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Overview of the Title and Terrain

> Deutsche Bank Representative: "Do you know where I am from? I know that there is gambling going on in there."
>
> Rick (Humphrey Bogart): "Yes, I do. You're lucky that your money is good at the bar."
>
> *Casablanca*, 1942.

> I believe that we in Berlin must also take an interest in American affairs. America is closer to us than Italy after all, the Gotthard notwithstanding.
>
> Georg von Siemens, first speaker of Deutsche Bank management board, 1870–1900.

Cooperation and Conflict, Men and Markets

In our internet age, globalization sometimes appears like a linear, inevitable process. In reality, over the past 150 years, the integration of world markets and homogenization of world culture have progressed fitfully. In the face of technical and political obstacles, moving from international connections to multinational integration required enormous individual and institutional commitments to the value of cross-cultural interchanges. This is in part the story of how German and American capital markets became more integrated with one another, particularly of the role played in that process by one major institution, Deutsche Bank. It is the history of Deutsche Bank's nearly 140-year-long relationship with the United States. Whether one bemoans or rejoices in these transformations, there is little doubt that Deutsche Bank was one of the key bridges over which finance and ideas traveled between the United States and Germany. From its inception, the bank was conceived as a project to deepen German economic links to the rest of the world.

The story is set in very contrasting economic and political environments. First and foremost is the contrast between periods during which Deutsche Bank pursued profit in the context of relatively peaceful corporate and national competition and those periods characterized by much more violent national conflict that filtered into business relationships – the one dominated by cooperation and the Gold Standard and the other by unbridled competition and aggressive conflict among nations. To be sure, political risk, especially America's uncertain support of the value of its own currency, and national ambitions were never far from the minds of German managers at nearly every stage of the years covered by this narrative, but the contrast between the pre-World War I period and the decades that followed is very striking. The relative stability of long-term interest rates in most countries and complete convertibility of many currencies were replaced in a few short months in 1914, for example, by previously unimagined volatility and blocked funds.[1] Moreover, much of business's macroeconomic and political environment even during the second half of the twentieth century was set in motion by the events connected with World War I. For much of Deutsche Bank's history, national conflicts and macroeconomic instability have been more the norm than the exception. Though many of us hoped that the world had turned a new corner in the 1990s, more recent events have cast a shadow on that optimism.

Paralleling these developments has been another transformation involving the contrast between financial transactions dominated by personal contacts and those done in huge, impersonal capital markets.[2] Although the term 'market' is hard to define, it suggests the institutionalization of transactions with relatively open access governed by rules, not by individuals. Capital markets are today not only vastly larger than they were in the nineteenth century, they are also more standardized and directed by much more regulation, designed to reduce the realm of private information in determining price movements. In most of Europe and North America, the issuance and distribution of government debt, an enormous part of debt markets, have become routine, nearly automated affairs by comparison to the nineteenth century. Technology and developments in financial theory have helped make financial markets and pricing of instruments more transparent and, for many practitioners and theorists, an exercise in stochastic modeling. Indeed, most of the financial tools applied today to market analysis are based on random price movements around patterns predicted by economic theory, which reflects a high degree of information dissemination and an extremely rapid transmission of new data. From the 1930s on, at least – if not sooner – American regulators tended to emphasize transparency, arm's-length transactions, and diversification for market regulation and the governance of corporations rather than keeping key stakeholders, such as bankers, close to firms.

