

1870

Deutsche Bank The Global Hausbank

Werner Plumpe, Alexander Nützenadel & Catherine R. Schenk



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Preface

As we celebrate 150 years of Deutsche Bank this year, we can look back on a long and eventful history. It began with the founding of the bank on the first floor of a nondescript house in a central Berlin street. It spans two world wars and nearly fifty years in which Deutsche Bank had to focus on the domestic German market. And it includes what is, for now, the bank's last chapter in which it re-established itself on the global stage.

Our corporate history has been analysed at great length; virtually no other company in Germany has had – and continues to have – so much written about it. We, too, have looked into our history on several occasions. For example, on our 125th anniversary 25 years ago we became the first German corporate to comprehensively investigate our responsibility during the Nazi era.

So why bring out another book now?

It has a lot to do with our role and our corporate identity. The respected historians Werner Plumpe (Goethe University Frankfurt am Main), Alexander Nützenadel (Humboldt University Berlin) and Catherine R. Schenk (University of Oxford) have analysed our 150-year development by looking at the different phases of internationalisation and globalisation of the economy. This is an approach that couldn't be any more topical for Deutsche Bank. Today we still consider our calling to be that of a facilitator of investment and trade worldwide for German companies – as their global 'Hausbank'. The very first statute of the bank dated March 1870 underlined the great importance of foreign business: the business purpose is 'in particular the promotion and easing of trade relations between Germany, other European countries and overseas markets'.

Accordingly, Deutsche Bank built out its international business rigorously from the very beginning. Within just a few years of being founded it had already opened branches in Yokohama, Shanghai and London. The international expansion was successful. In spring 1914 the *Frankfurter Zeitung* newspaper called Deutsche Bank the 'biggest bank in the world'. It had benefited from globalisation more than virtually any other financial institution, while also being a driving force behind it. Werner Plumpe provides an impressive description of the first phase from the founding in 1870 until 1914. He highlights particularly well where the roots and the strength of Deutsche Bank lie – namely in business with companies. This is precisely the area that we made the focus of our bank last year with our new strategy.

One can only vaguely imagine which alternative course not only the history of Germany would have taken but also of our bank, if two world wars had not originated in Germany. World War I saw a large share of international client relationships terminated overnight, German industry had to focus much more heavily on the domestic market – as did its biggest bank, too.

The history of Deutsche Bank is thus closely intertwined with that of Germany and Europe. The long phase of focusing on the German market shaped the bank's activities until the end of the 1980s. After the end of World War II Deutsche Bank was able to participate in the 'economic miracle' and shape it. But although European integration advanced, banking remained a largely national affair. It's not by chance that we considerably accelerated our international expansion only once the Iron Curtain had fallen. Even though the geopolitical circumstances restricted opportunities for a long time, Deutsche Bank did not abandon its aim to be a global Hausbank, as Alexander Nützenadel describes in the second section of the book.

It is this aim that triggered a new wave of global expansion by Deutsche Bank following the collapse of the Berlin Wall. The takeover of the British merchant bank Morgan Grenfell ushered in an expansion into the global capital markets business in order to satisfy the growing requirements of German corporates.

This development was by no means linear, as Catherine R. Schenk details in the third section. It yielded a number of successes, but there were also serious setbacks. Insufficient controls and excessive growth targets especially prior to and during the financial crisis resulted in missteps and misdevelopments for which we had to pay large settlements and sometimes even fines. We have learned our lessons from the over-exuberance. One of the things we have done during the past years is to introduce far tighter controls in all areas of business. In addition, we as a bank issued an official apology at the beginning of 2017.

That said, it is safe to say that only by expanding since 1989 are we today one of the few European banks with a global network. We are the world's biggest clearer of euro-denominated transactions and the biggest dollar clearer outside the US. We have a unique global infrastructure that sets us apart from all other German and European banks. This makes us a natural, reliable and versatile partner for virtually all German corporates with international operations.

History shows that the recent past has not been Deutsche Bank's most difficult chapter. This great institution has already dealt with serious crises. And one thing it has repeatedly epitomised is resilience. Our bank is today less complex, safer and more robust. In a nutshell, we have performed a radical clean-up. Now we are once again in a position to grow sustainably and successfully. Our strategy, which we announced in summer 2019, builds on our roots. And on what generations of people who worked for our bank have created: for 150 years we have been connecting worlds to help people and businesses get to where they want to be. We continue to be the global Hausbank. And it is our mission to deliver a positive impact – for our clients, employees, the economy and society as a whole.

Deutsche Bank again threw open the doors of its archives to the authors of this new book. And they have succeeded in casting our bank in a new light – on an academically independent basis. Their analyses therefore do not necessarily reflect the opinion of our bank – all the more reason for readers to reflect on and discuss the book's content.

I hope you find the book interesting and a source of inspiring insights.

Frankfurt, January 2020

Christian Sewing
Chief Executive Officer, Deutsche Bank AG

Introduction

The history of Deutsche Bank, which celebrates its 150th anniversary in 2020, reflects both the dramatic international political and economic events through which it operated as well as the volatile path of the German domestic environment. The bank survived and adapted through two eras of globalisation (in the 19th century and the late 20th century), the rise of economic nationalism and dictatorship in the interwar period, two world wars and through many booms and busts in global economic relations. The bank was also deeply affected by the evolution of the German economy and Germany's place in Europe, while also in turn influencing these developments.

The bank originated in Berlin in 1870, during the boom that followed the foundation of the German Empire, and grew quickly in the first phase of globalisation before the First World War. It was in this period that it established its role as an adviser for the innovative and successful German industrial and commercial base and followed its customers into a strategy of internationalisation. In Germany, the model of bank-dependent finance rather than market-led finance created opportunities for Deutsche Bank to be closely embedded in the industrial success of the German economy. In the heyday of globalisation in the late 19th century Deutsche Bank assumed its role as global Hausbank for German industry and commerce. The term 'Hausbank' infers a close and primary, if not exclusive, relationship between a company or enterprise and its bank across a range of services. In Germany's case this closeness was enhanced by banks holding shares in industry and cross-directorships.

Deutsche Bank's original international business model was largely destroyed by the Great War and the thirty years of turmoil and violence that followed. The implications for the bank of Germany's defeat in 1918 quickly became clear: the loss of a large part of its international operations, international branches and investments, but also the erosion in the domestic capital market business. The rise of National Socialism and the renewal of aggression between Germany and its European neighbours ensured that these losses were not merely a brief interruption related to the war and its immediate aftermath. After short-term efforts to regain international business in the interwar period, the bank remained largely restricted to the German territory under Hitler's National Socialist dictatorship and during the Second World War. The global Hausbank of the years before 1914 was transformed into a German universal bank that was primarily reliant on the domestic market. Politics played an ever greater role in the bank's business. During the Nazi period politics became the single determining factor of the bank's strategy. As the most prominent financial institution in Germany, Deutsche Bank was collaborating with the regime, being part of the National Socialist war economy and involved in crimes committed by the Nazis. Even after the end of

the Second World War, it was not possible to return to the older traditions from the period before 1914. The political and economic division of Germany by the occupying powers cut the bank off from its origins in Berlin. In the western sphere, the American occupying power sought to break up the corporate structures of the big banks, which were linked to the armaments and war policies of the Third Reich. The Americans also sought to increase competition in the banking sector. A plethora of smaller regional institutions emerged from the three Berlin big banks – Deutsche Bank, Dresdner Bank and Commerzbank. During the period of Germany's post-war economic recovery, these banks quickly gained importance, but at the same time efforts were directed towards the restoration of larger corporate structures, which was completed by the reunification of Deutsche Bank's successor institutions in 1957. Meanwhile, with Berlin isolated, Frankfurt emerged as the new West German banking hub.

In consequence, Deutsche Bank's post-1957 business model was a different one than before 1914. As the bank no longer had an international infrastructure, its employees concentrated their expertise on domestic business and industrial loans. The continued weakness of the German capital market in the 1950s made it impossible to finance industry through capital market products, which had worked excellently in the pre-1914 German Empire. These restrictions did not, however, seem as important when measured against the stabilisation and expansion of good relations with major industrial clients. Close Hausbank relationships linked corporate customers' foreign trade and investment needs. In addition, various factors contributed to the establishment of permanent equity holdings in industrial firms by the financial services sector and cross-shareholdings between banks and insurance companies. Deutsche Bank, alongside Dresdner Bank, Allianz and Munich Re, was undoubtedly among the most important players in what later became known as 'Deutschland AG' (or 'Germany Inc.')

 and remained as such until the 1990s.

These shifts in the bank's strategy caused by the upheavals of the first half of the century and the specific conditions of Germany's reconstruction were less deliberative decisions or even a strategic repositioning by the bank's top management, even if their actions were of great significance. At the core was entrepreneurial understanding of the market conditions, ultimately created by politics, that gradually narrowed the bank's scope for action after 1914. This was by no means unsuccessful, especially in the reconstruction after the Second World War, and in this respect the bank rightly saw itself at the top of the financial system of one of the economically most important countries in the world on the occasion of its 100th birthday in 1970. But the risks and disadvantages connected with the repeated changes of its profile became apparent with the opening of the world economy in the course of the second globalisation from the 1980s.

In view of the structural changes in global financial markets on the one hand, and the end of the industrial boom in the 1970s on the other, international markets steadily gained in importance. Initially, this was simply due to the sheer volume of money and capital flows (such as Euro- and petrodollars). With stagnating or only moderately growing profit opportunities in the traditional business of trade and industrial finance, and the restructuring of many large companies in the context of intensifying global competition, the importance of capital markets was greatly enhanced. Only gradually did it become clear

that this renewed transition towards an open global economy, which bridged national characteristics, would make serious changes in the bank's business model necessary. At first, in Deutsche Bank and more generally in the European financial industry, there was a reluctance to expand actively internationally, partly because the war-related losses from foreign business were still firmly anchored in the minds of many bankers. Only gradually did the bank adapt to global financial markets by taking its own strategic decisions and setting its own course – measures that did not entail a restoration of the situation before 1914, but were intended to build on the original model of being a leading internationally active bank, with a prominent profile developed through an extensive network of correspondent banks, representative offices, branches and subsidiaries.

But this was all easier said than done. Although the bank had great earning power (not least because of its strong position in 'Deutschland AG') and enormous reserves (including substantial industrial holdings), the loss of international competence after 1914 and the specialisations of the organisational structure and personnel profile, which were typical of reconstruction, were not particularly good preconditions for a powerful return to the competitive international arena. A small number of efficient and highly competitive finance companies dominated global financial markets, particularly American investment banks, which had grown after the Glass Steagall Act of 1933 separated out retail banking from investment banking in the US. These banks particularly thrived during the rapid growth of securities and equity trading from the 1980s onward. Barriers to entry were high for a latecomer, especially for a bank that had been doing most of its business in this market from the sidelines. Deutsche Bank now faced establishing its position in international financial centres where its presence was relatively minor. It was soon clear that the existing organisational and personnel resources would not support the bank's international expansion and its return to the world's major financial markets. This was especially true for the necessary growth of its international capital markets business, where the global standard was now modelled on American investment banking. In consequence, from the end of the 1980s the bank stepped up its international expansion through acquisition (partly by using the proceeds from the gradual dissolution of 'Deutschland AG'), first in London and later New York, and finally worldwide. In this way it was able to become a leading European player in investment banking, especially in securities and derivatives business, but also in foreign exchange trading. Despite initial difficulties, this strategy seemed so successful in the boom of the financial markets before the 2007–08 crisis that it dramatically changed the shape and nature of the entire bank.

As before 1914, after the acquisition of Morgan Grenfell in 1989, London was an important hub for the bank and the centre for the new investment banking operations. New York, where the bank had been represented until the Great War through numerous co-operative agreements and friendly relations with other banks, also became – after the acquisition of Bankers Trust in 1999 – a central location for the now truly global financial conglomerate, catapulting Deutsche Bank into the league of the world's leading global banks. The boom in financial markets after the turn of the millennium was both a curse and a blessing: a blessing because it created an extremely favourable environment for global expansion; a curse because it intensified competition among leading institutions

to such an extent that increasingly risky strategies were pursued in the search for higher returns and greater scale, which ultimately contributed significantly to bloated balance sheets and opaque risk structures. At the same time, the role of investment bankers, who joined the bank in their thousands from the 1990s, became decisive for the bank's strategy. In a highly competitive environment, the true asset of the bank was its people and their ability to compete, to innovate and to win over customers. In investment banking, this required a change in the norms of incentives and compensation that increased the focus on the short term and contributed to the overheating of the business – a shift in strategy whose consequences could not be controlled from the top of the bank in Frankfurt. As long as the results for the shareholder were positive, this seemed acceptable, indeed desirable. But the rapid expansion in the bank's scale and scope created managerial challenges and operational risks that quickly became apparent when the growth in underlying markets abruptly ended.

The bursting of the real estate bubble in the United States in 2007–08 sent shock waves through the global financial system because of the complex web of securitisation that the global investment banks had spun since the 1990s. At first, Deutsche Bank itself appeared to have got off fairly lightly compared to other major banks. However, the crisis revealed the ways in which the bank had extended itself beyond the competence of its governance and operational systems. In the ten years after the crisis, the bank struggled to reinvent itself and return to consistent profit, eventually retreating from global equity trading and reorienting its strategy to the global Hausbank model, with a renewed emphasis on corporate and transaction banking and wealth management.

History shows, of course, that this was not the first time the bank had faced such challenges. Even in the extensive reports by Berlin financial journalists on the bank's 25th anniversary in 1895, it was clear that by no means all the bank's projects went smoothly. But the bank's management repeatedly found ways to learn from its mistakes and had the resources for quite painful write-downs. The banking crisis at the beginning of the 1930s, for example, hit the bank hard. In contrast to other banks, Deutsche Bank was able to recover from the crisis relatively quickly and had to make only limited use of state aid. During the Nazi Third Reich this proved to be an advantage and gave the bank a higher degree of autonomy than was the case with Dresdner Bank, for example. In May 1945, however, it was on the brink of ruin, a fate shared with the entire German economy. But the bank succeeded in finding its way back to the top of the German financial system by mobilising its remaining resources, and taking advantage of the favourable circumstances of the rapid post-war economic recovery. This gave the bank a reputation for resilience that was to be tested in the next century.

The history of the bank was and is anything but a simple success story, and it has not been portrayed as such in earlier anniversary volumes, even though each time period has left its mark on these depictions. The milestone birthdays in 1920 and 1945 were not times for celebration. The commemorative *festschrift* for the 100th birthday in 1970, written by the financial journalist and archivist of the bank, Fritz Seidenzahl,¹ took a critical but positive look at the bank's early history, the First World War and the

¹ Fritz Seidenzahl, *100 Jahre Deutsche Bank 1870–1970*, Frankfurt am Main 1970.

early 1920s, which was borne out by the self-confidence of the bank's reconstruction success. On the other hand, the description of the Great Depression and the banking crisis failed to stand up to critical scrutiny, as is also the case for the cursory treatment of the role of the bank during the Nazi dictatorship and the Second World War. This was already of great concern to the general public back then, when attack and defence were in balance for a while.² Eventually, however, it became increasingly clear that such deliberate 'silence' could not be justified. Not least to make up for these obvious omissions, a much-acclaimed scholarly account followed for the 125th anniversary of the bank in 1995. This substantial collection of essays not only met the expectations of the German and American public through Harold James' critical reappraisal of its history in the Third Reich, but also set a milestone in German business history.³ Acting as a role model, the leading company of 'Deutschland AG' no longer dodged a reappraisal of its history during the period of National Socialism nor played it down, but instead gave independent historians the opportunity to examine precisely this problematic period of the bank's history and to present the results of their work to a broad public.

Now, on the occasion of the bank's 150th anniversary, the circumstances have once again changed and other, quite new questions about the history of the bank have become urgent and are taken up with this account. On the initiative of the Historical Institute of Deutsche Bank, the concept underlying this book was developed as early as 2015 together with a team of authors consisting of economic, financial and business historians. What is new is not only that the international dimension of Deutsche Bank's activities is given a prominent role from the very beginning. Another new dimension is the ability to address the bank's history over the past 25 years in the context of its longer term historical evolution. At the same time, it is possible to identify continuities and discontinuities which are discernible right up to the present. This inevitably shifts the overall perspective. The turmoil in the decade after 2008 highlights turning points in the history of the bank that were less obvious at the beginning of the 1990s and even less so at the end of the 1960s. Today it is clear that the period between the beginning of the First World War through the end of the Cold War was a period of politically determined market structures and that politics played a decisive role, in many important respects, in defining the bank's scope for action. This was not only because of the destruction of the international division of labour and open capital markets between the wars, but also due to the creation of the European economic area and its increasingly intensive institutional regulation since the 1950s. On the other hand, in the periods before 1914 and since 1989 the prominence of political factors was different in essential respects. Politics certainly played a role in the period of the German Empire and is by no means insignificant for business development today – even in the present, with the instability of the Eurozone and the emergence of a kind of Neo-Mercantilism in the United States, new political fractures are looming, whose medium-term significance are certainly hard to envisage. For the bank, however, the politically determined turning points between 1914 and 1989 had even more far-reaching implications. In this period, the bank's

² Martin Walser, Ist die Deutsche Bank naiv?, *Der Spiegel* 35/1970; Wilhelm Treue, Eine (deutsche) Bank, zwei Geschichten, *Die Zeit* 33/1970.

³ Lothar Gall *et al.*: *The Deutsche Bank 1870–1995*, London 1995.

business model had to follow political requirements that did not exist before 1914 and are hardly tangible after 1989. The bank was able to adapt to the change in underlying conditions, including the emergence of freer global economic structures after 1945 (at least in the western hemisphere). It also succeeded in continuing its operations successfully in West Germany. However, considering the foundation and the development of the first decades, this era was distinct from the fundamental identity of the company, which always understood itself as a global actor and consequently acted as such.

In some respects, Deutsche Bank returned to its historical roots after 1989, but under completely different conditions. These altered conditions did not necessarily mean greater risks than in the period before 1914. The volume, tempo and technological capabilities were certainly on a greater scale than during the first era of globalisation, but the risk of losses on the American or Asian market was always only too well known to the bank's directors before the First World War. Yet before 1914, while business was global, the bank itself and its milieu, as well as that of British, French and American institutions, continued to be nationally inflected, despite the fact that bankers of the pre-war era were already a kind of cosmopolitan elite. While today the national milieus in global finance have retreated somewhat in favour of a more homogenous global investment business culture, the times before 1914 and after 1989 are nevertheless more similar than the short 20th century in between these dates, in which the political implications of the two world wars and the Cold War that ensued created 'camps' which were only partially capable of cooperation among themselves.

This tripartite division of the period of one and a half centuries is the starting point for the study. Throughout, the bank is understood as a financial actor that was unable to escape fully from the changing external economic and political market conditions. In some cases, the bank attempted to influence market developments, making use of its multiple political and economic relationships. However, the bank's power and influence should not be overestimated. In much of the existing literature, the bank has been characterised almost as a spider at the centre of a web, shaping economic and political conditions. But this clearly misrepresents the character of the institution that had to respond to difficult and changing market conditions. The bank usually followed the markets, not the other way around. As much as there was lobbying on the one hand, as much as politicians were keen to use the bank as an ally and even as an aid to its foreign policy ambitions, the bank was not eager for political significance unless this fit in with its business needs. Individual bank directors may have had political convictions and stood up for them; the bank's day to day operations were rather indifferent to this, and the directors, who were always bound by collective decisions anyway, knew that the bottom line held the last word.

Accordingly, each major chronological section first examines the question of how the bank understood and defined its scope for action and developed its strategy under the prevailing market conditions and competitive context. Moreover, the bank's strategic orientation was closely linked to the evolution of the structure of the organisation and its personnel, which supported and enabled each other. We place particular emphasis on the importance of the bank's early internationalisation, which began in London and East Asia in the 1870s and soon also in Latin America, as well as its very early

willingness to be present in Germany in important commercial centres outside Berlin. Strategy and organisation determined the ability to identify and exploit opportunities for action, both in deposit-taking and lending business, in its international presence and in national operations. This global ambition re-emerged in the 1980s partly as a defensive strategy to retain the bank's customers in Germany, but also to follow the huge short-term revenues available in the new global securities trading environment. This in turn transformed the structure, personnel and operations of the bank.

