

## Lower Class Distaste for Banks

Another source of funds from lower-class sources is the Postal Savings system. This has expanded because the lower classes in England regard banks as alien, upper-class institutions, and prefer to put their savings somewhere else. As a result, Postal Savings at over £6,000 millions are about the same size as the deposits of all the eleven joint-stock banks.

Somewhat similar in character are the investments of pension funds, which reached a total of about £2,000 million at the end of 1960 and are increasing at about £150 million a year.

## Pressure Upon Britain by International Institutions

Two other lower-class non-banking innovations which have been having revolutionary influences on British life are the building societies (called "building and loan" in the United States) and "hire-purchase" associations (installment-buying organizations) which help the lower classes to acquire homes and to equip them. Together, these have wiped away much of the traditional dinginess of English lower-class life, brightening it up with amenities which have contributed to increase the solidarity of family life. Slum clearance and rebuilding by local government bodies (the so-called Council houses) have added to this. One consequence of the flowing of investment funds outside the control of the banks has been that the traditional controls on consumption and investment by the use of changes of bank rates have become decreasingly effective. This has had the double effect of damping down the movements of the business cycle and shifting such controls to the government, which can regulate consumption by such devices as changes in the terms of installment buying (larger down payments and carrying charges). At the same time, Britain's formerly independent role in all these matters has come increasingly under the influence of outside, uncontrollable influences, such as business conditions in the United States, the competition of the European Common Market, and the pressures of various international agencies, such as the International Monetary Fund. The final result is a complex and increasingly feudalized social-welfare economy in which managers ... [and] owners share power in a complicated dynamic system whose chief features are still largely unknown even to serious students.

## Chapter 33—Germany

While Britain passed through the stages of capitalism in this fashion, Germany was passing through the same stages in a different way.

In Germany, capital was scarce when industrialism arrived. Because savings from commerce, overseas trade, or small artisan shops were much less than in Britain, the stage of owner-management was relatively short. Industry found itself dependent upon banks almost at once. These banks were quite different from those in England, since they were "mixed" and not divided into separate establishments for different banking functions. The chief German credit banks, founded in the period 1848-1881, were at the

same time savings banks, commercial banks, promotion and investment banks, stockbrokers, safety deposits, and so on. Their relationship to industry was close and intimate from the creation of the Darmstädter Bank in 1853. These banks floated securities for industry by granting credit to the firm, taking securities in return. These securities were then slowly sold to the investing public as the opportunity offered, the bank retaining enough stock to give it control and appointing its men as directors of the enterprise to give that control final form.

### The Importance of Interlocking Directorates

The importance of the holding of securities by banks can be seen from the fact that in 1908 the Dresdner Bank was holding 2 billion marks' worth. The importance of interlocking directorates can be seen from the fact that the same bank had its directors on the boards of over two hundred industrial concerns in 1913. In 1929, at the time of the amalgamation of the Deutsche Bank and the Disconto Gesellschaft, the two together had directorships in 660 industrial firms and held the chairmanship of the board in 192 of these. Before 1914, examples of individuals with thirty or even forty directorships were not uncommon.

### Banking Control of Industry

This banking control of industry was made even closer by the use which the banks made of their positions as brokers and depositories for securities. The German credit banks acted as stockbrokers, and most investors left their securities on deposit with the banks so that they could be available for quick sale if needed. The banks voted all this stock for directorships and other control measures, unless the owners of the stock expressly forbade it (which was very rare). In 1929 a law was passed preventing the banks from voting stocks deposited with them unless this had been expressly permitted by the owners. The change was of little significance, since by 1929 financial capitalism was on the wane in Germany. Moreover, permission to vote deposited stock was rarely refused. The banks also voted as a right all stock left as collateral for loans and all stock bought on margin. Unlike the situation in America, stocks bought on margin were considered to be the property of the bank (acting as stockbrokers) until the whole price has been paid. The importance of the stock-brokerage business to German banks may be seen in the fact that in the twenty-four years 1885-1908 one-quarter of the gross profits of the large credit banks came from commissions. This is all the more remarkable when we consider that the brokerage commissions charged by German banks were very small (sometimes as low as one-half per thousand).

