WHAT CRISIS? SPECULATION, CORRUPTION, AND THE STATE OF EMERGENCY DURING THE GREAT DEPRESSION

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I.

The historiography on the Great Depression of the 1930s has languished in the last two decades, at least in Germany. There are several reasons for this. First of all, the debate on Heinrich Brüning's austerity policy and its possible alternatives, which flared up in the context of the debates on the crisis of Keynesianism in the late 1970s and 1980s, has for the most part been exhausted.[2] Second, in Germany a landscape of commissioned company studies has blossomed. Even though the Great Depression usually represents an important episode in the history of the firms being studied, this history usually pales in comparison with the period of Nazi regime, given the evidence of a company's entanglement with National Socialism.[3] Third, unlike economic historians and economists who have used the depression as an exercise in reflecting on economic theories — much more so in the United States than in Europe[4] — cultural historians have not seen this period as a stimulating challenge, quite unlike the preceding turbulent periods of the revolution, inflation, and the "golden years" of the Weimar Republic. A fourth reason for this relative neglect is that the Great Depression no longer holds a place of its own in what has become the common historical periodization. On the one side, two decades divide the Great Depression from what is by now referred to — somewhat exaltingly — as the "golden age" of "social democratic consensus" (Eric Hobsbawn/Tony Judt) or the postwar period of "consensus liberalism" (Anselm Doering-Manteuffel), which plays such an important role, at least in German debates. On the other side, two decades separate the Great Depression from the end of the "long nineteenth century" and the heyday of what Detlev Peukert has called "classical modernity." Although Peukert and other historians placed great emphasis on the transformative years of the early 1930s, this rather short period has become somewhat of a side story.[5] The reason for this is quite clear: Grave as the political and economic crisis of the 1930s was, its impact can only be understood in the context of a

1 I am indebted to Dona Geyer and Richard Wetzell for improving drafts of this published English version.

2 Albrecht Ritschel, Knut Borchardts, "Interpretation der Weimarer Wirtschaft. Zur Geschichte und Wirkung einer wirtschaftshistorischen Kontroverse," in *Historische Debatten und Kontroversen im 19. und 20. Jahrhundert*, ed. Jürgen Elvert und Susanne Krauss (Wiesbaden, 2003), 234-244.

3 There are exceptions, see, for instance, Gerald D. Feldman, "The Deutsche Bank from World War to World Economic Crisis 1914-1933," in *Die Deutsche Bank 1870-1995*, ed. Lothar Gall (London, 1995), 130-276.

4 Randall E. Parker, ed., *The Economics of the Great Depression: A Twenty-First Century Look Back at the Economics of the Interwar Era* (Cheltenham, UK, 2007).

5 Detlev Peukert, *Die Weimarer Republik: Krisenjahre der klassischen Moderne* (Frankfurt, 1987).

longue durée not only of mentalities and ideologies but also of social and political practices that precede the Great Depression.

We will see whether the more recent worldwide financial crisis will bring new impulses to historiography.[6] What has become quite evident so far is a flourishing interest in the history of "capitalism" — which has always been, to a considerable extent, the history of its crises. Yet the question of which analogies or comparisons should and can be made remains controversial. Two years ago, in his Feldman Lecture, Jürgen Kocka emphasized the differences between the current financial crisis and that of the 1930s. He referred to the fundamentally dissimilar political constellations, but he also meant the roles of finance capitalism then and now. "This finance-market-related part of capitalism [today -MHG] is much larger, more apart from the rest, more global, more dynamic, and more powerful than in the 1920s and 1930s, and it is less regulated than it was twenty years ago."[7] This may be true, but contemporaries eighty years ago had good reason to see their crisis as the worst so far; and "finance capitalism" was as much a sore issue then as it had been during the economic crisis of the 1870s or is today.