The division of the bank's history into three main phases was also a deciding factor in the choice of authors, as it was less a matter of setting out technical banking details than of tracing historical lines; of examining the processes to handle and manage changes, over which the bank itself often had limited influence. The focus is on aspects of business and economic history in the parts written by Werner Plumpe and Alexander Nützenadel, while Catherine R. Schenk's exploration of the bank's structural change in the context of renewed globalisation reveals more recent perspectives on financial history. The differences between the sections are therefore easy to notice, but there are also continuities as each section addresses questions of organisational and personnel development, the image and public reputation of the bank. Although the authors wrote their contributions on behalf of the bank, they were scientifically independent and were able to explore the themes that they chose without interference. Importantly, the views of the authors do not necessarily reflect the views of the bank's management. To support the project, the bank made great efforts to make all the documents requested available as far as possible, thus resulting, for the first time, in the history of a bank based on extensive archival records almost up until the present. Inevitably, the legal repercussions of more recent episodes have constrained the details that can be disclosed, but this does not affect the overall arc of the narrative. We benefited hugely from the work and advice of Martin L. Müller, director of the Historical Institute of Deutsche Bank. Matthias Kemmerer provided invaluable day-to-day support facilitating the work with the sources, frequently offering constructive criticism and useful suggestions. Moreover, the staff of the bank's Historical Institute were decisively involved in the selection of images, without which the book would have much less lustre and vividness. The archive of the Historical Institute of Deutsche Bank is a crucial resource for understanding the development of the German economic and financial system as well as providing scholars with the records of a key player in the development of the global economic system. Without it, our collective understanding of the course of world history would clearly be weakened in many ways.

In addition to the extensive written sources, leading former and active managers of the bank were available to Catherine R. Schenk as contemporary witnesses for extensive discussions.

At a workshop at the University of Frankfurt am Main in July 2018, the authors were able to present their concept to a larger group of experts and discuss it critically. Their suggestions have been incorporated into the manuscripts. All participants of this meeting deserve our thanks.⁴

⁴ The participants present in addition to the three authors were Ralf Ahrens, Boris Barth, Harold James, Jan Pieter Krahn, Mary O'Sullivan, Morten Reitmayer, Jörg Rocholl, Friederike Sattler, Reinhard H. Schmidt and Cornelius Torp.

Ian Hallsworth from the Bloomsbury Publishing group was very committed to this project, as was editor Allie Collins and copy-editor Richard Collins, who reviewed the manuscripts and gave important hints on how to improve them. Patricia C. Sutcliffe, Sally Hudson Dill and Andrew Evans did an admirable job in translating the sections by Werner Plumpe and Alexander Nützenadel from the German. It goes without saying, of course, that the authors alone are responsible for any remaining deficiencies.

Werner Plumpe
Alexander Nützenadel
Catherine R. Schenk

**IN THE AGE
OF THE FIRST
GLOBALISATION,
1870-1914**

WERNER PLUMPE

I. The Founding of Deutsche Bank and the Beginnings of the Business, 1870–1875

1. The Beginnings of the Industrial Boom

‘What’s breaking into a bank compared with founding a bank?’¹ asks the bandit Mack the Knife in Brecht’s *Threepenny Opera* at the end of the 1920s. In saying this, he is trying to suggest – not very subtly – that the banking business is no more honest than robbing a bank, but certainly more profitable. With a bank, one can make money, in some cases lots of it; in the nineteenth century at least this was not controversial and successful bankers like the Rothschilds even managed to acquire wide public recognition. The problem was more how one ought to begin such a business. Brecht does not mention this; rather, he simply implies that if you found a bank you will become rich. But it is not as straightforward as that. The nineteenth century knew this, and the twentieth century knows it, too. There are as many new banks being founded as there are bank crises and bankruptcies. Big names in the world of finance have already evaporated into thin air – and by no means only as a result of major crises. Day-to-day business, too, overtaxed many banks that failed to consolidate their business, made dubious investments, or took risks that ultimately turned out not to be justified.

Even if founding a bank may still be relatively easy, managing one successfully certainly is not. There is no obvious path to success, and, if achieved, nor is it guaranteed to last. The conditions of the banking business are constantly changing. Recipes for success from the past may not help in the future; it can even be a disadvantage if one hangs on too tightly to a successful past and fails to shift in time to take a new course. And even the business of founding a bank can be difficult. In the middle of the nineteenth century, there were considerable barriers to founding a bank. The financial sector was by no means underdeveloped; there were numerous relevant institutions, including private banks in which bankers conducted banking business with their own personal assets, mostly concerned with extending credit, trade finance and financing governments. Those who lacked the necessary assets and, above all, had no relevant expertise had little prospect of opening a profitable banking business. It was very different from what Brecht imagined it to be: without already being wealthy, you could hardly become a successful banker. And even that would not have been enough by itself: without sufficient experience, on the one hand, and without the relevant public reputation, on the other, the banking business was doomed to fail from the outset. Almost all

the large private banks followed a tradition – often based on their family – that ranged from beginnings in regional and supra-regional trade and simple loan transactions up to the high art of state financing. Above all, the Rothschilds embodied this combination of affluence, family and experience, with the generations involved in managing the business always striving to maintain it.² It was no different with banks like Bethmann in Frankfurt am Main, Mendelssohn, Bleichröder and Warschauer in Berlin or Warburg in Hamburg. Keeping the family together was by no means a trivial matter, either, because the banking business was passed down both in terms of assets and knowledge. It was not possible to get a formal education along these lines outside the private banks. The families' sons or very promising candidates, often related in some way, initially learned in their own bank and continued their 'education' in friendly banks in international locations, preferably significant ones, before they finally returned home to their fathers' banking businesses. At the same time, marital ties among banking families were pursued. It was not uncommon for sons and daughters of bankers to marry into other banking families; indeed, in certain families, there was an unspoken, but also sometimes openly expressed, expectation that their children would find a way to make personal interests and business prospects work together in harmony. All in all, the European and, at least partially, also the American banking world was not necessarily a 'closed shop' in the final analysis, but it was a very homogeneous world of a few families, which were quite often related by marriage. To succeed in this environment was not impossible, but it was certainly quite difficult. Above all, newly founded banks hardly managed to penetrate state financing, the 'Holy Grail' of big banking business, for a long time because you had to have good connections and correspondingly great financial strength in order to do so. Without the comprehensive change in the structure of the economy that was associated with the emergence of industrial capitalism in the middle of the nineteenth century, the rise of new banks would hardly have been conceivable. Only the emergence of major industry generated new conditions for financing; initially with the great railway projects and later in the industrial sector there were financial squeezes that could not be handled by private bankers alone. Private bankers still played a considerable part in the founding of railway corporations, and stock market transactions and bond issues also fitted well with their previous practices, but the mobilisation of capital for the ongoing operations of industry, and, thus, especially of working credits and long-term financing, were not necessarily to the taste of traditional institutions. Consequently, alternative models came into being, of which the founding of *Crédit Mobilier* by the Péreire brothers in Paris became an archetype because in this case, an incorporated bank – new in and of itself – engaged in 'crowdfunding' for the first time on a large scale; that is, it used wide-ranging deposit banking as the basis for expanding its lending business in the industrial sector. This seemed like a model for success but was also very risky because the share capital of the bank was limited and would hardly have been sufficient, in the face of a crisis, to satisfy all the depositors if there were larger defaults. In the end, the Parisian bank failed for precisely this reason, despite the consistently favourable support of the French government. In 1867, it was liquidated.

But no one could have known this when the bank was founded in 1852. Far from it: *Crédit Mobilier* was fascinating. The French model attracted a great deal of

attention east of the Rhine as well, although it was not yet held in high regard. On the contrary, the Prussian government, above all, considered this sort of banking business to be highly speculative. As it was restrictive in the licensing of joint-stock companies anyway, between 1848 and 1870 the Berlin government consistently rejected all attempts to establish incorporated banks based on the French model in Prussian territory. The first incorporated banks in the 1850s, therefore, were not established in Prussia but, rather, in other German states, such as in Darmstadt, Gotha, Hamburg and Hanover, or in Austria. Some of those interested in such banks in Prussia, among them merchants from the Rhineland and members of Berlin's high-finance sector who recognised the growing financial needs of industry, which was expanding considerably in the so-called *Gründerjahre*, or founders' years, tried to avoid this problem by founding limited partnerships, and in this they were quite successful. Disconto-Gesellschaft (1851), founded by David Hanseemann, and Berliner Handels-Gesellschaft (1856), whose founders came from the big private banks of Berlin, combined some of the traits of the older private bankers – company owners who were personally liable with their own capital contributions made up their management boards – and the variant of a joint-stock company (*KGaA – Kommanditgesellschaft auf Aktien*, partnership limited by shares). Subsequently, both banks were heavily involved in the field of industrial financing, sometimes even taking on the management of industrial companies or holding larger equity stakes in companies in their own portfolios in order to be able to list them later on the stock market under more favourable conditions.



*David Hanseemann (1790–1864),
the founder of Disconto-Gesellschaft.*

In light of the economic boom of the era during the tremendous industrial expansion of the 1850s and 1860s, this was not a bad business. Towards the end of the 1860s, however, this boom began to take on highly speculative characteristics. Because of rising share prices, more and more joint-stock companies were being founded, and existing companies were being transformed into joint-stock companies. When stock corporation law was liberalised in June 1870 within the North German Confederation, which meant that the licensing requirement for joint-stock companies was also dropped in Prussia, such company transformations became easier, and incorporated banks could now also be founded that dealt primarily with transforming companies into stock corporations and, thus, engaging in stock price arbitrage in a big way.³ This form of business, called *agiotage*, was quite popular. Beginning in 1870, a multitude of new incorporated banks sprang up, often in the form of so-called brokerage banks,⁴ whose essential purpose was to profit from the potential founding earnings in the stock market boom. With the business practices of some of these banks, one is reminded of Bertolt Brecht's cunning protagonist Mackie the Knife. Whereas in the entire period before 1870, joint-stock



Political cartoon about the Panic of 1873 in the satirical magazine Kladderadatsch.

companies with 9.2 billion marks in capital were founded in Prussia, those founded between 1870 and 1874 alone managed to reach the dizzy heights of 12.87 billion marks.⁵ This could not turn out well. The *Gründerkrach*, or the Panic of 1873, put an early end to this boom. The majority of the brokerage banks had to shut down almost as quickly as they had opened. But even many reputable banks that had participated in the speculative investments of the founders' boom, and had bet on a persistent rise of the numerous new industrial joint-stock companies, were now a shambles. The Panic of 1873 and the founders' crisis left considerable dents in their balance sheets and severely depressed their stock prices. The stock value of Disconto-Gesellschaft was almost halved between late 1872 and late 1873; Darmstädter Bank für Handel und Industrie and Berliner Handels-Gesellschaft, too, had to cope with serious drops in their stock prices. Dividends were drastically reduced or had to be discontinued altogether, as in the case of Berliner Handels-Gesellschaft.⁶

2. The Idea of a German Bank for World Trade

When Deutsche Bank was founded as an incorporated bank in March 1870, it is not altogether surprising that the public assumed it was merely another agiotage bank. But the men who had already been planning the founding of Deutsche Bank since the late 1860s were not driven by the wave of speculative investments. In any case, they represented banks and trading companies that either took part in this boom, or could have done so if they had wanted to. The motives behind the founding of Deutsche Bank were altogether different. They were an expression of the economic boom of those years, but they had a different starting point. The rise of German industry, which, as we have seen, grew significantly and extensively in the 1850s and 1860s – commercial production alone doubled between 1850 and 1870⁷ – was closely associated with a corresponding expansion in German foreign trade. The demand for imports of raw materials rose dramatically. At the same time, German exports increased as well, with commer-

cial products playing an ever-greater role. Imports rose from 545 million marks to 2.188 billion marks between 1850 and 1870, whereas exports grew from 522 million to 1.967 billion marks in the same period.⁸ All in all, therefore, foreign trade increased in this period even more than the gross domestic product. There was clearly a great business opportunity in the financing of foreign trade, but also in the expansion of the large infrastructure associated with trade, which German companies had barely taken notice of up to that point.⁹ Moreover, it was obvious that the expansion of the global economy – the growth in foreign trade was by no means limited to Germany – was not a transient phenomenon. It was the beginning of a new age.

Even if it would be wrong to speak of this period as a first wave of globalisation, the character of the global economic division of labour nonetheless changed. New transportation possibilities, be they now railways or steamships, meant that distances were shrinking; travel times dropped dramatically, transport costs declined significantly, worldwide price differences levelled out – a unified global economy at least appeared on the horizon as a future possibility.¹⁰ At the same time, the nations of the world all knew more about each other. Undersea cables connecting Europe and America made it possible to exchange information between the great world trade centres in New York, London and Hamburg within minutes – communications that had previously taken days or weeks. Telegraph cables were not limited to the Atlantic, but were soon connecting all the important locations of the global economy with one another; the Near and Middle East were included just as India, China, and Japan were, not to mention Australia as an important outpost of the British Empire.¹¹ Although the global economic boom of the 1850s and 1860s had contributed, in any case, to intensified international trade, it was additionally spurred on by more than technological innovations; there were other factors of great significance. The discovery of gold in California and Australia favoured a significant expansion in the money supply, originating in Great Britain, where the



A centre of German foreign trade: the Port of Hamburg around 1870.

gold standard had been implemented. The basic deflationary tenor of the years before the Revolution of 1848 was over. And the end of the American Civil War, which had brought cotton export from the Southern US states to a standstill, normalised Atlantic trade. Thereafter, extensive cotton exports from the same states were resumed, quickly reaching their old level; before the Civil War, cotton imports had been the single greatest item of the German import balance and would soon become that again.¹² It was not lost on close observers that it was foreign banks that provided German exporters and importers with the necessary loans for financing foreign trade in exchange for good interest rates and commissions. After the founding of Deutsche Bank, there was talk of 50 million marks being lost to the German national economy every year on account of there being either no domestic finance infrastructure for foreign trade or only a very rudimentary one. Franz Urbig, who would later become proprietor of Disconto-Gesellschaft and after the merger in 1929 was Chairman of the Supervisory Board of Deutsche Bank and Disconto-Gesellschaft, even estimated the sum of commissions flowing to England alone in the mid-1880s at £5 million, which would have amounted to about 100 million marks. The volume of credit behind this, which German trading firms were perpetually taking advantage of, he even estimated at £300 million.¹³ This was a tremendous amount of business that German banks were allowing to slip away. The few institutions, such as traditional private bankers in Bremen and Hamburg, who got involved at all were dependent on assistance from the London banks as long as bills of exchange denominated in German currency could not be discounted internationally. Thus, there were obviously considerable opportunities in this which, if properly exploited, seemed to promise high returns. This was shown in the successes of the large London merchant bankers and Paris's Comptoir d'Escompte, which often also carried out their business with German employees.¹⁴

The memoirs of Hermann Wallich, who worked for overseas branches of Comptoir d'Escompte from 1863 to 1870 and would become an influential figure at Deutsche Bank in its first decades, provide not only an accurate reflection of these business opportunities, but also of the difficulties that representing a bank on Réunion or in East Asia on a daily basis entailed at that time.¹⁵ Wallich's biography also presents a prime example of how closely connected the European banks between the Rhineland, Paris and London, and above all, their personnel, already were, precisely because of the financing of international trade. This was because in order to be able to take part in international financial transactions of any kind, the respective banks had to depend on partners with whom they could co-operate at key locations of world trade.¹⁶ Such connections were absolutely vital to the private German bankers; the close relationship between Bleichröder, the leading Berlin bank at the time, and the Rothschilds of Paris may serve as proof of this in this context.¹⁷ In the Berlin circles that were pushing the idea of founding a foreign trade bank in the late 1860s, these conditions were known; indeed, they were part of everyday conversation because both of the two leading thinkers in the founding circle of Deutsche Bank, Adelbert Delbrück and Ludwig Bamberger, had relevant experience. Adelbert Delbrück was the head of a private bank and Ludwig Bamberger came from a Jewish banking family from Mainz and was a member of the customs parliament, or the North German Reichstag, and, before that, had been a banker in Rotterdam, London

and Paris.¹⁸ That the idea of becoming active in financing foreign trade suggested itself is evident, moreover, in the fact that other simultaneous initiatives pointed in the same direction, above all the plan to found the Internationale Bank in Hamburg. The background was most probably the same as Ludwig Bamberger attributed to the founding of Deutsche Bank in his memoirs:

Some coincidence or another initially brought about the first connections with Brazil, and these built upon a series of others, namely, with the La Plata states. A large part of these, as well as the East Asian transactions that also flowed in, always had to be directed through London, where the loans were opened and the products were consigned, and these experiences gave the impetus for me, when Adelbert Delbrück [...] spoke with me upon my first longer stay in Berlin at the end of the Sixties about the business of founding a Deutsche Bank while asking me to participate in its formation and organisation, to willingly engage with this in respect of the expansion of German banking business in transatlantic areas that would need to be achieved, for which I was confident I had some knowledge.¹⁹

Thus, it was the private banker Adelbert Delbrück, the head of the bank Delbrück, Leo & Co., and, furthermore, the cousin of the head of the Reich Chancellery, Rudolf von Delbrück, who got the ball rolling. The co-operation with Ludwig Bamberger made sense not only because of his experience in the international banking business. Bamberger was also an influential liberal politician, who had quite a history of revolutionary activity, whose competence, above all in the field of currency and monetary policy, was considerable. Since the late 1860s, Bamberger had sided with Bismarck,



The founders: Adelbert Delbrück (1822–1890) and Ludwig Bamberger (1823–1899).

not only defending Bismarck's policies before the French public but also becoming an influential adviser to him during the war of 1870–1.²⁰ It would surely be going too far to attribute direct political influence to the founding circle of Deutsche Bank around Delbrück and Bamberger. Yet both men were held in very high regard by both the chancellor of the North German Confederation and the Prussian prime minister Bismarck. Bismarck had set aside his old differences with Bamberger during this time, although he never really warmed to Johannes von Miquel, who was likewise an influential National Liberal politician and banker and, for a time, a member of the Management Board of Disconto-Gesellschaft.²¹ Bamberger's position of trust with Bismarck, though, was probably not only favourable to the process of obtaining a concession for Deutsche Bank; his currency and monetary policies in the early 1870s were also decisive for its further development.²² One roadblock to German banks becoming involved in international banking was the lack of an internationally recognised German currency. Even in the area of the Customs Union, which more or less corresponded to the later Reich territory, no uniform currency had really been achieved. When the German Empire was founded, there were, in fact, still six different currency zones in Germany, which had already seriously impeded national economic exchange, not to mention the difficulty these currencies presented for participation in international trade.²³ Ludwig Bamberger was one of the staunchest advocates for transitioning from the federally fragmented bimetallism with its numerous gold and silver coins and various denominations to a gold standard orientated around the British model. In his book *Reichsgold*,²⁴ published in 1876, he presented himself as an ardent supporter of gold, which, he claimed, provided a guarantee and was also a prerequisite for smart fiscal policy and for a bank system capable of withstanding resistance.²⁵ In Bamberger's view, the gold standard had two advantages: it forced governments to have cautious monetary and fiscal policies, and it rendered the German currency capable of competing internationally, even though the mark did not achieve an equal footing in the leading financial and capital markets before, at best, 1900. This was a crucial point for the business policy of the banks, and Deutsche Bank remained entirely loyal to its founder in its defence of the gold standard against its key critics. Karl Helfferich, who was promoted to the Management Board of Deutsche Bank in 1908, owed his career not least to his energetic defence of Ludwig Bamberger's life's work; Helfferich was closely allied both personally and in terms of his programmatic positions to Bamberger.²⁶ To a certain extent, therefore, the bank inherited a left-liberal legacy. Adelbert Delbrück, too, had after all been a member of the Progress Party and had been involved along these lines in municipal politics in Berlin as well as in the Management Board of Deutscher Handelstag (the German Chamber of Commerce). This inheritance shaped Deutsche Bank's political positioning because its advocacy of a liberal monetary and fiscal policy was oriented towards the gold standard; in addition, its support for international trade that was as free as possible and tied to the liberal tradition put it at odds with the agriculturalists as well as their political representatives, namely the conservative parties. Thus, the liberalism embodied by the bank by no means merely expressed the convictions of its early representatives but, rather, to a certain extent also followed their interests, which stood to profit from a restrictive trade policy just as little as from lax and undisciplined monetary and financial policies.