### A Highly Centralized Financial Capitalism Built in Germany

By methods such as these, a highly centralized financial capitalism was built up in Germany. The period begins with the founding of the Darmstädter Bank in 1853. This was the first bank to establish a permanent, systematic control of the corporations it floated. It also was the first to use promotion syndicates (in 1859). Other banks followed this example, and the outburst of promotion reached a peak of activity and corruption in

the four years 1870-1874. In these four years, 857 stock companies with 3,306,810,000 marks of assets were floated, compared to 295 companies with 2,405,000,000 in assets in the preceding nineteen years (1851-1870). Of these 857 companies founded in 1870-1874, 123 were in the process of liquidation and 37 were bankrupt as early as September 1874.

#### German Bankers Consolidate Control of Industrial Corporations

These excesses of financial capitalist promotion led to a governmental investigation which resulted in a strict law regulating promotion in 1883. This law made it impossible for German bankers to make fortunes out of promotion and made it necessary for them to seek the same ends by consolidating their control of industrial corporations on a long-term basis. This was quite different from the United States, where the absence of any legal regulation of promotion previous to the SEC Act of 1933 made it more likely that investment bankers would seek to make short-term "killings" from promotions rather than long-term gains from the control of industrial companies. Another result is to be seen in the relatively sounder financing of German corporations through equity capital rather than through the more burdensome (but promoter-favored) method of fixed interest bonds.

#### Germany Was Controlled by a Highly Centralized Oligarchy

The financial capitalism of Germany was at its peak in the years just before 1914. It was controlled by a highly centralized oligarchy. At the center was the Reichsbank whose control over the other banks was relatively weak at all times. This was welcomed by the financial oligarchy, for the Reichsbank, although privately owned, was controlled by the government to a considerable degree. The weakness of the Reichsbank's influence over the banking system arose from the weakness of its influence over the two usual instruments of central-banking control—the re-discount rate and open-market operations. The weakness of the former was based on the fact that the other banks rarely came to the Reichsbank for re-discounts, and usually had a discount rate below that of the Reichsbank. A law of 1899 tried to overcome this weakness by forcing the other banks to adjust their discount rates to that of the Reichsbank, but it was never a very effective instrument of control. Open-market control was also weak because of an official German reluctance "to speculate" in government securities and because the other banks were more responsive to the condition of their portfolios of commercial paper and securities than they were to the size of their gold reserves. In this they were like French rather than British banks. Only in 1909 did the Reichsbank begin a deliberate policy of control through open-market operations, and it was never effective. It was ended completely from 1914 to 1929 by the war, the inflation, and the restrictions of the Dawes Plan.

#### Control of German Financial Capitalism Rested in Private Hands

Because of these weaknesses of the Reichsbank, the control of German financial capitalism rested in the credit banks. This is equivalent to saying that it was largely beyond the control of the government, and rested in private hands.

Of the hundreds of German credit banks, the overwhelming preponderance of power was in the hands of the eight so-called "Great Banks." These were the masters of the German economy from 1865 to 1915. Their overwhelming position can be seen from the fact that of 421 German credit banks in 1907 with 13,204,220,000 marks capital, the eight Great Banks held 44 percent of the total capital of the group. Moreover, the position of the Great Banks was better than this because the Great Banks controlled numerous other banks. In consequence, Robert Franz, editor of *Der Deutsche Oekonomist*, estimated in 1907 that the eight Great Banks controlled 74 percent of the capital assets of all 421 banks.

### The Power and Control of the Stinnes Combine

... The turning point from financial to monopoly capitalism was in the year or so following the end of the inflation (1924). In that year the inflation was ended, cartels were given a special legal status with their own Cartel Court to settle disputes, and the greatest creation of financial control ever constructed by German financial capitalism collapsed. The inflation ended in November 1923. The Cartel Decree was November 1, 1923. The great control structure was the Stinnes combine, which began to fall apart at the death of Hugo Stinnes in April 1924. At that time Stinnes had complete control of 107 large enterprises (mostly heavy industry and shipping) and had important interests in about 4,500 other companies. The attempt (and failure) of Stinnes to turn this structure of financial controls into an integrated monopoly marks the end of financial capitalism in Germany.

To be sure, the great need for capital on the part of German industry in the period after 1924 (since so much of German savings was wiped out by the inflation) gave a false afterglow to the setting sun of German financial capitalism. In five years, billions of marks were supplied to German industry through financial channels from loans made outside Germany. But the depression of 1929 to 1934 revealed the falsity of this appearance. As a result of the depression, all the Great Banks but one had to be rescued by the German government, which took over their capital stock in return. In 1937 these banks that had come under government ownership were "re-privatized," but by that time industry had largely escaped from financial control.

