased its capital stock to 50,000,000 marks.

Thus since 1905 the Magdeburger Privat-Bank (now *Mitteldeutsche Privatbank*), for the purpose of establishing branches and deposit offices, absorbed 8 private banking firms and 12 banks.

In southern Germany the following banks have been in the forefront of the concentration movement.

The *Bayerische Vereinsbank* in Munich (capital 45,000,000 marks). It has 12 branches—Augsburg, Bad Kissingen, Bayreuth, Erlangen, Kempten, Kitzingen, Landshut, Nuremberg, Passau, Regensburg, Straubing, and Würzburg. It also has 2 deposit offices in Munich. It has absorbed the following banks and banking firms: 1885-86, Joseph von Hirsch, Munich; 1891-92, Guggenheimer & Co., Munich; 1898-99, Adolph Böhm, Landshut; 1905, Stiglmeier & Böhm, Straubing; Gregor Oehninger Sohn & Co., Würzburg; 1906-7, Franz Eglauer, Passau; 1907-8, Nürnberger Bank in Nuremberg, Lauf, Erlangen, Schwabach, and Hersbruck; Würzburger Volksbank, Würzburg; Friedrich Feustel, in Bayreuth and Kissingen; Leyherr & Co., Augsburg; F. S. Euringer, Augsburg; August Leipert, Kempten.

Thus since 1885 the *Bayerische Vereinsbank* absorbed 10 banking firms and 2 banks.

The *Bayerische Handelsbank* in Munich increased its capital in 1906 from 27,171,800 marks to 33,963,800, and in 1908 to 35,600,000 marks. Between 1906 and 1908 it established branches in Ansbach, Immenstadt, Bayreuth, Hof, Gunzenhausen, Lichtenfels, Münchberg, Nördlingen, Neuberg on the Danube, Markt-Redwitz, Mindelheim,

The German Great Banks

Regensburg, Rosenheim, Schweinfurt, and Würzburg. Earlier it had established a branch at Kempten (in 1899), and branches at Bamberg, Kronach, Kulmbach, Memmingen, and Aschaffenburg in 1905. For the purpose of establishing or enlarging branches it took over the following banking establishments:

1899. Ignaz Wolfsheimer, Kempten.

1905. Hermann Hellmann, Bamberg and Kronach; F. L. Bauer, Kulmbach; L. Ullmann & Söhne, Kempten; Gewerbebank Memmingen. G. m. b. H. (Limited), Memmingen; Heinrich Mayer, Memmingen; Wolf S. Gutmann, Ansbach; M. Wolfsthal, Aschaffenburg.

1906-7. A. Krauss, Bayreuth and Münchberg; Schüler & Co., Bayreuth and Hof.

1907. Hans Mayer, Lichtenfels; Ludwig Rosenfelder, Nördlingen; Fr. H. Miller, Mindelheim; Max de Crignis, Neuberg on-the-Danube.

1907-8. Wilhelm Frank, Gunzenhausen.

1908. Haymann & Co., Regensburg; Richard Kirchner, Würzburg; Kreditbank Rosenheim A. G. (capital 1,000,000 marks); I. Gutmann, Ansbach.

Thus the Bayerische Vereinsbank absorbed since 1899 17 banking firms and 2 banks.

In western Germany among others the *Barmen Bankverein* of Barmen absorbed the *Bonner Privatbank*, the *Westfälische Bankkommandite* Ohm, Hermekamp & Co. (now the *Niederdeutsche Bank*), and the *Godesberger Bank*.

The *Rheinisch-Westfälische Disconto-Gesellschaft* in Aix-la-Chapelle (capital 80,000,000 marks), which we omitted from the chain of banks belonging to the Disconto-

National Monetary Commission

Gesellschaft for the reasons given on p. 673 (regarding it as an independent provincial bank) has now 17 branches at the following places: Bielefeld, Bochum, Bonn, Coblenz, Cologne, Dortmund, Düsseldorf, Godesberg, Gütersloh, Lippstadt, Maria-Gladbach, Neuss, Neuwied, Recklinghausen, Remscheid, Traben-Trarbach, and Viersen. It has, besides, 7 deposit offices—3 in Cologne and 1 in each of the towns of Kalk, Kreuznach, Malmedy, and Ratingen, and 2 *commandites*, Delbrück, Leo & Co., Berlin, and M. W. Koch & Co., Frankfort-on-the-Main. It has absorbed the following banks and firms:

Establishments.	Year.	Capital.
		<i>Marks.</i>
Bank für Rheinland and Westfalen	1901	8,334,000
Koblenzer Bank	1901	2,000,000
Groethuysen & Linxweiler, Viersen	1902	. . . . .
Kölnische Wechsler-und Kommissionsbank	1904	12,000,000
Neuwieder Bankverein		1,000,000
Bochumer Bank, Bochum (with branches in Dortmund and Recklinghausen)		5,000,000
Westfälische Bank, Bielefeld, Lippstadt, and Gütersloh	1905	10,000,000
Otto Lohmann, Bielefeld		5,000,000
Düsseldorfer Bank, Düsseldorf		5,500,000
Johann Ohligschlaeger (Limited), Aix-la-Chapelle	1906	. . . . .
Zülpicher Volksbank, Zülpich . . . . .		. . . . .
Remscheider Kredit-und Sparbank	1907	750,000
Unnaer Bank in Unna . . . . .		. . . . .
Crefelder Bank in Crefeld (continued as a branch)	1908	3,000,000
Volksbank, Erkelenz . . . . .		. . . . .
Hardy & Co. (Limited), Berlin	1909	. . . . .

The Rheinisch-Westfälische Disconto-Gesellschaft has formed communities of interest with the following banks:

	Capital (marks).
Eschweiler Bank	^a 1,000,000
Dürener Bank	8,500,000

This bank absorbed in 1905 the *Euskirchner Volksbank* and the *Jüliche Volksbank* and established branches at Euskirchen and Jülich.

^a 600,000 marks paid in.

The German Great Banks

Volksbank Geilenkirchen-Hünshoven.....	315,000
Oberbergische-Bank, Ohl ⁴²	1,505,000
Eupener Kreditbank.....	500,000
Herforder Discontobank.....	2,500,800
Bünder Bank.	

SECTION 4. SPECIAL CAUSES OF THE RAPIDITY OF THE CONCENTRATION MOVEMENT DURING 1901-1904.

The concentration movement proceeded with an unusual degree of rapidity in the years following 1870 and again during the years 1901-1904, inclusive. The earlier period, characterized by the establishment of so-called provincial banks,⁴³ is at present of no more than historic significance. It was during the latter period particularly that concentration assumed striking and at times even uncanny dimensions. While even before this the movement had advanced quite rapidly, these four years witness a record speed in this development.

The progress in concentration was greatly accelerated by the influence of psychologic factors, as is so often the case in this sphere of business.

I. THE CRISES OF 1873 AND 1900.

The general observation may be made that every crisis is followed by a marked strengthening of existing tendencies toward concentration and by an increased rapidity of the movement in that direction.

After every crisis, which results in the annihilation and sweeping away of many undertakings, the weaker establishments which were able to survive in halfway sound condition only through assistance of some sort realize that they can achieve permanent safety only by merging with other establishments. This is particularly true of

National Monetary Commission

those establishments which have broadened their base of operation during the prosperous years before the panic by enlarging their business or increasing their capital to a point where they cannot make full and rational use of their plant or capital while business is at a standstill.

Wallich⁴⁴ properly points out, therefore, that the movement of concentration which set in in German banking during the boom period 1870-1872 proceeded at a more rapid pace immediately after the crisis of 1873, as a result of the liquidation or "disestablishment" of banks, which was carried out by stronger banks. While the latter frequently saved from total collapse weaker banks that had fallen into sore straits, and at any rate made it easier for them to realize their assets, they made sure at the same time of taking over valuable existing business connections, fiscal agencies, etc., and thus largely increased their power and influence.

It was in this manner and with this purpose in view that the *Deutsche Unionbank* during the period 1871-1874 undertook the liquidation of four banks, the *Deutsche Bank* during the period 1873-1876—the liquidation of the *Allgemeine Depositenbank*, and of the *Elberfelder Disconto- und Wechselbank*, also of the just-mentioned *Unionbank*, which paid the extreme penalty for tying up its resources in the above operations. The *Dresdner Bank* during the years 1873-1878 undertook the liquidation of four banks, viz, the *Dresdner Handelsbank*, *Sächsischer Bankverein*, *Sächsische Kreditgesellschaft*, and *Thüringische Bank* in Sondershausen. Lastly, in 1875, the *Württembergische Vereinsbank* undertook the liquidation of the *Stuttgarter Bank*.

The German Great Banks

Soon after this (from 1876 and on into the eighties) the Deutsche Bank carried on the liquidation of four other banks—the *Berliner Bankverein*, the *Berliner Wechselbank*, the *Frankfurter Bankverein* (which resulted in the establishment of a branch in Frankfort-on-the-Main), and the *Niederlausitzer Bank* in Kottbus. In 1876 the statement of the Deutsche Bank contained an item of 6,500,000 marks of “securities” chiefly of banks in liquidation, which it had bought up cheaply. During the same period the number of its accounts on which it had to pay commissions had increased from 855 to 1,354.

The establishments that had weathered the crisis with their own resources, without being obliged to resort to outside help, were mainly those that had been able to strengthen their resources greatly before the crisis through the concentration and consolidation of their business and capital. Outsiders usually learn of this for the first time during the panic, and those establishments which have failed to do so in time now hasten to follow the example set by the successful establishments. On the other hand, those banks which have been able not only to survive the panic, but also to extend assistance to others, come out of the panic with renewed spirit of enterprise. Moreover, during a panic they are able, at relatively small cost and with the prospects of more than average profits, to satisfy their ambition for expansion by making suitable investments. The result is liquidation or absorption of the concern seeking assistance, at all events, however, permanent dependence upon the assisting bank. According to the memorial of the *Centralverband des Deutschen Bank- und Bankiergewerbes*, during 1901-2, i. e., during and after the

National Monetary Commission

panic, no fewer than 41 branches were established by banks, mostly in place of private banking firms that had been absorbed. During the same brief period 116 banking firms had gone out of business. Moreover, quite an array of larger banks might be cited which had been able to preserve their independence during the boom period, but which by adverse circumstances were forced to seek the aid of one of the great Berlin banks and to resign part of their former independence according to the looser or closer relationships established, being thus made to pay a heavy tribute to the crisis.⁴⁵

In 1903 the "permanent participations" of the Deutsche Bank amounted, in round figures, to 57,000,000 marks (as against 50,000,000 in 1899), those of the Disconto-Gesellschaft to 58,000,000 marks (as against 51,000,000 marks in 1899).

Confidence plays a notably large part in banking, and after every crisis general confidence naturally turns, above all, to those institutions which have displayed energy, insight, and power in going to the rescue of other institutions or in intervening energetically on the stock exchange. On the other hand, there is a loss of confidence, often thoroughly unjustified, in other institutions—that is to say, in the smaller banks and private bankers. In other cases the safety of the securities left on deposit with those institutions may be brought into question, particularly if events like those which took place in Berlin during the fall of 1891 are of a nature to disturb, even only temporarily and in isolated instances, public confidence in the safety of the institutions.

The German Great Banks

Owing to such causes, the concentration movement received a great impetus from the prompt and effective intervention of the large banks on the occasion of the collapse in 1901 of the *Pommersche Hypotheken Bank* (Pomeranian Mortgage Bank), the *Preussische Hypothekenaktienbank* (Prussian Mortgage Bank, Incorporated), and the *Deutsche Grundschuldbank* (German Real Estate Mortgage Bank). A similar effect was produced by the notably energetic intervention of the Deutsche Bank, which announced the opening of its own branch in Leipzig on the very day, June 25, 1901, when the Leipziger Bank suspended payments.

2. THE FOUNDING OF THE UNITED STATES STEEL CORPORATION, FEBRUARY 23, 1901.

During those years (from 1901 onward), and again in 1904, the record year in the rapidity of the concentration movement, other important events exerted a profound psychologic influence. It is no exaggeration to say that few events during the second epoch (1870-1905) occupied the thoughts and stirred the feelings of the widest circles so strongly as the founding of the United States Steel Corporation on February 23, 1901, with the enormous capital of 1,100 million dollars.

The Germans had either overlooked or ignored the fact that this event simply marked the culminating point, provisional at that, in a concentration movement which had begun in the United States with great energy as early as 1881 in many lines of industry, mainly in the form of trusts. The "law of the large numbers" has rarely produced so great an effect as in this case. Not until this

National Monetary Commission

culminating event took place were Germans of all classes, far beyond banking circles and the industrial circles directly concerned, made aware that Germany would have to prepare for a struggle destined to grow more and more severe, a struggle which threatened to be defensive rather than offensive and in which Germany's chances were not likely to be improved by her far inferior capital resources. In the face of this situation it seemed urgently necessary to accelerate the movement of concentration. This necessity became the more apparent in view of the peculiar form of American industrial combinations, the trusts, which involves complete control of the associated enterprises and of their business management, permitting a reduction in the cost of production, an effect which the German cartels had almost completely failed to attain owing, for one thing, to the autonomy of the enterprises included in the cartels.

3. THE FOUNDING OF THE STAHLWERKVERBAND (STEEL WORKS' UNION) IN DUSSELDORF, MARCH 1, 1904.

Such a reinforcement of the concentration movement seemed demanded both in the field of industry, representing the most advanced and exposed part of the battlefield, as in the field of German banking, the auxiliary of industry. Thus under the fresh impression of the event that had occurred in the United States, the long-continued and laborious efforts to establish the Steel Works' Union in Dusseldorf were, on March 1, 1904, brought to a successful issue and hailed far and wide as an auspicious result. This was followed, on January 1, 1905, by the founding of the Upper Silesian Steel Works' Union (*Oberschlesischer Stahlwerkverband*).⁴⁶ All these developments in the United States

The German Great Banks

and in Germany in their turn gave a new impetus to the movement of concentration in German banking. This movement proceeded by leaps and bounds during those years, especially in 1904, to a large extent at the expense of the smaller banks.

CHAPTER III. METHODS AND FORMS OF CONCENTRATION.

SECTION I. OUTWARD COURSE OF DEVELOPMENT.

A. THE SEVERAL GREAT BANKS.

The outward development of the Berlin great banks,⁴⁷ of which as many as ten were usually enumerated even as late as 1903, is represented in tabular form at the end of this book in Appendix VII. From that tabular statement the following data may be gathered as regards the present number of the great banks:

The 54,000,000 marks of capital of the *Mitteldeutsche Kreditbank* has been considerably surpassed by that of several provincial banks. Thus the *Allgemeine Deutsche Kreditanstalt* has a capital of 90,000,000 marks; the *Rheinisch-Westfälische Disconto-Gesellschaft*, 80,000,000 marks; the *Rheinische Kreditbank*, 75,000,000 marks; the *Bergisch-Märkische Bank*, 75,000,000 marks; the *Barmer Bankverein*, 60,000,000 marks; the *Essener Kreditanstalt*, 60,000,000 marks. The capital of the *Commerz- und Disconto-Bank* (85,000,000 marks) and of the *Nationalbank für Deutschland* (80,000,000 marks) was also surpassed by that of the *Allgemeine Deutsche Kreditanstalt* and was equaled in 1908 by that of the *Rheinisch-Westfälische Disconto-Gesellschaft*, and even surpassed in 1909, when it reached 95,000,000 marks. Thus beginning

National Monetary Commission

with January 1, 1905, and ranging them solely by the amount of the capital, the term great bank being assumed, as usual, to imply a minimum capital of 100,000,000 marks, only the following six banks can be grouped under that term:

	Capital (marks).
1. Deutsche Bank	200,000,000
2. Dresdner Bank	180,000,000
3. Disconto-Gesellschaft	170,000,000
4. Bank für Handel und Industrie	154,000,000
5. A. Schaaffhausen'scher Bankverein	145,000,000
6. Berliner Handelsgesellschaft	110,000,000

But if we place the limit at 80,000,000 of capital, we shall now have to include in the list of great banks also the Rheinisch-Westfälische Disconto-Gesellschaft (80,000,000, since 1909, 95,000,000 marks), the Allgemeine Deutsche Kreditanstalt (90,000,000 marks), the Commerz- und Disconto-Bank (85,000,000 marks), and the Nationalbank für Deutschland (80,000,000 marks).

With 80,000,000 as the limit, the term "Berlin great banks" would include not only the six above enumerated, which have their home office or at any rate their financial center of gravity in Berlin, but also the Commerz- und Disconto-Bank and the Nationalbank für Deutschland, so that the total number would be eight.