The public today is understandably shocked by the degree to which "movers and shakers" can still manipulate prices and the distribution of assets, but the story of Deutsche Bank in the United States is a useful reminder of how much financial regulators have taken bankers out of the management and the corporate governance loop. This regulatory decision has had costs and benefits. Although venture capitalist and some boutique financing firms still maintain close contact with the users of their capital, the vast majority of bankers are no longer at the hub of creating new companies and financing old ones in the way they were 100 years ago. For regulatory and other reasons, they keep their distance. Moreover, new players have challenged their place as providers of capital. These intermediaries, such as pension and mutual funds – with different interests in companies and different limits on their involvement in corporate management – channel institutional funds into companies. More often than not, the access that governments, companies themselves, and investors have to one another is too easy now to require the efforts of bankers to acquire or loan funds – certainly enough access in most cases to avoid paying large fees for many services that were commonplace and the "bread and butter of banking" 100 years ago. All this is not meant to imply that modern bankers do not earn huge commissions from individually driven deals, such as those portrayed in the book and film *Barbarians at the Gate*. Rather, the overall weight in the gamut of bank affairs has shifted to many more "standardized" (commoditylike) transactions, capable of mathematical description, such as currency trading (by itself a nearly unimaginable *$2.2 trillion a day*), asset management, and bond trading, with high volumes but low margins, which lend themselves to stochastic modeling. As Ron Chernow pointed out in an excellent book about precisely this theme: "At bottom, the real power of old-line bankers lay in their monopoly over information, a commodity even rarer than capital in those days."[3] The creation of modern capital markets has narrowed the range of transactions about which "monopoly" information can be acquired and used by men and institutions. Only the very quick and innovative can earn above-average rents.

In the early stages of this story, both the United States and German financial scenes were dominated by closed-door negotiations about prices and costs among participants, sometimes elites of different nationalities that shared a common culture. By the end of the twentieth century, America's decision to force finance into public markets with relatively transparent standardized transactions, came, by dint in part of its huge volumes and easy access, to dominate the world of finance, a transformation with which Deutsche Bank has had difficulties coping. It is the story of how international capital markets and their regulation grew from this infancy to a troubled adolescence. It is also the story of how banking evolved from a quite broadly defined activity, which included active management of companies, in the nineteenth century to a much narrower, technical one in the late twentieth century.

Through all of these structural changes, Deutsche Bank's management may have altered its strategies and tactics for doing business with the rest of the world but it rarely wavered in its faith that international business made social and economic sense. In the face of dire challenges, the bank's leaders held steadfast to the conviction that more cross-cultural interaction ultimately profited all those who engaged in it.

This book takes a somewhat novel approach to business and financial history. It proposes to make a contribution to our understanding of these great transformations in financial institutions and capital markets by focusing on one bank and its relationship to one country. For some readers, putting a firm and a nation – especially the largest economic and military power in the world – on an "equal footing" in the title, connected with the word 'and', might appear as just another example of corporate arrogance, which for many critics taints modern globalization.

I have two reasons for treating this country and this company together. First, the size of U.S.-styled capital markets and the weight of their regulation have been of paramount importance to understanding Deutsche Bank's entire history. Second, during many of the years of this narrative, Deutsche Bank was not *in* the United States in any meaningful sense. For the first fifty years, Deutsche Bank sold an enormous amount of American securities in Europe and did considerable amounts of other types of business with American institutions and individuals without operating a subsidiary or branch – not even a joint venture. During the interwar and post-World War II period, Deutsche Bank and Germany in general were highly dependent on American capital and regulation, again without operating a legal entity in the United States.[4] Through most of this narrative, too, Deutsche Bank served as, and may still be, the most important German institutional financial connection to the United States. For these reasons, I hope the reader will be patient with my coupling of the United States with Deutsche Bank and with my use of the broader 'and' both in the title and the approach to the book.[5]

Linking the country and the bank, moreover, emphasizes the role of national and international politics and regulation in business, and therefore business history. For virtually all of the period covered by this book, the size and regulation of American markets made that country a special case for most businesses. Political conflict quickly helped transform America's great need for capital into an overabundance of funds. Not until the New Deal did the United States succeed in creating extensive regulation of its capital markets, and then did so in a new, particularly American form. Although hardly adapted to the rest of the world, that system, in part because of political events, has had an extraordinary influence over international capital markets. The American combination of abrupt changes in capital flows and regulation has proven both extremely enticing and challenging even for U.S. companies, let alone their foreign rivals.[6] Despite a high degree of internationalization of business and many new limits on national governments' abilities to assert their sovereignty over business, political contexts are still important for determining the strategy, structure, and timing of foreign investments. Even though business is global or regional, politics is still largely national. Relations between the United States and Germany have been one of the most decisive factors in Deutsche Bank's overall success or failure in any period. Although business was never easy, at times antagonisms were so great that Deutsche Bank's very existence was threatened.