### German Oligarchy Uses Direct Financial Pressure and Interlocking

#### Directorates to Integrate Enterprises and Reduce Competition

The beginnings of monopoly capitalism in Germany goes back at least a generation before the First World War. As early as 1870, the financial capitalists, using direct financial pressure as well as their system of interlocking directors, were working to integrate enterprises and reduce competition. In the older lines of activity, such as coal, iron, and steel, they tended to use cartels. In the newer lines, like electrical supplies and chemicals, they tended to use great monopolistic firms for this purpose. There are no official figures on cartels before 1905 but it is believed that there were 250 cartels in

1896, of which 80 were in iron and steel. The official investigation of cartels made by the Reichstag in 1905 revealed 385, of which 92 were in coal and metals. Shortly after this, the government began to help these cartels, the most famous example of this being a law of 1910 which forced potash manufacturers to become members of the potash cartel.

### The Financial Oligarchy Takes Over Complete Control of the German Economic System

In 1923 there were 1,500 cartels, according to the Federation of German Industrialists. They were, as we have seen, given a special legal status and a special court the following year. By the time of the financial collapse of 1931 there were 2,500 cartels, and monopoly capitalism had grown to such an extent that it was prepared to take over complete control of the German economic system. As the banks fell under government control, private control of the economic system was assured by releasing it from its subservience to the banks. This was achieved by legislation such as that curtailing interlocking directorates and the new corporation law of 1937, but above all by the economic fact that the growth of large enterprises and of cartels had put industry in a position where it was able to finance itself without seeking help from the banks.

### The German Oligarchy Was Organized in a Highly Complex and Intricate Hierarchy

This new privately managed monopoly capitalism was organized in an intricate hierarchy whose details could be unraveled only by a lifetime of study. The size of enterprises had grown so big that in most fields a relatively small number were able to dominate the field. In addition, there was a very considerable amount of interlocking directorates and ownership by one corporation of the capital stock of another. Finally, cartels working between corporations fixed prices, markets, and output quotas for all important industrial products. An example of this—not by any means the worst—could be found in the German coal industry in 1937. There were 260 mining companies. Of the total output, 21 companies had 90 percent, 5 had 50 percent, and 1 had 14 percent. These mines were organized into five cartels of which 1 controlled 81 percent of the output, and 2 controlled 94 percent. And finally, most coal mines (69 percent of total output) were owned subsidiaries of other corporations which used coal, producers either of metals (54 percent of total coal output) or of chemicals (10 percent of total output).

Similar concentration existed in most other lines of economic activity. In ferrous metals in 1929, 3 firms out of 26 accounted for 68.8 percent of all German pig-iron production; 4 out of 49 produced 68.3 percent of all crude steel; 3 out of 59 produced 55.8 percent of all rolling mill products. In 1943, one firm (United Steel Works) produced 40 percent of all German steel production, while 12 firms produced over 90 percent. Competition could never exist with concentration as complete as this, but in addition the steel industry was organized into a series of steel cartels (one for each product). These cartels, which began about 1890, by 1930 had control of 100 percent of

the German output of ferrous metal products. Member firm had achieved this figure by buying up the nonmembers in the years before 1930. These cartels managed prices, production, and markets within Germany, enforcing their decisions by means of fines or boycotts. They were also members of the International Steel Cartel, modeled on Germany's steel cartel and dominated by it. The International Cartel controlled two-fifths of the world's steel production and five-sixths of the total foreign trade in steel. The ownership of iron and steel enterprises in Germany is obscure but obviously highly concentrated. In 1932, Friedrich Flick had majority ownership of Gelsen-Kirchner Bergwerke, which had majority control of the United Steel Works. He sold his control to the German government for 167 percent of its value by threatening to sell it to a French firm. After Hitler came into power, this ownership by the government was "re-privatized" so that government ownership was reduced to 25 percent. Four other groups had 41 percent among them, and these were closely interwoven. Flick remained as director of United Steel Works and was chairman of the boards of four other great steel combines. In addition, he was director or chairman of the boards in six iron and coal mines, as well as of numerous other important enterprises. It is very likely that the steel industry of Germany in 1937 was controlled by no more than five men of whom Flick was the most important.