Of all these banks the Berliner Handelsgesellschaft only has strictly adhered to the principle of absolute centralization; it has neither branches, nor *commandites*, nor deposit offices, nor communities of interest.⁴⁸

B. THE AGGREGATE CAPITAL POWER REPRESENTED BY THE GREAT BANK GROUPS.

At the present time the five largest Berlin banks, together with their domestic communities of interest either through the ownership of stock or through contract, and

The German Great Banks

the domestic communities of interest of the latter (counting only capital and surplus funds, but not deposits), form the following groups, whose capital power is given as per December 31, 1908:

I. *The group of the Deutsche Bank.*—Including: ⁴⁰

	Capital.	Surplus.
	<i>Marks.</i>	<i>Marks.</i>
The Deutsche Bank itself	200,000,000 ⁵⁰	101,831,917
Also the following:		
1. Bergisch-Märkische Bank in Elberfeld	75,000,000	23,014,533
2. Schlesischer Bankverein in Breslau	30,000,000	11,000,000
3. Hannoversche Bank in Hannover	22,500,000	4,100,000
Together with:		
(a) Osnabrücker Bank in Osnabrück	14,500,000	3,775,000
(b) Hildesheimer Bank in Hildesheim	8,000,000	2,200,000
4. Duisburg-Ruhrorter Bank in Duisburg	12,000,000	247,152
5. Essener Kreditanstalt in Essen a. d. R.	60,000,000	18,176,000
Together with the Westfälischer Bankverein in Münster	8,000,000	1,621,000
6. Siegener Bank für Handel und Gewerbe in Siegen	4,000,000	970,000
7. Sächsische Bank in Dresden	30,000,000	7,500,000
8. Essener Bankverein in Essen a. d. R.	15,000,000	2,200,000
9. Oldenburgische Spar- und Leihbank in Ol- denburg	4,000,000	1,900,000
10. Privatbank zu Gotha	7,900,000	1,615,735
11. Mecklenburger Hypotheken- u. Wechsel- bank in Schwerin	9,000,000	5,875,135
Together with the Mecklenburgische Spar- bank	3,000,000	500,000
12. Rheinische Kreditbank in Mannheim	75,000,800	10,529,176
With the Mannheimer Bank in Mannheim	1,000,000	100,000
And the Süddeutsche Bank in Mannheim	10,000,000	801,647
Total	588,900,800	197,957,295
	197,957,295	.....
Total capital and surplus combined	786,858,095	.....

Adding the "friendly (*befreundete*) banks" (see Append. VII, p. 993), the share capital of the group is increased by 212,500,000 marks, the surplus funds by 46,038,260

National Monetary Commission

marks, making a total of 258,538,260 marks, so that the total power of the group rises to 1,045,396,355 marks.

II. *The group of the Disconto-Gesellschaft.*—Including: ⁵¹

	Capital.	Surplus.
	<i>Marks.</i>	<i>Marks.</i>
The Disconto-Gesellschaft itself	170,000,000	57,592,611
Also:		
1. Norddeutsche Bank in Hamburg	50,000,000	11,355,000
2. Allgemeine Deutsche Kreditanstalt in Leipzig	90,000,000	37,850,751
Together with:		
(a) A. Busse & Co. in Berlin	2,000,000	129,070
(b) Vogtländische Bank in Plauen i. V.	5,500,000	3,606,689
(c) Oberlausitzer Bank in Zittau	2,700,000	735,000
(d) Vereinsbank in Zwickau	4,500,000	2,318,800
3. Barmer Bankverein in Barmen	59,836,200	10,825,000
4. Süddeutsche Disconto-Gesellschaft, Mannheim	31,250,000	2,219,716
Subsidiary institutions (<i>Tochter-Gesellschaften</i>):		
5. Bayerische Disconto- und Wechselbank in Nuremberg	12,000,000	179,474
6. Bank für Thüringen vorm. B. M. Strupp, stock company in Meiningen, capital 10,000,000 marks, of which paid in	10,000,000	149,018
Total	437,786,200	126,961,129
Add surplus	126,961,129	. . . . .
Grand total	564,747,329	. . . . .

III. *The group of the Dresdner Bank.*—Including: ⁵²

	Capital.	Surplus.
	<i>Marks.</i>	<i>Marks.</i>
The Dresdner Bank itself	180,000,000	51,500,000
Also:		
1. Märkische Bank in Bochum	9,000,000	1,060,000
2. Rheinische Bank in Essen	21,000,000	1,350,000
3. Oberschlesische Bank in Beuthen	2,500,000	445,000
4. Württembergische Landesbank in Stuttgart	8,000,000	273,605
5. Oldenburgische Landesbank in Oldenburg, 3,000,000 marks, paid in 40 per cent =	1,200,000	677,313
6. Mecklenburgische Bank in Schwerin, 5,000,000 marks, paid in 40 per cent =	2,000,000	388,662
Together with the following:		
(a) Rostocker Gewerbebank, A.-G. in Rostock	980,000	154,835
(b) Neuvorpommersche Spar- und Kreditbank in Stralsund	1,000,000	21,003

The German Great Banks

	Capital.	Surplus.
Continued.		
7. Landgräfllich Hessische konzessionierte Landesbank in Homburg v. d. H.	<i>Marks.</i> 1,000,000	<i>Marks.</i> 225,006
8. Schwarzburgische Landesbank zu Sondershausen, 2,500,000 marks nominal, paid in ..	1,000,000	166,995
Total	227,680,000	56,262,419
Add surplus	56,262,419	.....
Grand total	283,942,419	.....

IV. The group of the A. Schaaffhausen'scher Bankverein.—Including: ⁵³

	Capital.	Surplus.
	<i>Marks.</i>	<i>Marks.</i>
The A. Schaaffhausen'scher Bankverein itself	145,000,000	34,157,125
Also:		
1. Pfälzische Bank in Ludwigshafen	50,000,000	8,849,813
2. Mittelrheinische Bank in Koblenz.	20,000,000	3,171,988
3. With the Mülheimer Bank in Mülheim a. d. Ruhr	9,000,000	929,075
4. Subsidiary bank: Westfälisch-Lippische Vereinsbank A.-G. in Bielefeld	7,000,000	430,000
Total	231,000,000	47,538,001
Add surplus	47,538,001	.....
Grand total	278,538,001	.....

V. The group of the Darmstädter Bank.—Including: ⁵⁴

	Capital.	Surplus.
	<i>Marks</i>	<i>Marks.</i>
The Darmstädter Bank itself	154,000,000	30,250,000
Also:		
1. Breslauer Discontobank in Breslau	25,000,000	1,686,098
2. Ostbank für Handel und Gewerbe in Posen ⁵⁵ .	18,000,000	2,914,000
3. Nordwestdeutsche Bank in Bremen	33,000,000	3,500,000
4. Bayerische Bank für Handel und Industrie. . . ⁽⁵⁶⁾	17,750,000	887,392
5. Subsidiary bank: Württembergische Bankanstalt vormals Pflaum & Co. ⁵⁷	8,000,000	2,450,000
Total	255,750,000	41,687,490
Add surplus	41,687,490	.....
Grand total	297,437,490	.....

National Monetary Commission

Combining capital and surplus (with the reservation explained above) and adding those of the "friendly (*befreundete*) banks" of Group I, these five groups thus comprise a capital power of⁵⁸ 2,470,061,594 marks, or not far short of 2,500,000,000 marks, while the capital alone amounted to 1,954,617,000 marks and the surplus funds to 516,444,594 marks.

Evidently these sums would be much higher if we were to add the deposits used in the business of these banks, but this seems to me improper.⁵⁹ The growth of these affiliations is shown in Appendix VII.

It is interesting to note the shiftings that have occurred and still occur, both within the banks of a group and as regards their connection with the various groups. Thus the Bergisch-Märkische Bank in Elberfeld, originally founded by the Provinzial-Discontogesellschaft (see note 43, p. 862) belongs not to the group of the Disconto-Gesellschaft but to that of the Deutsche Bank. Again the Ostbank für Handel und Gewerbe, belonging to the group of the Darmstädter Bank, has absorbed the Ostdeutsche Bank Aktien-Gesellschaft vormalis J. Simon Wittwe in Königsberg in Prussia (province), which used to belong to the group of the A. Schaaffhausen'scher Bankverein. Thus again, within the group of the Deutsche Bank, the Essener Kreditanstalt in 1909 absorbed the Duisburg-Ruhrorter Bank and in 1906 the Westfälischer Bankverein, with which it had maintained a community of interest since 1904. Finally the Emdener Bank, which belongs to the group of the Deutsche Bank and has a community of interest with the latter, was absorbed in 1907 by the Osnabrücker Bank, which has a community of interest with the Hannoversche Bank (Deutsche Bank group).

The German Great Banks

Judging from the past course of concentration, particularly as affecting the provincial banks in recent years, it would seem that the end of concentration in German banking, at least outside of Berlin, is not yet in sight.

SECTION 2. GENERAL TENDENCIES AND FORMS OF CONCENTRATION.

I. SCHEME OF GENERAL DEVELOPMENT.

The concentration in German banking was on the one hand a local concentration of banks in Berlin; on the other hand a concentration of capital and power.

The latter was accomplished either—

(A) In a direct way, to wit:

- (1) By increase of capital.
- (2) By affiliation of enterprises (banks or private banking establishments).
- (3) By the creation of permanent communities of interest, to wit:
 - (a) By the founding of subsidiary or trust companies.
 - (b) By the acquisition of shares.
 - (c) By agreement.
 - (d) By exchange of shares.

Or it was accomplished—

(B) In an indirect way,⁶⁰ by decentralization of operation, to wit:

- (1) By the founding of commandites (silent partnerships).
- (2) By the founding of branches.
- (3) By the founding of agencies.
- (4) By the founding of deposit offices.

National Monetary Commission

In this classification the term "local ('*örtliche*') concentration" is coextensive with the term "local ('*lokale*') concentration" used by Ad. Weber,⁶¹ and the term concentration of capital is coextensive with Ad. Weber's term concentration of property (*Vermögenskonzentration*)—i. e. absorption of previously independent institutions or increase of capital. Under the term "concentration of capital and power" I have comprehended both Ad. Weber's "concentration of property" and his "administrative concentration" (founding of friendly institutions, extension of the network of branches, in certain cases the undertaking of liquidations and reorganizations).

I used this expression "concentration of capital and power" because it is hardly accurate to speak of a "concentration of capital" when the actual operation consists in a decentralization of operation through the founding of commandites, branches, agencies, and deposit offices, while this operation certainly involves a concentration of power. To my mind Weber's term, "administrative concentration," is liable to the same objection, when, as in the case of an extension of the network of branches, the actual operation involves, not administrative concentration, but the very contrary, viz, decentralization of functions.

On the other hand, I purposely excluded from my scheme of concentration the operation called by Ad. Weber "concentration of interests," to wit, "combinations of banks for the common pursuit of definite single interests; for example, the Prussian syndicate, the Rothschild group." In so doing I was led by the consideration pointed out in the footnote 2, on page 233 of the second edition, that the formation of syndicates or groups, while

The German Great Banks

constituting one of the factors which indirectly promote concentration, is not prompted by any conscious aim to bring about concentration. On the contrary, this formation of permanent syndicates or groups is due to entirely different motives and pursues quite different aims. It is founded on the principle of the distribution of risk, and aims at a greater safeguarding of the underwriting or issuing bank, on the one hand, and, on the other, at facilitating the issue operation, etc.

However, I am in complete accord with Weber as regards the bearing of his classification, and I hope that the present work will prove it. If such is the case, the question of the true scheme is immaterial. Both he and I are trying to lay bare the motives, the internal or external factors that lead to concentration. He tries to show where concentration in banking leads to concentration in industry, and vice versa. To this I had not devoted sufficient attention in earlier editions of this book, while in the present edition I have laid special stress on it (see Part V, p. 703, et seq.).

In connection with this subject the following remarks may not be inappropriate.

On surveying the process of development, especially in recent time, I can not agree with Weber's statement that the great banks show an unmistakable course toward specialization, inasmuch as the A. Schaaffhausen'scher Bankverein devotes special attention to mining, the Dresdner Bank to the textile and chemical industries, the Deutsche Bank to the electrical industry and oversea trade, the Discontogesellschaft to transportation—the Darmstädter Bank not being mentioned. So far as such

National Monetary Commission

specialization can be observed, it may at least in part be explained historically. Thus in the case of the A. Schaaffhausen'scher Bankverein, the special attention to mining in the Rhenish-Westphalian district may be explained by its geographic location and by its continuation of the old connections of the A. Schaaffhausen banking house from which it sprang; in the case of the Dresdner Bank by its special connections with the industry of Saxony. To some extent this specialization was merely the expression of a definite program, whereby, for example, the Deutsche Bank was led to devote special energy to the development of the deposit business, of oversea business relations, and the vigorous promotion of the policy of industrial exports (see above, Ch. III, sec. 6, under 1).

Such specialization as did exist has become less and less pronounced, for the reason that the scope of banking activity has constantly widened, each bank being led, even if only by competitive reasons, to extend its activity to departments in which previously some other bank had been predominant. Thus, for example, it would be decidedly inexact to say nowadays that the Deutsche Bank makes a specialty of the over-sea or the electric business, or even that it devotes its main attention to them, the Disconto-Gesellschaft and the Berliner Handelsgesellschaft being its close rivals, the former in the over-sea business, the latter in the electric business.

Similarly, as shown by Jeidels and in the present work, the mining industry has long ceased to be the special preserve of the A. Schaaffhausen'scher Bankverein,⁶² which, in fact, is no longer completely dominant in its own home district. In the matter of banking relations to the mining

The German Great Banks

industry it has been either equaled or surpassed by a number of other banks, such as the Dresdner Bank, the Berliner Handelsgesellschaft, the Disconto-Gesellschaft, and the Deutsche Bank. Of the Dresdner Bank, too, it can no longer be said that the textile and chemical industries are its special province.⁶³

In the field of transportation all the great banks are to-day as active as the Disconto-Gesellschaft, while in the special field of local and street railways the Dresdner Bank, the Berliner Handelsgesellschaft, and the Darmstädter Bank are about equally represented.

Thus in speaking of the business activity of the great banks we can no longer speak of specialties, but only of more or less pronounced tendencies.

These criticisms, however, are directed only against one of the arguments underlying Weber's proposal. The proposal itself, as I have tried to show in this third edition, is none the less well founded.

Rud. Eberstadt⁶⁴ proposes a distinction between a "centralization of capital" and a "centralization of organization," according as the capital or the organization is concentrated at a single point. I have not been able to convince myself of the propriety of this distinction. At any rate it does not bring out any factor of decisive importance in German development, and hence fails to render the subject clearer, since the two kinds of concentration are as apt to occur in combination as separately.

II. THE TWO PERIODS IN THE HISTORY OF CONCENTRATION.

Two periods may be distinguished in the process of concentration.

In the first period (1870-1897) the tendency toward concentration made itself felt along those lines which had

National Monetary Commission

led to concentration in industry and commerce—that is to say, first of all, through the system which, after the precedent of industrial combinations, we have called the “mixed” method of operation—the combination of the current business (including the deposit business) with the founding, transformation, and issue business; next by way of increases of capital and through the various forms of decentralization of operation, such as commandites, branches, agencies, and deposit offices. Of the great banks the only ones that remained completely centralized during that period were the Disconto-Gesellschaft and the Berliner Handelsgesellschaft, while the Nationalbank für Deutschland also remained almost completely outside the process of decentralization.

During the second period (1897 to date) the tendency toward concentration manifested itself to an ever-increasing degree, not so much in the decentralization of operations as in the extension of community-of-interest relations, whose main object is the strengthening of industrial connections, together with the broadening of the basis of issues and the increase in marketing power.

During this period the Berliner Handelsgesellschaft was the only one that remained completely centralized.

In both periods the choice of the forms of concentration was dominated by economic considerations which may be formulated as follows:

Among the various forms available the preference is always given to that which is deemed most likely to enable the nearest and most important aim to be reached not only most fully, but also most simply and quickly, and with the least possible cost and risk.

The German Great Banks

SECTION 3. THE SEVERAL WAYS AND FORMS OF CONCENTRATION, THEIR ADVANTAGES AND DISADVANTAGES.

Some of the advantages and disadvantages of concentration become manifest from the discussion of the various ways and forms which the process of concentration assumed in the German banking business. This discussion may most conveniently follow the scheme given above (Sec. 2, under I, pp. 647 et seq.) for the general direction of concentration.

I. LOCAL CONCENTRATION.

After what we have said of the economic development of Germany in general, and of Berlin in particular, it will readily be understood that the capital city became a special point of attraction for banks and bank capital.⁶⁵ The drift toward the capital, in which most of the federal offices of the Empire are located, naturally became most pronounced in the banking business, because the city of Berlin, with the exceedingly rapid growth of its population, which meant a vast increase in the number of wage-earners and consumers, became not only the central point of wholesale demand and wholesale consumption, of financial, tax-paying, and purchasing power, and of numerous industrial and mercantile enterprises, but also the most powerful focus of attraction for available funds. It became the seat of a number of the most important government offices and establishments closely connected with our system of payments and credit, in part also with the issue business. Among these may be mentioned the Reichsbank, established in 1875-76, the Seehandlung, the increasingly influential Berlin Bourse, the Bank des Berliner Kassenvereins, founded as early as 1850, etc.

National Monetary Commission

Accordingly, we find that very soon after the establishment of the German Empire the German banks established during the first epoch, with main offices outside of Berlin, hastened, one after the other, to open offices in Berlin.⁶⁶ The following are worthy of note:

1871. The Bank für Handel und Industrie (Darmstadt).

1873. The Mitteldeutsche Kreditbank (Meiningen, later Frankfort-on-the-Main).

1881. The Dresdner Bank (Dresden).

1891. The A. Schaaffhausen'scher Bankverein (Cologne).

1898. The Commerz- und Disconto-Bank (Hamburg).⁶⁷

From the moment these branches were established, the business center of these banks tended more and more to be shifted to Berlin,⁶⁸ so that they have for many years been classed as Berlin banks and reckoned among the Berlin great banks. In the case of the A. Schaaffhausen'scher Bankverein, it is to be noted, this displacement was effected only in a qualified sense.