If these reasons are not sufficient for focusing on how one business dealt with one country, I ask the reader to imagine how different the story would be if I were writing about a British bank investing in the United States, or conversely about Deutsche Bank investing in Russia.

In the recent past, historians and economists have become more attuned to the value of comparative history and the limits of narrowly defined national histories, which neglect the international dimension of many events and movements. Yet even some excellent new studies ignore the business element of those connections. Although it is unquestionably true, as one author put it, that countries are "enmeshed in each other's histories," how business has helped cross the semipermeable lines that divide nations is less well understood.[7] Writing a cross-cultural history is commendable but difficult. It requires mastering the political, economic, and social stories of multiple countries, and it risks losing focus. It is my hope that the story of Deutsche Bank in the United States will provide that institutional focus which can help clarify the complex modes of economic interaction between nations and international business's role in bringing together diverse cultures.

A Broad Outline of Deutsche Bank and German-American Relations

Probably no institution or trade name is more identified in public, professional, or academic minds with the accomplishments and failures of German commerce than Deutsche Bank. Though ranked by some measures among the top ten banks in the new century, Deutsche Bank has lost some of the clout in world, European, and even German financial markets that it once had.[8] However Deutsche Bank's significance goes well beyond financial yardsticks. For much of the past 140 years, Deutsche Bank has symbolized Germany's special blend of financial capitalism – with its close, long-term relationships of investors to commercial companies, consensus building, innovation, resilience against catastrophe, and drive to establish international markets – which, by most accounts, helped make the German economy revered by imitators and feared by competitors. Deutsche Bank has been thought of, until very recently, as the quintessential universal bank with a wide range of financial services – taking deposits from individuals as well as institutions and using them to bring to market securities and to hold long-term positions in client companies, in whose governance the bank often takes an active role. Sadly, too, Deutsche Bank has also been implicated, as the above quote from an American movie suggests, in German business's complicity with some of history's most notorious crimes.[9] Recently, along with other icons of German capitalism such as Daimler Benz and Hoechst, the bank has even been criticized on both sides of the Atlantic paradoxically for promoting German resistance to change and, alternatively, for efforts to emulate slavishly America's "cowboy" capitalism.[10] For better or worse, Deutsche Bank's history, in short, has been tied to that of the country in which it was founded and its activities in the United States to the relations between those countries.

With the cautious support of the Prussian government, Deutsche Bank was founded in 1870 by a group of small banks and investors for the purpose of representing German financial interests on international markets. As one of the first banks organized as a joint stock company and with excellent political connections, Deutsche Bank was well positioned to survive and even expand during the financial crisis of the 1870s through acquisitions and diversification of its banking services. Soon, those activities included not only international trade financing but also cross-border commercial and investment banking under the same roof. Led by Georg Siemens, a second cousin of the founder of the electrical giant Siemens & Halske, Deutsche Bank was one of the first banks to pursue a strategy of universal banking, a model that the bank has kept and that remains one of the hallmarks of the German financial system.[11]

Although Deutsche Bank came into existence a few months before the Reich whose name it bore, its creation was a truly national project. Its primary purpose was to pool the efforts of its participating banks to circumvent the dominance of British banks in international trade financing. However, Deutsche Bank soon exceeded its original charter. It played an intimate role not only in the unprecedented increase of German business activity, new commercial forms, and technologies, but also with public and private attempts to grapple with vast economic and social upheavals. Its investors and regulators consciously saw it as combining the "national idea with one of the key ideas underlying the founding of the German Customs Union in 1834 . . . to give Germany as much autonomy as possible in commerce and industrial production."[12] The German financial community understood its mission. As the distinguished banker Otto Jeidels from the Berliner Handels-Gesellschaft wrote early in his career, a country that wanted to be a dynamic exporter had to have an international banking network to clear transactions, absorb foreign debt, and take positions in foreign firms.[13]