3. From the Idea to the Initiative

The project Adelbert Delbrück initiated to found a bank for foreign trade began in rather auspicious circumstances. The economic situation was good, the general conditions for an initial public offering (IPO) were promising and the circle of potential supporters and interested parties was anything but small. However, Delbrück was aware that the founding of a new institution would not necessarily be well received by the established banks. Thus, it made sense to signal that this new initiative would not compete with the existing banks. On the contrary – they were prompted to either directly or indirectly participate in the establishment of a bank that was supposed to deal in a business field that, until then, had hardly been addressed, and not at all from Berlin. For banks that were not active in cross-border trade or were not able to become active in this field, participation in this sort of a specialised institution must have been an attractive prospect. The initiators advertised this project ‘[t]hrough confidential discussions and letters in the circles initially most interested’.²⁷ The founding circle expanded bit by bit, especially because many of the men who were experienced in the international exchange of goods appeared to be quite open to the idea. Clearly, Delbrück and Bamberger had hit upon an important issue, even though they never managed to establish the co-operative agreement with Berlin’s leading bank Mendelssohn & Co. that they had aimed for. Yet private bankers and major merchants from Berlin, Frankfurt, the Hanseatic cities and Elberfeld with the surrounding Bergisches Land and Rhineland all belonged to the founding committee, and they at least also maintained close relationships in the international business world, particularly in the United States.²⁸ In New York especially, the crucial founders who had already known one another for a decade before the bank was founded had crossed paths.²⁹ The Bremen merchant Hermann Henrich Meier also had an abundance of experience in the United States.³⁰ He had been employed there in the 1830s in his father’s trading company and had staunchly advocated the importance of trade and the shipping industry between Bremen or Bremerhaven and the United States. In 1857, he was counted among the co-founders of Norddeutscher Lloyd. Meier was also the person who, after an initially positive reception, had recommended an expert for the overseas business, who was commissioned to write a memorandum about the structure and tasks of the envisaged bank. The Dutchman Gustav Dufresne was chosen.³¹ In 1863, he had opened an agency in Batavia, at that time Dutch India (and Jakarta today), for the Chartered Bank of India, Australia & China, which had its headquarters in London. In 1867, he had returned to Amsterdam.³² Thus, after many years of experience, he was familiar with the East Asian market, which would become one of the business fields of the planned bank. The aspiration of the bank that was to be founded was clearly spelled out in the memorandum. It had something to do with utilising the opportunities that the strong growth in German foreign trade seemed to afford such an institution, and, thus, it was explicitly about breaking the dominant position of British banks in the financing of German foreign trade by establishing a German institution that would compete with them. Dufresne listed the financial successes of the British Oriental Bank, the Chartered Mercantile Bank of India, London & China, the Chartered Bank of India, Australia &

China and the Hong Kong & Shanghai Banking Corporation, but, above all, also of the French Comptoir d'Escompte, which, he noted,

has been opening establishments in East India, China, and Japan for 8 or 9 years and – though dispensing with the support of reputable French banks in various locations in the East, [...] the operations of these branches are achieving such brilliant results that the management in its last annual report wished to point to the establishments in India, China and Japan as an essential support of this tremendous creation of the year 1848. In this time period from 1 July 1867 to 15 June 1868 the branches in Calcutta, Bombay, Hong Kong, Shanghai, Réunion and London earned a total sum of c. frcs. 4 250 000 for Comptoir d'Escompte in interests and profit and the last annual report particularly emphasises the high value of the branches in times when low discount rates in Europe would have significantly reduced the profits, if the branches had not offered this compensation.³³

Dufresne also projected similar profit prospects to the founding circle in relation to the proposed bank project.

The financial incentives were framed in a national rhetoric that accompanied the founding of the bank from the beginning. In this and all the following narratives, the interest of the institution to be founded, which by the summer of 1869 already bore the name 'Deutsche Bank', was equated with the interest of the country.³⁴ In this respect, the naming of the bank was already part of the programme,³⁵ and playing the patriotic card in representing one's own interest quickly became routine, not least because the spirit of the times between the wars of unification and the founding of the Reich was particularly conducive to this sort of talk of the fatherland. However, the founders



A model for the founding of Deutsche Bank: Comptoir d'Escompte, which financed French foreign trade with its branches in India and East Asia. The branch in Shanghai was led from 1867 to 1870 by Hermann Wallich, who transferred after that to Deutsche Bank in Berlin.

were clearly aware that the matter had to do with a private bank asserting itself in a competitive international field of business. The national rhetoric may thus have helped in the German public, but in some circumstances it involved more disadvantages from a business perspective. For example, from the outset the bank was open to international co-operation and also stated this in the memorandum in a way that did not preclude the possibility of international investment in the share capital of the new bank: 'But exclusively German participation is not needed to support the company, which should take a cosmopolitan point of view.'³⁶ This was not just empty talk. Later, as well, responsible executives of the bank were always clearly aware of the meaning that cross-border co-operation implied. They were entirely self-confident as Germans and also defined themselves clearly in relation to the national market, yet the entanglement of this market in the world market likewise conditioned the bank's international involvement. Thus, even in the 1890s, Georg Siemens, Deutsche Bank's Spokesman, was able to state matter-of-factly that he did not wish to participate in an initiative to support the development of a Kaiser Wilhelm Library, and thus Germanness, in Posen: 'We are not national, but international.'³⁷

This openness was simply a condition for international co-operation, which was of necessity closely associated with the financing of foreign trade. The founding committee, which was formed in the summer of 1869, was, consequently, anything but nationally narrow-minded. Victor von Magnus, the head of the Berlin bank F. Mart. Magnus, had assumed the chairmanship. Thus, a renowned individual held the reins and thoroughly concealed the fact that the notable bank Mendelssohn was not willing to enter into a co-operative agreement, particularly since the committee had another Berlin private banker in the shape of Adelbert Delbrück. The other members of the founding committee were mostly active in the international sphere as private bankers or merchants, individuals such as Hermann Zwicker from the Berlin bank Schickler & Co., and Adolph vom Rath, the co-proprietor of the Cologne bank Deichmann & Co. The merchant Gustav Kutter was not necessarily known to the German public. He had gone to New York in around 1850 in order to found the dry goods suppliers Kutter, Luckemeyer & Co. with his business partner Eduard Luckemeyer.³⁸ Twenty years later, the company had agencies in New York, Zurich, Lyons and Berlin. In addition, Kutter was the discreet representative of the overseas interests of the Frankfurt bank Sulzbach. This private bank would also play a prominent role in the founding of Deutsche Bank as it gathered Frankfurt investors, thus becoming the largest single shareholder of the new bank. Gustav Müller was hardly less important; after two decades as an export merchant in Szczecin, he had settled in Berlin as a private banker in 1865. He had valuable ties with the south-western financial scene and represented 162,000 thalers' worth of shares, including his own shares, comprising about 10 per cent of the capital, which included the voting rights of Köster & Co. in Mannheim, Bamberger & Co. in Mainz, and Königlich Württembergische Hofbank in Stuttgart. Like many in the founding circle, he was also politically active among the National Liberals, and he was a representative for several years respectively in the Prussian state parliament, the Reichstag of the North German Confederation, the Customs Parliament and the first all-German Reichstag.³⁹

If one adds Ludwig Bamberger to this group, it completes the picture. A circle of nationally and internationally active private bankers and wholesale merchants who were already closely connected and mostly had liberal backgrounds got down to the business of conquering a field of business – which was obviously lucrative – by founding a new bank as the respective investors alone lacked the capacities and competencies. And because the conditions for founding an incorporated bank, as noted above, could not have been better, they seized the moment and sent out invitations for a sort of founding assembly in Berlin that would take place on 22 January 1870. There, a temporary Administrative Board with 10 members was elected. This was in accordance with the draft of the company statute, which stipulated a division of labour between the Administrative Board as the authoritative body for the owners and the directorate as the body that would manage operations. Later, the Administrative Board came to be known as the Supervisory Board, and the directorate became the Management Board. In addition to the seven members of the founding committee, three other figures with experience in international business were also members. One of these was the Altona merchant Wilhelm von Pustau, the owner of the trading company of the same name and who, in 1845, had simultaneously opened a branch in Canton and the first German trade agency in China.⁴⁰ The merchant Hermann Marcuse was even more significant; from his retirement home in Rheingau, he nonetheless held the third largest block of shares of Deutsche Bank. As early as the 1850s, he had worked as a banker in New York. As a shareholder in the 1860s, he formed the New York bank Marcuse & Baltzer, which the *New York Times* called one of the leading foreign banks in the United States.⁴¹ After the American Civil War, he returned to Germany having retired and created, among other things, the Special Administrative Council for Europe of the Germania Life Insurance Company of New York together with Eduard von der Heydt, Heinrich Hardt and Friedrich Kapp; the company had established a branch in February 1868 in Berlin, thus expanding quite successfully to Europe.⁴² Like Marcuse, the private banker von der Heydt, the cloth merchant and National Liberal politician Hardt and the journalist Friedrich Kapp had been active in business in New York since the middle of the century and would be members of the circle of founders, or first members of the Administrative Board, of Deutsche Bank.

The founding assembly also approved the draft of the company statute, which listed the purpose of the founding of the bank, alongside ‘conducting bank transactions of all kinds’, above all as the ‘fostering and simplification of trade relations between Germany, the other European countries and overseas markets’.⁴³ The first of these was rather a severability clause so as not to saddle the bank with any unnecessary restrictions, but the second point was more germane to the matter. This is where the clear focus of the future bank was to lie. The first financial advertisement of Deutsche Bank after it received its licence, which appeared in the *Frankfurter Zeitung* edition of 24–25 March 1870, also made this abundantly clear:

The purpose of the company, whose statute was approved by His Majesty the King of Prussia on 10 March 1870, is to supply the German capital market with extraordinarily rewarding and secure money transactions, which is required by the

ever more powerfully developing trade in goods between Germany and overseas markets, and to secure the position for German capital in the tremendous world trade that it is entitled to on account of its significance in Europe. For this purpose, the bank is authorised to found agencies, branches, and subsidiaries both at home and abroad. The firms and institutions active in this business field in England and France show glowing results of their activity.⁴⁴

There it was, this patriotic tone that equated the interests of Deutsche Bank unequivocally with the growth of the German capital market. Competitors may well have read these grandiose announcements with rather mixed feelings; the business press's first reactions to these announcements were also quite lukewarm, as we will see below. Naturally, it was not dishonest because it was quite obvious that the new bank, as with the foreign banks that looked on enviously, wanted a big slice of the pie that was international trade financing. By contrast, the indication in the financial advertisement that the new company also intended to 'conduct banking transactions of all kinds, such as those that have proven to be very successful for the other similar banking institutions in Germany'⁴⁵ seemed harmless enough, although it would later turn out to be the more explosive statement of intent.

Deutsche Bank
Actien-Gesellschaft.
Capital 5,000,000 Thaler,
eingetheilt in 25,000 Action à 200 Thaler,
mit eventuellem Bezugniß durch Beschluß des Verwaltungsrathes beseitigt auf **30,000,000 Thaler** zu erhöhen.

Der Zweck der Gesellschaft, deren Statut von Sr. Majestät dem Könige von Preußen am 10. März 1870 genehmigt worden, ist, von deutschen Kapitalmärkten die außerordentlich sich entwickelnden und sicheren Gold-Transaktionen zu vermitteln, deren der immer mäßigere sich entfaltende Eisenverkehr Deutschlands mit den überseeischen Märkten bedarf und dem deutschen Capital in großen Beträgen diejenige Geltung zu sichern, welche es durch seine Uebersendung in Europa einzunehmen berechtigt ist. Zu diesem Zwecke ist die Bank beauftragt Agenturen, Filialen und Zweigniederlassungen im In- und Auslande zu gründen. Die in diesem Geschäft thätigen Firmen und Institute in England und Frankreich wollen glänzende Resultate ihrer Thätigkeit aufweisen.

Insbeson dere beachtet die Gesellschaft Bankgeschäfte aller Art zu betreiben, wie solche für die anderen ähnlichen Bank-Institute Deutschlands von großem Erfolge sich erweisen haben.

In der am 21. ds. stattgefundenen General-Versammlung der ersten Zeichner sind zufolge des § 50 des Statuts zu Mitglieder des Verwaltungsrathes gewählt worden:

- 1) Herr Geh. Comm.-Rath **D. Suider**, in Firma: **Gehr. Schiller**, Berlin.
- 2) **H. Dehnbach**, in Firma: **Dehnbach, See & Co.**, Berlin.
- 3) **Heinrich Barth**, in Firma: **Barth & Co.**, Rempten, Berlin.
- 4) **Eduard Freiherr von der Heydt**, in Firma: **G. von der Heydt**, Berlin.
- 5) **G. Müller**, in Firma: **Müller, Endenberger & Co.**, Remort, Egon, Zürich, Berlin.
- 6) **Nicola Freiherr von Wagner**, in Firma: **H. Hart. Wagner**, Berlin.
- 7) **H. Meyer**, in Firma: **G. J. Meyer**, Berlin.
- 8) **Carl G. Müller**, in Firma: **G. Müller & Co.**, Berlin.
- 9) **Anton Cohn**, in Firma: **Cohn, Würgers & Co.**, Berlin.
- 10) **George Albrecht**, in Firma: **J. Vange Sohn's Witwe & Co.**, Bremen.
- 11) **G. H. Meier**, in Firma: **G. H. Meier & Co.**, Bremen.
- 12) **M. G. Meier**, in Firma: **Meier & Co.**, Bremen.
- 13) **R. Sulzbach**, in Firma: **Gehr. Sulzbach**, Frankfurt a. M.
- 14) **Dr. L. Hamburger**, Mainz.
- 15) **H. Marcus**, Bielefeld.
- 16) **Wilhelm Zeising**, in Firma: **Jac. von Bertram Joh. Sohn**, Greifsw.
- 17) **Paulig von Rath**, in Firma: **Zeisinghaus & Co.**, Geln.
- 18) **Bankdirector H. Hentschel**, in Firma: **M. Schaaffhausen'scher Bankverein**, Geln.
- 19) **W. M. Hentzen**, Stuttgart.
- 20) **J. E. Gihbader**, in Firma: **Gihbader & Co.**, Amsterdam.
- 21) **Walter Frege**, in Firma: **Frege & Co.**, Leipzig.
- 22) **Carl Gutschalk**, in Firma: **Gutschalk & Co.**, Geln.
- 23) **H. Hirschfeld**, in Firma: **Hirschfeld & Goldschmidt**, London.
- 24) **Wolf Reichmann**, in Firma: **Hortmann & Co.**, London.

Diese fünf Millionen Thaler Capital sind bereits gezeichnet und ist auf Grund dieser Zeichnung die landesherrliche Concession erteilt worden.

Die ersten Zeichner stellen von vorstehendem Betrage unter Vorbehalt der ihnen als ersten Zeichnern aus § 4 des Statuts zustehenden Berechtigung in Bezug auf spätere Emissionen die Summe von

2,000,000 Thaler

unter nachstehenden Bedingungen zur öffentlichen Subscription zum Paricours.

Berlin, 23. März 1870. Daß von den ersten Zeichnern beauftragte Comité.

Subscriptions-Bedingungen.

Die Subscription zur Uebernahme von 2,000,000 Thlr. Actien der **Deutschen Bank** Actien-Gesellschaft findet gleichzeitig:

in Berlin	bei Herrn Gehr. Schiller,
„ „	„ Herrn F. Hart. Wagner,
„ „	„ dem A. Schaaffhausen'schen Bankverein,
„ „	„ Herrn Hentzen & Co.,
Frankfurt a. M.	„ Herrn Gehr. Sulzbach,
„ „	„ Herrn Aug. Siebert,
„ „	„ der Allgemeinen Deutschen Credit-Anstalt,
„ „	„ Herrn Frege & Co.,
„ „	„ dem Schlesischen Bankverein,
„ „	„ der Mühlenthor'schen Vereinsbank,
„ „	„ Herrn G. H. Meier's Sohn,
„ „	„ Herrn H. H. Meier & Co.,
„ „	„ Herrn Paul Hirschfeld's Sohn.

Sonnabend, 26. März 1870

in den obigen Geschäftshäusern hat.

Deutsche Bank's first financial advertisement in Frankfurter Zeitung of 24-25 March 1870.

4. Patriotic Fantasies?

The founding assembly proceeded uneventfully, and the statute and temporary Administrative Board were passed and elected without any major conflicts. Shortly thereafter, a petition to have a licence granted for operating an incorporated bank was submitted to the Prussian Trade Ministry. Nevertheless, members of the temporary Administrative Board were obviously of the opinion that an explanatory letter to the federal chancellor of the North German Confederation and the Prussian prime minister, Count Otto von Bismarck, could not hurt. This letter, sent on 8 February 1870,⁴⁶ is a prime example of the kind of keen rhetoric that might have put off Bismarck, who was known for his hearty dislike of such camouflaged communications, but apparently it did not. Indeed, the members of the Administrative Board made sure to lay it on thick, initially suggesting that their initiative in founding the bank had come about as a result of Bismarck's policies. The very thought of explaining the basic idea for founding Deutsche Bank to the Reich chancellor, the letter stated, 'had imposed itself on his account, because this same [idea] makes use of the honour of having derived its starting point from the new formation of the national circumstances, [and] having generated its deeper meaning from the founding of a Germany that stands strong and united under the protective power of the North German Confederation and the Customs Union'.⁴⁷ Bismarck's policies, the letter continued, thus contributed to the great rise of the German economy, whose successes these policies could only harvest, of course, in a limited way, since Germany's international financial relations were handled, with the exception of those with the United States, by French and British banks. This, the letter argued, disadvantaged the German merchant and also contributed to considerable costs.

The new bank is supposed to remedy this renunciant position of the world of German foreign trade [...]. And, indeed, in the form of an institution located in the capital of Germany and eventually represented by branches in the harbour locales, which will be in a position to offer credit, information, and encouragement to foster this business sector, which is so significant for the entire culture of a people.

Ludwig Bamberger asserted very confidently on behalf of the temporary Administrative Board that Deutsche Bank had already been acknowledged 'by the trading class of the entire nation' as this sort of institution ever since the plans had first been made known:

One look at the enclosed list of the businesses of every stature and career, which rushed to partake in the formation of the institution at the first announcement, may suggest to Your Excellency that the thought of this creation has been taken up as a long overdue good deed, and the diplomatic representatives abroad will surely welcome the news of this beginning with the same warmth.

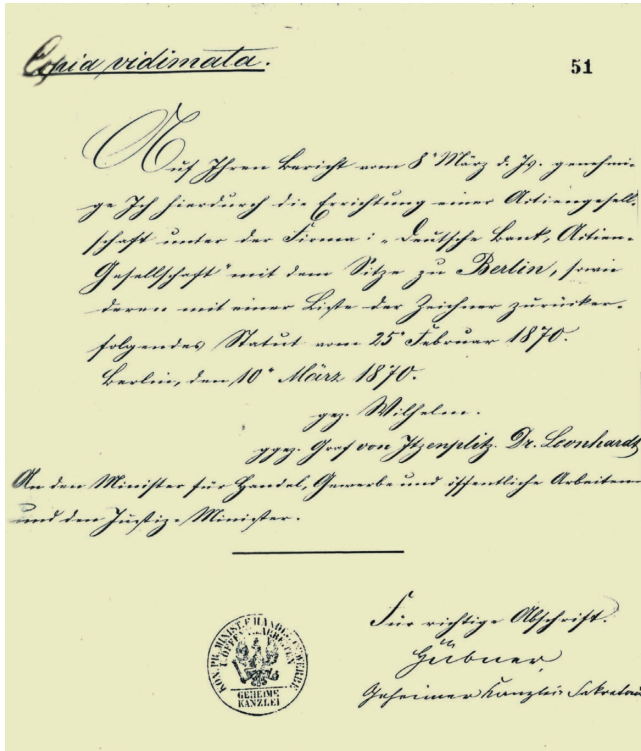
This can already be seen as quite a presumptuous statement about the future meaning of an institution that had not yet even been approved, but there was more to come because the founders of Deutsche Bank put themselves on a par with Bismarck himself:

The feeling of security and the self-confidence to which the German shipmaker and merchant in the Far East and West have become privy since the new German protective power took up its great position in international relations will now experience not inconsiderable growth through the certainty of having the protection and support of their own compatriots by their side in the most important monetary matters.⁴⁸

These testimonies sounded both harmless and selfless and would, indeed, make the 'work just undertaken [and] arising from a truly patriotic thought' appealing to 'Your Excellency'. Nor did the petitioners forget to highlight the use Berlin could make of the new bank, emphasising, in particular, 'that the capital market of Frankfurt addressed the matter with the greatest zeal'.⁴⁹ This was true, but highlighting it was also intended to show that Frankfurt seemed to have overcome its rancour about Prussia's annexation of the city, which had occurred a few years earlier. Despite all the patriotic rhetoric, however, it was of course about benefits to business. The initiators of Deutsche Bank, after all, were not the only ones who hoped to make a lot of money in the financing of foreign trade. Other attempts were in the works, and in Hamburg a similar bank, Internationale Bank, was about to be founded. The founding committee in Berlin was simply afraid of losing time in a drawn-out licensing process and having to chase after the competition. The letter writer, Ludwig Bamberger,⁵⁰ openly admitted this in the end. Because the Berlin initiative had not remained a secret, the great interest in Frankfurt alone had awakened other circles 'which are contemplating outrunning the present company from other points in Germany, [and] which, unfortunately, in more favourable conditions in terms of legislation, came immediately to life and were able to gain an important advantage as a consequence because they were not required to wait for approval from the top'. Thus, the letter writer asked Bismarck to limit the time the licensing process would take to 'the bare minimum'.⁵¹

5. The Founding

Thus, the company needed to be presented as a sort of patriotic necessity in order for the founders to receive the necessary incorporated bank licence as quickly as possible. It is highly likely that the circumstances also dictated the reason for the name chosen for the bank; 'Deutsche Bank' was a rather striking name, at least when compared with other names typical of the period, and later on it would also repeatedly lead to misunderstandings, since many observers believed that the institution was a government establishment. The founding circle of the bank achieved success with this strategy. Early on, the trade ministry signalled that it would treat the bank benevolently. On 20 February 1870, the petition was answered, and the submitted statute was returned for revision. The 34 complaints primarily constituted editorial changes. One issue was that the founders intended to grant themselves subscription rights for the beginning and for later capital increases at face value. As such rights could then be sold during a boom when share prices rise rapidly, the ministry only demanded greater assurances. The founding committee immediately provided these assurances. On 25 February 1870, the revised statute was resubmitted, and on 10 March 1870 'the highest level of permission was granted'.⁵²



Notarised copy of the permission for the establishment of a joint-stock company under the firm "Deutsche Bank, Actien-Gesellschaft" with headquarters in Berlin granted by Prussian King Wilhelm I on 10 March 1870.