This process, of which the recent acquisition of the banking firm Hardy & Co. G. m. b. H. in Berlin (in 1909) by the "Rheinisch-Westfälische Disconto-Gesellschaft in Aachen (Aix-la-Chapelle) formed an interesting continuation, must not be overlooked. It tends to disprove the alleged contrast of "the general tendency of development" in England, based on the supposition that the expansion of banking in England proceeded from the provinces toward London, while in Germany it proceeded from the capital toward the provinces.⁶⁹ Furthermore, it must not be forgotten that the establishment of branches in Berlin must have appeared to the provincial banks in

The German Great Banks

general, up to 1897, as an enterprise of questionable promise, in view of the tremendously rapid rise of the financial power of the Berlin banks. After 1897, of course, the amalgamated banks (*Konzernbanken*) had no longer any motive to establish branches in Berlin. The establishment of a community of interests between the Deutsche Bank, the Bergisch-Märkische Bank, and the Schlesischer Bankverein in 1897 is expressly stated in the 1897 business report of the Deutsche Bank to have been prompted by the following considerations:

“The continued concentration of the banking business in Berlin, which has already led a number of provincial institutions to establish branches in Berlin, seemed to make it necessary that our connections with the provinces be strengthened.”

Here we see that the expansion toward the provinces is positively described as a consequence of the movement, already in progress, of the provincial banks toward Berlin.

For that matter, even as regards England, we must remember that the movement of the provincial banks toward the capital,⁷⁰ which I agree with Eberstadt in regarding as a “natural” movement, did not begin until late, having been artificially kept back by legislation. Only since 1833 have provincial banks been allowed to establish themselves in London, and within a radius of 65 English miles, and even then only on condition that they were to issue no bank notes.⁷¹ Later on the situation was reversed, owing to certain advantages which were granted only to banks domiciled in London. In particular, the provincial banks, in order to secure for themselves and

National Monetary Commission

their customers the advantages of participation in the "country clearing," had to appoint as clearing agent a banking firm domiciled in London and belonging to the clearing house, and to make a large deposit with that firm.

Finally, beginning with 1896, a tendency of the London banks to spread to the provinces has been observed.⁷²

II. THE CONCENTRATION OF CAPITAL AND POWER.

A. IN A DIRECT WAY.

I. *By means of increase of capital.*—In the preceding pages we have had repeated occasion to speak of that kind of concentration of capital which finds its expression in increases of capital and which is going on in other countries as well as in Germany.⁷³ We have pointed out in particular the limits within which it is confined, both for economic and of business reasons.⁷⁴ Increases of capital were prompted⁷⁵ both by external processes, such as the founding of branches, the absorption of banks, the establishment of communities of interest through exchange of stock, etc., and by internal reasons. Foremost among the latter is the necessity of obtaining the means of strengthening and extending the current business and to establish the equilibrium of the balance sheet, the liquidity. According to sound principles, the increase of the bank's own capital must take place also in those cases in which the volume of business has largely grown through the increase of outsiders' funds entrusted to the bank.

It may be said that the undertaking or omission of such increases of capital at the right moment and in sufficient amounts furnishes a test of the perception, prudence, and

The German Great Banks

foresight of the bank's administration. However, the movers for an increase of capital must often be prepared for disappointment at the bourse, which, as a rule, is not interested in an increase of capital, unless there is left a rather wide margin between the rate of issue of the new and the market rate of the old shares, which opens the field for speculative operations.

It is interesting to study the increases of capital of the great banks.

The capital of the four oldest banks increased as follows:

[Amounts expressed in millions of marks.]

	Year of foundation.	Capital.		
		At foundation.	1870.	End of 1908.
Darmstädter Bank ⁷⁶	1853	17.1	25.8	154
Berliner Handelsgesellschaft ⁷⁷	1856	16.8	16.8	110
Disconto-Gesellschaft ⁷⁸	1851	30.0	30.0	170
A. Schaaffhausen'scher Bankverein ⁷⁹	1848	15.6	15.6	145
Total.....		79.5	88.2	579

While the capital of the Mitteldeutsche Kreditbank, also one of the oldest banks (founded in 1856 with a capital of 24,000,000 marks; see above, pages 77 et seq.), had by the end of 1905 risen to 54,000,000 marks, having thus little more than doubled,⁸⁰ the four banks above enumerated, during the twenty-one years from 1848 to 1869, increased their capital only by 8,700,000 marks; on the other hand in the thirty-eight years from 1870 to the end of 1908 their capital rose from 88,200,000 to 579,000,000 marks, having thus multiplied more than sixfold ⁸¹

National Monetary Commission

The capital of the two banks founded in the beginning of the second epoch (1870 and 1872) increased as follows:

[Amounts expressed in millions of marks.]

	Year of foundation.	Capital.	
		At foundation.	End of 1908.
Deutsche Bank ⁸²	1870	15.0	200
Dresdner Bank ⁸³	1872	9.6	180
Total.....		24.6	380

Thus in thirty-nine and thirty-seven years, respectively, it multiplied more than fifteenfold.

The capital of the other great banks increased as follows:

[Amounts expressed in millions of marks.]

	Year of foundation.	Capital.	
		At foundation.	End of 1908.
Commerz-und Disconto-Bank ⁸⁴	1870	15	85
Nationalbank für Deutschland ⁸⁵	1881	20	80
Total.....		35	165

Thus the increase was more than fourfold.

2. *Through absorption of banking firms and fusion of banks.*—We have already discussed the main reasons that led to the concentration of capital through the absorption of private banking firms.

Up to the end of 1908 the great banks had directly absorbed only private banking firms, while the number of banks combined with them through fusion was only 11.

On the other hand, the 5 bank groups (*Konzernbanken*), according to Appendix VIII at the end of this book, had

The German Great Banks

up to the end of 1908 absorbed 89 private banking firms and 43 banks, as follows:

	Private banking firms.	Banks.
Darmstädter Bank group.....	17	7
Deutsche Bank group.....	31	21
Disconto-Gesellschaft group.....	23	8
Dresdner Bank group.....	7	1
A. Schaaffhausen'scher Bankverein group.....	11	6
Total.....	89	43

Thus the great banks and bank groups together had, up to December 31, 1908, absorbed 129 private banking firms and 54 banks. Including the firms absorbed by the banks before their fusion with the great banks, or by subsidiary banks of the latter, the total number absorbed by the great banks and their "concerns" up to December 31, 1908, included 164 private banking firms and 60 banks.

The provincial banks which remained independent show a similar record.⁸⁶

Such absorptions were often prompted, outwardly, by the desire of the banks to gain a firm footing, a wide circle of customers and business relations for contemplated branches by the acquisition of flourishing private banking firms at the localities in question. Those (domestic) branches that were established without such absorption were in fact greatly in the minority, and, as might be expected, had as a rule to pass through a much longer time of waiting until they were established on a fairly paying basis, with appreciable influence in their district. Generally, also, their dependence on the home

National Monetary Commission

office continued a good deal longer. The number of branches created by means of such absorption or without it varies greatly in the case of the different banks. In the case of the Dresdner Bank the great majority of its 27 branches originated in such absorptions; in the case of the Disconto-Gesellschaft, which up to 1908 had only 3 branches,⁸⁷ 2 of them, Bremen and Frankfort-on-the-Main, originated in that way, the latter branch having assumed at least a large part of the business connections of the firm of M. A. von Rothschild and Sons; in the case of the Deutsche Bank, out of 8 branches only 3 were the result of absorption, viz, those of Leipzig, Dresden, and Frankfort-on-the-Main;⁸⁸ finally, in the case of the Darmstädter Bank, out of 11 branches only 2, those of Hanover and Halle-on-the-Saale, were acquired in that way.

A similar condition prevails among the banks belonging to the groups. Of these the Pfälzische Bank, belonging to the Dresdner Bank-Schaaffhausen community of interest, established nearly all, if not all of its 16 branches in this way. The same is true in the main also of the great provincial banks, such as the *Bergisch-Märkische Bank*, the *Magdeburger Bankverein*, the *Magdeburger Privatbank*, the *Bayerische Vereinsbank*, and the *Bayerische Handelsbank*.

The absorption of banks by way of fusion also took place for the most part with a view to the creation of a basis for the establishment of branches. Aside from this aim, however, fusion, as we have seen, never played an important part, either in the case of the great banks or in that of the so-called "concern" banks,⁸⁹ which, according to Table VII, absorbed during the second epoch only a

The German Great Banks

total of 20 banks. Experience teaches that at each fusion a number of connections, some of them quite valuable, are lost, being taken away by competitors, etc. Hence fusion is not attempted unless prompted by special business reasons, particularly the following:

(a) To get permanently rid of inconvenient competition. Cases of this kind are exceedingly rare. In the case of the provincial banks the fusion of the Dresdner Bankverein, with a capital of 21,000,000 marks, with the Sächsische Discont-Bank (capital, 3,000,000 marks), effected in 1905, may be cited under this head.

(b) To secure an extension of business connections. This refers to those cases where the institution to be fused with the expanding bank is pursuing about the same business policy in the same or another district (province, federal state), having, for example, for many years devoted itself to the commission, current account, or bill business, like the expanding bank. (Example: The fusion of the Magdeburger Privatbank at Magdeburg with the Dresdner Bankverein in Dresden, in 1909.)

(c) When a bank is unable either from the very start or not to the proposed extent,⁹⁰ or when it is no longer able to accomplish its purpose,⁹¹ its fusion with another bank may sometimes be accomplished under specially favorable conditions for the latter. In such cases the fusion is as a rule a forced one so far as the less successful bank is concerned.⁹² One of the specially favorable conditions in such cases may be this, that the intrinsic value (liquidation value) of the bank to be absorbed by fusion may greatly exceed the purchase price of its stock, so that the absorbing bank thus acquires silent reserves,

National Monetary Commission

provided, of course, that the status assumed to exist at the moment of fusion is not altered in the course of liquidation through diminished returns or losses.⁹³

Such a forced fusion may also occur when a bank belonging to a bank group is induced, through pressure exerted by the leading bank, to fuse with another bank of the same group. Such a case occurred in 1905, when the Ostfriesische Bank, having suffered considerable loss through a bankruptcy, was induced to fuse with the Osnabrücker Bank.

Motives of a different nature, but yet belonging to the domain of group policy, led in 1909 to the absorption of the Duisburg-Ruhrorter Bank by the Essener Kreditanstalt, the latter, together with the Deutsche Bank, as the leader of the group, having in 1902 acquired a majority of the stock of the Duisburg-Ruhrorter Bank.

In foreign countries the concentration of banks was accomplished mainly by way of fusion. Thus in Scotland as early as 1829-1844 there were no fewer than 16 fusions of great banks, followed by 4 more during 1857-1864.⁹⁴ In England fusions were the ordinary way by which provincial banks expanded and finally made their entrance into London. According to the Bankers' Magazine (London), the number of bank fusions in Great Britain was as follows: 1877-1886, 42; 1887-1898, 124; 1889-1905, 86. In London alone the number of private banks (excluding colonial banks) was thereby diminished from 115 in 1885 to 38 in 1905, while the number of joint-stock banks decreased from 112 in 1889 to 62 in 1905. One bank, now known as the London City and Midland Bank, founded under another name in 1836 in Birmingham, in its career of expansion

The German Great Banks

and concentration absorbed not less than some 20 provincial banks and 2 great London banks, while another, the Lloyd's Bank, in twenty-one years (1884-1904) swallowed 35 other banks. In England the huge banking establishments were invariably formed by the absorption of the small or medium-sized banking firms within their territory, either step by step or, if an opportunity presented itself, at one fell swoop. The number of banking firms incorporated in the large firms during the recent decades is exceedingly great; the external organization of English banking has thereby been completely altered since 1880. The process of fusion continues, and has become rather more pronounced during recent years.⁹⁵ In 1909 a fusion was effected between two of the most powerful and oldest London deposit banks, the London and Westminster Bank (Limited) and the London and County Banking Company (Limited). The former was the oldest deposit bank in London (founded in 1834); the latter was established in 1836, had 222 offices, and over £40,000,000 sterling in current and deposit accounts. The united bank will bear the name London County and Westminster Bank (Limited), with a capital of £14,000,000 sterling, (£3,500,000 paid up), surplus funds to the amount of £4,250,000 in round figures, and current and deposit accounts to the amount of more than £70,000,000, which will put it in the second place among the deposit banks of Great Britain.

“The growth of banks solely through the extension of their own system of branches, without any amalgamation with existing banks, occurs only where the aim is to open up entirely new territory not previously reached by banking operations.”⁹⁶ In the period 1877-1904 not fewer

National Monetary Commission

than 224 banks were absorbed in England by other banks which still exist.

In the United States, in which the concentration on the whole tends to be effected rather by way of communities of interest of great groups of banks, 21 national banks were in 1901 absorbed by other national banks and 6 by other banks; in 1902, 46 by national banks and 11 by other banks;⁹⁷ in 1903-4, altogether, 38 banks. In France, fusions of different banks are of frequent occurrence in the case of the so-called *banques d'affaires*, while they have been rare among the great credit institutions, which, however, have absorbed many private banking firms.⁹⁸

3. *Through the creation of permanent communities of interest.*—Since 1897 the process of concentration in German banking has been mainly effected in the form of communities of interest between great banks and provincial banks, mostly brought about through an exchange of stock.

At the end of 1896 there were only two (domestic) communities of interest, to wit:

(1881) That of the Württembergische Bankanstalt vormals Pflaum & Co. (subsidiary of the Bank für Handel und Industrie) with the Württembergische Vereinsbank, this community being based on agreement.⁹⁹

(1895) That of the Disconto-Gesellschaft with the Norddeutsche Bank, based on ownership of shares.

Between the beginning of 1897 and the end of 1900 as many as 9 (domestic) communities of interest were entered into, so that the number of them had quadrupled by the end of 1900.

The German Great Banks

By the end of 1902 the number had risen to 16, an eight-fold increase, compared to 1895; by the end of 1908 it had risen to 32, and, including the subcommunities of interest of the banks in the groups (Appendix VIII), to 41, a twenty-two-fold increase over 1896.

The lion's share in this increase belongs to the years 1904 and 1905, in which 18 communities of interest, including those of the banks in the groups (*Konzernbanken*), were entered into, as follows:

	Communities of interest formed by the—	
	Leading bank.	Other banks of the group
Bank für Handel und Industrie	1	.....
Deutsche Bank	6	1
Disconto-Gesellschaft	2	.....
Dresdner Bank	6	2
Total	15	3

On December 31, 1908, the communities of interest, entered into both by principal and subsidiary banks within the groups up to that date, were distributed as follows:

	Communities of interest formed by the—	
	Leading bank.	Other banks of the group.
Bank für Handel und Industrie	4	.....
Deutsche Bank	13	3
Disconto-Gesellschaft	5	3
Dresdner Bank	8	2
A. Schaaffhausen'scher Bankverein	2	1
Total	32	9

National Monetary Commission

Of these communities of interest, not less than 13 belong to the mining districts, Rhineland-Westphalia and Upper Silesia, distributed as follows:¹⁰⁰

I. *In Upper Silesia.*—Communities of interest:

	Capital.
	<i>Marks.</i>
1. Of the Bank für Handel und Industrie with the Breslauer Disconto-Bank in Breslau (10 branches)	25,000,000
2. Of the Deutsche Bank with the Schlesischer Bankverein in Breslau (13 branches)	30,000,000
3. Of the Dresdner Bank with the Oberschlesische Bank in Beuthen (2 deposit offices in Königshütte)	2,500,000

II. *In Rhineland-Westphalia.*—Communities of interest:

	Capital.
	<i>Marks.</i>
1. Of the Deutsche Bank with—	
(a) The Bergisch-Märkische Bank in Elberfeld (19 branches)	75,000,000
(b) The Duisburg-Ruhrorter Bank in Duisburg (4 branches)	12,000,000
(c) The Essener Kreditanstalt in Essen (13 branches and 4 agencies)	60,000,000
(d) The Siegener Bank für Handel und Gewerbe in Siegen	4,000,000
(e) The Essener Bankverein in Essen (3 branches)	15,000,000
Total (30 branches and 4 agencies)	166,000,000
2. Of the Disconto-Gesellschaft ¹⁰¹ with the Barmer Bankverein in Bar- men (17 branches)	59,836,200
3. Of the Dresdner Bank with—	
(a) The Märkische Bank in Bochum (9 branches)	9,000,000
(b) The Rheinische Bank in Essen (formerly in Mülheim-on- the-Rhine) (6 branches)	21,000,000
4. Of the A. Schaaffhausen'scher Bankverein ¹⁰² in Cologne (Rhineland) (8 branches) with	145,000,000
(a) The Mittelrheinische Bank in Koblenz (2 branches) and its community of interest:	20,000,000
The Mülheimer Bank in Mülheim-on-the-Ruhr (2 branches)	9,000,000
(b) The Westfälisch-Lippische Vereinsbank in Bielefeld (4 branches)	7,000,000
Total (16 branches)	181,000,000

The German Great Banks

Thus in the Rhineland-Westphalia mining district alone there were in existence on December 31, 1908, beside a great bank with 8 branches, not fewer than 11 "concern" banks with a share capital (without counting surplus funds and deposits) of 291,836,000 marks, and in addition 79 branches, 4 agencies, and 1 deposit office of such banks, the number of the latter being constantly on the increase. This organization—as yet far from completed—thus represents a considerable part of the outfit with which the several groups of banks carry on the competition for the industrial connections which at the present day constitute their foremost interest.