Even though Deutsche Bank was founded to further international development, its greatest successes and failures occurred in Germany – many due to the bank's close relationship to the German government. Ironically, and probably unintentionally, the banks that had contributed to its founding also contributed to the creation of a powerful new domestic competitor. Deutsche Bank's willingness to support many projects, from the acceptance of the Mark to the furtherance of German trade, gave it a privileged position in its home market. Its consolidation with troubled institutions after the Crisis of 1873 made Deutsche Bank a major player in Germany, giving it access to much greater amounts of domestic capital. From 1876 to 1899, Deutsche Bank transformed itself from a bank with a small share in the consortium that handled government issues of securities to one that handled some issues all alone. It expanded domestic lending and other services to industrial firms, and vastly enlarged its branch office network in Germany.[14] Its size and excellent political connections made Deutsche Bank both the object of political attacks within Germany and one of the most favored banks for governmental control of capital markets. Wherever the government used private institutions to "guide markets," from the Baghdad Railroad before World War I to control of foreign exchange transactions, Deutsche Bank played a pivotal role. By 1913, Deutsche Bank had become, not the oldest, but Germany's leading representative of the so-called banking revolution, combining the advantages of its corporate statute as a joint-stock company with a branch network for collecting deposits and investment banking. In that year, Deutsche Bank was roughly twice the size of the largest American joint-stock bank and more than 50 percent bigger as measured by assets than its closest German rival.[15]

Despite these wide-ranging international activities, probably, too, no other country in the world, apart from its home country, played a greater role than the United States in Deutsche Bank's history. Unlike some other major financial institutions of the nineteenth century, Deutsche Bank quickly perceived America's potential and pivotal role.[16] The above quote by Siemens, which introduces nearly every work about Deutsche Bank's relationship to the United States, accurately captures management's strongly held feelings and strategic commitment to that part of the world.

America's startling economic growth as the country emerged from the effects of its civil war reinforced its dominant economic and political position in the region and, by the end of the century, transformed it into the largest economy in the world.[17] America and Germany came to industrial maturity at the same time, just as Deutsche Bank came into existence. Indeed, in a sense, both countries became "unified" nations by dint of "blood and iron" during the decade following the shots fired on Fort Sumter. As Fritz Stern wrote in a different context:

> In the three decades before the Great War, Germany was the country in ascendancy, and its physical power, with its strident militaristic ethos, seemed to be balanced by cultural, especially scientific achievement.... The only other country at the time growing with similar energy was the United States, it too marked by immense material power, embarked on an imperial course, and exemplary in the promotion of scientific-technical innovation.[18]

Quoting the German theologian and academic statesman Adolf von Harnack, Stern added that it seemed America was the nation most "intellectually and spiritually" akin to Germany.[19] How these two countries seemingly moving along similar trajectories at the end of the nineteenth century should have such different experiences in the twentieth serves, unavoidably, as the backdrop for this narrative.

Although differing labor costs and views about stability contributed to contrasting control institutions and attitudes toward production, marketing, and competition, it is not sufficiently recognized in economic history literature that before World War I the two economic systems shared many common characteristics. These commonalities include: reliance on banks for corporate control; a federal political system that made regulation more complicated; and an uncomfortable reliance on foreign models and markets. Despite a capitalism with very different roots and orientations, the intellectual, cultural, and business ties between the two countries ran deep. Many German refugees from the Revolution of 1848 ended up in the United States and played important roles in America's intellectual and commercial development, including in the affairs of Deutsche Bank. In the last quarter of the nineteenth century, German immigration to the United States was running nine times more than the combined flows from the Netherlands, Belgium, Luxemburg, Switzerland, and France.[20] Many of those immigrants returned home to encourage others to come or at least to invest in the "New World." Generations of American professors in numerous disciplines trooped off to "validate" their studies at German universities, whose organization and research orientation became models for some of America's most important institutions of higher learning. German Jewish bankers and merchants played an integral role in American capital markets. Investment from Germany to the United States grew rapidly and came in many forms. Long-term investment in securities went from $.2 billion in 1899 to $1 billion in 1914, 15–16 percent of all German foreign investment.[21] American patents to German nationals went from 218 in 1885 to 1,475 in 1914, surpassing those granted to English citizens in that year.[22] As early as 1900, U.S. insurance companies, savings banks, and trust companies held nearly $34 million in foreign securities – approximately $10 million of which was to the Austrian and German governments.[23]