However, recent events have greatly increased the interest in *Manias, Panics and Crashes* (Kindleberger) and also in the shadier sides of capitalism, including corruption.[8] Unlike some textbook versions, capitalism is not characterized by a state of equilibrium. Cycles of expansive and "speculative" waves involve people who at times act with what Keynes called "animal spirits." More often than not, bankers, entrepreneurs, and financiers operate close to the edge of what is legal and moral, themes that have traditionally inspired many novelists.[9] Economic risk-taking is a form of speculation on the future under precarious conditions. Yesterday's heroes are today's failures, and the line that separates the serious businessmen from what I call *Grenzgänger* of capitalism is sometimes thin indeed. *Grenzgänger* are those involved in extremely risky businesses, and there are many types of these blatant "rule benders," including crooks and swindlers. In times of crisis, they tend to be the first to run into trouble and therefore inadvertently attract attention to themselves, usually to everybody's surprise. Despite the moral outrage which they provoke, they are part of any economic system. This might be disturbing and distressing; of critical importance is the moment when the impression becomes prevalent in the public at large that the economic system is dominated by such *Grenzgänger.* "If the big banks can't be relied on any more, it's

6 Johannes Bähr and Bernd Rudolph, *Finanzkrisen: 1931, 2008* (Munich, 2011).

7 Jürgen Kocka, "Writing the History of Capitalism," *Bulletin of the GHI* 47 (2010): 7-24, 21.

8 Charles Kindleberger, *Manias, Panics, and Crashes. A History of Financial Crisis* (New York, 1978); Ingo Köhler and Roman Rossfeld, eds., *Pleitiers und Bankrotteure: Geschichte des ökonomischen Scheiterns vom 18. bis 20. Jahrhundert* (New York, 2012); see also the special issue of the *Jahrbuch für Wirtschaftsgeschichte* 54 (2013) no. 2.

9 Emile Zola, *Money* (orig. 1891; Oxford, 2014); Theodore Dreiser, *The Financier [1912]. Critical Edition* (Urbana, 2010); Karl-Josef Kuschel and Heinz-Dieter Assmann, *Börsen, Banken, Spekulanten: Spiegelungen in der Literatur — Konsequenzen für Ethos, Wirtschaft und Recht* (Gütersloh, 2011).

best to trust one's money to the casino", spoofed one caricature in the German satirical weekly *Simplicissimus* in the wake of the 1931 banking crisis while depicting bourgeois banker-like types at the roulette tables (see figure 1).

„Rien ne va plus!"

(E. Thöny)

„Wenn auch auf die Großbanken kein Verlaß mehr ist, vertraut man sein Geld am besten der Spielbank an!"

Figure 1. "If the big banks can't be relied on any more, it's best to trust one's money to the casino." *Simplicissimus* 36 (1931), no. 18 (3 August 1931), p. 208. Reprinted with permission.

The polemical talk about "casino capitalism" predates the crash of 1929. It signifies a crisis of legitimacy affecting not only supposedly risk-averse institutions such as banks, but even more so the people who run them.[10] From here it is ideologically not a big leap to attack bankers as a group of white-collar gangsters; in fact, it appears that the leader of the Belgian radical right, Leon Degrelle, can claim to have invented the neologism "bankster" in the 1930s.[11]

Political scandals and criminal investigations fueled the fires that discredited business and businessmen during the Great Depression. Germany hotly debated the briberies of the Berlin magistrate by the Jewish Sklarek brothers and various forms of fraud and failings affecting many big companies. One was the case of the Schultheiss-Patzenkofer brewery, in which top-level directors at the Deutsche Bank were involved. In 1933, the U.S. Senate held public hearings into fraudulent business practices of bankers and investigated, among other issues, whether bankers made loans to public officials. In 1934, France experienced the notorious right-wing Stavisky riots, which were directed against the personal connections of French politicians

10 Urs Stäheli, *Spectacular Speculation: Thrill, the Economy, and the Popular Discourse* (Stanford, CA, 2013).

11 Léon Degrelle, *Les voleurs de al banque nationale* (Bruxelles, 1937), 16ff., 21, 48, 101.

to the Ukrainian-born swindler Alexandre Stavisky. In the mid-1930s Belgium witnessed an odd replay of a political drama that had shaken Germany in 1925 involving a certain Julius Barmat, a Ukrainian-born stateless Jew and a resident of the Netherlands, a *Grenzgänger* of capitalism whom polemical writers stylized as the epitome of the corruption plaguing democratic and liberal political systems.[12]