The creation of permanent communities of interest may be effected:

- (a) Through the founding of subsidiary companies (*Tochtergesellschaften*) or trust companies.
- (b) Through the acquisition of shares of existing banks;
- (c) Through agreement;
- (d) Through exchange of shares.

We will now discuss these various kinds of communities of interest in detail.

(a) *Through the founding of subsidiary companies (Tochtergesellschaften) or trust companies.* The establishment of subsidiary banks played a rather prominent part in the beginning of the second epoch, but is at present merely of historic interest, inasmuch as all these subsidiary banks have disappeared. We have in mind the so-called provincial banks of the early seventies, to which attention has recently been called by Tischert¹⁰³ and especially by Wallich.¹⁰⁴ They were independent creations of the parent bank, established by it at its own

National Monetary Commission

home. In most cases they proceeded, immediately after their foundation, and as a rule on the basis of private banking business acquired by them, to open branches and commandites in the several states or provinces. However, being established at the home of the parent bank, in contrast with branches established elsewhere, they had to limit their activity so as not to compete with the parent institution. Owing to that fact, as well as to the circumstance that the provincial banks, even before they themselves had taken root, began to set up branches and commandites elsewhere, without being able either to support them adequately by their own means or to superintend them properly in virtue of their own experience, and also for general economic considerations, all these provincial, branch, and central banks bore the germ of death within them at their very birth. The industrial relations of banks at that time were quite undeveloped, while private banking firms were for the most part still of great importance. Thus I am unable to share the view that the plan was "well devised,"¹⁰⁵ but in advance of the time.

Four such "provincial discount companies" were established in Berlin in 1871 and 1872. The largest of them was the *Provinzial-Disconto-Gesellschaft* in Berlin, founded by the Disconto-Gesellschaft with a nominal capital of 30,000,000 thalers. It soon set up a large number of branches and commandites, to wit, in Hanover (involving the absorption of the banking firm M. J. Frensdorff), in Bernburg, Strassburg, Hamburg, Duisburg, Braunschweig, Hameln, and Halle; also the Bergisch-Märkische Bank in Elberfeld and the Aachener Disconto-Gesellschaft

The German Great Banks

in Aachen (Aix-la-Chapelle). In the two cases last mentioned the parent bank retained an interest in the form of an undivided share of 500,000 thalers in each case, which is noteworthy as a special and early case of "permanent participation" of one bank in another. However, in 1878 the Provinzial-Disconto-Gesellschaft had to be taken over by the Disconto-Gesellschaft at the cost of great sacrifices and difficulties, the branches having previously been given up one by one.

The other "provincial banks" founded at the same time in Berlin by parent banks were: The *Provinzial-Wechslerbank* (founded by the Berliner Wechslerbank), the *Provinzial-Gewerbebank* (founded by the Gewerbebank H. Schuster & Co. in Berlin), and the *Provinzial-Makler-Bank* in Berlin.

Beginning with 1872 the following were established: The *Süddeutsche Provinzialbank* in Stuttgart (by the Stuttgarter Bank), the *Provinzial-Wechsler-Bank* in Breslau (by private banking firms in Breslau), and the *Allgemeine Deutsche Filialen-Kreditanstalt* (by the Allgemeine Deutsche Kreditanstalt in Leipzig).

Finally, the Deutsche Unionbank in Berlin, which itself had to be liquidated as early as 1876, with the aid of the Deutsche Bank, founded a chain of Unionbanks, beginning with 1871, of which only the Unionbank in Mannheim (absorbed by the Pfälzische Bank in 1895) eked out a somewhat longer existence; while a Berlin banking firm founded a number of South German *Zentralbanken* in 1873 (the Bayerische Zentralbank in Munich, the Badische Zentralbank in Karlsruhe, the Fränkische Zentralbank in Nuremberg, the Württembergische Zentralbank in Stutt-

National Monetary Commission

gart, and the Süddeutsche Zentralbank in Frankfort-on-the-Main). All these, however, underwent liquidation, most of them immediately after their foundation.

As may be seen by the sketch of the development of the several great banks (Appendix VII), the establishment of subsidiary companies by the banks never assumed large proportions in Germany, either in the first or in the second epoch. On the other hand, the establishment of German "subsidiary banks" in foreign countries played a rather important part, inasmuch as, for reasons already set forth, they proved to be a business necessity for the special purpose of the development of over-sea trade, for which the establishment of mere branches was neither sufficient nor desirable, at least on a large scale, for reasons to be discussed later.

Except for the purpose of subserving the needs of over-sea trade, the relations to the colonies, or the extension of business relations with foreign countries,¹⁰⁶ the number of "subsidiary companies" established has never been great even in recent time (aside from the above-mentioned premature and hence unsuccessful experiments of the seventies). In addition to two stock companies established in 1905 after the model of the Deutsche Treuhandgesellschaft (the *Revisions- und Vermögens-Aktiengesellschaft* and the *Treuhand Vereinigung, Aktiengesellschaft* in Berlin) the following instances of recent date¹⁰⁷ may be enumerated: The establishment, in 1900, by the A. Schaaffhausen'scher Bankverein, of the *Westfälisch-Lippische Vereinsbank*, prompted probably by special personal and local reasons; of the *Bayerische Disconto- und Wechselbank* in Nuremberg, in 1905, by the Disconto-Gesellschaft jointly with the Bayerische Hypotheken- und Wechselbank;¹⁰⁸ of the

The German Great Banks

Bank für Thüringen vormal *B. M. Strupp Aktiengesellschaft* in Meiningen, in 1905, by the Disconto-Gesellschaft jointly with the Mitteldeutsche Kreditbank, the B. M. Strupp Banking House and the Allgemeine Deutsche Kreditbank; the transformation of the private banking firm of Ludwig Peters Nachfolger at Braunschweig into the *Braunschweiger Privatbank Aktiengesellschaft*, in 1905, by the Hannoversche Bank jointly with the Osnabrücker Bank and the Hildesheimer Bank, and the transformation of the banking firm Perls & Co. in Breslau into the *Schlesische Handelsbank Aktiengesellschaft* in Breslau, in 1905, by the Disconto-Gesellschaft in cooperation with the Berliner Handelsgesellschaft.

On the whole, practical experience has shown that domestic subsidiary companies possess almost exclusively the disadvantages of branch banks without their advantages.

Not only do subsidiary companies readily escape all influence on their business management, which may thus adopt methods fundamentally different from those of the parent bank, but they are equally apt to rid themselves of anything like thorough and permanent inspection of their business activity. On the other hand, they require a permanent ownership of shares, and often make large demands on the parent bank for capital, especially in critical times, which of course is particularly inconvenient. We were able to trace this process in the history of the *Crédit-Mobilier*, whose collapse was largely brought about in that way.¹⁰⁹

These are probably the main reasons why the subsidiary banks have hitherto exercised far less influence,

National Monetary Commission

within Germany, both on the development of banking and in particular on the concentration movement, than the trust companies, which have been extensively established by the great banks either directly or with their cooperation, in the industrial field, especially in the domain of the electro-technical industry. To discuss the nature and the advantages and disadvantages of these trust companies would be beyond the scope of the present work. The most important trust companies in the field of the electro-technical industry are enumerated in notes 98 and 100 on page 811. They are related to our present subject only in so far as they served, directly or indirectly, to relieve the banks of a part of their financial tasks, especially as regards the issue business; also in so far as they were intended to serve the needs of smaller enterprises, whose securities could not be emitted by the banks themselves, the trust companies taking up the securities of these enterprises and utilizing them as a basis of obligations to be issued, thus rendering them marketable;¹¹⁰ finally, in so far as they were employed to increase the influence of the banks on certain branches of industry in the establishment or enlargement of industrial enterprises, through aid rendered at the time of organization and in the sale of securities.¹¹¹

From the nature of these functions it is evident that the trust companies subordinated to the banks strongly tended to promote concentration.

(b) *Through acquisition of shares.* The creation of permanent connections through communities of interest by means of the acquisition of the stock of existing banks, which is going on very extensively, needs no special discus-

The German Great Banks

sion. Only one point has to be mentioned, viz., that a mere possession of stock does not of itself result in a community of interest, unless it is accompanied by other factors establishing a close connection, which, in fact, in most cases becomes the occasion for the purchase of shares. These factors may be (1) an agreement with the bank whose shares have been acquired by which that bank undertakes to transact at least the larger part of its business with the acquiring bank, while the latter guarantees to the former the "most favorable treatment," or (2) the appointment of one or more representatives of the acquiring bank as members of the supervisory board of the bank whose stock is acquired.¹¹²

So far as I am able to learn, these two factors are for the time being absent from the relation of the Disconto-Gesellschaft to the Rheinisch-Westfälische Disconto-Gesellschaft.¹¹³ Accordingly, reversing the views expressed in the first German edition of the present work (p. 188, No. 3), I no longer include that bank in the group of the Disconto-Gesellschaft, although the Disconto-Gesellschaft is said to own shares of the Rheinisch-Westfälische Disconto-Gesellschaft to the amount of about 2,000,000 marks.¹¹⁴ On the other hand, the Magdeburger Bankverein, having entered into a closer relation with the Disconto-Gesellschaft by the reciprocal appointment of a representative of each bank on the supervisory board of the other, is properly included in the group of the Disconto-Gesellschaft.

(c) *Through agreement.* A community of interest may be established by agreement between two banks, generally about equal in strength, providing for a pro rata division of the proceeds resulting from the business transactions

National Monetary Commission

of both. From a purely theoretic standpoint, this arrangement certainly can accomplish the intended purposes only on condition that the two contracting parties either follow in the main the same business policy or are mutually complementary in their business activity.

For a while the typical example of a community of interest through agreement was the Dresdner Bank-Schaaffhausen combination, created by the agreement of September 10, 1903. In this case the activities of the contracting parties were certainly complementary, inasmuch as the Dresdner Bank, at the time of the agreement, had devoted itself far more extensively to the promotion of foreign business, Bourse transactions, the deposit business and the issuing business, while the A. Schaaffhausen'scher Bankverein had cultivated intimate relations to industry, especially mining, and more particularly to the iron industry of Rhineland-Westphalia, not only for a much longer period than the Dresdner Bank, but also to a much greater extent and with greater success.¹¹⁵

In this case, therefore, it may be assumed that this complementary character of the two banks was the decisive factor that led to the creation of the community of interest. Evidently every such combination, with the resulting union of forces, intelligence, enterprise, and capital, signifies an immense increase of power on the part of the contracting parties, whose organic union will always mean a far greater force than the mere arithmetic sum of the separate forces.

However, as I previously pointed out, the weakness and dangers of such a community of interest must not be underestimated. They are especially apt to be felt in cases

The German Great Banks

where there is not a substantial equality of weight between the two scales.

First of all, a community, which leaves the formal independence of the contracting parties unimpaired, does not necessarily lead to a saving in the operating expenses, at least not to a large extent.

Differences of opinion regarding the business management and the common business policy can hardly lead to serious danger, provided the contracting parties are about equally strong; but if one of the parties has any degree of preponderance, such differences may lead to grave consequences. The weaker party in such cases has generally no other recourse but an appeal to the committee or council of delegates, consisting as a matter of course of members of the two administrations, and hence apt to decide in favor of the stronger party. But even if this is not the case, disappointment is apt to result.¹¹⁶ The agreement being as a rule made for a long period, such disappointment becomes a source of annoyance. Having gained an insight into each other's business conduct, the two parties find it difficult to separate, even when separation would be the natural course, while fusion, the opposite alternative, is not without its objections.

Dissatisfaction of another sort may arise from the fact that one of the two parties may have made poor profits, perhaps repeatedly, while the other has made good profits. The latter thereupon will not be greatly pleased at the prospect of having to "feed" its needy partner. Such a situation may become dangerous if the less successful partner, impressed by the regular good results of the

National Monetary Commission

successful one, finds in them not so much a spur to its own ambition to attain equal success, as a comfortable insurance of the share which by virtue of the agreement will accrue to it in any case from the earnings of its partner. In a word, one partner may get into the habit of letting the other work for him.

A still graver situation may present itself if one of the parties, insisting on the mode of distribution established on the basis of the status existing at the time of signing of the agreement, but which would no longer be fair in case of the enlargement or extension of the enterprises, attempts to prevent the other from an expansion which it feels justified to undertake. This situation would be especially difficult to endure if the weaker partner should try thus to prevent the development of the stronger.

Other sources of dissatisfaction and dissension may arise from a difference of views regarding reserves, losses, etc. This may happen even when there exists a council of delegates for the decision of such questions, because such a council can only decide disputes, but not remove the dissatisfaction.

It is not to be expected that there will be many cases in which two enterprises will so happily complement each other in their business operations, or be so nearly of equal weight, that the danger here indicated will either disappear or be greatly diminished. Hence this form of community of interest is hardly likely, in my opinion, to make much headway among German banks.¹¹⁷ At the same time it can not be denied that, theoretically at least, this method of eliminating mutual competition through the placing of two institutions on a footing of equality

The German Great Banks

by agreement is better than the annihilation of one of the two institutions through ruthless competition.

(d) *Through exchange of shares.* A totally different situation as shown by practical experience is created through a community of interest resulting from exchange of shares, such as was effected in 1897 by the Deutsche Bank, first with the Bergisch-Märkische Bank and the Schlesischer Bankverein.

Many such communities of interest were established in the German banking world between a large bank and other banks, some of them much smaller, in the pursuit of definite aims of industrial policy on the part of the large bank. Thus, for example, in entering on the community of interests above indicated, the aim of the Deutsche Bank was to gain a footing in the most important industrial districts, those of Rhineland-Westphalia and Upper Silesia.

In entering on a community of interest with the Duisburg-Ruhrorter Bank, in 1902, the Deutsche Bank was doubtless prompted by a consideration of the close connection existing between that bank and the Haniel family, the owners of the Gute Hoffnungshütte and the Rheinpreussen mines.

In entering into a community of interest in 1904 with the Essener Bankverein, the foremost aim of the Deutsche Bank was doubtless to form a connection with Mr. Carl Funke, the large industrial entrepreneur in Essen, who owns the König Ludwig mines.

Finally, in entering into a community of interest in 1903 with the Mittelrheinische Bank in Koblenz, the A. Schaaffhausen'scher Bankverein was evidently prompted

National Monetary Commission

by the desire to get in touch with the collier firm of Spaeter & Co., founders of the Rombach Smelting Works, closely allied with the Mittelrheinische Bank, the further aim being to become connected through that firm also with the Lorraine-Luxemburg iron industry. This desire may have been sharpened by the consideration that Mr. Hugo Stinnes, a large entrepreneur, was a member of the supervisory board of the Mittelrheinische Bank.

It is not difficult to explain the rapid spread of communities of interest through exchange of shares.

First of all, this kind of community of interest among banks either pursuing the same business policy or supplementing each other in their business activity, especially in their relations to industry, offers a strong business attraction, which will be all the greater the higher the premium on the shares of the bank which makes the offer of exchange to the shareholders of the banks to be "annexed," the exchange rate being calculated for the party making the offer and the party consenting to the exchange by the ratio of the market values of the stock to be exchanged. This ratio will, of course, be all the more favorable for the bank making the offer the higher the market value of its own shares.

In other respects a community of interest through exchange of shares offers hardly anything but advantages for both parties.

While eliminating any competition that may have existed between the two parties, it leaves to each complete internal autonomy, with freedom of movement and development, at the same time securing singleness of management outwardly from one central point.

The German Great Banks

It enables the "concern" banks to concentrate their strength on the district where the roots of that strength are located, without "causing them to be diverted from their proper sphere by an establishment in the national capital,"¹¹⁸ and without being obliged to engage in competition in Berlin itself, in which their chances would be all the smaller the later their entrance into the capital. It affords to them the advantage of connection with a great bank, which means not only a strengthening of their position, power, and influence, but a large part of the advantages possessed by the great bank itself. Finally, in case of need, in critical times, it assures to them a strong hold, the very existence of which is apt to serve as a support of their own arrangements.

On the other hand, the great bank also derives numerous advantages from the combination. It extends the area of its power and business activity and enlarges its knowledge of the situation of the different branches of industry and commerce through expert information obtained from institutions situated or represented at the locality. In case of an issue it has at its disposal a wide market. It is in position to procure for its customers greater advantages and better information, and especially to lend them prompter and more extensive support in their business operations. Finally, it is enabled to set up a uniform program for its entire business policy, and is able to take account of the general economic interests better than with a smaller business scope or with scattered forces.

All of these advantages are obtained, both to the largest possible extent and in the simplest and least risky manner, through communities of interest established by means of

National Monetary Commission

an exchange of shares, since the object may be attained even by a relatively unimportant ownership of shares.