In light of the fact that no incorporated bank licence had previously been granted in Prussia despite numerous applications since A. Schaaffhausen'scher Bankverein was transformed into a joint-stock company in 1848, the speed with which this occurred is surprising, as was the rather large room to manoeuvre granted to the bank. The planned share capital was 5 million thalers, of which 2 million thalers initially needed to be deposited. The precaution taken to prevent agiotage consisted of requiring that initial stock subscribers would only receive further stock options when share capital was increased at face value 'to the extent that they are still in possession of shares from the first issuance'. This was, incidentally, a right that the initial subscribers voluntarily dispensed with later on.⁵³ Moreover, the statute⁵⁴ planned for the usual governing instruments of a joint-stock company, including an Administrative Board (Supervisory Board), directorate (Management Board) and a general meeting, although in this it granted the Administrative Board extensive authorities, also in the operative business, which was still quite possible in 1870 because a clear legal differentiation between the competencies and tasks of the various bodies in a joint-stock company was only created when the amended stock law of 1884 was passed. The stock law of the North German Confederation passed in June 1870 did not undertake to draw a clear distinction between the functions, which contributed significantly to the practical blurring of the boundaries between supervisory and management bodies.⁵⁵ Up until 1884, the directorate had to carry out its tasks 'according to the measure of this statute and the instruction given it by the Administrative Board',⁵⁶ so that it was, in fact, dependent on orders. The large Administrative Board, ultimately consisting of 24

members, was hardly in a position to intervene in day-to-day business, but those who drafted the statute had anticipated this and had prescribed the formation of a five-person committee of the Administrative Board: 'This committee has all the rights to which the entire Administrative Board is entitled in relation to the directorate. It will convene as often as required by business transactions, or one of the director's requests. Every member of this [same committee] is entitled to convene the committee.'⁵⁷ This could lead to tight control of the directorate; indeed, at its core, it meant that it had little room to manoeuvre. Whether there were fears within the founding committee that the bank could slip out of the founders' grasp in the day-to-day business and not conduct itself according to their ideas is not known, but it appears to be obvious. Perhaps the habits of the private bankers prevailed, as such banks did not have a division between supervisory and management boards anyway. In this sense, the statute took the organisational structures of a joint-stock company into account in a purely formal way, whereas the founders possibly assumed that they would be able to conduct business entirely in the traditional manner with the new institution. Although this is largely speculation, the conflicts which soon emerged between the supervisory body and the ideas of the Management Board demonstrate that this passage of the statute by no means corresponded to the reality of dynamically developing joint-stock companies.

Of course, in the beginning this was hardly noticeable. On 21 March 1870, the first general meeting took place; it utilised a 24-man Administrative Board that did have two foreign representatives and appointed Wilhelm Platenius and Georg Siemens (who was ennobled in 1899) as directors, with Wilhelm Platenius himself being a member of the Administrative Board.⁵⁸ The expectations of the bank, as well as the fevered speculation of the time, became apparent when the first 2 million thalers of the 5 million in share capital had their initial public offering: in the end, 294 million thalers came in, making them oversubscribed by a factor of 150. As was correctly observed, this had a primarily speculative character, because the stocks were offered at face value, as already noted. Everyone in the world assumed that rates would rapidly increase, so people subscribed to large sums just to be considered.⁵⁹ Thus, at the beginning of the company's history, a portion of the share capital was already comprised of free-floating shares. But even among the initial 76 who subscribed to the remaining millions and set the founding assembly, no dominant group of owners emerged with the weight to determine the course of the bank.⁶⁰ Consequently, the list of initial subscribers is interesting primarily in its depiction of the reach and significance of Deutsche Bank's network of founders; it extended from Paris (S. H. Goldschmidt) to Moscow (Achenbach & Coller, Jr) and from Zurich (Otto Wesendonck, who, of course, had earned his wealth as a merchant in Elberfeld) to London (Bischoffsheim & Goldschmidt). Two of the biggest subscribers came from the greater Frankfurt area: the Sulzbach brothers and Hermann Marcuse (Walluf) subscribed 850,000 and 334,000 thalers, respectively, and were granted 799,000 and 314,000 worth of shares, respectively. Ahead even of Marcuse, who, like the Sulzbach brothers, represented a number of investors, was the Berlin bank E. J. Meyer (500,000/470,000 thalers). Most of the remaining subscribers invested less than 100,000 thalers each. Mostly only representatives of banks with which Deutsche Bank later co-operated closely, as a rule, had invested above this threshold; examples include

Schlesischer Bankverein in Breslau (133,000/125,000 thalers); the Berlin banks F. Mart. Magnus (175,000/164,600 thalers), the Schickler brothers (150,000/141,000 thalers) and Delbrück, Leo & Co. (112,000/105,200 thalers); in Cologne the Schaaffhausen'scher Bankverein (150,000/141,000 thalers) and Deichmann & Co. (175,000/164,000 thalers); as well as, in Stuttgart, G. H. Kellers Söhne (100,000/94,000 thalers) and Württembergische Vereinsbank (150,000/141,000 thalers). The close relationship with this last bank, which had likewise only been founded a short time before, would become quite significant in the first years of Deutsche Bank's activity, not least because the leading figures of both banks, Georg Siemens and Kilian Steiner, got along well.⁶¹

There were certainly already influential investors, but there was no controlling group of investors. This would not change before the First World War despite numerous increases in the capital stock. Rather, the bank's shareholders reflected its broad basis of business and – in this context the term can for once be used in a precise sense – its commercial network, which grew wider and wider over the course of the years.⁶² Recently, on the basis of an analysis of registrations for general assemblies or shareholder meetings, it was shown that

Deutsche Bank had many shareholders and probably free-floating shares between 1870 and 1930, thus distinguishing itself from other German companies. At the general meeting, too, no controlling major shareholder was registered who was able to block important decisions or make them single-handedly. The ownership of shares among inside shareholders was not high and declined by 1930, so that a certain separation between share ownership and management control prevailed.⁶³

This shareholder structure was very significant because it noticeably weakened the Administrative Board, which had great significance from the statute. Its ability to take action was dependent on the unity of its representatives, and this unity was not easy to achieve in light of the various interests of the investors. Initially, everything depended on Adelbert Delbrück, who became the most notable figure of the Administrative Board in the following years on account of his significance as the *spiritus rector* of the bank's founding, even though Victor von Magnus was the first chairman of the Administrative Board. Hermann Wallich speaks in his memoirs of having been brought to 'President Delbrück' when he entered Deutsche Bank in the autumn of 1870.⁶⁴ As early as 1871, Delbrück took over the chairmanship of the Administrative Board, which he would retain until 1889. Of the members of the founding committee, Gustav Kutter and Ludwig Bamberger soon left the Administrative Board, so that it was, above all, the 'major shareholders' or their representatives, Eduard von der Heydt, Rudolf Sulzbach, Hermann Marcuse and Gustav Müller, along with Delbrück, who initially set the tone. Von der Heydt became Delbrück's long-serving deputy. But Müller, too, had already left the Administrative Board in 1877.⁶⁵ In the day-to-day work that quickly commenced, a great deal depended on how the two leading boards dealt with each other. It was very unlikely that decrees were simply uttered in this sort of governance structure, even though the powers of the Committee of Five in the Administrative Board were so extensive that it had to approve all transactions that exceeded 1,000 marks. Not without

It cannot be asserted that the project would have been taken up on the stock market with satisfaction; it is doubtful whether the ostensible purpose of this [bank] alone can guarantee sufficient occupation for a bank institution with such significant means as are supposed to be provided to Deutsche Bank, and one believes that the core of the matter will be less the very nicely conceived support of German trade than agiotage on a grand scale on the model of the Viennese and Parisian institutions [...] In addition, the banks that have placed themselves at the top of this company, as honourable and solid as they all undoubtedly are, are not regarded as capable of managing this sort of institution in accordance with 'modern' requirements.⁶⁷

This problem, along with the more or less open rejection of the project on the part of the Berlin banks that had led the sector up to this point, which in the best case only invested minimally in the founding of the bank, did indeed make the new bank's future prospects seem doubtful. The capital increase from 5 to 10 million thalers already announced for 1871 was, likewise, not suited to eliminating doubts; rather, it strengthened them even more since such an enormous sum was not even needed, should the bank wish 'to establish limited partnerships among pirates, kaffirs and black-footed Indians' along with the planned foreign branches, as *Der Aktionär* sarcastically remarked.⁶⁸ None of this was a good advertisement for the bank, and it would not necessarily have attracted suitable candidates for the directorate. And the names of the first two directors who became known after the founding assembly only seemed to reinforce the widespread scepticism.

In any case, up to this point Wilhelm Platenius and Georg Siemens had not yet struck the interested public as financial geniuses. Both of them were considered rather unknown quantities, something that Siemens still liked to play around with years later. On the occasion of the twenty-fifth anniversary of the bank, which had meanwhile become quite successful, the Berlin journalist Friedrich Dernburg reported that he had helped Georg Siemens drink a small keg of Rüdeshheimer in the 1870s 'on a long summer night,' and they had come around to the subject of Siemens's career at Deutsche Bank.

Our host bore his dignity with a certain derision, the meaning of which we were not mistaken about at that time. We did not yet know what a profound art of living was coming to light in him presenting himself in this form. Georg Siemens was still a long way off from getting out of the saddle in which he had traversed Persia as a telegraph installer. Now he mockingly told us about his first day as manager of the bank, how someone brought him a bill of exchange and he was absolutely at a loss as to what to do with a piece of paper like that ...⁶⁹

This was also mischievous because early on Siemens had been included on the list of suitable candidates for the Management Board of the bank. During his work in London and Persia, where he had been independently responsible for laying an important telegraph cable for Siemens & Halske, the electronics company run by his uncle Werner, Adelbert Delbrück had taken notice of him and had hired him as a sort of adviser who

was to help him in the founding of the bank and also in the selection of directors because of his extensive foreign experience.⁷⁰ In the search for suitable candidates on 26 January 1870 Siemens turned to the younger brother of his uncle Werner, Carl Siemens, to whom he disclosed his own ambitions:

Now the question arises whether you and namely Wilhelm [Wilhelm Siemens, another brother of Werner] in London know a suitable man. My personal interest is also at play in this. I would like to become director, but since I cannot become the first one, I would like to become the second or third. Now since, of course, the first man has a significant vote in the selection of the second and third, it is important to me that I find the first one so that he can propose me as the second or third.⁷¹

If as a lawyer Siemens lacked the necessary professional requirements for banking, he could nonetheless, despite being only 30 years old, point to his international experience and his obvious skill as a negotiator, which he had proved in difficult circumstances in Persia, where he had more or less had to fend for himself. He probably let Delbrück know this as well, because on 22 March 1870, just a day after the first general meeting of the newly founded Deutsche Bank, Siemens and Delbrück had reached an agreement. Siemens declared himself willing ‘to assume a position on the Management Board of Deutsche Bank for the duration of one year for a salary of 1,500 thalers’. He finally left the Prussian judicial service, but retained his right to ‘temporarily continue his position as the legal adviser of the local company Siemens & Halske as long as this does not clash with the business affairs of Deutsche Bank’.⁷² In other words, Georg Siemens kept a back door open for himself – returning to his uncle’s company – if the new bank failed to develop as he hoped.

Initially, there were no other candidates; Ludwig Bamberger helped them out of a jam. Through personal relationships, he knew two potential candidates who were willing to switch to Deutsche Bank. In any case, Bamberger, who had made inquiries about them previously in an entirely noncommittal way, suggested the two men to Adelbert Delbrück. They met with his approval in the founding circle of Deutsche Bank because they could demonstrate relevant experiences and competence. Wilhelm Platenius, a German-American, did not have training as a banker, but he had run a discount business in the United States and had traded in American securities in Stuttgart after his return to Germany. He put himself forward because of the significance of the American market, even though Kilian Steiner, the director of Württembergische Vereinsbank, candidly



Georg Siemens (1839–1901) at the age when he joined Deutsche Bank’s Management Board.

expressed certain concerns. On 14 February 1870, he wrote to Ludwig Bamberger. Praising Platenius for his qualities, he did not hold back on criticism, either:

You see, he is more arrogant than is good for reasonable people. But that is all that I can say against him. He has grown used to comporting himself in a noble manner, and so makes a noble impression in all he does; in his case, this is not an original quality but rather good self-training. You see that I gather only all sorts of material for your judgement; about the whole person I myself have nothing constant. One always feels he is lacking something because everything seems very prepared. One thus always thinks that something else will reveal itself that is his actual nature. In sum, I believe that he would fill such a post with dignity and success when those around him and the conditions support him in that which he seems to be lacking. To put it more precisely, you must tell me which branch should become his.⁷³

It was predictable that a personality so described would come into conflict with the Administrative Board's assertion of control in day-to-day matters.

Bamberger recommended Platenius for the Management Board of the bank just as he did his distant relative Hermann Wallich – the latter suggestion was his lucky strike. Hermann Wallich actually had all the experience and qualifications needed in the new bank; it was just that he could not take up his position in Berlin immediately, but only in the autumn of that year, since he was still managing the branch of *Comptoir d'Escompte* in Shanghai in January 1870. Wallich was unquestionably the right man for this future area of activity at the bank, also because of his experiences in Paris and because he had less need for approval than Platenius and probably also Siemens.⁷⁴ In any case, at the founding assembly of the bank there were three people in the directorate, of which two directors began their work for the bank, and thus the work *of* the bank, in April 1870. Georg Siemens wrote numerous letters to his relative in which he described the 'troubles of the plains' that had to be overcome after the mountain of the bank's founding had been scaled. Initially, the way of working was probably rather clueless because neither Platenius nor Siemens was an experienced banker, and they admitted as much: 'Platenius later explained how he and Georg Siemens sat across from each other at the desk on the first day of their new job. One asked the other: "What do we do now? Do you actually have any idea about the banking business?" Both said no and then broke out into redemptive laughter.'⁷⁵ But none of this was really very funny. The press had little faith in the two of them. Siemens took this as a challenge and sought to learn the ropes with great zeal:

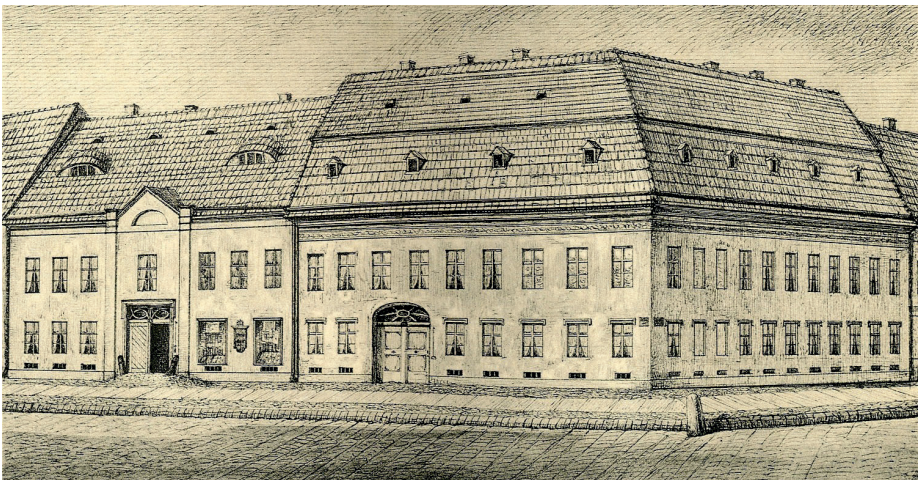
Though I understand little of American and Indian banking, I nevertheless try to look very erudite, give the occasional shrug, grin from ear to ear – this is my sneering smile – and secretly refer, when I get home, to my encyclopaedia or dictionary or 'How to become a banker in 24 hours' when I want to find a word I didn't understand. I've already just about grasped the difference between ask and bid.⁷⁶

Behind all of this jokiness was a serious problem. Since the bank had been entered into the trade registry, the directorate had considerable sums of money at its disposal, but for

what purpose? The Administrative Board was petty in its control over the directors; at the same time, the industrial boom was in full swing, and those who would undertake big projects gathered in droves trying to win the financial support of the new bank. Whereas Siemens first had to learn the ropes of the day-to-day banking business and by no means knew what direction it should go in, Platenius early on already had bigger things in mind with his good US contacts, but he came into conflict again and again with the restrictive stance of the Administrative Board. Strategic decisions about the direction of business were improbable in this situation, particularly since the outbreak of the war against France in the summer, in which Siemens participated as an enlisted officer, forced them to take a break.

7. The Beginnings of Foreign Trade Financing and Overseas Business

When Georg Siemens was called up for military service in the war against France in the summer of 1870, the newly founded Deutsche Bank had only been in business for a few weeks. On 8 April 1870, three days after it was entered into the trade registry, the business – consisting of lending, bills of exchange, acceptances and current accounts business – had been opened in rented rooms at Französische Straße 21 in rather primitive conditions. At Siemens's urging, the new bank also entered into deposit banking. The annual report for 1870 listed a profit of a good 87,000 thalers (261,000 marks) with a turnover of almost 80 million thalers, which corresponded to 240 million marks after the currency conversion of 1873; a small part of this profit resulted from revenues from bills of exchange, and a large part from revenues in the securities, lombard and current accounts business.⁷⁷ Deposit banking, already with a volume of more than 1.135 million thalers (3.405 million marks), did not result in any noteworthy gains, but it did contribute significantly to the bank's consolidation, because from the outset



Deutsche Bank took up business operations on the first floor of this building at Französische Straße 21 in Berlin (building on the left) in April 1870.

the bank had made an effort to offer its depositors all its banking transactions, that is, also current accounts and loans. It is probable that business ties and customer contacts were pursued from the founding circle and the first Administrative Board, which made this beginning – which was, all things said, satisfactory – possible in the first place. Gustav Kutter and Hermann Marcuse, for example, may have played a role in brokering American business dealings, which initially were a focal point.

In the summer of 1870, Wilhelm Platenius found himself working alone for some months. He obviously had some precise ideas, especially about American business dealings, yet he failed in this because of the Administrative Board. Exasperated, Platenius threw in the towel at the end of the year, and his quickly appointed successor was not successful either, so that now Hermann Wallich, who had first taken up his position on 1 November 1870, had to run the business. ‘My colleague Platenius ...’ Hermann Wallich recalled, ‘who was not a trained banker, had made valuable connections with New York in accordance with his speciality in the meantime [probably in the autumn of 1870], but he was not able to get used to the dependent relationship on the Administrative Board, grew disgruntled and quit.’ ‘It gratifies me,’ Wallich continued, ‘that I was not involved in his resignation, nor in that of his successor, the Privy Financial Councillor Mölle, who realised after working for one year that the qualification of a high-level civil servant did not suffice for taking over the management of a commercial institution.’⁷⁸ He had expressed this cautiously. Ludwig Bamberger was much clearer in his memoirs: ‘The man was neither stupid nor inexperienced, but I have never come across a greater degree of incompetence in such a position. The civil service and the world of business certainly are poles apart.’⁷⁹ Consequently, as Wallich later recalled, the bank was sitting on a tremendous amount of unused capital in the autumn of 1870. When he then suggested ‘investing the capital of the bank temporarily in the 5%-North German Confederation Treasury bills just coming out in November 1870, which were being issued at 95%’, he suffered a bitter defeat. Although Sedan had been fought, the outcome of the war was not in doubt, and it was indisputable that the bills would certainly be repaid, Wallich’s suggestion was rejected, ‘and the gentlemen went into a discussion of whether it had been wise to entrust the management of the bank to such a young person, who was, after all, displaying the cravings of a wild speculative investor’.⁸⁰

Even though Wallich was rebuffed in this instance, his plan, which he had worked out before taking up his position in the bank and had presented to the Administrative Board almost immediately upon his arrival, was much more important. It was titled ‘On the future business activity of Deutsche Bank with organisational branches of Deutsche Bank (Domestically and Abroad)’.⁸¹ His experience with Comptoir d’Escompte formed the basis of this draft. The core of foreign trade financing, in Wallich’s view, consisted in connecting the most important places in the world economy with one another, so Deutsche Bank needed trusted partners in all the places where German merchants purchased products or where they delivered goods. The worldwide exchange of goods worked solely, or at least primarily, by means of credit relations,⁸² in which one had to make sure that the exporter received the value of his goods when he shipped them and, in turn, that the importer got the necessary loans to be able to pay for the goods for which he would only earn revenues after further processing them and then selling them.