Blaming Jews was a common practice and spread like wildfire in the 1930s, at a time when the radical right was on the rise, not only in Germany. However, this anti-Semitism should not obscure the fact that the problems ran deeper. For every political scandal there were legions of similar cases about dubious business practices, wrongdoings, and speculative moves on the stock market involving countless private "investors," among them even some famous economists such as John Maynard Keynes in England and Irving Fisher in the United States (and a great many others who preferred to remain silent for obvious reasons). People discussed the "future of capitalism," and this involved not only institutions but also real people. Moreover, the phenomenon of speculation raised the question of the moral order of society, specifically, the failings of individuals and institutions, paths wrongly taken, and the contested relationship between state and economy, which needed to be mended by new forms of *Ordnungspolitik*.[13]

My investigation will begin by pinpointing the saliency and urgency of the amorphous and ambiguous phenomenon known as "speculation," which at the time was discussed in widely differing contexts ranging from the economic prosperity induced mostly by foreign credits to the crisis of capitalism — in other words, in terms of boom and bust. I am particularly interested in how the debates over the causes of bust prompted notions of an economic emergency (*Ausnahmezustand*) and how they influenced policy-making.[14] My narrative of the Great Depression differs from those focusing on the issue of unemployment or on the "sick economy" (Knut Borchardt) caused by high wages and the welfare state. What were the German peculiarities in these debates about speculation? For the sake of illustration, I will draw on the case of a man by the name of Jakob Michael, a well-known, albeit now mostly forgotten German financier at the time. For many contemporaries Michael embodied not only speculative capitalism but also the "spectacular speculations" (Urs Stäheli) of the post-World War I period. Thus this essay asks how popular resentment against speculation and speculators became entangled

12 Cordula Ludwig, *Korruption und Nationalsozialismus in Berlin 1924-1934* (Frankfurt, 1998), 167-184; Cordula Ludwig, *Soziale Utopien und religiös-kulturelle Traditionen* (Tübingen, 1992), 193-213; Martin Fiedler, "Netzwerke des Vertrauens: Zwei Fallbeispiele aus der deutschen Wirtschaftselite," in *Großbürger und Unternehmer: Die deutsche Wirtschaftselite im 20. Jahrhundert*, ed. Dieter Ziegler (Göttingen, 2000), 93-115. Paul Jankowski, *Stavisky: A Confidence Man in the Republic of Virtues* (Ithaca, 2002); Vincent P. Carosso, *Investment Banking in America* (Cambridge, MA, 1970), 326-351; Martin Geyer "Der Barmat-Kutisker-Skandal und die Gleichzeitigkeit des Ungleichzeitigen' in der politischen Kultur der Weimarer Republik," in *Politische Kultur und Medienwirklichkeiten in den 1920er Jahren*, ed. Ute Daniel et al. (Munich, 2010), 47-80.

13 Werner Abelshauser, "Die ordnungspolitische Epochenbedeutung der Weltwirtschaftskrise in Deutschland: Ein Beitrag zur Entstehungsgeschichte der Sozialen Marktwirtschaft," in *Ordnungspolitische Weichenstellungen nach dem Zweiten Weltkrieg*, ed. Dietmar Petzina (Berlin, 1991), 11-29.

14 In this essay, I expand on some thoughts first developed in Martin H. Geyer, "Grenzüberschreitungen: Vom Belagerungszustand zum Ausnahmezustand," in *Erster Weltkrieg: Kulturwissenschaftliches Handbuch*, ed. Nils Werber, et al. (Stuttgart, 2014), 341-384.

with the economic emergency thinking of the early 1930s and state-organized anti-Semitism.

II.