There is, indeed, some danger in this case, too, that the leading bank may expose itself to excessive demands for assistance,¹¹⁹ but this danger is lessened from the very start by the fact that, by virtue of the combination, the leading bank acquires greater and greater available resources through the amalgamated banks and their customers.

B. IN AN INDIRECT WAY, BY MEANS OF DECENTRALIZATION OF OPERATIONS.

1. *Through the founding of silent partnerships (commandites).*—The number of commandites, which in 1895 according to Appendix VI was only 13 for all the great banks together—that is to say, very small—dropped to 11 by the end of 1905, so that there is on an average only 1 commandite to each great bank.

The 32 allied banks (Konzernbanken) had at the end of 1908 only 18 commandites (Table 10, p. 1012), a still lower average.¹²⁰

The Darmstädter Bank possessed originally a very large number of commandites (as many as 16), having set up one of them in New York as early as 1854, another in Paris in 1857, at the same time planning others at St. Petersburg, London, Smyrna, and Constantinople, to foster foreign business. As early as 1856 one of its founders, Gust. von Mevissen, planned nothing less than the establishment of a "Central Bank for Foreign Commandites" with a capital of 100,000,000 thalers (!), to the end "that the capitals of the various German banks—all of them seeking to establish commandites abroad—might no longer

The German Great Banks

be scattered, and that at the same time the ablest possible representation might be secured." ¹²¹

In the years of business depression toward the end of the fifties and the early sixties the Darmstädter Bank had had a discouraging experience with the system of branch banks to which it had at first given the preference. Accordingly, in 1863 it abolished even its branch in Mainz, founded in 1854, and transformed it into a commandite, "solely in order to limit the number of institutions apt to create liabilities for the bank by their operations."

But while the commandite does have this advantage over the branch, that the leading bank is not made directly liable through the business transactions of the commandite, yet the difference is rather formal, because when a commandite through bad management has got into difficulties, the leading bank can not abandon it any more than it can abandon a branch. In addition, the nature of the commandite gives rise to dangers which do not affect the branches, or at any rate, not to the same extent.

First of all, a commandite, like a subsidiary company (*Tochtergesellschaft*), even though bound by an agreement granting special rights of control to the leading bank, is more difficult to control than a branch. Moreover, it will be all the less willing to be controlled the greater its success, the justifiable feeling of self-confidence on the part of the management leading it in such cases to resent any attempt at interference. Hence a commandite is more apt than a branch to develop its entire business policy along lines at variance with the leading bank, occasionally even in opposition to it.

National Monetary Commission

It is also more apt to cause surprises, since the commandite is less disposed to submit—all the less the longer it has existed—to binding instructions, impeding its free movement, for example, as regards the amount of uncovered credit, the kind of security in case of covered credits, the amount of acceptances, etc. We have seen that by reason of such surprises the Deutsche Bank, among others, had to liquidate with heavy loss its commandites in New York and Paris (see sec. 4). Moreover, such instructions are apt to neutralize the advantages afforded by the very autonomy of the management and by its freedom to give untrammled expression to its individuality in business matters.

Furthermore, while the commandite derives very marked advantages in diverse directions from its connection with the leading bank, the advantages accruing to the latter are often inconsiderable, especially since the commandite, with its limited means, often finds it difficult to face the competition of large banks in its locality. On the other hand, there is the danger that the commandite, having attained a certain importance, may terminate the agreement with the leading bank and make itself completely independent.

Finally, in case the manager of a commandite is remiss or unsatisfactory in the conduct of its business, the leading bank has no power to interfere, while in the case of a branch bank such power exists and is most likely to be exercised.

If the manager dies, the business will have to be liquidated, which in most cases is not to the interest of the bank, or, if the agreement contains special provisions for

The German Great Bank ;

this event, as is generally the case, the bank may become involved in great difficulties and annoyance until a suitable successor is chosen. The fact is that the commandite is essentially bound up with the person of its manager, not only in its success but to a large extent in its very existence.¹²²

Furthermore, the advantage which the leading bank might obtain through a widening of its business relations and its industrial and commercial information, in virtue of its connection with the commandite, is lessened by the greater looseness of the connection between the commandite and the leading bank, as compared to a branch bank, whose manager is obliged to make periodic reports, etc.

On the other hand, it must be acknowledged, as an advantage of the commandite, that in many cases the personal influence and reputation of the manager, combined with his accurate knowledge of the local conditions and customers, secures to the bank both a dignified representation and a satisfactory income, even though this in most cases is not high. The Darmstädter Bank, for example, obtained 7 per cent interest on its commandite investments of 153,000,000 marks between 1875 and 1889, during which time the number of its commandites fell from 13 to 9. During the same time its "permanent participations" in joint-stock banks, amounting to 1,690,000,000 marks, yielded only 6 per cent interest.¹²³ During the period 1896-1900 the returns from its commandites varied between $7\frac{1}{2}$, 10, 8, 10, and $7\frac{1}{2}$ per cent, while in 1901 and 1902 they were only 4 and 6 per cent.¹²⁴

National Monetary Commission

That advantage, however, as we have seen, is counterbalanced by weaknesses and dangers. Hence it is only natural, as shown by the figures above given, that the establishment and maintenance of commandites tends to become rare in the German banking world.

2. *Through the founding of branches.*—As regards the decentralization of operations through the creation of branches (within Germany), we see from Appendix VIII that their number in the case of the German great banks at the end of 1908 was exceedingly small, both absolutely and relatively; the total being 69 for the eight great banks of Berlin¹²⁵ (61, if we deduct the 8 established in the same city where the home offices of the banks are located), and (according to Table 10 of the same appendix) 241 for 32 allied banks (*Konzernbanken*), making an average of not quite 8 branches to each concern bank.¹²⁶ A similar situation exists as regards the other provincial banks. In the provinces the number of branches, at least so far as the absolute figures are concerned, is greater than in Berlin, but in the latter case regard should be had for the very large number of deposit offices.

On the whole, however, the number of branches, at least in proportion to the number of banks concerned, is not large.

This is all the more surprising because in almost all foreign countries, with the exception of the United States,¹²⁷ the system of branch banks has become enormously developed. Thus Ad. Weber¹²⁸ reports that in England and Wales as far back as the end of 1899 there were 12 banks, each of which numbered more than 100 branches, and which together (including the main offices)

The German Great Banks

had 2,304 establishments, while the total number of banking establishments in England and Wales at the end of 1899 was 4,540 (3,548 in 1876), of which 816 were not open daily but only on special days (for example, market days).

In 1901 there were in England 21 banks having more than 100 branches each, and the total number of banking establishments in the United Kingdom was 6,672, to wit, 4,872 in England, 1,087 in Scotland, 690 in Ireland, and 23 on the Isle of Man,¹²⁹ of which, however, 1,124 were not open every day.¹³⁰ Over one-fourth of all the existing branches were opened in the eight years 1896-1903, "so that the president of the London and County Bank at the general meeting in February, 1902, was able to say that there was almost no street in London that did not have a branch bank, and if things continued in that manner, the branch banks would by and by exceed the barrooms in number."¹³¹ A single bank, the London City and Midland Bank, had in the beginning of 1905 as many as 447 branches, that is to say, 257 branches more than all the Berlin great banks, together with the 52 provincial banks affiliated with them at the end of 1904; on December 31, 1907, according to the *Economist*, the English joint-stock banks, then numbering only 74 (excluding the colonial and foreign banks), 35 of these being authorized to issue bank notes, had not less than 6,809 branches and subbranches.

The Lloyd's Bank and the above-mentioned London City and Midland Bank have each more than 400 branches, the former, in round numbers, 500 "places of business

National Monetary Commission

(branches)" and, in round numbers, 160 "subbranches and agencies," making a total of 560 establishments.

In France¹³² the number of agencies and branches increased in the fourteen years from the end of 1894 to the end of 1908 as follows:

	Agencies and branches.				
	1894.		1908.		
	Paris and suburbs.	Prov- inces.	Paris and suburbs.	Prov- inces.	Foreign countries, including Algeria.
Crédit Lyonnais.....	27	96	62	174	20
Comptoir National d'Escompte.....	15	24	49	150	.....
Société générale.....	37	141	88	637	2

Thus at the end of 1908 these three institutions alone had, together, 199 branches and agencies in Paris and suburbs, and 961 branches, agencies, and bureaus in the provinces.

In Scotland¹³³ the number of branches, as compared with the above-mentioned 1,087 in 1901 (belonging to 10 banks), was as follows: 589 in 1865, 688 in 1872, 912 in 1873, 1,021 in 1895, and 1,015 in 1896. As early as 1871 there were in that country branch banks¹³⁴ at 283 places, including 61 localities having less than 1,000 inhabitants, 70 between 1,000 and 2,000 inhabitants, 35 between 2,000 and 3,000 inhabitants, and 33 between 3,000 and 4,000 inhabitants. As early as the seventies there were at Brechin, which then numbered 9,000 inhabitants, not less than 7 branches of different banks. This is an exceedingly large number, even allowing for the fact that the town includes the rural districts adjoining.

The German Great Banks

At the end of 1908 the *Credito Italiano* founded in Rome as late as 1895, with German cooperation, had already 17 branches in Italy, and the *Banca Commerciale Italiana*, in Milan, founded in 1894, also with German cooperation, even as many as 33.

It must not be supposed however, that all these figures may, without further qualification, be compared with those of Germany, as is often done, and that they indicate a more profound difference than really exists.

(a) As regards France, the numerous branch establishments existing in that country are, in large part,¹³⁵ not so much branches, in the German sense, as "agencies,"¹³⁶ much easier to establish and possessing far less importance and a far less extensive business circle than the German branches, some of which occasionally undertake operations, especially of local scope, in which the home office does not participate.

(b) Nor can any direct comparison be made with British conditions. On the one hand, as already pointed out, many of the banking offices enumerated as branches, especially in London, have the character of the German deposit offices rather than that of the German branches. On the other hand, the banks in Scotland are mere note banks, while those in England are partly note banks and partly deposit banks, which, in founding branches, were prompted by business reasons, sometimes cogent ones, totally different from those prevailing in German banking. German banks either do not carry on the deposit business at all, or only in combination with a great number of other activities, among which the deposit business never occupies the foremost place.

National Monetary Commission

Now, the note banks, in order to raise the note circulation,¹³⁷ are positively forced to create an ever denser network of branches, if they are to carry out their plans successfully, while the deposit banks are compelled to resort to the same policy for the purpose of attracting the funds of wider and wider circles, especially of the middle class and small capitalists and tradesmen, who are not confined to the great cities. We should probably witness a similar development in Germany if the "central (*einheitliche*) deposit bank," or even several competing deposit banks, were to become realities.

"Without the issuing power, the Scotch banks would have been unable either to establish so many branches or to extend so many facilities to depositors, and without the branches and the facilities granted they would never have had any deposits."¹³⁸

(c) In Germany there was from the first but little inclination to allow the advantages of central management from one point to be weakened by the establishment of branches. Again, it was largely feared that the demands by the branches on the parent bank might easily become excessive, and that they might thwart the business policy of the bank as well as the general disposition over its resources, which must rest in a single hand.

Still even in Germany it was impossible not to recognize the advantages afforded through a decentralization of operations by means of branches, including increase of power and greater resisting capacity.

Foremost among these advantages is the close touch which a branch necessarily gains little by little with industry and commerce within its district; the accurate

The German Great Banks

insight which daily contact gradually affords into the needs for credit, the habits, financial condition, and reliability of firms and individuals within that district, so that such a branch is in a position to give the most accurate and reliable information on all these important details to the central bank. Moreover, in many cases the special local conditions lead to a widening of the field of activity of the bank in that district; it is found necessary or possible to engage in special lines of banking which the bank had not previously put on its program, owing, perhaps, to lack of expert personnel. Thus the branches and their managers, as well as the officials trained in them, often form a welcome addition to the central administration of a bank, its directors, and subordinate officials.

Various means suggest themselves and are actually used by some banks by which the advantage of the information gained by the central bank through its branches may be considerably increased. Since these branches are as a matter of course required to submit periodical statements regarding their cash on hand, the state of their engagements, their loans on collateral, debit and credit accounts, bills, acceptances, etc., they may readily be required, in addition, to furnish to the central bank written reports on the state of the industries specially represented in their district, and these reports may thereupon be circulated among the other branches. In addition to this, the managers of the branches may assemble at stated periods—say quarterly—at the seat of the home office, and there, at a meeting presided over by one of the directors, make verbal reports on the business events that have taken place in their locality in the interval, while on the other

National Monetary Commission

hand they may learn the views of the home office and its aims for the immediate future, as well as its judgment regarding the general economic situation, the branches being thereby enabled to shape their business management accordingly. The written and oral reports will at the same time enable the central office to ascertain whether, and to what extent, the branches have been too partial in the distribution of the credits granted by them, or whether they have exceeded the limits which, for general or special reasons, are deemed advisable, or whether there has been an overstretching of resources, to be remedied by appropriate measures, etc. All these views may at the same time be brought to the knowledge of all the managers of branches.

The branches afford to the central bank another advantage in enlarging its security issuing power, since the circle of customers for the securities issued is often greatly extended through the branches, while at the same time the issuing operations are rendered easier. The branches, as a matter of course, relieve the central bank of all the issues of merely local importance, such as industrial securities of local enterprises, or communal obligations, agricultural and other mortgage bonds, etc., within the district covered by the branch, also of all issues which, owing to their insufficient amount, do not come up to the requirements for admission at the bourse, and hence can not be effected by the central office itself in its home city.

Again, the branches tend to enlarge the field of investment for the customers of the bank, since a branch will, as a rule, be able to furnish to the central office expert

The German Great Banks

and reliable information, difficult to obtain otherwise, concerning the intrinsic value of local securities.

Furthermore, the branches, possessing accurate knowledge of the firms and individuals of their district, their financial status, the situation of their business, etc., will, as a rule, be in position to attract as deposits available funds, especially those belonging to the small and petty traders and capitalists. Through the collective activity of its branches the parent bank is thus also enabled to an ever-increasing extent to grant facilities to its customers in the matter of payment and handling of bills and to aid these customers by valuable information and advice. The central office will also gain thereby a broader basis for the giro, clearing-house, and check business, with decided advantage to the public at large.

At the same time the variety of the business activity of its branches is a kind of insurance to the parent bank against losses which it might suffer, either in its own business or in that of any of its branches, since these losses may be more easily compensated by the larger profits of other branches during the same period.

According to the table prepared by Ernst Loeb¹³⁹ the collective turnover of the branches of the Deutsche Bank in the years 1896-1902 was somewhat larger than the total turnover of the central office, their cash account was considerably higher, the bill and current accounts were about the same, while the acceptance account, owing, no doubt, to the over-sea business carried on by the central office, was only from one-third to one-fifth of the acceptance account of the central office.

National Monetary Commission

During those years the deposits of the Deutsche Bank were distributed as follows:

[Amounts expressed in millions of marks.]

Year.	Central office.	Branches.	Total.
1896.....	66.0	26.6	92.6
1897.....	75.6	26.1	101.7
1898.....	90.2	31.5	121.7
1899.....	114.5	41.0	155.5
1900.....	138.2	52.7	190.9
1901.....	149.9	64.6	214.5
1902.....	157.8	55.1	213.5

However, these advantages are offset by a number of disadvantages, some of them quite grave.

First of all, the carrying out of a general business policy of the bank will, of course, be more difficult the greater the number of its branches, since each branch has to receive special instructions, according to the kind and extent of its business and the special aims which it pursues in view of the special conditions of its district. To reduce the whole system to one scheme by means of general instructions to be observed by each branch is in most cases impracticable, except as regards certain rules deduced from experience, as, for example, that second mortgages or mortgages on unimproved real estate (*Terrainhypotheken*) or special kinds of paper, or unlisted securities shall not be accepted as security for credit, or only under certain conditions, or not without additional security. General instructions for this purpose not accurately adapted to the individual case would be habitually disregarded, and hence had better not be issued. But even carefully devised instructions will be of use only in the hands of intelligent

The German Great Banks

branch managers. Even then they may fall short in two ways:

They may be too strict, leaving too little room for the independent action of the manager and compelling him in any matter of importance to consult the board of directors. In such case the initiative of the manager is paralyzed, he is converted into an automaton, or he loses the very spirit by which he should be constantly animated, namely, that of personal responsibility.

Or the instructions may be too loose and too mild, in which case they may readily add to the centrifugal tendency which is inherent in the branches in any case. Unchecked by clear and definite directions, the branches may take little interest in the general business and administrative policy of the bank; they may regard themselves as entirely detached and independent, and not as members of a single organism, all of which may lead to grave consequences.