Hermann Wallich (1833–1928) joined the Management Board in late 1870. He was a proven expert in East Asian markets and foreign trade financing.

The difficulties arising from this were considerable. Nevertheless, the point was that Deutsche Bank's acceptances had to be recognised internationally, which would only be possible if the bank had the requisite financial strength and an unimpeachable reputation. Moreover, Deutsche Bank would be dependent on partners in foreign countries who would be able to accept the bank's own letters of credit and take care of financial affairs abroad. The greatest difficulty, however, lay in the fact that the most convenient and least expensive way to manage foreign trade financing was via London in pounds sterling, not only for British merchants but also for all businesses conducting trade around the world, so that London's central position and the overseas and colonial banks existed there not by coincidence but because of a compelling economic logic. And the banks located in London were regarded as the most professional financiers, particularly since the London money market was able to offer the highest degree of liquidity and thus comparably the lowest international interest rates.

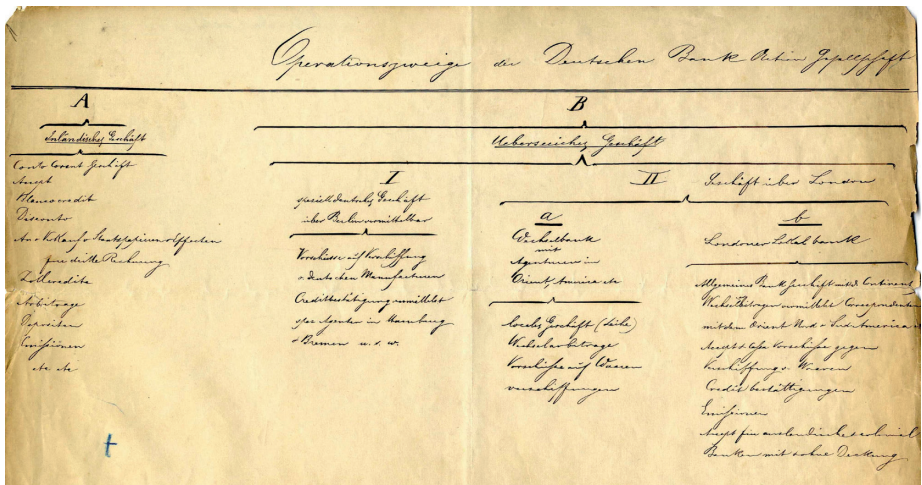
It was thus clear to every expert who understood the technique of foreign trade financing⁸³ – and Wallich knew this only too well⁸⁴ – that the bank could not even consider participating successfully in international business unless it had a foothold of its own in London:

The occasionally, if not on average, cheaper, discount rate of the English bank, combined with the ease of placement of the English foreign currency when compared to other foreign currencies, make it necessary to conduct this business via London for the most part. If we thus really wish to offer our German customers

an advantage, we will have to do it by means of an institution to be founded in London. In this context, I do not wish to be more specific about the form of such an institution, but I do wish to recommend the founding of a special agency of our bank as the most appropriate.⁸⁵

In addition, it would be rather naive to assume that London banks concentrated primarily on British foreign trade; they saw themselves as financiers of global trade who aimed to finance world trade in its entirety, regardless of the connections concerned, and were also doing so quite successfully. If Deutsche Bank wished to achieve success, it would have to fit into this context. The point could not be to push London out of the business; rather, the point had to be to utilise the advantages of London as a financial centre, from which the financial centre itself could only profit, as was clear to astute observers, and which did, in fact, occur. The volume of German trade financed via London did not decrease in the years before the First World War but increased significantly; it was just that Deutsche Bank was now directly involved in this.⁸⁶

Securing a foothold in London, therefore, was a matter of survival. Yet in order even to be able to begin with the programme for the bank, it was necessary not only to create bases abroad but also to be represented in the most important German port cities, the centres of German foreign trade. Wallich had also sketched this out in his report. As early as 1871, a branch was opened in Bremen, followed by another in Hamburg in 1872, which were appropriately endowed with funds after the capital stock was raised to 10 million thalers and had been fully paid up.⁸⁷ Likewise, the establishment of the Asian branches in Shanghai and Yokohama also took place as early as 1872 on this basis.⁸⁸ They were not only supposed to finance foreign trade but also, above all, conduct the arbitrage transactions – that is, exploiting the differences in interest rates between Europe and Asia. The similarly central question of how to find suitable personnel for the newly established



'Operational branches of Deutsche Bank' Hermann Wallich wrote on the first organisational chart in the autumn of 1870. It distinguished domestic from overseas business and gave the 'business through London' a prominent position.

branches was solved by the historical circumstances of the time, as the bank recorded in its annual report for 1871: ‘It so happened to us that Comptoir d’Escompte, which was pursuing the same aims with us in France, suddenly laid off its German employees out of national considerations, and that, consequently, a number of competent men, who were entirely familiar with the customs and practices, became available.’⁸⁹ Gustav Pietsch, Emil Seligmann and Julius Mammelsdorf, all laid-off managers of Comptoir d’Escompte, took on the management of the agencies in London, Shanghai and Yokohama.⁹⁰

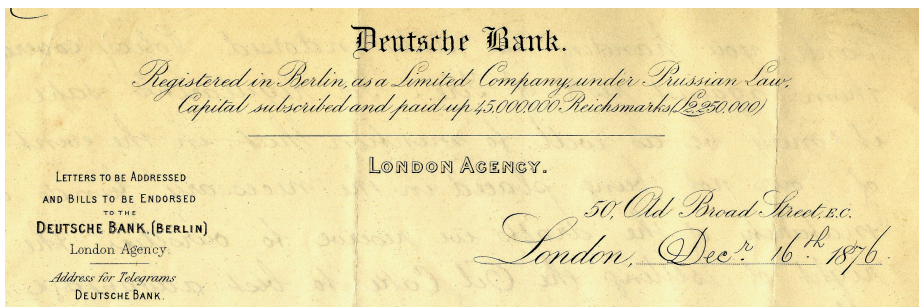
One alternative to founding branches that suggested itself was to invest in other institutions so as not to bear the entire business risk. The Administrative Board opted for this solution with regard to the question of how the bank should be represented in London. Deutsche Bank and its sub-participants alone put £250,000 into the German Bank of London Limited, which was newly founded in March 1871 with share capital of £600,000.⁹¹ The Mitteldeutsche Creditbank and the Frankfurt bank Sulzbach, which were also counted among the first shareholders of Deutsche Bank, made investments of about the same size; the remaining shares were acquired by limited partners from England. Along with limiting the risk, this path, above all, had legal advantages since in the early 1870s British law still did not yet permit the constitution of a branch of Deutsche Bank in London as an independent legal entity. This was not achieved until 1874 with a German–British government agreement that was pushed forward, not least, by Deutsche Bank’s interest in maintaining a branch in London as well. Nevertheless, despite Deutsche Bank’s large investment in the German Bank of London, the line of credit the latter provided to Deutsche Bank proved, as early as 1872, to be too small for its rapidly expanding business.⁹² Additionally, from the outset there were conflicts with the management of the German Bank of London concerning the size of the commissions it was to receive,⁹³ and there was internal debate about the question of which branch could gain access to the limited London credit line and how much could be borrowed.⁹⁴ Wallich’s early thoughts about founding a Deutsche Bank branch in London were, thus, never aired. After another capital increase, now to 15 million thalers, had been undertaken in November 1872,⁹⁵ the bank had enough room to manoeuvre to endow a functional branch on the Thames. As early as March 1873 – one year before the branch achieved the status of a legal entity – it opened its doors under the name ‘Deutsche Bank London Agency’. There was no time for the new branch to grow gradually into the business because, from the outset, it was required to replace the tight line of credit and the high commissions of the German Bank with its own acceptance business. By 15 March 1873 already, Wallich wrote the following to Gustav Pietsch,⁹⁶ whom he knew personally from Comptoir d’Escompte in Asia and who had transferred to the management of the London branch from the German Bank, a position he would hold until 1897:

Our idea was, as you know, to only gradually & only slowly allow your branch to enter into the circulation of acceptances, & to use, as before, the German Bank for ‘reimbursement’ business. On account of the unexpected position that the German Bank recently took towards us, the situation is totally changed. [...] We would, therefore, need to ask ourselves whether we would not find the replacement in ourselves in the near future, & would need to test the capacity of your

branch much earlier than originally intended. [...] It is obvious that we would then have to make use of our circulation of reimbursements and bills of exchange exclusively for our business and that of our branch, & that it would temporarily not be advisable to extend this circulation for the originally intended clientele on the continent and elsewhere. [...] If we succeed in brokering average circulation of £500,000 maintained with the G.[erman] B.[ank], we would already be satisfied with the commission profit of £5,000 (this is how much we paid the German B[an]k) because when forming our branch there, we did not initially place any higher demands than to cover our expenses in order to see that our London-based business was represented there in an appropriate manner.⁹⁷

The point was to secure the acceptance business of the Berlin headquarters and the two domestic branches via Deutsche Bank's own London Agency. For this, Wallich planned for a volume of £50,000 for the Berlin headquarters, £200,000 for Bremen and £50,000 for Hamburg. Only when this was guaranteed were customers also to be allowed to take out acceptance credit directly from the London branch. Consequently, Deutsche Bank's agency in London took on a central role in its foreign trade financing from the first day of its existence since it was possible to profit through it from the more favourable conditions of the London money market.⁹⁸

Despite the differences, Deutsche Bank's investment in the German Bank of London was maintained for a while purely as a financial asset. In 1877, Deutsche Bank sold its shares with a loss of about 117,000 marks.⁹⁹ The London branch, by contrast, was a success from the beginning because it managed to refinance itself under favourable conditions in London as a financial centre and, thus, to successively expand its own lending business. Although, as a branch of a foreign bank, it did not gain access to the Bank of England's rediscounting facilities, it was, nonetheless, able to open an account there with a relatively generous line of credit. The tight spots it had experienced in providing sterling credits up to that point, in any case, were quickly overcome, and the troublesome commissions that the German Bank had demanded from Deutsche Bank and even increased after the opening of the London Agency¹⁰⁰ were a thing of the past. The London Agency remained the only branch of a major German bank in London – a position that Deutsche Bank consistently knew how to put to its advantage. Only in 1895 did Dresdner Bank and in 1900 Disconto-Gesellschaft open agencies in the



Letterhead of Deutsche Bank's London Agency from 1876.

leading financial centre of the world. The Management Board was only too aware that this deprived Deutsche Bank of its unique quality, so that the board called upon the London Agency to engage in even better reporting:

We would, thus, like to ask you, in order to maintain our reputation as those best informed about the conditions there, to tell us as promptly as possible about everything that happens there that is of interest to us, especially at the moment, concerning the money market there. We will, of course, only pass on to others what seems right to us, but we must firmly expect competition from Disconto-Gesellschaft also in this direction, particularly since the latter is working very intensively as far as attention to already acquired or to be acquired customers is concerned.¹⁰¹

The branches in Bremen, Hamburg and London experienced good business development. There they had the strengths for which they were created, namely in the area of foreign trade financing: 'It was pleasant for us to note from your worthy letter of the 30th of the month [...] that the business sectors there, especially the lending business



George Yard/Lombard Street: from 1889 to 1914 the London Agency of Deutsche Bank was located here.



Merchant Ludwig Knoop (1821–1894) was considered the Bremen branch’s most important customer during the first decade. Photograph from c. 1875.

for overseas locations, are experiencing a delightful boom and present the prospect of favourable results for the future’, Management Board members Mölle and Wallich wrote, praising the Bremen branch in late 1871, which was continuously expanding its circle of business clients.¹⁰² Bremen merchant Ludwig Knoop soon became the branch’s most important client; his companies were connected through the purchase, production and sales of raw materials worldwide. Knoop had begun work in the cotton factories of de Jersey & Co. in Manchester and had expanded into Russia beginning in the 1840s, where he built up a textile industry with English machines and English know-how that soon dominated the market in the Russian Empire. Since 1861, he had been running his worldwide businesses from Bremen, which developed into the leading trade centre for cotton.¹⁰³ He often owed the Bremen branch vast sums for his purchases of raw materials in the United States and India. When the Administrative Board in Berlin declared ‘Lex Knoop’, formulating ‘the strict resolution that loans over £100,000 should not be granted at all’,¹⁰⁴ the branch management reacted with incomprehension. In its estimation, this was a matter of an ‘extremely pleasant, highly lucrative a[nd] also probably beyond any doubt noble connection with Knoop & de Jersey. [...] to our knowledge, there is no more extensive a[nd] at the same time better founded business’.¹⁰⁵ Meanwhile, the decreed credit limit remained in place. Hermann Wallich responded to the lament of those in Bremen that they were losing business with his usual reference to the tight controls placed on the management by the Administrative Board, emphasising, however, that they could not be changed: ‘We have told you repeatedly that we, too, profoundly object to the overly rigorous views of our highest authority & have tried in vain to convert the gentlemen to another point of view.’¹⁰⁶ The Administrative Board reserved the right to make operative decisions not only in questions of the capital

markets business but also in the small day-to-day transactions of foreign trade financing, which sometimes tested the patience of the members of the Management Board and branch managers and certainly also cost the bank some business.

From the beginning, the bank did not restrict itself just to financing trade; it also pushed forward into precious metals and foreign currency trading (FX business) early on. Siemens's good connections with high-ranking individuals in the Reich leadership, namely, in the Reich chancellery under the cousin of the chairman of his Administrative Board, Rudolf Delbrück, and, through that, to the finance department located there, where his university friend Otto Michaelis was in charge,¹⁰⁷ provided the still new Deutsche Bank with one of its most lucrative businesses, which, meanwhile, had serious consequences for its newly founded Asian branches. With the transition to the gold standard, the large quantities of silver for making coins available in Germany became superfluous except for a small number of silver coins that remained in circulation. Added to this were the stores of silver French francs in Alsace-Lorraine, which had been part of the German Empire since 1871. Georg Siemens arranged for Deutsche Bank to handle silver sales because it was the only German bank with agencies in London and Asia, the main sales areas for silver. Hermann Wallich took care of this so efficiently that both the Reich and the bank itself made considerable profits and commissions, respectively. Of total silver sales amounting to about 3,500 tonnes and a value of 567 million marks, Deutsche Bank managed the sale of 1,100 million tonnes of silver with a value of 180 million marks before the newly founded Reichsbank took this segment over for itself. This business raised Deutsche Bank, and especially its London branch, to one of the top-ranked international banks in precious metal and foreign currency trading.¹⁰⁸ Wallich was *persona non grata* at least temporarily at the Reichsbank because people there resented Deutsche Bank for profiting from a business that would actually have been a perfect fit for the Reichsbank. From the beginning, then, Wallich kept quiet about the position he held, also as a trusted representative of Rudolf Delbrück: 'In order not to spur the jealousy of the competition, we enjoyed our triumph quietly. ... We could only operate in secret. Yet I did attract the personal hatred of the then president of the Reichsbank, Dechend, upon myself; because the operations could not remain hidden from him, and he bore a grudge against me because I had prevented him from reaping the benefit for his institution.'¹⁰⁹ Nevertheless, this did cost Hermann Wallich the title of privy councillor, as he later found out. He coped with it.

The success of the precious metals business, however, came at a high price because it was the real reason for the failure of the branches in Shanghai and Yokohama, which had been founded in 1872. The capital that the two East Asian branches were provided with consisted of silver endowments – this made sense in China and Japan – but these lost considerable value in the course of the sale of the German silver reserves in these markets, and they had to be written off accordingly. In addition, there were losses in the financing of trade because the goods which were pledged in the bill business also lost value and sometimes could no longer be sold, which had a serious effect not only on the Asian branches but also on the Hamburg branch, which primarily conducted the Japan and China business.¹¹⁰ Since things were going well for Bremen, the traditional German port for Atlantic trade, it was only a matter of time before the funds

tied to the Asian business would be recalled – with considerable losses – in order to end those losses and to utilise the capital more profitably elsewhere. As it was not possible under the present conditions to enter into the Asian lending business and to engage in suitable interest arbitrage in connection with the financial centres of Europe, as Wallich had dreamed of given his own Asian experiences, the bank closed its branches there in 1875, only to return to China and Japan in the late 1880s, but then as investors in Deutsch-Asiatische Bank.¹¹¹ The loss caused by the devaluation of the operating capital endowed with silver – amounting to 435,000 marks – was tremendous, and undoubtedly one of the reasons why Hermann Wallich, who had led the way in this, tended to be more risk averse in the future.¹¹² After all, word of the losses got around and Deutsche Bank was also suspected of having made a very bad deal with the silver, which Wallich vigorously denied: ‘All that babbling about the supposed losses of D.[eutsche] Bank on silver is incomprehensible to us. You cannot repudiate every silly rumour. We can give you the firm assurance,’ he wrote on 21 July 1876 to the Bremen branch, ‘that we did not acquire a single pound at our own expense in the entire significant silver deals that we made. We work for the Reich exclusively on a commission basis & the pittances that we receive from Freiberg’s cottages we immediately pass on to the best positioned markets.’¹¹³ Deutsche Bank’s first venture into Latin America was also a failure. For the opening of the Latin American market to German financial relations, Disconto-Gesellschaft, together with its own partners, had founded Deutsch-Belgische La Plata Bank with branches in Buenos Aires and Montevideo, with the branch in Montevideo receiving the right to print money in order to grant generous loans to the Uruguayan state. From the beginning, this was a dubious matter, and Disconto-Gesellschaft made an effort to quickly sell the shares of the bank to the public, with only limited success, of course.¹¹⁴ Georg Siemens’s initiative to not only buy up a third of the shares but also to take over the operative management of the business right away pleased sellers but also met with scepticism from Hermann Wallich, who was quite concerned about the fact that Disconto-Gesellschaft wished to get rid of its shares. In any case, he found it difficult to understand how the branch in Montevideo would maintain its solidity. Siemens prevailed, and Wallich turned out to be right. In this case, it was not normal setbacks that caused the bank difficulties but, rather, the fall of the government in Montevideo and the end of the interest and principal payments on the loans it had issued, which the new government did not resume. Only in 1876 were the loans serviced again, and the government repaid its loans through the transfer of government bonds, which Deutsche Bank then immediately sold. In 1885, La Plata Bank was finally liquidated, albeit without losses overall.¹¹⁵ The bank had escaped with nothing more than a black eye. Along with the branches and the foreign banks, Deutsche Bank’s limited partnerships in Paris and New York also helped it to develop a network for financing German (and, when possible, all international) trade. The successes varied according to the economic situation, but all in all, they were not very encouraging. The bank’s investment in Weissweiller, Goldschmidt & Co. in Paris, which generated little profit, had already been halved in 1876, only to be given up completely in 1877.¹¹⁶ The New York limited partnership founded in October 1872 deserves a little more attention because the financing of transatlantic trade, particularly with companies that were located in the United

States, played an important role in the bank's foreign trade business. Since attempts to found a branch encountered legal hurdles, the bank decided to found a private bank located in New York and acquired a limited partnership share of \$500,000 of the \$600,000 capital stock. The decisive impetus for this came from the founding shareholder and member of the Administrative Board Hermann Marcuse, who had been a partner of a successful private bank in New York before retiring to the Rhine district. Marcuse was not only extremely familiar with New York as a financial centre but also had important personal connections and brought his nephew Paul Lichtenstein in on the deal, together with ethnic German bill broker Charles Knoblauch, to manage the limited partnership. Lichtenstein came from Frankfurt am Main and had emigrated to New York at the age of 21 in order to join his uncle's banking business.¹¹⁷ Shortly before the founding of the New York limited partnership, which was given the name Knoblauch & Lichtenstein, Lichtenstein married Clara Kapp, the daughter of the German-American politician Friedrich Kapp, who, like Marcuse, was a member of Deutsche Bank's Administrative Board and, furthermore, was one of Georg Siemens's close political and personal friends. Thus, the bank's Administrative Board and Management Board were not turning the New York business over to someone unknown to the bank. Nevertheless, there was no guarantee of success on account of personal connections. Even though the limited partnership agreement stipulated that the New York affiliate was to regularly inform the bank in Berlin about all business transactions, the actual supervision of the New York business proved to be difficult. The German partners had to depend on Knoblauch & Lichtenstein strictly checking applicants for loans, especially in the petroleum business, 'because companies that work intensely with petroleum cannot be assessed at all'.¹¹⁸ This is precisely what would cause the downfall of the limited partnership in New York. In 1877, Knoblauch & Lichtenstein suffered heavy losses in some of their bank acceptances