But Germany's and America's financial capitals – Berlin and New York – were relative newcomers to the world of international finance, still dominated by London. The battles of both cities to solidify their new roles also form an important backdrop to this story.[24]

Ironically, given its initial purpose, the bank seemed to make little direct profit from its early international activities. Although Deutsche Bank's foreign activities in and of themselves often brought the bank little joy and were hard to manage, those activities, nevertheless, helped distinguish Deutsche Bank from other German banks, with few or no financial links to the rest of the world. The bank's first international efforts were focused on supporting the commercial activities of German firms abroad, for which it needed to build up a network of affiliates for handling international transactions. However, as Germany's supply of loanable funds increased with the maturity of some industries and the nationalization of German railroads, German investors and regulators wanted to broaden the range of German investment. Deutsche Bank expanded into underwriting international loan and equity issues that could add to its portfolio of alternatives for domestic clients. In the mid-1880s, it began to invest in foreign loans, first in South American and then in U.S. companies. Only a few years later, it started to take the lead in financing projects in the Balkans and Middle East. Most of its initial investments had little or nothing to do with Germany's colonial enthusiasm and policy; yet by the mid-1890s, Germany's "web of influences from . . . diplomacy, military aid, and private business" became more of a factor in investment decisions, especially in Turkey, China, and Morocco.[25]

Despite many obstacles, business structures in the nineteenth century reflected macroeconomic and political circumstances that were very favorable to the free flow of goods, services, and funds. Though far from easy, the bank required far less direct investment then to engage in international finance. During this period, the many modern financial routines were not yet commonplace, so even greater potential rewards accrued to those institutions that could access new opportunities and profit from managing uncertainty. To be sure, many investments were backed by mortgages on land or pledges of securities, for example, but legal recourse was often cumbersome at best. With varying degrees of success, for much of its history in the United States, Deutsche Bank was obliged to rely on personal relationships and mutual trust as a basis for managing investments.

Even where politics played little or no role in business decisions, assessing risks and evaluating returns was hard for Deutsche Bank's executives, leading to abrupt changes in structure. Soon after joining the bank, Hermann Wallich (member of the management board from 1870–94) emphasized in a memo to the board the necessity of establishing as fast as possible a network of branches in Germany's principal trading centers. Wholly owned offices in London, Bremen, and Hamburg were quickly followed by holdings in foreign banks in New York and Paris, as well as two branch offices in Asia. The Asian market was particularly interesting to German merchants, in part because the area had been recently opened to westerners. Germany's conversion to the Gold Standard in 1873 freed its own silver reserves for sale to China, which remained on the silver standard. Deutsche Bank was active in the transaction. On the heels of the financial crisis in 1873, however, some of these investments were terminated. By 1874, the decision was made to close the Shanghai and Yokohama branches. For a time, ironically, English banks represented Deutsche Bank's interests in Asia. By the late 1880s, Deutsche Bank, following the lead of the German government and commerce, became much more interested in South America. Most of its Latin American investments would be carried out, however, through a new German subsidiary, the Deutsche Ueberseeische Bank.[26] Investments in other regions were often conducted in joint ventures with other German firms, and even English banks.