As regards the supervision, the theoretical aim is to forestall every surprise and to discover any defect in time to apply a remedy. The law in article 246 of the Commercial Code (*Handelsgesetzbuch*) even imposes this task on the members of the supervisory board in the words: "To superintend the management of the business in *all* its branches." This task presents great difficulties both for the board of directors, located at a distance from the branches, and for the permanent inspectors appointed by it. It necessarily becomes more and more difficult and complicated the more the branches grow in number and in the extent of their business activity. Hence it becomes of special interest to learn how in England a bank with

National Monetary Commission

some 400 branches is able to solve this question always in a perfectly satisfactory manner,¹⁴⁰ since, in view of the extreme conscientiousness and integrity of English business men, it may be assumed as certain that they devote the most scrupulous care to this subject. This is all the more noteworthy in view of the fact that in England the law imposes on the board of directors hardly any duty "of using the proper diligence," it being even questioned whether the directors are liable for "gross negligence," that is to say, for a degree of negligence known to English law, which is even higher than our "*lata culpa*" (culpable negligence).¹⁴¹

Another disadvantage, to wit, the more or less long time of waiting before the branch has been permanently established on a paying basis, has already been pointed out. Especially in those cases where the branch has been established without being grafted on a previously existing business, it will generally be a good while (aside from exceptional cases) before it is able to stand on its own feet, and to become a creditor of the parent bank, instead of being its debtor, as is generally the case, to very large amounts. Still longer will be the time before it yields an adequate return.¹⁴² The expenses of operation¹⁴² as a rule are very considerable from the start, and in many cases are greatly increased by the acquisition of buildings, which the branch, for the sake of competition, if for no other reason, endeavors to erect either at once or as soon as possible.

In most cases also, at least in the beginning, the capital which the bank is obliged to invest in its branches is very large. In fact it often requires an increase of the share capital. The table drawn up by Ernst Loeb¹⁴³ shows

The German Great Banks

that the Deutsche Bank, for example, at the end of 1902 had invested not less than 40 per cent of its capital in its branches.

Finally, by reason of the legal requirement of recording and the official publication of the record, a branch whose establishment proves to have been a mistake can not be transferred or abolished with nearly the same ease as an agency or deposit office.

Most of these disadvantages, however, existed also in foreign countries, where nevertheless the development of the branch system has been very great. Hence they would hardly suffice to explain the slight development of branches in Germany, especially since those disadvantages, as we have seen, are offset by important advantages.

In view of the pronounced tendency toward concentration, manifested in other directions, it seems to me that the slow development of branches in Germany can only be explained as follows:

First of all, owing to the importance and urgency of the tasks which the German banks had to accomplish during that epoch in very brief time, the development of their internal organization was somewhat retarded.

In the next place, up to the nineties, a large proportion of the German banks, as shown by the entire attitude of various great banks at that time, felt little inclined, as a matter of principle, to favor the concentration movement through decentralization of operations, except as regards the establishment of deposit offices at the locality of the main office, where they could be more easily supervised

National Monetary Commission

Finally, as regards the time after 1897, the method of communities of interest offered a means of concentration by which the objects of a system of branches could be attained both more fully and simply, and with less capital, expense, and risk.

However, since the development of communities of interest will within measurable time attain its natural limits, while the tendency toward concentration is sure to continue, it seems to me beyond doubt that in Germany too, we shall witness a larger development of the branch system as soon as those limits shall have been attained, if not before.

3. *Indirect concentration through the founding of agencies.*—As regards the decentralization of operations through agencies, there can be no doubt that in Germany these would be the best form for an extensive development of banking organs. An agency is the easiest form to set up, and since, unlike a branch, it need not be recorded—in fact, can not be legally recorded—it can with the same ease be abolished or transferred. It requires a much smaller personnel, and in other ways involves smaller running expenses, since it is less prominent outwardly than a branch;¹⁴⁴ but the fact that an agency, unlike a branch, can not be recorded in the commercial register as such, leads to important consequences, the first being this—that the legal representation of the agency can not be effected according to the principles prevailing in bank by-laws and banking practice, but only in a roundabout and laborious way. One difficulty that is particularly irksome is this—that, for the same formal reason, the agency is not recognized as such by the very authorities with

The German Great Banks

which it has to deal every day. The Reichsbank does not admit the agency as such to the giro transactions; the post-office delivers no letters and other mail, and especially no valuable matter, to the agency. This attitude on the part of the Reichsbank involves considerable loss of interest through the shipment of cash to and fro, while the attitude of the post-office compels the bank to appoint special representatives, who can only represent the bank, not the agency.

Thus the establishment of agencies as local offices of banks is unfortunately subject in Germany to very great and regrettable difficulties. From the considerable number of "agencies" which are actually maintained by provincial banks, and which, according to Appendix VIII, amount to 325 in the case of the 32 amalgamated banks alone, one might be tempted to infer that these agencies had after all made themselves at home in the provinces, and that thus the means had been found to attain through "agencies" what it was found impossible or inadvisable to attain by means of branches. This inference would be a grave mistake. Of the 325 agencies of the amalgamated banks, not fewer than 287, according to Appendix VIII, are found in Mecklenburg and adjoining districts (Neuvorpommern and Oldenburg), where peculiar conditions prevail.¹⁴⁵ The so-called agencies in these districts are agencies only in name, if by that name we denote independent banking establishments (*Bankniederlassungen*). In reality the agents in these cases are either independent merchants, engaged also in other lines of business, or, in accordance with local customs, retired mayors and lawyers or other prominent or reliable persons, who perform the

National Monetary Commission

functions of bank agents as a side issue. In some cases, when they are registered as merchants, they add to their firm name the designation: "Agency of the —— Bank," in order to characterize their business, in accordance with article 18, section 2, clause 2 of the Commercial Code.

These agents, of course, act only under a limited authority, extending, first and foremost, to the receiving of money and securities and possibly to a limited number of incidental operations. Such authority can be given only in case the bank has at its disposal in the districts in question a number of absolutely reliable persons, and when, moreover, in view of the restricted and easily surveyed field of operations, such objections as may exist can not become very grave. For in such cases the bank faces a peculiar dilemma. Either the agent, who is not one of the regular employees of the bank, has to be authorized, contrary to the usual banking practice, to receipt in the name of the bank for deposits intrusted to him,¹⁴⁰ in which case the bank runs the risk of not receiving the sums thus deposited or not receiving them in time, or this authority is not given, the bank or one of its branches, to which the agency is subordinated, reserving the right to receipt for the sums deposited with the agency. In such case the public will hesitate to confide large amounts to the agency, and no great custom can be developed.

All these conditions arise from local needs and usages and can only be understood by reference to them. They are in fact practically confined to Mecklenburg, Oldenburg, and adjoining districts and can not be transferred to larger areas.

The German Great Banks

4. *Indirect concentration through the founding of deposit offices.*—We have thus arrived at the last form which the movement of decentralization has assumed in Germany, to wit, the creation of deposit offices—that is to say, establishments which conduct all kinds of banking business, with the exception of the issue business and the purchase and sale of their own securities. The managers of such offices receive an authorization which, as a rule, is displayed in the office. By this authorization the manager is usually empowered to perform such functions and to make such declarations in the name of the bank as are involved in the regular operations of a deposit office (and exchange office).

In Germany, as elsewhere, the establishment of deposit offices with any prospect of success was only possible at a time when the accumulation of capital had already assumed certain proportions.

According to Appendix VIII, the number of deposit offices of the Berlin great banks was only 27 at the end of 1896. In 1897 the bourse law, which accelerated the movement of concentration, became effective, and from that year to 1900 the number of deposit offices rose to 53, and thus almost doubled.

Between 1900 and 1902 the increase was even greater. While in 1896 the number of deposit offices was only 27, in 1902 it was 87, having thus more than trebled. It continued to rise, though less rapidly, to the end of 1908, when it amounted to 264, so that from 1896 to the end of 1908 the number of (domestic) deposit offices of the great banks multiplied almost elevenfold.

National Monetary Commission

On the other hand, according to Table 10 of Appendix VIII, the number of deposit offices of the 32 amalgamated banks at the end of 1908 was only 102, being thus quite insignificant, both absolutely and relatively.

We have repeatedly discussed the economic and commercial advantages afforded by the deposit offices. One prominent advantage consists in the opportunity afforded to the smaller and smallest capitalist and trader for the productive investment of their savings, even of the smallest amounts. This very opportunity constitutes a strong inducement to the accumulation of cash and of surplus, which can thus be made productive. Moreover, the bank in this way assists them in keeping a proper cash account, which otherwise might be quite irregular. The bank, on the other hand, is thus enabled, within certain limits and under certain restrictions, to utilize these deposits within the limits of the current account business;¹⁴⁷ to profit by a constantly growing circle of customers whose habits, integrity, and financial condition it learns to know quite fully. In this way it is enabled to find a market for its securities—that is to say, to reinforce its issuing power. It will also be enabled, through this circle of customers, to extend the check, giro, and clearing business—that is to say, to facilitate payments and diminish the need of cash circulation, thereby rendering a service to the public at large and contributing to the better development of credit. Finally, mention must be made of the other advantages pointed out by Conrad¹⁴⁸ and others.¹⁴⁹ “Through the activity of the bank, the deposit is made to perform several economic

The German Great Banks

tasks at one and the same time. The same sum which the customer has entrusted to the bank may be used by him for business purposes, the manufacturer being able to make contracts, the merchant to order goods, etc., on the strength of his bank balance; the banker uses the money for his own purposes, granting a loan to a customer. This customer again—say, a manufacturer—uses the loan to pay his workmen, who in turn use it to make purchases; and all these transactions take place during the intervening few weeks while the deposit remains at the bank. Thus the same sum has performed several economic functions at the same time and in so doing has rendered to the public several times the amount of service that it could have done without the intervention of the bank. Herein lies the main advantage of the banks for the money circulation, an advantage which is not sufficiently appreciated.”

For the present the number of deposit offices as a general thing is still rather insignificant, not only in the case of the 32 amalgamated banks, which at the end of 1908 had only 102 such offices, but also in the case of the other provincial banks; but it can hardly be doubted that it will greatly increase. It is also entirely probable that the number of deposit offices of the Berlin great banks, which even now is quite considerable (264 at the end of 1908), will be multiplied both in Berlin and elsewhere. Even now there are streets in Berlin which, as regards the deposit offices of the several banks, fully answer the description given of the conditions in London: “In one of the London suburbs there are on a single street, within a radius of

National Monetary Commission

ten minutes' walk, seven branches, and three more on an adjoining street." ¹⁵⁰ In fact, in Berlin the radius of ten minutes' walk would have to be shortened.

Soon the time will come when the array of deposit offices in Berlin will vividly recall the picture drawn of the region between Duisburg and Dortmund as an illustration of industrial concentration: "Shaft follows shaft; furnace crowds on furnace." ¹⁵¹

PART V. THE MUTUAL INFLUENCE OF CONCENTRATION IN BANKING AND IN INDUSTRY.

I. INDUSTRIAL CONCENTRATION AND ITS PRINCIPAL CAUSES.

As the present book is not exclusively devoted to a study of the development of concentration, the question whether concentration of banking has been influenced by concentration in industry, and vice versa, can only be discussed in outline.

1. The beginning of the tendency toward concentration in industry is necessarily coincident with the moment at which domestic industry is replaced by what is called town industry—production for one's own use by production for customers, where the product of labor is no longer intended exclusively for the consumption of the worker and his family, but also to satisfy the needs of others. The demand for this product begins forthwith to create the laws of production. At that moment begins the necessity of division of labor. With increasing uniformity of demand and increasing concentration of requirements there arises also the necessity of extending the volume of production and concentrating the producing units.

The increase of the volume of production becomes necessary also by reason of the knowledge, gradually gained, that production becomes profitable only after it has reached a certain amount. The profitableness of production depends, among other things, on the greatest

National Monetary Commission

possible diminution of the cost of operation, which, in industry at least, as a rule, diminishes in proportion to the increasing size of the establishment. Now, the possibility of development of production with simultaneous increase of profit and relative diminution of cost of operation depends largely on the centralization of operations and of management.

Such centralization may be attained in various ways:

(a) By concentrating the industry as much as possible in certain localities (districts, towns) with a numerous trained and cheap labor force or with available water power and other advantages, such as convenient, rapid, and cheap transportation of raw material and of industrial products by water or land, etc.

(b) Through the combination of establishments,¹ which is effected—

(1) Through the union of an establishment with other establishments engaged in operations preceding or following in the process of production, one of them furnishing the raw material, while the other works it up. This is the combination of several stages of production. In this way coal mines are combined with furnaces, steel works with furnaces, machine factories with rolling mills—that is to say, establishments which depend on each other for the supply of raw material, such as ore and coal, or establishments which depend on each other as regards the finishing of the products, such as pig iron, wrought iron, blooms, rolled wire, etc.

(2) Through the union of several plants working side by side.

The German Great Banks

(3) Through the union of related plants or of such as bear toward each other the character of auxiliaries.

Such cases occur, for example, when iron furnaces combine with coal mines into "furnace-mines" or when coal mines unite with iron furnaces into "mine-furnaces." According to the German cartel inquiry, there were 4,962 plants in the German iron industry alone that had entered into such combinations up to 1905, comprising 18 branches of production. Of these 4,962 combined plants, 12 united with 10 others, 23 with 11 others, and 29 with 12 others.² The advantages of such combinations, from the standpoint of operating technique, consists in this—that the several operations come under one management, which sees to it that the different plants shall work hand in hand and act as mutual checks, so that, for example, the finishing plant shall receive from the other plants material of only such grade and composition as it needs for its special purposes, while poor material and waste may easily find use in the original plant. There is also an opportunity for a better division of labor or, conversely, a more rational combination of labor. The economic advantages consist, in the main, at least in most cases, in a diminution of the general expenses of operation, of the cost of raw material, of freight rates, etc., also in a kind of insurance, since one branch can make a profit while the other is losing, and diversified production may compensate for an unfavorable market condition in one branch by a favorable one in another, while the complete stoppage of an individual plant, which is apt to be hurtful, both technically and economically, can more

National Monetary Commission

easily be avoided. Again, in mixed works, barring provisions to the contrary in the cartel contracts, the production and sales in one branch—that is to say, one stage of production—may be enlarged in critical times, while that in another branch is curtailed.

The advantages of such combinations are further enhanced when the different plants are also concentrated locally, “so that a combination of enterprises is joined to a combination of operations.”³ This, however, is not usually the case.

A combination of operations may also be effected—

(c) Through other modes of concentration, as, for example, through the complete union of several enterprises, even though of different nature, by way of fusion, or through the establishment of a community of interest, or through the purchase of the stock of another enterprise, or through the making of contracts excluding competition or aiming at the delivery of coal or ore, etc. on preferential terms, etc., or, finally, through a combination of mere operation in conjunction with fusion- or community-of-interest agreements.

All these cases may be illustrated by an abundance of examples. I will only cite a few of the more recent ones.⁴

Among fusions may be mentioned: The Hoesch Iron and Steel Works with the *Westfalia* mines; the *Rheinische Stahlwerke* with the *Zentrum* mines; the Eschweil Rolling Mills with the Ehrenfeld Tube Works; the Phoenix Mining and Smelting Stock Company with the *Nordstern* coal mines (1907); the *Bismarckhütte* with the Bethlen Falva Iron and Steel Works (1906); the German-Austrian Mannesmann Tube Works with the Saarbrücken Cast

The German Great Banks

Steel Works. Under this head come also the purchase of stock in the machine factories of Escher, Wyss & Co. in Zurich by the Felten & Guillaume-Lahmeyer Works Stock Company (1906); and the acquisition of the Upper Suabian Cement Works Stock Company by the *Stuttgarter Immobilien- & Baugeschäft* (1906). Other combinations were the acquisition of the *Henrichshütte* with rolling works and furnaces by the locomotive factory of Henschel & Son in Kassel (1904), the community of interest of the Upper Silesian Railway Operation Stock Company with the firm Steffens & Nölle in Berlin, and the community of interest of the Berlin-Anhalt Machine Construction Stock Company with the Stettin Fireproof Tile Factory Stock Company, formerly Didier, etc.

The following cases of most recent occurrence are of special interest because of the motives that prompted the combinations.

The acquisition of the Huldshinsky Smelting Works Stock Company by the Upper Silesian Railway Supply Stock Company by way of fusion, which took place in 1905, was mainly prompted by the fact that in this way the works of the former company received a welcome complement in the shape of raw material and half-finished products which they had till then lacked, while the absorbing company was thereby enabled through exchange of labor to systematize and extend its operations.

The fusion of the Phoenix Mining and Smelting Stock Company in Ruhrort with the Hoerder Mining and Smelting Company, that is to say, two works of quite the same nature, was mainly prompted by the fact that the two works, notwithstanding their great size, were incomplete

National Monetary Commission

in certain ways, which were to be remedied by fusion. In the case of the Phoenix, the incompleteness consisted in an insufficient crude steel production, in the case of the Hoerder Union—in an insufficient production of its own coal, especially of coal suitable for coking. After the fusion, each was enabled to furnish to the other that which before they could only acquire by outside purchase. Now they obtained these articles in such quantity and of such quality as needed, a point which is of special importance.

In this case, therefore, the fusion was effected for technical reasons, despite the fact that the two works were far apart geographically, one being located on the extreme western, the other on the eastern border of the Rhenish-Westphalian industrial region. Similarly, the community of interest effected in the chemical industry between the Hoechst Dye Works, formerly Meister, Lucius & Brüning at Hoechst-on-the-Main, and the firm of Leopold Cassella & Co. at Frankfort-on-the-Main, to be described in detail later on, was founded essentially for the reason that the one produced certain raw materials required by the other in its production, and that the two works are in position to supplement each other favorably as regards a number of products produced by the one and purchased by the other. In addition, there was danger of a constantly growing competition between the two works in certain products.