New York 1872: the Great East River Bridge between Manhattan and Brooklyn.

and through their credit involvement in petroleum deals that had to be offset by reducing the limited partnership's capital.¹¹⁹ Ongoing losses generated by Knoblauch & Lichtenstein, 'who, contrary to the previous business practices, invested heavily in securities', prompted Deutsche Bank finally to write off its investment completely in 1882 and to liquidate the New York bank.¹²⁰

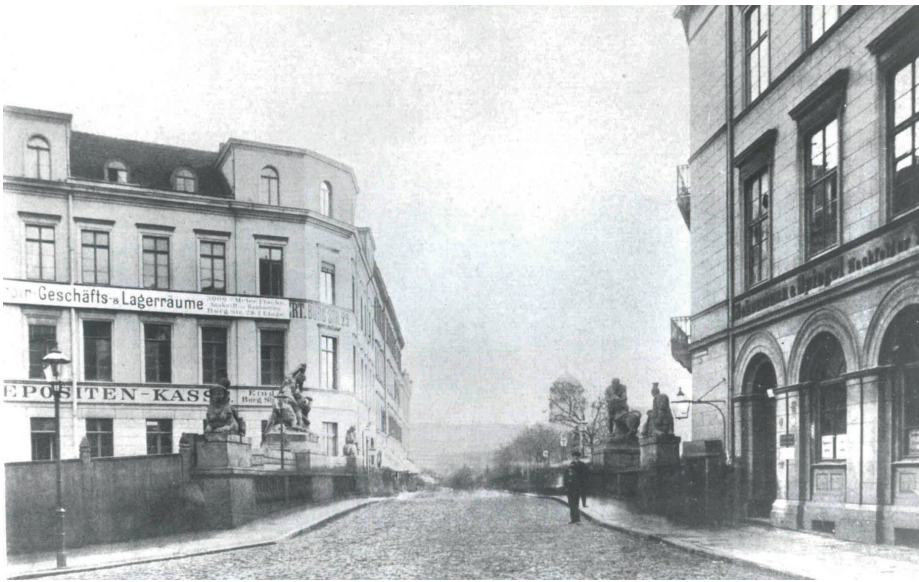
If the managers of Deutsche Bank had been called upon to draw up a balance sheet for the foreign business after one decade, the results would probably have been rather mixed. In Asia and Latin America, the bank had failed in its attempts to expand and had sustained losses; the limited partnerships in Paris and New York were obviously flops. By contrast, the London branch had performed brilliantly; it had become the centre of the bank's foreign trade financing and an important station for international precious metal and foreign currency trade, consequently forging the important bridge to the financial centre of London and the international money and capital markets for the bank's Berlin headquarters. The branches in Bremen and Hamburg fulfilled their purpose, serving the German trade companies that did business with Asia (primarily Hamburg) or America (primarily Bremen), although Bremen especially proved to be of value since the Atlantic trade turned out to be more stable than the Asian business. But both branches were successful overall.

However, a quantitative balance measured by this mixed picture clearly would have turned out positive. Whereas Bremen only contributed a little more than 10 per cent of the bank's turnover with 36 million thalers (108 million marks) in 1871 as the only existing branch, the two domestic branches, as well as those in London and East Asia, had already reached a share of more than 40 per cent of the total turnover, with 550 million thalers (1.65 billion marks), by 1873, with the largest share deriving from cash transactions, bills of exchange and current accounts business, followed by bill acceptances and lombard loans, with which the branches sometimes reached a higher volume than the headquarters.¹²¹ The branches, however, did not engage solely in financing foreign trade but gradually began offering a variety of financial services. For example, early on the Bremen branch also sought to finance railway projects and provided loans or entered into securities trading, naturally always in close co-operation with the Berlin headquarters. The latter kept a sharp eye on the business practices of its branches, whose business policies had to secure the agreement of the directorate for larger sums on account of the business regulations anyway.¹²² The local committee in each place was very helpful in this process; it was comprised of Bremen businesspeople with the approval of Berlin and was supposed to fulfil locally a task similar to the one the Administrative Board did for Berlin. At least as seen by Carl Fürstenberg, the long-time head of Berliner Handels-Gesellschaft, which co-operated closely with Deutsche Bank on numerous projects, it was the branch system that gave Deutsche Bank its special dynamic in the years before 1914:

His [Georg Siemens's] greatest achievement was, however, probably the development of the branch system, likewise modelled on Western European circumstances, within Germany itself, which contributed not least to securing the position of Deutsche Bank. Others could only catch up with the advantage it obtained at that time gradually and with considerable effort.¹²³

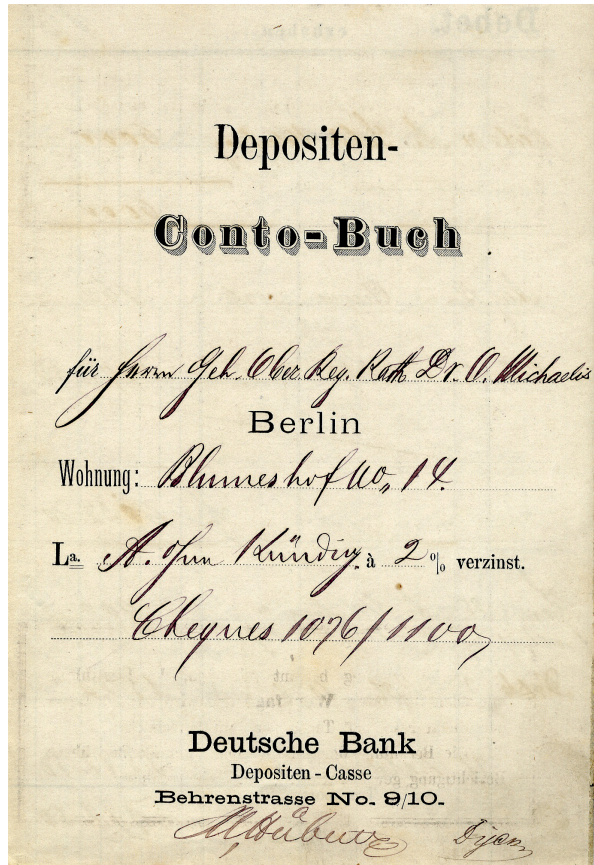
8. The Beginnings of the Domestic Business

Even though the domestic business was not intended to take on a prominent role in the founding of Deutsche Bank, the early players were probably aware that only the success of the domestic business would create the basis for a self-confident performance on the international markets. As the banker and bank theoretician Jakob Riesser later stated, Deutsche Bank was the first major institution that regarded deposit banking as having a significant function – indeed, even to some extent, an essential one.¹²⁴ What is certain is that Deutsche Bank, at Georg Siemens's instigation, accepted deposits for interest from 1 July 1870. Since the Preußische Bank and later the Reichsbank did not pay interest on deposits, this offer triggered a large wave of customers moving to Deutsche Bank, which 'at the same time [comprised] a firm and constantly increasing circle of buyers for the issuances of the bank'.¹²⁵ In the first business premises of the bank on Französische Straße, there was no counter dedicated to accepting cash deposits. Only in the autumn of 1871, when the bank moved its headquarters to Burgstraße 29, was a counter put in after some time exclusively for handling the deposit business. When the central headquarters then moved to Behrenstraße 9-11 in 1876, the customer base had already grown so much that the Burgstraße location continued to exist as the first Berlin 'deposit-taking branch' (*Depositenkasse*). At the same time, the 'main deposit-taking branch' (*Hauptdepositenkasse*) at the headquarters acquired the character of an independent department.¹²⁶ As a matter of fact, the intention of winning customers lay behind this; the bank could offer a comprehensive service to these customers, that is, not just deposit accounts, but also current or giro accounts and securities or custody businesses. In Berlin alone, there were 47 'deposit-taking branches' by 1914. There and in the other



Deutsche Bank's first deposit-taking branch was located on Burgstraße, near the Berlin stock exchange, from 1876.

Deposit account book from the year 1876 for the Privy Senior Government Councillor Otto Michaelis. Director of the Reich chancellery at that time, Michaelis was the earliest verifiable private customer of Deutsche Bank.



major cities, where deposit-taking branches were also opened, these functioned as very visible shop windows for Deutsche Bank.

The deposit business, along with current account deposits and the loans of other banks, became the core of Deutsche Bank's debit operations (*Passivgeschäft*), upon which it built up its lending business, which continued to grow in size and importance. Because deposits could possibly be withdrawn after the agreed upon withdrawal notice, the bank was forced to structure its risk clearly. Siemens was aware of this because, as he astutely pointed out, the bank had to be able to liquidate all of its assets within 12 months to keep from falling into existential crises.¹²⁷ Deutsche Bank always had good arguments for repudiating widespread criticism for having fused its deposit and credit businesses, on the one hand, and capital markets transactions, on the other – criticism accompanied by the demand for a separate banking system similar to the one that predominated in Great Britain. But it was also always aware of the explosive nature of this combination.

The universal bank as a type, as developed over time in Germany, can be traced back to this combination of businesses, which was encouraged by circumstances – behind it was an approach that essentially called for the bank to take responsibility for the clientele of the bank on both the asset and liability side of the balance sheet, something that was foreign to the Anglo-American banking system, for example. Jakob Riesser spoke

of the major German banks, certainly not only as typified by Deutsche Bank but with it in mind, as the

maid of all work. Except such tasks as came within the sphere of special banks, such as note banks, the provincial co-operative land mortgage associations (*Landschaften*), the mortgage banks, or the co-operative societies, the credit banks had to take upon themselves all or nearly all the tasks which in England are apportioned as a rule under a strict division of labor among deposit banks (with a further subdivision between city, west end, and suburban banks), merchant bankers, colonial banks, and even bill and stock brokers.¹²⁸

Hermann Wallich had already set his sights on this broad range of banking activity for Deutsche Bank's domestic business in the report he presented to the Administrative Board when he joined the bank: he recommended not only the deposit business that Siemens had already started up, but also taking up the current accounts, bill, arbitrage and underwriting business, as well as the granting of unsecured loans, customs loans, and the buying and selling of government bonds and securities on behalf of third parties.¹²⁹ Deposit banking turned out to be the catalyst for other business sectors. On the one hand, it generated means for financing short-term bills of exchange, especially as the basis for lombard loans and discount credits; on the other hand, extensive banking activities could be transacted via the deposit accounts, which Siemens was quite interested in, having also dealt intensively with chequing transactions in England. It was not far from a deposit account to a current account, which the owner could transact by writing a cheque 'without previously giving notice'; this was primarily interesting for business customers, whereas private individuals had little demand for accounts of this kind in the 1870s. Siemens strove in the following years to expand chequing transactions in Germany.¹³⁰ Before the chamber of commerce, he gave a programmatic speech in 1882 advocating chequing transactions and that they should not be hampered by a requirement for stamps; that is, they should be tax-free.¹³¹ If every single cheque were to be taxed, it would have made this means of payment, already unpopular in Germany,



A cheque form of Deutsche Bank in Berlin: Georg Siemens advocated the implementation of cheques for payment transactions as early as the 1880s.

even less attractive. The corresponding legislation was only passed in 1908; nevertheless, the Reichsbank functioned from the 1880s as a clearing house for the cheque transactions of the private banks.¹³²

Through this connection between deposit and current accounts, the bank was not only able to gradually take on ever greater shares of its business customers' transactions; there were other advantages as well. The balance of current accounts, which only earned very little interest, if at all, provided another advantageous source of liquidity. Moreover, the bank was well informed about the financial status of 'its' customers, which simplified the lending business as well. There was, thus, a simple, pragmatic reason for there being a relationship with one's Hausbank – a relationship that was later praised but was sometimes also notorious. In addition, there were advantages in the placement of shares and other securities because it made sense that the bank's own customers, to the extent that they had liquidity, would be open to investment tips. Siemens's vote for deposit accounts, therefore, had considerable consequences for the banking business because the customers' tie to the bank also tied the bank to its customers: if it sold them securities that did not produce or rapidly lost value, it not only risked its good reputation but also was in danger of alienating its customers, on whom, after all, it was dependent. Above all, in the rapid expansion of the bank's capital markets business that Siemens had in mind, there were considerable latent challenges that would soon become apparent. The bank did little in the business of issuance or founding new businesses, which was booming in Germany between 1870 and 1872. The restrictive requirements of the Administrative Board kept the new bank from getting involved in the speculative transactions of the exhilarating industrial boom after the victory over France. Partly for this reason, Deutsche Bank was only indirectly affected by the Panic of 1873, which impacted many of its competitors severely. Mostly, Georg Siemens's or Adelbert Delbrück's personal connections prompted the bank's investments; for example, in March 1871 it invested in the founding of Berliner Bank-Verein, with both Delbrück and Siemens joining the latter's Administrative Board. This was a consequential step because Berliner Bank-Verein and Wiener Bankverein had mutually invested in one another. When Wiener Bankverein had to be restructured in the wake of the Panic of 1873, Deutsche Bank made an international investment for the first time, purchasing shares worth 1.45 million guilders, and it contacted the other major shareholders of the Viennese company.¹³³ Similarly, the takeover of shares in Mecklenburgische Hypotheken- und Wechselbank in the summer of 1871 followed a personal decision on the part of Siemens, and quickly turned out to be a 'serious problem child'.¹³⁴ Other investments were not necessarily successful either, but the investment in the founding of the Internationale Baugesellschaft gave Deutsche Bank initial connections to the Frankfurt construction company of Philipp Holzmann – connections that would become particularly important from the beginning of the 1890s. There were also investments in the Union-Allgemeine Versicherungs AG, in the shipbuilder AG Weser in Bremen-Gröpelingen via the branch in Bremen,¹³⁵ as well as the Deutsche Jute-Spinnerei und Weberei AG in Meißen. The Panic of 1873 led to large write-offs in Deutsche Bank's investment portfolio, too. The reserves it had built up, however, were more than sufficient to cover the losses in the securities business, which were determined at about 285,000 marks.¹³⁶ Consequently, the bank was initially

extremely cautious in this sector, a strategy that would pay off as well. Siemens felt the effects of this when he advocated that the bank invest in the company founded by his relatives for the construction of an undersea cable between Ireland and Newfoundland (the Direct Cable Company). His loyalty to a family company lay behind this, as did a certain desire to engage in speculative investing, but the Administrative Board and the Management Board were against it so Siemens invested in it personally in the end, to his detriment. The bank had correctly regarded the business as being too risky.¹³⁷ In addition to its direct investments, Deutsche Bank was quite interested in syndicate business, that is in financing companies or public establishments for which its risk of loss was low. In this process, a friendly network of banks in Germany gradually formed that later made it possible for Deutsche Bank to expand its regional presence. Among its early syndicate partners, the most important were Schlesischer Bankverein in Breslau, Bergisch Märkische Bank in Elberfeld and Württembergische Vereinsbank of Siemens's friend Kilian Steiner in Stuttgart. Other important syndicate partners were Wiener Bankverein, Deutsche Vereinsbank and Frankfurter Bankverein in Frankfurt, Mecklenburgische Hypotheken- und Wechselbank and Oldenburgische Spar- und Leihbank. The syndicate structure also suggested itself because most of these banking companies were themselves shareholders in Deutsche Bank. In later years, Deutsche Bank then purchased shares of these companies in return.¹³⁸ In late 1875, however, the syndicate account only held nine current investments, including in a property business, in railways, public bonds, covered bonds (*Pfandbriefe*) and an industrial company.¹³⁹

9. Crisis, Revolts and Takeovers

At the end of 1873, Max Steinthal transferred from A. Padersteinscher Bankverein, located in Berlin, to Deutsche Bank, a position Hermann Wallich had interested him in on a trip they took together to Sylt. He was surprised when he took up his new position: 'I expected ... to encounter a small and quiet business and was more than a little astonished at all that had already occurred, and what I encountered in terms of quality and quantity, and of highly regarded names in the world of merchants and of brisk sales.'¹⁴⁰ In Steinthal's view, Deutsche Bank's ability to withstand the Panic of 1873, unlike other banks that failed, had to do with, among other things, Wallich's 'nose for crises'; Wallich had truly sniffed out the major crisis: 'He had kept his powder dry and held together his funds, whereas other new banks had got heavily involved in undertakings that were, in part, directly weakened by the crisis, and, in part, had become long-sighted.'¹⁴¹ Of course, this was a retrospective view long after the crisis had passed. Between 1873 and 1875 the bank did get itself into deep water even though it did not experience an existential crisis. After the crisis began, numerous banks had to stop making payments, stock prices plunged and dividend payments were drastically reduced. The annual report for 1873 stated concisely and clearly that the crisis forced 'us to be extremely cautious in the cultivation and expansion of our business relationships'. Moreover, the bank needed to reduce already existing risky business relationships or sectors. This was also surely another reason why the unprofitable Asian branches were closed.

The Management Board and Administrative Board had already let caution and

reserve prevail before the Panic of 1873 in the matter of dividends, which hovered in the lower level among the major banks. Whereas Disconto-Gesellschaft distributed dividends of 24 per cent for 1871 and 27 per cent for 1872 on its capital, and the other major banks paid dividends of between 10 and 17 per cent, Deutsche Bank and Commerz- und Disconto-Bank brought up the rear with about 8 per cent. In the year of the panic, 1873, Deutsche Bank reduced its dividend from 8 to 4 per cent; in 1874, it was raised only slightly to 5 per cent. In 1875, the bank deposited more than a third of the surplus it earned into its loss reserve, and the dividend was once again reduced, this time to 3 per cent. This put it well behind Disconto-Gesellschaft (1875: 7 per cent), but, unlike Berliner Handels-Gesellschaft or Schaaffhausen'scher Bankverein, it did not have to temporarily discontinue dividend payments altogether.¹⁴² After the dividend reductions, many a shareholder who himself was in need of liquidity may have asked himself whether his money was well invested at Deutsche Bank, which had once again increased its share capital in late 1872, now to 15 million thalers (45 million marks), particularly since the press repeatedly reported on difficulties within the company. Wallich sought to calm unsettled shareholders: 'All that blathering on [in Bremen] about big losses at Deutsche Bank is simply exaggerated and unjustified,' he wrote on 25 June 1873 to the Bremen branch, and continued: 'Nevertheless, like all banks, we have had failures, yet such as we have had are not significant enough to cut the total dividend considerably.' This was not entirely true because the dividend had to be significantly cut for 1873, although of course



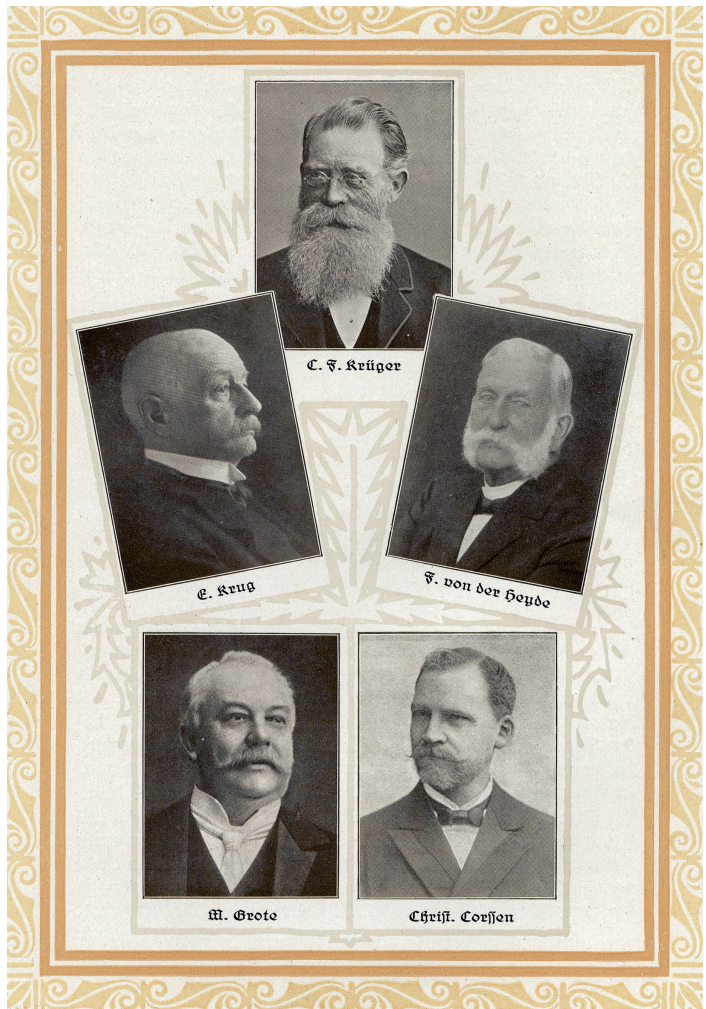
Stock certificate of Deutsche Bank from 1873. These newly issued stocks for 5 million thalers (15 million marks) raised the equity capital to 15 million thalers (45 million marks). After the Panic of 1873 began, there was some opposition to the high capital base of the bank.