Although German politics played little role in the bank's decisions, America was one of many countries where Deutsche Bank's early investments were plagued by great difficulties. For Deutsche Bank, the absence of adequate financial regulation was its greatest challenge in tapping into early opportunities in the United States – but it also increased the rewards for clever perseverance. Extraordinary capital flows passed between the two countries without computers, instantaneous price information, and, for the most part, without audited financial statements and other current commonplace forms of capital market regulation. Investments could earn higher nominal rates than in Germany or England, but, as Deutsche Bank discovered to its chagrin, with many sharp ups and downs of fortunes, in both senses of the word. In general, investors enjoyed more governmental assurances about foreign exchange rate movements before World War I than they do today. Without a central bank, however, the United States was one of the weakest links in that era's foreign exchange regime and the American banking system was more subject to panic. Moreover, America's multi-layered banking regulation hindered Deutsche Bank from opening its own wholly owned operation in the United States to service the bank's main business interests there. In the pre–1914 environment, Deutsche Bank's strategy of relying on independent agents and correspondent banks – though not without significant drawbacks – did not prevent the bank from handling a large part of German–American capital movements.

Before World War I, Deutsche Bank's failure to sell German securities in the United States was frustrating. Despite many obstacles, the bank's entry strategy served it better in finding and marketing American securities in Europe than marketing European ones in the United States. Deutsche Bank managers had expected that cash flows would flow back and forth between Europe and the United States – it did, but in unwelcome ways. Deutsche Bank complained bitterly about the lack of advertising for German securities offered in the United States by the bank and its friends. State and city bonds from Frankfurt and Saxony were poorly marketed. And even the selling of Imperial Bonds was botched. Many of the loans were resold in Germany through arbitrage firms, leaving German firms with the greatest possible expense and smallest possible benefit.[27]

There were serious weaknesses in German and American economic and political relations that would affect Deutsche Bank. Despite American-German economic and cultural ties, much of the business activity between the United States and other parts of the world, even before the war, was filtered through Germany's European economic rival, England. This riled many Germans, who felt that German culture deserved greater weight in diplomatic, colonial, and business matters.[28] Around the turn of the century, as the world passed from a period during which the sentiments of nationalism and internationalism could easily coexist and even complement one another to a period of passionate antagonism, England's role as conduit produced multifaceted strategic disadvantages for Germany.[29]

Moreover, some of the economic policies of the two countries – Germany and the United States – jeopardized closer relations. America's protective tariffs, designed to shield "infant industries," closed it off to many German manufactured goods. Germany, for its part, began raising tariffs on agricultural and other products of particular interest to American exporters in the late nineteenth century. America's cavalier macroeconomic and regulatory environment increasingly shocked Germans. During that same period, Germany's approach to regulating competition also increasingly distressed Americans. In short, America and Germany were two of the most important emerging markets of the late nineteenth century, with all the opportunities and threats for doing business that developing markets entail today, including potential for mutual national antagonisms.

For the first forty years covered by this book, both America's economic growth and need of foreign capital brought the two nations into closer association. From 1870 to 1914 the American economy grew by 4.3 percent a year, well over 1 percent faster than even Germany's dynamic rate of growth. Much of the growth in both countries was built on exports to the rest of the world and to each other. By 1914, total foreign investment in the United States came to $7 billion, approximately 20 percent of America's GNP. German investors went to pains to understand and live with the chaotic and impersonal patterns of American investment behavior. Yet, some reacted with awe and amazement.

The topsy-turvy pattern of German and American relations in the twentieth century greatly affected the nature and success of Deutsche Bank's business. During the interwar years, financial markets appeared to those trained in the pre–1914 era to have an "Alice-in-Wonderland" character. Among other changes, Germany went, in the eyes of many Americans, from a disciplined lender to an undisciplined, unscrupulous creditor. Americans, once justly infamous for their shoddy regulatory and financial practices, preached to Germans about sound money practice, clear accounting, and fair banking.

However, not even world wars, economic collapse, and this bizarre reversal of roles significantly altered Deutsche Bank's interest in American business. In a sense, they intensified it. Yet whereas Deutsche Bank's principal preoccupation with North America before World War I was to find and monitor suitable investments for its German clients, after 1918 it was to encourage and monitor investment into Germany. The economic and political chaos following