#### The Tremendous Power of the I. G. Farben Monopoly

These examples of the growth of monopoly capitalism in Germany are merely picked at random and are by no means exceptional. Another famous example can be found in the growth of I. G. Farbenindustrie, the German chemical organization. This was formed in 1904 of three chief firms, and grew steadily until after its last reorganization in 1926 it controlled about two-thirds of Germany's output of chemicals. It spread into every branch of industry, concentrating chiefly on dyes (in which it had 100 percent monopoly), drugs, plastics, explosives, and light metals. It had been said that Germany could not have fought either of the world wars without I. G. Farben. In the first war, by the Haber process for extracting nitrogen from the air, it provided supplies of explosives and fertilizers when the natural sources in Chile were cut off. In the second war, it provided numerous absolute necessities, of which artificial rubber and synthetic motor fuels were the most important. This company by the Second World War was the largest enterprise in Germany. It had over 2,332.8 million reichsmarks in assets and 1,165 million in capitalization in 1942. It had about 100 important subsidiaries in Germany, and employed 350,000 persons in those in which it was directly concerned. It had interests in about 700 corporations outside Germany and had entered into over 500 restrictive agreements with foreign concerns.

#### The European Dye Cartel

Among these agreements the most significant was the European Dyestuff Cartel. This grew out of a Swiss cartel formed in 1918. When I. G. Farben was reorganized in 1925 and a similar French organization (Kuhlmann group) was set up in 1927, these two formed a French-German cartel. All three countries set up the European Cartel in 1929. Imperial Chemicals, which had won a near monopoly in British territory in 1926, joined

the European Cartel in 1931. This British group already had a comprehensive agreement with du Pont in the United States (made in 1929 and revised in 1939). An effort by I. G. Farben to create a joint monopoly with du Pont within the United States broke down after years of negotiation in a dispute over whether division of control should be 50-50 or 51-49. Nevertheless, I. G. Farben made many individual cartel agreements with du Pont and other American corporations, some formal, others "gentlemen's agreements." In its own field of dyestuffs, it set up a series of subsidiaries in the United States which were able to control 40 percent of the American output. To ensure I. G. Farben control of these subsidiaries, a majority of Germans was placed on each board of directors, and Dietrich Schmitz was sent to the United States to become a naturalized American citizen and become the managing head of the chief I. G. Farben subsidiary here. Dietrich Schmitz was a brother of Hermann Schmitz, chairman of the board of I. G. Farben, director of the United Steel Works. of Metallgesellschaft (the German light-metals trust), of the Bank for International Settlements, and of a score of other important firms. This policy of penetration into the United States was also used in other countries.

The Entire German Industrial System Controlled by the Elite through

Personal Friendships and Secret Agreements

While I. G. Farben was the greatest example of concentrated control in German monopoly capitalism, it was by no means untypical. The process of concentration by 1939 had been carried to a degree which can hardly be overemphasized. The Kilgore Committee of the United States Senate in 1945 decided, after a study of captured German records, that I. G. Farben and United Steel Works together could dominate the whole German industrial system. Since so much of this domination was based on personal friendships and relationships, on secret agreements and contracts, on economic pressures and duress as well as on property and other obvious control rights, it is not something which can be demonstrated by statistics. But even the statistics give evidence of a concentration of economic power. In Germany in 1936 there were about 40,000 limited-liability companies, with total nominal capitalization of about 20,000 million reichsmarks. I. G. Farben and United Steel Works had 1,344 million reichsmarks of this capital. A mere 18 companies out of the 40,000 had one-sixth of the total working capital of all companies.

Powerful Monopolies Hidden in Various Countries of the World

While monopolistic organization of economic life reached its peak in Germany, the differences in this respect between Germany and other countries have been overemphasized. It was a difference of degree only, and, even in degree, Britain, Japan, and a number of smaller countries were not so far behind the German development as one might believe at first glance. The error arose from two causes. On the one hand, German cartels and monopolies were well publicized, while similar organizations in other countries remained in hiding. As the British Committee on Trusts reported in 1929, "What is notable among British consolidations and associations is not their rarity or weakness so much as their unobtrusiveness." It is possible that the British vegetable-oil

monopoly around Unilever was as powerful as the German chemical monopoly around I. G. Farben, but, while much has been heard about the latter, very little is heard about the former. After an effort to study the former, Fortune magazine wrote, "No other industry, perhaps, is quite so exasperatingly secretive as the soap and shortening industries."