the capital increase that occurred in late 1872 needs to be taken into consideration, which impacted dividends in 1873; yet Wallich wanted to calm his Bremen colleagues, also emphasising that the London branch had lost nothing at all, even though it bore the losses in the Asian market.¹⁴³ These efforts at appeasement did not help, however: some shareholders in Bremen demanded that the bank limit itself to its core business of financing foreign trade and reduce its 45 million marks in capital by one-third.¹⁴⁴

The uncertain situation as well as the high equity diminished not only the profit expectations; in general, during the crisis it seemed advisable, wherever possible, to reduce the share capital in order to stabilise share prices. The Bremen consul Heinrich Plenge suggested something to this effect to the Administrative Board in April 1874, but the board rejected it after a lengthy discussion. Adelbert Delbrück informed Plenge that, although one could not deny that the share capital was too high, and that a reduction would stabilise the share price and increase the dividend, a capital reduction would nonetheless 'do more damage to the credit of the bank ... than the increase in the share price would be beneficial to its credit'. In other words, Delbrück feared for the bank's reputation. He openly admitted that he could not prove this with numbers: 'It is a matter of instinct, and it does not merely come down to viewpoints in Germany but altogether to England and foreign countries.' Such a move would put the bank on the same level with a whole range of failing banks and, at the same time, send out a signal that the bank could only continue to pursue its own programme with a more limited scope. But Delbrück did not want this simply because a number of large projects were in the works. Consequently, he made an appeal to Plenge: 'I thus ask you, Honourable Sir, to oppose this motion, which is aimed at a reduction of capital, in the interests of the bank and, indeed, in the best interests of the shareholders and to seek to use your great influence to thwart this same [motion].'¹⁴⁵ Of course, this by no means put the matter to rest because many of the Bremen shareholders continued to wish for this and, in May 1875, took up the cause once again after the situation concerning the branches in Asia had become critical, the La Plata Bank project had essentially failed and Deutsche Bank's share price dropped further. The management of the Bremen branch reported to Berlin that a group of local shareholders were pushing for an extraordinary general meeting of shareholders in order to bring about the reduction. Although this had been discouraged, it was not clear what would happen now.¹⁴⁶ In the summer of 1875, the leading merchant Alexander Georg Mosle, the chairman of the local committee of the Bremen branch, also took up with those agitating for the reduction, whose numbers had by now grown into a regular committee. Although Mosle, the Bremen branch management told Berlin, rejected the reduction, even larger shareholders had begun to get involved in the matter so that the managers were already considering how to reduce the votes of the advocates. A proven method seemed to be not to issue ballots for pledged shares, that is, to take away the voting rights of shareholders who had pledged their shares.¹⁴⁷

Siemens found all of this 'very uncomfortable, because [these initiatives] limit us a great deal in our freedom of action in concluding various contracts'.¹⁴⁸ Siemens's view derived from his fear that negotiations to take over bankrupt banks, which the Berlin Management Board had been engaged in for some time in an effort to utilise the crisis, would be hampered because currently available capital was needed for this. Put simply,

it was about the acquisition of the two Berlin banks, Deutsche Union-Bank and Berliner Bank-Verein, which were sitting on a large quantity of debt claims that could not presently be collected because of the Panic of 1873 and had to write off large parts of their investment portfolios in light of the drastic decline in their share prices. Deutsche Bank had owned shares of Berliner Bank-Verein since it had been founded in 1871; it also had good contacts among the members of Deutsche Union-Bank's management board. Since it was possible to realistically assess these banks' situation and be aware that their difficulties had resulted not from a deficient business model but, rather, from crisis-related liquidity problems, it made good sense to use Deutsche Bank's own capital to liquidate both banks and take over their business.¹⁴⁹ Bank managers had been pursuing this idea for some time, but it did not initially find favour with the chairman of the Administrative Board, Adelbert Delbrück, as he believed that this sort of a merger would transform Deutsche Bank overnight into a serious competitor of private bankers in the German financial market.¹⁵⁰ In the circumstances, Siemens's friendship with Stuttgart



Members of the directorate of the Bremen branch from 1871 to 1911.

banker Kilian Steiner was very helpful. Steiner, who was a member of the Administrative Boards of Deutsche Bank and Berliner Bank-Verein, was able to persuade Delbrück that the merger made sense. A takeover of the illiquid banks would expand Deutsche Bank's business to such an extent that its profitability would have to increase and it would, in the future, be able to more than compensate for the looming cut in the dividend for 1875. Delbrück was persuaded by these considerations, and in the second half of 1875 Georg Siemens, who was leading the takeover negotiations and was drafting the contracts, was granted the necessary freedom of action.¹⁵¹

Consequently, the Bremen shareholders' demand that the share capital be reduced came at a bad time. Those agitating to lower the capital were unfazed by appeasement efforts and threats; rather, they hired a lawyer, Johannes Wilckens, who promoted the campaign to reduce the share capital by means of targeted press initiatives. Siemens and Wallich were alarmed and feared that Deutsche Union-Bank and Berliner Bank-Verein could break off the negotiations if the plan for an extraordinary general meeting became known to the public. That would have been devastating, especially because Deutsche Bank had bought up the shares of these banks in the meantime, and would then probably only be able to sell them again with losses. In addition, they pointed out that, if the capital were reduced, the business would contract and 'our branches in Bremen, Hamburg and London [would have to] be recalled';¹⁵² then one would only be able to work from Berlin. The threatening tone that Siemens and Wallich adopted had the desired effect. On 18 September 1875, the Bremen branch management wrote that the shareholders involved had, after much discussion, declared their willingness to cease their agitation for the time being: 'The reason for the agitation is the desire on the part of the agitators to disburden the market of a part of – in the view of the agitators – an excessive number of bank shares.' Since the merger of Deutsche Bank with the two Berlin banks would achieve exactly this, the gentlemen from Bremen were 'temporarily willing' to remain silent. However, the Bremen managers made it very clear that if the merger negotiations were not successful the 'agitation' would in all probability be resumed.¹⁵³ Two days later, however, any hopes that the agitation would cease were dashed when a further decline in Deutsche Bank's share price provoked speculation that the merger negotiations were difficult or even bound to fail.¹⁵⁴ This was not the only reason. The agitating to reduce the capital began once again, partly because one Bremen shareholder who had discussed the situation with Delbrück and Siemens in Berlin, and had been convinced that the merger would take place, nevertheless urged that the reduction campaign should continue, something Wilhelm Platenius, meanwhile, was also 'energetically' pursuing.¹⁵⁵ Wallich was 'unpleasantly affected' by the fact that the annoying business was to begin anew, but especially because Platenius, too, who was obviously fed up with his former employer, was now participating in the campaign: 'That Platenius, forgetting our earlier relationships, is conspiring against us is sad, but it shines a poor light on him.' The merger negotiations were proceeding well, Wallich told the Bremen management, while also touting the positive prospects in the hope of diverting well-meaning shareholders from taking an action 'that could only be devised by our bitterest enemies or by people who have not sufficiently recognised the facts'.¹⁵⁶ Consequently, Wallich himself travelled to Bremen, something Siemens would also have done had he not been attending his

doctoral graduation ceremony in Heidelberg at the same time. Consequently, Wallich met with the Bremen shareholders alone. However, this meeting was not really successful because the Bremen management suggested after Wallich's return that the shareholders there, even after a successful merger, would insist upon a reduction of the share capital as 'compensation'. If Berlin were to signal that this sort of reduction would be undertaken in about a year, the 'agitation [could] be subdued'.¹⁵⁷

Berlin responded swiftly and robustly. A reduction was out of the question. A repayment of the shares at the desired price would, in the best case, only be possible if Deutsche Bank did not wish to acquire the two Berlin banks. Now it could not be considered, and those sorts of implications must not be made and needed in some cases to be corrected. 'We cannot get around characterising the behaviour of the Bremen agitators right at this time as a suicidal beginning,' the Berlin directors Max Steinthal and Rudolph Koch wrote.¹⁵⁸ After Berlin's clear refusal to give in to the wishes for a reduction, the two sides dug their heels in and the campaign expanded to Hamburg as well. In Bremen, there was scepticism that anything could still be achieved at all: 'The main leaders hold very fixedly to their project and go so far as to regard the liquidation of Deutsche Bank as not a bad thing.'¹⁵⁹ As a result, the branch management in Bremen resorted to winning back potential supporters of the campaign and to deny voting rights to those who had supported the campaign but had lent out their shares: 'We have not yet declared a war to the finish, but we are quietly working hard to secure votes for ourselves or to prompt the shareholders to temporarily remain neutral.'¹⁶⁰ Above all, however, it was now a matter of taking the edge off the 'agitation' through a suitable resolution in a regular meeting of the entire Administrative Board of Deutsche Bank, which was scheduled for late October.

Up to this point Bremen's attempt had only been rejected by the Committee of Five in the Administrative Board and by the Management Board. There was still uncertainty as to how the entire Administrative Board would act with regard to the issuing of an equity reduction, since some of its members were, after all, mainly shareholders from the fields of banking, trade and industry, including George Albrecht and Alexander Georg Mosle, two Bremen merchants, among others, who liked the idea of a capital reduction. In a memorandum addressed to the Administrative Board, the Management Board made its position clear: after the setbacks in Asia, the bank would not be able to maintain its previous course without a strong position in the domestic market. The opportunities for expansion abroad were not favourable, it stated, but in the domestic market there were chances that should not be risked by an imprudent action.¹⁶¹ If the Bremen campaign were to be publicly successful, and, more to the point, if there proved to be strong resistance in the Administrative Board, this would call the entire project into question and make the work of the preceding months worthless. The Management Board argued with suitable decisiveness by presenting the merger and, thus, simultaneously the rejection of the Bremen initiative, as a question of survival for the bank. The result was a complete victory. The Administrative Board unanimously (that is, including its Bremen members) backed the Management Board, which now pushed to have the contracts drawn up with the two banks that were to be acquired. The contracts were already drawn up when, in January 1876, an extraordinary general meeting, which

had been called for by the still dissatisfied Bremen committee that favoured the capital reduction, voted on the question. Thanks to Delbrück's support, Steiner's campaigning and targeted efforts to influence vacillating shareholders, the Management Board was successful beyond all doubt. Of the 8,000 or more votes cast, 6,169 were for the Management Board's plan, whereas 1,902 were for a capital reduction to 30 million marks.¹⁶² This now also formally cleared the path for the acquisition of the two Berlin banks. A syndicate led by Deutsche Bank withdrew the shares of Union-Bank and Bank-Verein from the market while Deutsche Bank itself took over these banks' business dealings and personnel, running them under its own name. Prior to this, the two banks were restructured by means of the necessary balance sheet reductions and their stock prices were stabilised so that Deutsche Bank could later acquire these without excessive losses for the former shareholders and, thus, complete the merger. The Management Board's strategy paid off, and the harsh manner of dealing with the Bremen initiative to effect a capital reduction proved to have been justified.

For the bank itself, the merger really was a tremendous leap forward since, in terms of the sum of its balance sheet and its turnover, it became the largest bank in the German Empire overnight. Its total assets, at 190 million marks in 1876, exceeded even Disconto-Gesellschaft, which had 136 million marks on its balance sheet. Nevertheless, Disconto-Gesellschaft still had more than 15 million marks in capital and a considerably higher reputation than its young competitor.¹⁶³ Deutsche Bank's domestic business benefited especially from the merger because both of the acquired banks had possessed an extensive clientele that Deutsche Bank succeeded in retaining. Deutsche Union-Bank, for example, had been very active in deposit banking. After it had been integrated, Deutsche Bank changed the structure of its deposit banking segment by creating an independent department for this, which later came under the management of Gustav Schröter, who had come from Berliner Bank-Verein. With Berliner Bank-Verein, Deutsche Bank's foreign contacts expanded because the former had not only invested in the founding of Wiener Bankverein, but also had close connections with Paris. The chairman of the supervisory board of Deutsche Union-Bank Wilhelm Herz and its management board member Wilhelm Kopetzky transferred into the Administrative Board of Deutsche Bank, with Herz later becoming the chairman of this committee.¹⁶⁴ The prestigious building of Deutsche Union-Bank on Behrenstraße was also taken over by Deutsche Bank and henceforth used as its headquarters.

As to the burning question of Deutsche Bank's future business policies, the successful merger of 1876 thus constituted an essential step but was not yet the final culmination of Georg Siemens's strategic ideas, who had long pushed for expanding the domestic business. After all, it was not only the Administrative Board that debated the question of how to utilise the newly emerging possibilities; the Management Board also repeatedly resisted Siemens's initiatives, some of which seemed arbitrary and idiosyncratic, and his tremendous tolerance for risk. It was by no means just plucked out of thin air when he spread word of Hermann Wallich's constant reminder 'Just no ideas' on the occasion of the tenth anniversary of the bank.

But Siemens did not wish to be slowed down. In the summer of 1876, things came to a head. Only a few months after the merger, in July Georg Siemens once again requested

With the acquisition of Deutsche Union-Bank in 1876, Deutsche Bank came to own the building at Behrenstraße 9, which then served as its headquarters and was expanded with additions and new buildings in the following decades.



that he be released from his position on the Management Board of Deutsche Bank. For the chairman of the Administrative Board Adelbert Delbrück, who very much appreciated Siemens and thus always strove to maintain a balance in all the conflicts, this request must have felt like a bomb going off because, up to that point, Georg Siemens had been the driving force behind the development of Deutsche Bank's various business segments. Although Wallich and Steinthal set the tone in the areas of foreign trade financing and foreign business, Siemens was the one who wanted to take the bank to the top of the German financial world, at the cost of a great deal of personal sacrifice. He had experienced plenty of self-doubt in doing this, but he believed above all that he lacked the strength to prevail against resistance.¹⁶⁵ Up to this point, Siemens had always managed to assert himself despite significant conflicts, with his zeal for his work and a reluctance to spare himself helping him achieve this. He was one-sided to 'excess', he declared to his

bride; anything other than the bank hardly interested him, and he was of little use in the company of ladies 'if one has had hours-long discussions with people one wishes to push one's plans on'. There was 'a lot of annoyance and scorn in this way',¹⁶⁶ an attitude that also had something to do with Siemens's pushy manner. 'If I am not mistreated, then I easily mistreat others,' he told his mother in March 1872,¹⁶⁷ and his wife told her parents-in-law in 1873 that he got up early, spent the entire day at the bank, spent his free time in political activity – Siemens had been elected to the Reichstag as well as to the Prussian House of Representatives for the National Liberal Party – and even on a good day was only at home for a brief lunch at midday.¹⁶⁸ Siemens himself admitted that he had 'loaded' himself up with 'perhaps too many different sorts of work. But if one wants to make progress, one simply has to do more than other people; Berlin is a ruthless patch in this regard. Since I can no longer go walking, I have helped myself by smoking.'¹⁶⁹ His working style, in any case, was considered uncompromising and not always amiable. He tended to speak his mind, talking about the need to kill off all bank managers when they reached the age of 50,¹⁷⁰ and only slowly began to change his gruff manner under the influence of his wife, who wrote to her parents in early February 1878 that her husband had given up 'the drastic expressions he usually favoured'.¹⁷¹ There was a good reason for his brusque and homespun manner. Neither the Administrative Board nor his colleagues on the Management Board found Siemens's political involvement justifiable; nonetheless, he managed to push it through, albeit at the cost of all of his free time.¹⁷² He even felt that having a certain degree of cynicism in the process even seemed to help matters:

And concerning cynicism, this is a language that can easily be understood by everyone in this earthly world. One gains clarity by means of it; and he to whom the matter is of prime importance may make use of this language whereas he does not care what other people think of him. To act in a cynical manner is shameful, but to speak in a cynical manner means saving a lot of time in business.¹⁷³

But now, in the summer of 1876, everything seemed to be failing because the remaining managers of the bank were not following his lead; so he wanted to throw in the towel. He used a brief stay in the Black Forest as an opportunity to draft a letter outlining his reasons for this, which, although he did not then send it to Adelbert Delbrück, clearly expressed his motivations.¹⁷⁴ Siemens was firmly convinced that the bank could only be successful in foreign business in the long term if it had solid domestic banking business at its disposal, and investments in financing large projects and capital market transactions were a part of this business. The lending business the bank had engaged in on the basis of its deposit banking was far from sufficient for this, he believed: in future, only an expansion of the domestic business would help to maintain such a course, but his colleagues on the Management Board rejected this idea. In the financing business, 'I mostly encountered a passively disapproving attitude on the part of my colleagues, [and] in some cases they worked against me. ... I willingly admit that I am not blameless in this', because he did stay out of the 'regular business' and concentrated on 'establishing new connections and preparing new deals. [...] Since I [...] frequently came with new suggestions, one believed finally one could view me as a sort of "swindler" that one could

not be careful enough around.¹⁷⁵ He often continued on his own, but this had not been successful, he wrote. Now, after the merger with the other Berlin banks, he had hoped things would change. That had not happened. Consequently, Siemens requested that he be released on 1 October 1876, and he recommended that the bank reduce its capital and downsize its business.

Helfferrich's belief¹⁷⁶ that Siemens was entirely serious in requesting this was no doubt correct, but his aim was not to end his employment with Deutsche Bank but, rather, to change the course of the Administrative Board in his favour. He had already done this by threatening to resign in 1872, and he could be confident that he would also be able to assert himself this time; after all, he knew how much Adelbert Delbrück and his colleagues on the Management Board valued him; they tried to slow him down, but they did not wish to be rid of him. Although he prepared to take up work on his father's estate, it is difficult to say whether he intended this as a sort of last resort. Hermann Wallich's reaction, in any case, was completely in Siemens's interests; Wallich launched a massive bid for him to remain and demanded that the Administrative Board keep him. And this is exactly what happened: Siemens henceforth became the 'man of the house', both as an individual and as a strategic figure. His behaviour was certainly not irrational, quick-tempered, or rash. He knew the Administrative Board and his colleagues far too well to let himself get taken in by an angry quarrel. Only a year earlier he had written to his father: 'The trick is not that one beats one's head against the wall but that one finds the door.'¹⁷⁷ Things had now reached that point: the door to the development of a full banking business as Siemens imagined it had been pushed open. Siemens's determination to make the most of the new opportunities and, lest there be any doubt, to prevail over resistance with ruthlessness had already become obvious in the conflict over the capital reduction. Now the Administrative Board and the Management Board were also at least fundamentally like-minded.¹⁷⁸ This was no secret in the financial centre of Berlin. At Deutsche Bank, Carl Fürstenberg remarked in his memoirs that Georg Siemens 'always implemented [...] what he thought was right in the end'.¹⁷⁹

II. Consolidation in a Difficult Time: The Era of Wallich, 1876–1887

1. The Consequences of the Panic of 1873

After the strategic development of the bank had been clarified, there were no more obstacles to it going on the offensive. Even so, the following decade was not easy for Deutsche Bank's development. Above all, this pertained to the economy, which was recovering, albeit sluggishly, and the repeated setbacks, which made it seem as though the crisis would continue.¹ Although it is generally accepted today that the German economy did not stagnate and that the world economy recovered relatively quickly, with the United States driving this trend, the years between 1873 and the early 1890s were difficult ones in which there were repeated crises and boom phases always slowed down relatively quickly.² The effects of this recovery process were also contradictory. Initially, after the preceding massive expansion of production capacities, the weakness of the respective home markets resulted in excess capacities. At the same time, international competition grew more intense, particularly in the agricultural sector, but also in the iron and steel industry and in the textile sector.³ These industrial branches were already suffering from low prices, which depressed companies' profits both in Germany and in general, and significantly curbed their ability to invest. Demands for protection for the national markets from foreign competition were little more than an attack on consumer income, but they were successfully sold throughout almost the whole of Europe as a sort of 'national task'; from the late 1870s, most continental European countries adopted a system of modest protective tariffs, one which traditionally existed in the United States.⁴ Only Great Britain, which was more than able to compensate for a negative trade balance in Europe over the course of time with revenues from its colonial business, and the Netherlands, which had hardly any advantages from tariff borders as a location for trade and shipping, remained free trade zones, a concept that continued to be widely appreciated into the early 1870s. In the words of Joseph Schumpeter, a 'neomercantilist epoch' began in which the economic successes of one's own country became the measure of politics, even if it was only, as was the case with Bismarck, thereby to gain the support of parliament, which otherwise would not have been so easy to get.⁵

The consequences of the Panic of 1873, the low prices, the minimal investment propensity, the protectionist atmosphere: all of this had a curbing effect and precipitated a phase of low interest until the end of the 1880s. The climate remained bad. Even if Deutsche Bank's Management Board did not regard the protective tariffs as a serious problem for the overseas business, those at the top levels of the bank were quite sceptical

about a sort of protectionism in which ‘injustices’ were perpetrated ‘deliberately and systematically’, favouring ‘unnecessarily some classes of the population at the expense of all taxpayers’.⁶ Since trade activities increased considerably in the run-up to the protective tariff legislation, the bank initially profited from the transition to moderate protective tariff policies, particularly since this led to an improvement in the business conditions for the bank to get involved early in industrial financing, in the *Deutsche Jute-Spinnerei und Weberei AG*. All in all, the protective tariff was not a big deal for the bank. Rather, it was concerned with the continuing restrictive stock-market legislation and the state’s reluctance to modernise the German money market, in which cashless payment transaction options were still underdeveloped – something Siemens repeatedly and forcefully advocated.⁷ Even though the Administrative Board and Siemens’s colleagues on the Management Board were sceptical about his political involvement, they must certainly have welcomed his advocacy on behalf of a suitable design for the Reichsbank and later on the issues of the development of the money market and stock-market legislation, particularly since his parliamentary initiatives were primarily restricted to these matters. However, he was not very successful in this; the Stock Market Stamp Act of 1881, which raised the taxation on stock-market transactions, had an additional ‘curbing’ effect on the already depressed economic climate, as the bank noted in its annual report for 1882.