Later on we shall have occasion to set forth the development of the concentration that took place in the electro-technical industry, where it proceeded by leaps and bounds.

The German Great Banks

2. The combination of enterprises brought about by the above-described and other economic and technical causes promoted at the same time the grouping of independent enterprises in the form of cartels, of which we have spoken in detail in an earlier section (p. 167 and following). The reason is that the chances of cartel formation in an industry increase with the growth of production and the size of the enterprises. One essential condition of the formation of cartels, or, at any rate, one condition which greatly promotes that process, as we have seen, is the existence of a small number of concentrated enterprises of vast extent—the fewer in number the better—and the consequent large-scale production of staple goods.

3. The formation of cartels, in its turn, greatly promoted industrial concentration in its various forms, especially the combination of establishments and the fusion of enterprises, being the main cause of the rapidity with which the industrial concentration was accomplished.⁵

The reason was that concentration offered to the industrial enterprises—

(a) a means of securing in a better position within the cartels. In this way, for example, the mines united in the Rhenish-Westphalian Coal Syndicate endeavored to obtain a higher quota within the cartel by combining with other mines which at the time were idle or not profitable. Under this head come the acquisition of the *Steingatt* mine by the *Konkordia* Mining Company, of the *Helene* Mine by the *Nordstern* Stock Company, of the *Bommerbänker Tiefbau* Mine by the *Mont-Cenis* Mining Concern, etc.

(b) a means to make themselves independent of the cartels, either entirely or, at least, as regards part of their

National Monetary Commission

production. Thus, for example, the iron works united in the Rhenish-Westphalian Pig Iron Syndicate, while unable to increase their production quota, were yet able to employ their works more remuneratively than would have been possible under the syndicate conditions, by producing non-syndicated articles, which they were enabled to do through combination.

Similarly, the formation of the Rhenish-Westphalian Coal Syndicate induced the iron works to acquire coal mines, because the coal produced by themselves cost them less than that bought of the syndicate.

The following examples may be mentioned:

Under the first coal syndicate: The fusion of the *Vereinigte Westphalia* Mine with the Hoesch Iron and Steel Works (1899); of the *Vereinigte Hannibal* Mine with Friedrich Krupp (May, 1899); of the *Pluto* Stock Company with the Schalke Mine and Furnace Stock Company (June, 1899); of the Dannenbaum Stock Company with the Differdingen-Dannenbaum Stock Company (end of 1899); of the *General* Mining Concern with the Lorraine Smelting Corporation Aumetz-Friede (January, 1900); and of the *Zentrum* Mining Concern with the Rhenish Steel Works (May, 1900).

Under the second coal syndicate: The union of two works into the United van der Zypen Steel and Wissener Iron Works Stock Company at Cologne-Deutz (September, 1903); the union of the Lorraine Smelting Corporation Aumetz-Friede with the Fentscher Furnace Works (October, 1903); of the Upper Silesian Iron Industry Stock Company and the *Bismarckhütte* (February, 1904), and of the above-mentioned *Henrichshütte* of the Dortmund Union

The German Great Banks

with the Henschel & Son Locomotive Works (March, 1904).⁶ For the same purpose, other enterprises acquired small coal fields, on which they themselves established coal mines, as, for example, Stumm Brothers, who acquired the *Minister Achenbach* coal field, the *Georg Marien* Mine-Furnace Corporation, which acquired coal fields near Osnabrück (Werne), the firm de Wendel, which acquired the de Wendel mine near Hamm, the Maximilian Furnaces, which acquired the Maximilian coal mine near Hamm, Friedrich Krupp and the North German Lloyd, who acquired the Emscher-Lippe mine near Mengede.⁷

The Upper Silesian Coal Convention did not equally promote the acquisition of coal mines by smelting works, because nearly all the great smelting works of Upper Silesia had had their own mines in most cases since their foundation. The same remark applies to the Ruhr district.

Thus, the Bochum Cast Steel Corporation had had coal mines of its own since 1868, the Dortmunder Union since 1872, and the same was true of Friedrich Krupp, the Hörder Mining and Smelting Association, the Phoenix (in the last-mentioned case through the purchase of the Meiderich Coal Mining Company and the *Westend, Ruhr,* and *Rhein* mines in 1886), and finally the firm August Thyssen (through the acquisition of the *Deutscher Kaiser* mine).

Finally, the concentration of enterprises served—

(c) as a means to secure a stronger basis and reduce the number of serious competitors, in the event that the Rhenish-Westphalian Coal Syndicate should not be renewed at its expiration in 1915, or in case it was broken up before that time.

National Monetary Commission

This applies particularly to the association of the two iron works, the Aachener Smelting Company *Rote Erde* and the Schalke Mining and Smelting Company with the Gelsenkirchen Mining Company (Jan. 1, 1905). The advantages of this union will become apparent only later, because, so long as the present coal syndicate exists, the furnace-mines, so far as their coal production exceeds their own consumption, are bound by the provisions of the coal syndicate, a situation which no fusions can alter.

II. THE INFLUENCE OF THE BANKS AND BANKING CONCENTRATION ON INDUSTRIAL CONCENTRATION.

From the statements just made it is evident that the immediate reasons for industrial concentration, perhaps also the weightiest reasons, especially in the coal and iron industry, were technical in character, arising from the nature of industrial operations and large-scale production, and from the formation of cartels within the industry. At the same time that concentration was also influenced, promoted, and even made possible by the banks and their concentration.

As might be expected, this influence differed with the various branches of industry, being decisive in some cases, less so in others, and hardly perceptible in some cases.

I. INFLUENCE OF BANKS ON INDUSTRIAL CONCENTRATION UNAFFECTED OR BUT SLIGHTLY AFFECTED BY THE FORMATION OF CARTELS.

If it be permitted to distinguish between creditor industries and debtor industries, according as they are able, as a rule, to keep balances in their favor in the banks, or are obliged, as a rule, to ask the banks for credit, we may

The German Great Banks

say that, on the whole, the electro-technical industry,⁸ as hitherto developed, is in the main a debtor industry, while the chemical industry is a creditor industry. In the mining industry the relation varies with the times, companies, and market conditions.

(a) THE ELECTRO-TECHNICAL INDUSTRY.

The very fact that the electro-technical industry was in the main a debtor industry would suffice to show, if any proof were needed, that the development of that industry (and the same is true of the street railway and minor railway business largely connected with the electrical business) would have been simply inconceivable at any stage of its concentration without the help of banks. At the very birth of the industry, in the beginning of the eighties, that aid was all the more necessary and welcome, because at that time the possibility of the development of electric light and power on an industrial scale was doubted by the immense majority of the population. In this matter, therefore, the banks which, despite the great risk, did not refuse their aid, may justly claim to have been in part creators of one of the most vigorous and important branches of German industry of the present day. In order to set forth the influence of the banks on the electro-technical industry, it is necessary to sketch the external development of that industry in Germany.

In 1883, with the vigorous cooperation of a number of banks and banking firms, the first German stock company in the electric industry was established by Emil Rathenau, in concert with Siemens & Halske, the Paris Exposition of 1881 having led to the conviction, especially in

National Monetary Commission

Rathenau's mind, of the great possibilities of the new invention. That stock company was the "German Edison Company for Applied Electricity" (*Deutsche Edison Gesellschaft für angewandte Elektrizität*), which in 1884 made itself completely independent of Siemens & Halske and in 1887 assumed the present firm name of the *Allgemeine Elektrizitäts Gesellschaft* (General Electric Company). It succeeded in improving the so-called three-phased current system to such an extent that in 1891 it was able to conduct 300 horsepower with very favorable working effect a distance of 173 kilometers to the electric exposition in Frankfort-on-the-Main, an achievement which produced a great impression.

In 1896 there were already in existence, as noted elsewhere (p. 123), 39 stock companies in the electrical industry, nearly all of them called into life by the aid of banks. In 1900 the German bourses had already listed the stock of 34 such stock companies, with capital of 436,000,000 marks (in Berlin alone 22 companies with capital of 396,700,000 marks) for trade and quotation. The dividend income of stockholders in those 34 stock companies in the period 1883-1900 averaged 8.38 per cent.

In 1898 the total production of the German electro-technical industry was valued at 228,700,000 marks; 211,100,000 marks, or 92.3 per cent, being the value of products of the strong-current factories, which twenty years earlier was insignificant, while the products of the weak-current industry in 1898 amounted only to 17,600,000 marks. Beginning with the middle of the nineties the expansion of the electro-technical industry was enormous. It can not be denied, however, that this rapid and desul-

The German Great Banks

tory expansion was largely responsible for the general overproduction which led to the crisis of 1901.

The fact is that during those years, up to 1900, a veritable chaos of forms of enterprises and methods of financing had been developed within the electrical industry, resulting in seven groups with 28 companies, as follows:

- I. The Siemens & Halske group, with:
 1. The Siemens & Halske Stock Company in Berlin.
 2. The Swiss Company for Electric Industry in Basle.
 3. The "Siemens" Electric Works Stock Company, Berlin.
 4. The Electric Light and Power Establishment Stock Company, Berlin.
- II. The A. E. G. (Allgemeine Elektrizitäts-Gesellschaft) group, with:
 1. The Allgemeine Elektrizitäts-Gesellschaft (General Electric Company), Berlin.
 2. The Bank for Electric Enterprises, Zurich.
 3. The General Local and Street Railway Company, Berlin.
 4. The Electricity Supply Company, Berlin.
- III. The Schuckert group, with:
 1. The Electricity Stock Company (formerly Schuckert & Co.), Nuremberg.
 2. The Continental Company for Electric Enterprises, Nuremberg.
 3. The Rhenish Schuckert Company for Electric Industry, Mannheim.
 4. The Elektra Stock Company, Dresden.
- IV. The U. E. G. (Union Electric Company) group, with:
 1. The Union Electricity Company, Berlin.
 2. The Company for Electric Enterprises, Berlin.
- V. The Helios group, with:
 1. The Helios Electricity Stock Company, Cologne.
 2. The Stock Company for Electric Establishments, Cologne.
 3. The Stock Company Bavarian Electric Works, Munich.
 4. The Bavarian Electric Company, Helios Stock Company, Munich.
 5. The Electricity Company, Felix Singer & Co., and Bank for Electric Industry, Berlin.
- VI. The Lahmeyer group, with:
 1. The Electricity Stock Company (formerly W. Lahmeyer & Co.), Frankfort on-the-Main.
 2. The German Company for Electric Enterprises, Frankfort on-the-Main.⁽⁹⁾
- VII. The Kummer group, with:
 1. The Stock Company Electric Works (formerly O. L. Kummer & Co.), Dresden.
 2. The Stock Company for Electric Establishments and Railways, Dresden.

National Monetary Commission

VII. The Kummer group, with—Continued.

3. The Baltic Electricity Company, Kiel.
4. The Electric Stock Company (formerly Hermann Pöge), Chemnitz.
5. The Northern Electric and Steel Works, Danzig.
6. The South German Electricity Stock Company, Ludwigshafen.
7. The Electric Operation Stock Company, Dresden.

Each of these groups thus had at least one trust company associated with it, intended to relieve the banks of a part of the financing operations (founding, transforming, issue) to which they would otherwise hardly have been equal. These were the companies marked 2 and 4 in Group I, and 2 in Groups II-VII. All these trust companies were founded between 1894 and 1898. On the other hand, the independent electric firms organized themselves into a "Union of Electro-technic Installation Firms in Germany" and the factories of electro-technic specialties—into the "Union for the Protection of Common Economic Interests of the German Electro-technical Industry."

Behind those seven groups of electric enterprises stood at that time (1900) as many banks and groups of bankers whose organization was caused by the vast demands made on their financial capacity by the electro-technic industry united in the corresponding groups. These banking groups were as follows:

I. Siemens & Halske Stock Company:

1. Deutsche Bank.
2. Bank für Handel und Industrie (Darmstädter Bank).
3. Berliner Handelsgesellschaft.
4. Diskonto-Gesellschaft.
5. Dresdner Bank.
6. Mitteldutsche Kreditbank.
7. S. Bleichroeder.
8. Delbrück, Leo & Co.
9. Jacob S. H. Stern, Frankfort-on-the-Main.
10. L. Speyer-Ellissen, Frankfort-on-the-Main.
11. Bergisch-Märkische Bank.

The German Great Banks

II. General Electric Company:

1. Berliner Handelsgesellschaft.
2. Deutsche Bank.
3. Nationalbank für Deutschland.
4. Delbrück, Leo & Co.
5. Hardy & Co.
6. Gebrüder Sulzbach, Frankfort-on-the-Main.
7. E. Heimann, Breslau.
8. Rheinische Diskonto-Gesellschaft.

III. Electric Stock Company, formerly Schuckert & Co.:

1. W. H. Ladenburg & Söhne, Mannheim.
2. Anton Kohn, Nuremberg.
3. Kommerz- und Diskontobank.
4. Von der Heydt-Kersten & Söhne.
5. E. Ladenburg, Frankfort-on-the-Main.
6. J. Dreyfus & Co., Frankfort-on-the-Main.
7. Bayrische Vereinsbank.
8. Bayrische Hypotheken- und Wechselbank.

IV. Union Electric Company:

1. Disconto-Gesellschaft.
2. Dresdner Bank.
3. Bank für Handel und Industrie (Darmstädter Bank).
4. A. Schaaffhausen'scher Bankverein.¹⁰
5. S. Bleichroeder.
6. Born & Busse.

V. Helios Electricity Company:

1. J. L. Eltzbacher & Co., Cologne.
2. J. H. Stein, Cologne.
3. Sal. Oppenheim, Jr., & Co., Cologne.
4. Deutsche Genossenschaftsbank Soergel, Parrisius & Co.
5. Berliner Bank.
6. C. Schlesinger, Trier & Co.
7. Deutsche Effekten- und Wechselbank.
8. L. Behrens Söhne, Hamburg.
9. Niederrheinische Kreditanstalt.

VI. Elektrizitäts-Aktiengesellschaft, formerly W. Lahmeyer & Co.:

1. von Erlanger & Söhne, Frankfort-on-the-Main.
2. Bank für Handel und Industrie (Darmstädter Bank).
3. Grunelius & Co., Frankfort-on-the-Main.
4. Oberrheinische Bank.
5. B. M. Strupp, Gotha.
6. D. und J. de Neufville, Frankfort-on-the-Main.
7. Phil. Nic. Schmidt, Frankfort-on-the-Main.
8. Joh. Goll & Söhne, Frankfort-on-the-Main.

National Monetary Commission

VII. Aktiengesellschaft Elektrizitätswerke, formerly O. L. Kummer & Co.:

1. Kreditanstalt für Industrie und Handel, Dresden.
2. Deutsche Genossenschaftsbank Soergel, Parrisius & Co.

The development, however, did not stop at this point. The Kummer group (VII in the table above) collapsed in 1900. About the same time the Helios group lost a large part of its importance, and ownership of the shares of its trust company, the company for Electric Establishments passed to the Electric Light and Power Establishment Stock Company, one of the subsidiary corporations of the Siemens & Halske group.

In the year 1902-3 a community of interest was concluded between the *Allgemeine Elektrizitätsgesellschaft* and the *Union-Elektrizitätsgesellschaft*, the subsidiary company of the Loewe concern, which was followed in 1904 by a complete merger, accompanied by the combination of the banks of the U. E. G. group (IV, 1-6) with those of the A. E. G. group.

In 1903 a part of the Siemens & Halske enterprises were combined with the Schuckert Company into the Siemens-Schuckert-Werke G. m. b. H. (original capital 90,000,000 marks), so that at present the Lahmeyer and Helios groups are confronted by the much more powerful Siemens-Schuckert group and the Allgemeine Elektrizitäts-Gesellschaft.

Toward the end of 1908 an agreement for cooperation was concluded between the Siemens-Schuckert group and the A. E. G., with the result that they jointly organized the *Elektro-Treuhand-Gesellschaft* (Electrical Fidelity Company) with a capital of 30,000,000 marks, a credit institution whose object is to make loans on securities issued by

The German Great Banks

electrical undertakings and, on the basis of the securities deposited, to issue bonds. In this work it will have to make use of the assistance of the great banks, solidly united for this purpose. The object seems to be to make loans, repayable in annuities, to large customers in the electric industry—that is to say, mainly public corporations and large private companies—for the purpose of enabling them to enlarge or remodel their plants, so as to insure a permanent demand for light and power, even under unfavorable market conditions, without the investment of large capital.

Thereupon the Felten & Guilleaume-Lahmeyer-Werke Aktien-Gesellschaft in the beginning of 1909 established a similar credit institution under the name of *Treuhand-Bank für die elektrische Industrie, Aktien-Gesellschaft* in Cologne, with a share capital of 25,000,000 marks. The by-laws of both companies permit the issue of bonds up to three times the amount of their capital.