### I. G. Farben Used Espionage and Economic Sabotage to Enhance

#### Power of the Money Trust in Germany

On the other hand, Germany monopolistic organizations have built up disfavor because of their readiness to be used for nationalistic purposes. German cartel managers were ... first ... businessmen seeking profits and [patriotic Germans] ... second. In most other countries (especially the United States), monopoly capitalists are businessmen first and patriots later. As a result, the goals of German cartels were as frequently political as economic. I. G. Farben and others were constantly working to help Germany in its struggle for power, by espionage, by gaining economic advantages for Germany, and by seeking to cripple the ability of other countries to mobilize their resources or to wage war.

#### The Money Power Used Nazism to Check Bolshevism

This difference in attitude between German and other capitalists became increasingly evident in the 1930's. In that decade the German found his economic and his patriotic motives impelling him in the same direction (to build up the power and wealth of Germany against Russia and the West). The capitalists of France, Britain, and the United States, on the other hand, frequently experienced conflicting motives. Bolshevism presented itself as an economic threat ... at the same time that Nazism presented itself as a political threat to their countries. Many persons were willing to neglect or even increase the latter threat in order to use it against the former danger.

#### Powerful Figures Maintain Favorable Attitude Toward Nazism

This difference in attitude between German and other capitalists arose from many causes. Among these were (a) the contrast between the German tradition of a national economy and the Western tradition of laissez-faire, (b) the fact that world depression caused the threat of social revolution to appear before Nazism rose as a political danger to the West, (c) the fact that cosmopolitan financial capitalism was replaced more rapidly by nationalist monopoly capitalism in Germany than in the West, and (d) the fact that many wealthy and influential persons like Montagu Norman, Ivar Kreuger, Basil Zaharoff, and Henri Deterding directed public attention to the danger of Bolshevism while maintaining a neutral, or favorable, attitude toward Nazism.

#### German Economic Revival After World War II

The impact of the war on Germany was quite different from its effects on most other countries. In France, Britain, and the United States, the war played a significant role in



demonstrating conclusively that economic stagnation and underemployment of resources were not necessary and could be avoided if the financial system were subordinated to the economic system. In Germany this was not necessary, since the Nazis had already made this discovery in the 1930's. On the other hand, the destruction of the war left Germany with a large task to do, the rebuilding of the German industrial plant. But, since Germany could not get to that task until it had its own government, the masses of Germans suffered great hardships in the five years 1945-1950, so that, by the time the proper political conditions arrived to allow the task of rebuilding, these masses of German labor were eager for almost any job and were more concerned with making a living wage than they were with seeking to raise their standards of living. This readiness to accept low wages, which is one of the essential features of the German economic revival, was increased by the influx of surging millions of poverty-stricken refugees from the Soviet-occupied East. Thus a surplus of labor, low wages, experience in unorthodox financial operations, and an immense task to be done all contributed to the German revival.

### The Development of the European Economic Community

The signal for this to begin was given by the West German currency reform of 1950, which encouraged investment and offered entrepreneurs the possibility of large profits from the state's tax policies. The whole developed into a great boom when the establishment of the European Common Market of seven western European states offered Germany a mass market for mass production just as the rebuilding of German industry was well organized. The combination of low wages, a docile labor force, new equipment, and a system of low taxes on producers, plus the absence of any need for several years to assume the expense of defense expenditures, all contributed to make German production costs low on the world's markets and allowed Germany to build up a flourishing and profitable export trade. The German example was copied in Japan and in Italy, and, on a different basis, in France, with the result that the Common Market area enjoyed a burst of economic expansion and prosperity which began to transform western European life and to raise most of its countries to a new level of mobility and affluence such as they had never known before. One result of this was the development of what had been backward areas within these countries, most notably in southern Italy, where the boom caught on by 1960. The only area within the Common Market where this did not occur was in Belgium, which was hampered by obsolescent equipment and domestic social animosities, while in France the boom was delayed for several years by the acute political problems associated with the death of the Fourth Republic (1958).

### Chapter 34—France

Financial capitalism lasted longer in France than in any other major country. The roots of financial capitalism there, like Holland but unlike Germany, go back to the period of commercial capitalism which preceded the Industrial Revolution. These roots grew rapidly in the last half of the eighteenth century and were well established with the founding of the Bank of France in 1800. At that date, financial power was in the hands of about ten or fifteen private banking houses whose founders, in most cases, had come from Switzerland in the second half of the eighteenth century. These bankers, all