This did not augur well for the stock markets and stock-market trading; stock prices barely recovered. The public’s critical mood towards the stock market and banks only gradually settled down in the years after the Panic of 1873.⁸ Various state measures did provide the banks with opportunities, particularly in the finance ministries’ and the municipalities’ practice of using the low-interest phase to convert old bonds with high interest rates, for which they needed the banks’ help. But the rest of their business was either weak or significantly riskier. After the Panic of 1873, and until 1875, the bank’s profit only recovered temporarily. In 1877 and 1878, it collapsed again. Only from the end of the decade did profits stabilise, but then they stagnated until 1887 at the pre-crisis level of about 7 million marks annually. In light of the simultaneous drop in the price level, this stagnation needs to be put in context, but the temporarily dramatic volatility of prices, share prices and profits pushed the bank towards engaging in a very careful business strategy. This foregrounded the consolidation of the bank itself, which meant, among other things, that relevant adjustments to the reserve fund had to be made. Even though Siemens had struggled for greater room to manoeuvre in 1875–6, the decade after the Panic of 1873 was nevertheless shaped by Hermann Wallich’s careful strategy, which kept the bank on a short leash – undoubtedly mostly with the approval of the Administrative Board.

All this was anything but easy, because, in addition to the consequences of the crisis, the bank’s business was hampered from the 1870s by the nationalisation of the railways in Prussia. The domestic market for railway stocks and railway bonds, which had been tremendous and, all in all, also profitable up until then, gradually dried up.⁹ This had conflicting consequences for the bank. Prussia financed the railway nationalisation by issuing state securities at a low interest rate, which was easy to effect because of the low interest rates of that time. Many railway shareholders were also willing to accept these securities but, at the same time, quite a few of them seemed to think this was not a very

good deal. They were interested in higher returns and expected their banks to make offers along these lines. It was not easy to find or create such offers because the interest rates remained depressed as a result of the weak investment demand and the high liquidity. In its annual reports of the 1880s, Deutsche Bank repeatedly emphasised that it faced an investment crisis; there were large sums of capital that needed to be invested, but hardly any profitable investment opportunities in the domestic market. In the report for 1886, the bank was still reporting, for example: 'The abundance of money has continued to exist unchanged.' Only at the end of the 1880s did the low-interest phase show signs of coming to an end, and conditions for banking shifted once again. Up until this 'interest-rate reversal', all the major Berlin banks were faced with the problem of not being able to offer their wealthy domestic clients enough profitable investment opportunities. If Deutsche Bank's business model were to prove itself, and if the deposit banking and current accounts business, in which large sums of potential investment capital came together, were to continue to be successful, ways out of this crisis had to be found, and they certainly were not to be found exclusively in the domestic market. In its annual report for 1887, the bank wrote that the 'necessity ... of the introduction of foreign securities' had essentially presented itself, whereupon the bank resumed an activity it had taken up in the late 1870s. Thus, at this time, business proceeded in a manner similar to the squaring of a circle: on the one hand, risks were strictly limited in light of the sensitive economy, and, on the other, the bank actively sought international investment opportunities for the public that was interested in this, and all this occurred within the framework of stiff competition among the major Berlin banks.

2. Pitfalls in Everyday Banking

In the second half of the 1870s, what Siemens called the 'regular business' was very clearly in the foreground because it continued to develop in a stable manner in the years of the 'money flood' and the low interest rates as well, even though the profit margins were not very high in this highly competitive business segment. Deutsche Bank successfully and seamlessly navigated the acquisition of the two Berlin banks and the consolidation of the business volume this entailed. Consequently, the bank was able to expand its own bill business significantly, even in a market that was only expanding slightly overall. Deutsche Bank primarily cultivated business with long-term bills of exchange, and was thus able to provide relatively generous loans, which was both well received by the public and gave the bank an edge over the competition, although it required an appropriate loss provision. Along with the headquarters in Berlin, the branches in Bremen, Hamburg and above all in London became much more significant in this regard, even though the newly founded overseas banks contributed to the boom in this segment from the mid-1880s, which largely comprised the financing of (cross-border) trade by providing advances on goods and import loans. The bank followed the principle of only accepting bills of exchange drawn on it with great caution; managers were already talking about the credit volume limit of a maximum of £100,000 per customer that the Committee of Five from the Administrative Board had decreed in March 1876. This credit cap was uncomfortable for the branches, who knew their customers and consid-

ered it necessary to have greater flexibility in foreign trade financing. Nevertheless, Berlin reacted vehemently to repeated ‘violations’ of the strict rules, particularly when branches exceeded the limits for unsecured loans: ‘The conditions of the time are [...] of such a nature that they demand the strictest measure in the acceptance of risks’, the Bremen branch was informed in April 1876 and cautioned about the consequences bad loans would have on the bank’s share price: ‘In addition, would you kindly consider that one is more and more accustomed recently to criticising the balance sheet of a bank from the point of view of how many unsecured debtors it has, and that the summary of such an assessment undoubtedly influences the share price.’¹⁰

The directorate in Berlin was even willing to forego business if necessary and thus to disappoint its own customers, and in some instances even to offend them. Hermann Wallich was implacable in this respect because, after all, there could be serious consequences for the reputation and the value of the bank’s shares and, thus, potentially, renewed unrest among dissatisfied shareholders. The Bremen branch was impelled always to check the creditworthiness of even good customers in order to be allowed to maintain loans it had already granted.¹¹ Yet Berlin did not see any wriggle room because the bank was publicly criticised for the large amounts of its acceptances and many observers even speculated about payment defaults. Wallich admitted that the strict risk provision was also a consequence of the fact that the boom in banking activities following upon the mergers had created ‘enviers and enemies ... & since acceptances are our most sensitive segment, where our enemies can harm us, we must attempt to prevent an unnecessary spread of this’. He did not only insist upon very strict checking of creditworthiness: ‘This will result in the question of the reduction of our loans. I thus ask you to get used to the idea now & to see which companies we should initially cause to suffer under this reduction.’ For Wallich, it was also clear who should be affected: ‘I proceed in this on the principle that companies that use us solely for accepting deserve less consideration than those who also occupy us in other ways.’¹² He was not the only one saying this: that same month, the Committee of Five of the Administrative Board ordered that the headquarters as well as the branches in Bremen and Hamburg present the lists of loans and the committee went through the lists of debtors and agreed on principles by which the credit lines were to be settled each year. Unsecured loans over 300,000 marks were to be reduced and account overdrafts (*Giroobligo*) were not to be permitted at all if they were not covered by the prime securities (bills of exchange of the



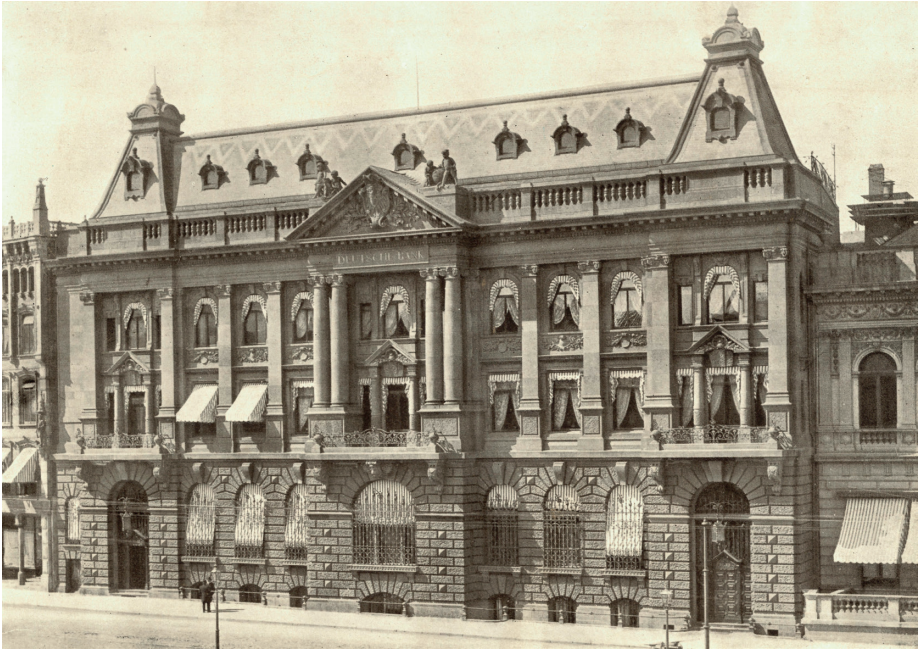
The Management Board of Deutsche Bank in Berlin around 1880: from left, Georg Siemens, Rudolph Koch, Max Steinthal and Hermann Wallich.

highest quality).¹³ As the following example makes clear, this restrictive stance on the part of the Management Board and the Committee of Five led repeatedly to conflicts with the branches. The time delay alone that resulted from branches having to check with Berlin caused irritation: 'Because of the absence of the members of your finance committee, extremely important points like the present one [it pertained to a loan for a partner of Knoop & Jersey, which Berlin had initially refused with reference to the £100,000 limit] cannot remain unprocessed for 6 weeks without significant damage to our entire business operation; if they do remain unprocessed, then you restrict our movements so that we lose any inclination to move at all.' In particular, they insisted, one could not treat good clients like Knoop & Jersey in this manner.¹⁴ In this case, Wallich and Steinthal shared Bremen's criticism, but they had no wriggle room to make changes; up to this point they had tried in vain to correct 'the overly rigorous viewpoint of our highest authority', that is, the Committee of Five, but they wanted to continue trying.¹⁵ Nevertheless, Berlin only minimally accommodated the Bremen branch, which had traditionally provided Knoop & Jersey with unsecured loans. The Bremen branch had to be more restrictive in granting loans, which was also problematic because these sorts of restrictions could be very damaging to the reputation and creditworthiness of the loan recipients, in this case Knoop & Jersey.¹⁶ Consequently, the Bremen branch had the goods collateral for its loans carried out in secret in order not to damage its business relations with Knoop, but first it had to have the commercial bill Knoop presented approved in Berlin before it could grant the loan. Bremen pushed for speed, 'because we would like to avoid anything that would cause us to come into serious conflict with Mr Knoop, as the latter describes the bill of exchange as good and solid security &, in the end, we cannot ask for more than that.'¹⁷ The Bremen bankers were actually afraid that Berlin would reject the request, because 'if, on account of the quest. bill of exchange there are difficulties on your end, K.[noop] would break off with us!'¹⁸ But the Berlin directorate remained unconcerned: Knoop would not break off relations so quickly with the bank 'if his wishes are not granted. A loan of £100,000 can't, after all, be obtained every day!' It only approved the loan after carefully reviewing the bill of exchange.¹⁹ To the Bremen bank managers, this meant that they had to dance to Berlin's tune and rely increasingly on collaterals for loans on bills of exchange. These collaterals, moreover, provide a good example of the bank's range of business, since wool imports from South Africa received advance financing, as did deliveries of hides from Latin America, tea from India and China, petroleum from the United States and grain exports from Germany.²⁰ Despite such caution in the granting of loans, the Bremen branch performed well; it earned ½ per cent commission on discounted bills of exchange, as well as a discount rate of 4 per cent per annum. Its profits were satisfactory, the Bremen branch management emphasised: even though the low discount rate was a cause for concern, the first half of the year had ended with a positive balance and 17.3 per cent net profits²¹ had been earned on the utilised capital.²² The situation at the Berlin headquarters and in the Hamburg branch was not really different from this; however, the Hamburg branch's rate of profits was mostly lower. Financing trade was a good, solid business especially in the difficult economic time, particularly if it was conducted with the necessary caution.

Berlin did not relax its restrictive stance following the Panic of 1873 and the rebellion of the Bremen shareholders the following years, either. The Administrative Board's attitude had nothing to do with the bank's business segments. It was not about keeping Deutsche Bank small as a potential domestic competitor. Rather, it was foreign trade financing and its risks, which certainly needed to be contained. This required hard work and strict controls. Only by being meticulous about granting loans, by securing them with pledges and deposits, could large losses be avoided. This was by no means always the case. Some business partners proved to be untrustworthy despite intensive controls. Furthermore, the Bremen and Hamburg branches repeatedly became involved with dubious business partners or in speculating on intransparent goods deliveries through their co-operation – for example, with the Antwerp bank August Block or the New York limited partnership Knoblauch & Lichtenstein²³ – that did not turn out well, as with the bankruptcy of W. Pustau in Hamburg. Therefore, Berlin repeatedly and forcefully called for strict controls and caution: 'We repeat our frequent verbal instructions that the supervision of all loans should be strictly and meticulously managed & that overdrafts not be permitted of these.'²⁴ But because the branches did not want to be restricted, conflicts erupted again and again. Finally, in December 1878, a series of bankruptcies and losses at the Hamburg branch prompted the Management Board to restructure the business completely. The branches were now limited to local transactions only. Basically, the rule applied

that the branches should focus on local business, that these non-local transactions and loan issuances, which could be granted just as well by the headquarters, should [be] referred there if possible, that in any case when such a loan is granted, if it does not fall within the framework of local business, it should only be transacted by a branch if the Berlin headquarters has been notified about this beforehand. That the limits, which are to be determined for each place, in case a company works with several establishments of Deutsche Bank, must always be adhered to very precisely a[nd] no overdrafts of any kind are to be permitted.²⁵

This had consequences, above all for Hamburg and London. The Hamburg branch had to reduce numerous credit lines, and the London branch had to abstain thereafter from all independent transactions: 'The London branch should mainly deal only with the procurement of transactions allotted to it from Berlin, Bremen, Hamburg.'²⁶ These sorts of restrictions did not really work well in everyday business because they would have forced the branches to reject even good customers or to limit their credit. Bremen, in any case, continued to violate the regulations with regard to the Knoop company; only in response to tremendous pressure from Berlin did it recall its credit lines in March 1882 as a result of obvious uncertainties in the Russian market. Still, the Bremen bankers showed their unwillingness, because they once again feared that they would lose Knoop and, thus, their best customer.²⁷ Had the branch in Bremen followed Berlin's instructions precisely, it would only have been able to assist the Knoop company again in its ongoing business when its credit volume had shrunk considerably, which would have completely soured relations with it. Consequently, Bremen repeatedly requested special



In 1891 the Bremen branch moved into a new building in the Cathedral Court of Bremen. It was the first domestic branch to be opened in 1871.

permissions, and also received them after the Committee of Five had made the relevant decisions.²⁸ Strict guidelines were obviously not very helpful by themselves. In order to implement a risk-conscious business policy overall, without hampering everyday business, the Management Board and the Committee of Five finally decided on another path: the monthly conferences in Berlin of the management of both the headquarters and the branches with the members of the Committee of Five, which had been taking place since late 1876, became the forum in which all major transactions were discussed.

When the Panic of 1873 had run its course in the late 1870s, the money market problems – the surplus liquidity with few opportunities for investment as well as the depressed interest rates – did not disappear, but fear that the temporarily overcapitalised institution would not survive gave way to the conviction that the crisis had been overcome with some success. The annual reports of the years between 1877 and 1886 are not overwhelmingly exuberant, but they make the bank's consolidation clear. The growth in statutory and extraordinary reserves very clearly demonstrates the bank's efforts to comprehensively cover possible risks. The public criticism of the payment obligations the bank had entered into gradually subsided:

If we were subjected in earlier years to some attacks on account of the size of our acceptance account, now in broad circles it has been recognised that, since overseas transactions are brokered by means of acceptances, it is unavoidable and not a matter for concern to have a sizable acceptance account with those businesses that Deutsche Bank takes care of as its area of specialisation.²⁹

2. Pitfalls in Everyday Banking

Now the time seemed to have come for the bank to once again pursue the failed project of founding a bank of its own in Latin America. Whereas the bank management had been quite cautious and had gradually extricated itself from the Paris and New York limited partnerships in the late 1870s, in 1886 it founded Banco Alemán Transatlántico (Deutsche Ueberseeische Bank) and announced the opening of a branch in Buenos Aires. In a similar vein, the annual report for 1886 reported that the bank had forged connections with Zanzibar, but that was just the first step. The bank supported the efforts Berlin took up shortly thereafter to establish a bank-like agency in Asia and invested accordingly in the founding of Deutsch-Asiatische Bank in early 1889. The headquarters were located in Shanghai, so the bank was returning after an interruption of 14 years. In the years of consolidation between the mid-1870s and the mid-1880s, foreign trade financing thus became a pillar of the bank's business both in terms of volume and reach, and it was finally being expanded again on a large scale. In the 1880s, Deutsche Bank had thus fulfilled its founding mission. It had carved out a strong position for itself in foreign trade financing. With its branches in Bremen and Hamburg it was well represented in the centres of German foreign trade. Its London branch not only made it easier for the bank to access the London money market but also gave it a



The Hamburg branch, opened in 1872, together with Bremen, was the centre of German foreign trade financing.

unique quality that enabled the bank to provide its customers with the sterling loans they much preferred in a considerable volume. The foreign trade financing thus made possible, meanwhile, spanned the globe because the bank by no means limited itself to the financing of German foreign trade but also supported German merchants when they conducted business transactions between Asia, Africa and America. At least the national competition was hardly equal to Deutsche Bank in this business segment.

As the economy picked up, so the domestic business began to grow rapidly. This segment already had a broad basis after the consolidation of the acquisition of the two Berlin banks. In the lending business, the current account loans were especially dynamic in their growth, whereas the domestic business in bills of exchange experienced only average growth. This is indicative of the average economic development. Many customers financed their trade transactions with bills of exchange or made use of short-term current account loans, which was a rather profitable business for the bank on account of the commissions and interest it earned from it.³⁰ The current accounts business eventually contributed about one-third of the bank's overall results. Particularly noticeable in the balance sheet structure, though, was the strong expansion of the securities business. Whereas ownership of securities or securities loans only played a small part in the asset side of the balance sheet for 1877, by the mid-1880s their share of the overall balance sheet had doubled. The liabilities side during these years was shaped by another capital increase from 45 to 60 million marks, a doubling of the deposit funds from 10 to more than 22 million marks, a strong rise in the current account balances and the circulating acceptances not yet redeemed, as well as a strong expansion of the reserves. Thus, the bank was easily able not only to refinance its assets but also to build up considerable buffers against risk. The earnings trend was solid overall. The bank's dividends, which had to be halved in 1873, gradually increased again, exceeding the pre-crisis level in 1879 at 9 per cent, and reaching 10 per cent in 1880 – a level they were able to roughly maintain in the following years as well. Thus, the years of consolidation were also reflected in the only modest dividends, which aligned with the strategic intentions of the bank leaders. The bank preferred to utilise its financial resources for targeted expansion of the lending business, for which the accumulation of the relevant reserves seemed indispensable.

The bank's lending business acquired new motivation above all by participating in larger issuances and the financing of industrial projects. There had already been movement in this direction early on, but from the late 1870s the contours became clearer. These sorts of transactions had not been carried out in a systematic way, but, rather, only when an opportunity arose or when Georg Siemens happened upon a supposedly good deal. The successive, initially unspectacular expansion of this business was not something the Berlin headquarters specialised in either; it also took place in the branches, namely the early domestic ones in Bremen, Hamburg and, from 1886, in Frankfurt am Main. The business that began to emerge from this could derive from the export and import trade, but could also be completely independent of it. The fact that Deutsche Bank had already invested in a joint-stock company for a jute-spinning mill in 1872 shows the close connection between trade financing and industrial financing: the import of cheap raw materials from India had reached a certain volume, but it was apparent that the market for jute products would increase sharply. However, one