As regards the question of concentration, each of the great electric companies, through the above-described network of trust, operating, and subsidiary companies, which as a rule can only be started with the aid of the supporting banks, forms a widely ramified group, whose gradual development, extension, and differentiation is rendered possible, or at any rate largely promoted, by the banks. But when such groups are once formed their demands quickly outgrow the forces of a single bank, which of course is interested in a multitude of other industrial enterprises. The natural result is the formation of bank groups behind the industrial groups, so that at this stage the industrial concentration tends once more

National Monetary Commission

directly to induce and greatly to promote concentration in the banking business. Finally, the many relations existing between the several industrial groups and individual banks belonging to a group of banks (some banks belong to several groups) lead the banks on their part to promote further industrial consolidations. This was the case in particular with the establishment of a community of interest between the *Allgemeine Elektrizitäts-Gesellschaft* (A. E. G.) and the *Union-Elektrizitäts-Gesellschaft* (U. E. G.), founded by the firm Ludwig Loewe & Co. in 1902-3, which subsequently (1904) was followed by the complete absorption of the latter by the former, combined with the admission of the banks of the Loewe group into the A. E. G. group, which meant a complete realignment of the groups previously existing.

Similar processes took place when, in 1898, the A. Schaaffhausen'scher Bankverein, which till then had occupied the leading position in the Schuckert group, attempted to effect a combination of the Schuckert group with the Loewe group (U. E. G. group), and failing in this attempt, seceded from the Schuckert group and passed over to the Loewe group. In this way the Schuckert group in its turn was driven to seek an alliance with another group, which took place in 1903 in the form of a combination with the Siemens & Halske concern, though in this case the combination did not involve the admission of the banks of the Schuckert group into the Siemens & Halske group.

Thus we see a constant fluctuation of mutual influence; we perceive the powerful effect which the grouping process in the industrial field exerts on the similar process in the

The German Great Banks

banking field, and vice versa, and how readily changes in the one induce changes in the other.

(b) THE CHEMICAL INDUSTRY.

The concentration movement presents an entirely different picture in the chemical industry. As I observed above, the chemical industry may properly be described, for a number of years back, as essentially a creditor industry. It has been less subject to the sharp alternations of business prosperity and adversity than other branches of industry. On the other hand it has had to face daily new problems.¹¹

At the close of this period the chemical industry passed through a development similar to that of the electrical industry. This applies particularly to the aniline dye works,¹² which supply by far the greater part of the world's demand for artificial dyes. As a result of severe domestic competition, however, these establishments recently felt the need of combination. The most important aniline (coal tar) dye factories of Germany are the following: The *Badische Anilin-und Sodafabrik* in Ludwigshafen-on-the-Rhine; the *Farbenfabriken vormals Friedrich Bayer & Co.*, in Elberfeld; *Leopold Cassella & Co.*, in Frankfort-on-the-Main; the *Farbwerke vormals Meister, Lucius & Brüning*, in Höchst-on-the-Main, and the *Aktiengesellschaft für Anilinfabrikation*¹³ (Aniline Dyes Manufacturing Company) in Treptow, near Berlin.

In October, 1904, a close alliance was founded by the following two concerns: The Dye Works, formerly Meister, Lucius & Brüning, of Höchst-on-the-Main, a corporation

National Monetary Commission

having at the time a capital stock of 20,000,000 marks and a bonded debt of 10,000,000 marks, and the firm of Leopold Cassella & Co., in Frankfort-on-the-Main. This union became effective on January 1, 1904. Its primary justification lay in the fact that the first-named concern was producing a large variety of raw materials needed by the latter in its manufacture. Furthermore, these plants could advantageously supplement one another for the reason that a number of commodities produced by the one were needed by the other, while for a number of commodities, there was danger of increasing competition between the two concerns. This union involved the interchange of raw materials, cooperation in all matters of patents and licenses, the joint purchase of coal, and joint activity in establishing branches both in Germany and in foreign countries. It was expected that this combination would call a halt on the enormous decline in the prices of coal-tar dyes, and put these establishments in a materially stronger position to meet competition of foreign producers, particularly those in Switzerland. At the time that country did not afford protection to patented chemical products, with the result that Swiss factories could exploit German inventions without extra expense to themselves, a situation that was remedied to a limited extent by the most recent German-Swiss commercial treaty.

The combination was effected in the following manner: The firm Leopold Cassella & Co. was reorganized as a limited liability company with a capital stock of 20,000,000 marks and a bonded debt of 10,000,000 marks, and transferred to the Höchst Dye Works (formerly

The German Great Banks

Meister, Lucius & Brüning) 5,500,000 marks of its shares in exchange for the same amount of shares newly issued especially for the purpose by the Höchst works. The capital stock of the latter concern had thus become increased from 20,000,000 marks to 25,500,000 marks. At the same time the partners of the firm Leopold Cassella & Co. were made members of the supervisory board of the Höchst Dye Works, while some members of the executive board of the Höchst concern joined the advisory board of the firm of Leopold Cassella & Co.

In 1908 the firm Kalle & Co., a stock company in Bieberich-on-the-Rhine, joined the combination. This union was effected by the acquisition of the majority of the stock of the above company by the Höchst Dye Works. The latter increased its capital stock by 10,500,000 marks to a total of 36,000,000 marks, using part of the increase (1,600 shares) to acquire a controlling interest (3,200,000 marks) in the concern Kalle & Co. The dual alliance thus became a triple alliance.

On the basis of a contract entered into December 3, 1904, a closer union than the above was founded by the Rhenish establishments, the *Badische Anilin und Soda-fabrik*, of Ludwigshafen, having a capital stock of 21,000,000 marks, and the *Farbenfabriken vormals Friedrich Bayer & Co.*, of Elberfeld, having a capital stock of 21,000,000 marks, on the one hand, and the *Aktiengesellschaft für Anilinfabrikation*, of Treptow, near Berlin, having a capital of 9,000,000 marks, on the other. The last-named company was drawn into the combination during the course of negotiations between the other two. It was about to embark upon the manufacture of additional

National Monetary Commission

articles on which the patents had expired, and to increase its output through the establishment of a new plant at Rheinau, being thus in a position to offer keen competition to the Ludwigshafen concern. A triple alliance was thus founded which became effective on January 1, 1905. The members were to share in the profits and losses of the combination, 14 per cent of the joint results to be the share of the Treptow concern and 43 per cent the share of each of the other two.

It is self-evident that this development has not yet reached its final goal. There is even now an agreement between the *Badische Anilin-und Sodafabrik* and the Höchst Dye Works by which they act in common in fixing the selling price of artificial indigo manufactured by both. It is quite likely that the Höchst-Cassella-Kalle & Co. combination and the other triple alliance (*Badische Anilinfabrik, Bayer, and the Aktiengesellschaft für Anilinfabrikation*) will gradually get together in one way or another and at some more or less distant future time form a consolidation of all aniline dye works or some looser union.

There is no doubt that the decisive factors making for the progress of concentration in the chemical industry have been essentially technical ones. The initiative for the developments thus far has come, in the main, we may say, exclusively from the industry itself. The extent of concentration, the direction taken, and the rapidity of the movement have accordingly been dependent on the special needs of the industry. Whatever the assistance of the banks in the formation of these alliances and groups in the chemical industry—not to speak of their initiative

The German Great Banks

in this movement—is so little perceptible that it may safely be put down as very slight, indeed. In marked contrast to the progress of concentration in the electrical industry, there is no evidence of any considerable influence exerted by the banks on the movement toward concentration. Inversely, this industry has had as little effect on concentration in banking.

2. INFLUENCE OF BANKS AND BANKING CONCENTRATION ON CONCENTRATION IN INDUSTRIES WITH STRONG CARTEL TENDENCIES. (THE MINING AND METALLURGICAL INDUSTRIES.)

The process of concentration consummated in the mining industry presents an entirely different picture. As we saw, it was largely influenced by the formation of cartels. Here banks and concentration in banking have exerted a vast influence on industrial concentration. As we shall show in detail, this influence varied greatly not only in the different districts, but also in the different coal mines and iron works.

There can be no question that in mining as in other industries the choice of the forms in which concentration was effected—merger, community of interest, etc.—was not made without the influence of the banks or without due regard to their business interests or policies. This was but the natural outcome of the fact that bank directors were represented largely on the supervisory boards of the mining and metallurgical companies, frequently occupying the very influential posts of chairmen or vice-chairmen. Moreover, the intimate relations with the banks existing in all business, and notably in the mining and metallurgical industries, as a result of credit

National Monetary Commission

and current-account relations, naturally had their effect on the choice of the forms of industrial concentration.¹⁴

In discussing above the industrial activity of the A. Schaafhausen'scher Bankverein (p. 509 et seq.), we mentioned a large number of instances which could be readily multiplied in which the bank not only brought about the organization of new corporations, the change of private firms into corporations and reorganizations, but also effected mergers of concerns which formed part of its clientele. It did this with the express purpose of combining establishments devoted to various operations, a type of concentration discussed above (p. 704 et seq.).

Moreover, as we saw, the A. Schaafhausen'scher Bankverein in 1899 assumed directly the function of a sales agency and clearing house for the Federation of German wire rope manufacturers. Going farther, it organized a special Syndicate Bureau of the A. Schaafhausen'scher Bankverein (Limited), with a capital of 1,000,000 marks. The bureau was intended to serve for other industrial combinations in the same capacity as the parent bank did for the federation just named.

It is certain, moreover, that the entire German banking world, as may be seen from numerous reports, not only welcomed such important cartels as the Rhenish-Westphalian Coal and Iron Syndicates and the Steel Works' Union, but in many cases helped to bring them into existence, as far as it lay in their power and within limits compatible with their other duties. This they did not only in the interest of the general welfare, and of the prosperity of industry in general, but in the last analysis also in the interest of their own business,

The German Great Banks

closely bound up with the growth and prosperity of the industry which was to be fostered by the establishment of cartels. An example of the banks' activity in bringing about the formation of a cartel is the case of the *Phoenix*. The management of the Phoenix was unwilling to enter the Steel Works' Union—which could not be organized without it—unless it received greater advantages than the union felt able to grant. There is little doubt that these efforts on behalf of the cartel were started by the banks which were not represented on the directorate of the Phoenix and which were therefore entirely free in their action. We may also grant that those firms which were represented on the board, as they asserted, refrained from exerting a direct influence on their customers as to how they should vote at the special meeting of stockholders of April 26, 1904, at which final action was to be taken. On the other hand, it is equally true that they maintained an attitude of "benevolent neutrality" toward the wishes for the realization of the Steel Works' Union.

A benevolent neutrality of this kind was maintained on similar occasions also by banking establishments which counted among their clients concerns, whose interests lay in the opposite direction. In business, as in politics, such an attitude may be of great importance. Under given circumstances it may be equivalent to the advancement of the cartel. At least it would absolve the latter from the necessity of taking measures for defense or of granting concessions such as might otherwise become necessary. Hans Gideon Heymann¹⁵ therefore justly assumes that with the A. Schaaffhausen'scher Bankverein

National Monetary Commission

in control of the *Internationale Bohrgesellschaft* (International Exploration Company) through ownership of an overwhelming majority of its stock, it was certain that no obstacles would be put in the way of the Coal Syndicate from this source, such as might have arisen from the sale of its coal fields to interests outside the syndicate.

As far as my knowledge and experience go, complete neutrality toward a cartel contemplated in any branch of industry has been observed by the banks only where there was a conflict of interests, and whenever they were forced into that position through having influential clients in both camps. Such a conflict of interests has frequently existed between the coal and iron industries, and has become very pronounced when syndicates were contemplated in either industry. It was such a situation which dictated the position taken by the A. Schaaffhausen'scher Bankverein and the Berliner Handelsgesellschaft at the time when the organization of the first coal syndicate was being planned. Both institutions were maintaining close relations with the *Harpener Bergbaugesellschaft*; at the same time, however, both of them had large customers among the iron works.

A similar situation confronted the banks in the struggle which has continued to the present between the so-called "mixed" and the "pure" works (see p. 175), and again in the conflict between the pure works and the Steel Works' Union, and particularly during that phase when the former demanded the abolition of the tariff duties on their raw materials, an issue involving far-reaching consequences for other industries closely related to the banks. Here, however, there was an entirely different alignment

The German Great Banks

of forces, which made it easier for the banks to decide what position to take.

On the other hand, there were cases, when the affairs of some powerful customers were bound up so closely with the bank, that the latter felt constrained to help them directly in carrying out their plans, even where circumstances would have seemed to make it imperative for the bank to observe neutrality.

Thus we pointed out that in the negotiations looking to the formation of the first coal syndicate (in September, 1903) the Disconto-Gesellschaft was most active in its assistance to the *Gelsenkirchener Bergwerksgesellschaft*, one of its best customers, which took the leading part in the negotiations. In the same way the Darmstädter Bank must surely have used every endeavor to help the *Deutsch-Luxemburgische Bergwerks- und Hüttenaktiengesellschaft* (German-Luxemburg Mining and Furnace Company) in its efforts to organize or extend the Luxemburg-Lorraine Pig Iron Syndicate, for it had furnished the large resources needed for the reorganization of the *Aktiengesellschaft für Eisen- und Kohlenindustrie Differdingen-Dannenbaum* (the Differdingen-Dannenbaum Iron and Coal Corporation) and its transformation into the above-named corporation, and had made of it technically one of the best equipped concerns in the industry. The same no doubt applies to the A. Schaaffhausen'scher Bankverein, whose relations to the Aumetz-Friede Company were so intimate as to compel the bank to pursue a similar line of action.

Under this head we may include also the strenuous efforts made by the banks to prevent the taking over of the Hibernia Mining Company by the Government, and

National Monetary Commission

to insure its independent existence by equipping it with all modern means of existence and growth. This case is of particular interest as illustrating in a marked form how the industrial policies of the great banks are shaped according to the character of their industrial clientele. On the one side, opposed to the government ownership of the Hibernia, there was arrayed a number of banks headed by the banking firm of S. Bleichröder and the Berliner Handelsgesellschaft. On the other side, favoring the Government, there were lined up other banks, notably the Dresdner Bank and the A. Schaaffhausen'scher Bankverein, making equally strenuous though futile efforts to carry through the acquisition of the mines by the Government.

The activity of the large banks in the formation of syndicates has, however, as a rule, more important consequences. As we observed, the organization of large cartels, which in themselves represent a type of concentration, usually involves the erection, equipment, and amalgamation of large "mixed" works devoted to a variety of operations, thus promoting another form of concentration. Such were primarily the results of the organization of the great coal, iron, and coke syndicates. Particularly is this true of the Lorraine-Luxemburg Pig Iron Syndicate, the operations of which extend also to the export trade. This syndicate was first organized in 1879 under the lead of the trading firm of Spaeter & Co., which was particularly interested in the Rombach Furnaces.

Establishments carrying on more than one operation, or so-called "mixed" works, have long been overwhelmingly in the majority in the Lorraine industry, the beginning of

The German Great Banks

which may be traced back to the thirteenth century. As early as 1704 the de Wendel family had taken over the Hayinger Works, and at the opening of the nineteenth century it had established "mixed" works. With the annexation of Lorraine part of the works was transferred to France or French branches were founded.

The chief works on the Saar (Burbach, Dillingen, Stumm, Röchling) added their own blast furnaces in the eighties and nineties.¹⁶ The Düdelingen Steel Works were built from the very beginning as a "mixed" establishment. Here there is no evidence that the banks were an important factor in the movement toward concentration.

In the Saar district, where coal mining dates back to the fifteenth century, the Prussian Government is in control of by far the larger part of the coal fields. Here coal mining was from the beginning a prerogative of the territorial overlord. The only noteworthy private interests in this district are those of de Wendel, which have an output in the Lorraine district of about one million tons, and of the *Saar- und Mosel-Gesellschaft*. The latter is under the influence of Thyssen, Stinnes, and the Dresdner Bank. New coal fields in the Lorraine district have been located by the International Exploration Company (*Internationale Bohrgesellschaft*), controlled by the A. Schaaffhausen'scher Bankverein, both of these corporations being closely related to the Rhenish-Westphalian Coal Syndicate.

More than one-half of the iron furnaces in the Saar district were in the hands of the Stumm family more than one hundred years ago. The Neunkirchener Iron Works, the Dillinger Hütte Aktiengesellschaft, and the

National Monetary Commission

limited company Gebrüder Böcking & Co. do not compete with one another, and are owned in whole or in part by the Stumm family. Each plant "takes in the different processes in the manufacture of iron from the ore to the finished product," but each specializes in the production of different finished articles. Here, too, we can not speak of any large influence of banks on the process of concentration. Neither the coke nor the pig-iron syndicate have entered the district, the establishments in the Saar district consuming raw materials produced in the same section.

There was, however, a conflict of interests between the Saar establishments and the works in the Moselle and Ruhr districts, the latter closely allied with the banks. The Saar establishments carried on a vigorous campaign against the Moselle Canal, fearing they would be injured by it, while the Moselle and Ruhr works would benefit. The banks interested in the latter plants had to refrain from taking part in this conflict, out of regard for their clients in the Saar district.

The mining industry invaded the Sieg district in the fifties, when mineral coal supplanted charcoal. With it came the influence of capitalism as represented by the banks. Mineral coal involved operation on a large scale and this meant the application of capitalist methods. When in 1856 the old furnaces of the *Müsener Stahlberg* were united into one of the most important of the mixed establishments in the customs union—the *Köln-Müsener Bergwerks-Aktien-Verein*—there stood at the head of it great Rhenish bankers and merchants like Deichmann and Mevissen.¹⁷