Economic speculation is probably best defined as the practice of dealing in fluctuating values — in other words, financial transactions that imply a bet on the future with respect to market fluctuations not just of stocks, bonds, and currencies but also of all tradable goods from gold to houses. More often than not, such a definition implies that these activities are particularly risky, yet this is notoriously murky (if not tautological), considering how historically constructed the idea of risk is. Thus, it is a matter of — endless — debate as to what separates economically "functional" and "beneficial" speculation, on the one hand, from "dysfunctional" and disruptive speculation, on the other. The line is thin indeed and leaves much room for interpretation, with a heavy preponderance (not just among professional historians) of backward-looking prophets. This has much to do with the fact that in everyday language, the term "speculation" is mostly used in a pejorative way dominated by the assumption of socially and morally deficient behavior on the part of individuals: After all, dealing with "fluctuating values" implies the possibility that "all that is solid melts into air," to quote the book title of Marshall Berman in which he deals with the "experience of modernity."

When the proverbial "bubble" bursts — in other words, when expectations with respect to the future turn out to be wrong — the phenomenon of speculation becomes most apparent. The stock market crash of October 1929 and its long aftermath illustrate this well.[15] The crash marked the end of the speculative boom years and what some German contemporaries disparagingly called — mostly ex post facto — the *Prosperitätstaumel* or *Scheinblüte* that had been made possible by the inflow of American credit in the mid-1920s. During this period the buoyant economic optimism and the new opportunities for speculative activity, even for small investors, had been contagious. More than anywhere else, the United States was the country of "Speculation," writ large literally and figuratively, as one contemporary British author, R. H. Mottram, dared to do in a book on the subject matter.[16] Next to the boom in real estate, there were new — and supposedly secure — innovative financial products and practices, like buying on margin, which became available to larger sectors of the population. Fortunes could be made on

15 Liquat Ahamed, *Lords of Finance: The Brokers who Broke the World* (New York, 2009).

16 R[alph] H[ale] Mottram, *A History of Financial Speculation* (London, 1929).

booming stock markets all over the world, featuring the stocks and bonds of highly dynamic and often international companies like the Ford Motor Company or that of the Swede Ivar Kreuger, who was active in North America and Europe and was certainly one of the most charismatic businessmen of his time.[17] In some countries like Belgium, savings banks and cooperative banks ventured into hitherto unknown territory by transforming their business strategies, adding investment branches, and luring their savers with high returns. Everywhere businessmen could be found who promised castles in the air: an airport or housing project here and a new banking scheme there wetted the appetite of those who were afraid to miss lucrative opportunities.[18]

This spirit of speculation invaded people's private lives and became common parlance in places where one would not expect it. It was a well-known fact already at the time that many bank employees participated actively in the stock market. But who would expect the honorable mayor of Cologne, Konrad Adenauer, to almost "gamble away" a great portion of his family's wealth? Like many men of similar bourgeois stature, Adenauer, with his many contacts to bankers and industrialists, was affected by the exuberance of the American stock market boom and, enticed by the possible profits, switched from conservative to more risky investments in American stocks — stocks that kept heading in only one direction even before but especially after the crash of 1929, namely down the drain. Burdened with a debt of at least 1.4 million Marks, also as a result of previous bank loans, Adenauer ended up being bailed out by the Deutsche Bank by way of a complicated transaction, which raised what we would call today serious ethical questions. Contemporaries from the right talked about corruption, for two reasons: Adenauer was a member of the supervisory board of Deutsche Bank, and Cologne was deeply indebted and in dire need of credit even before the depression.[19] Incidentally, Adenauer invested in the stock of German Glanzstoff, a German branch of an American company that (over)invested in facilities to produce rayon, that is, artificial silk, the material of which the dreams of Irmgards Keun's novel *Kunstseidene Mädchen* (1932) were made. Unlike the protagonist of this very popular (and much underestimated) novel of the Weimar Republic who came to Berlin with grand illusions, Adenauer blamed almost everybody, including bankers and the boastful general director of German Glanzstoffe, except himself for the difficulties he had gotten into.

17 Frank Partnoy, *The Matsch King: Ivar Kreuger and the Financial Sacandal of the Century* (London, 1996).

18 Leen van Molle, *Chacun pour tous : Le Boerenbond Belge 1890-1990* (Louvain, 1990).

19 For different interpretations of this interesting case, see Hans-Peter Schwarz, *Adenauer. Der Aufstieg: 1876-1952* (Stuttgart, 1986), 317-340; Henning Köhler, *Adenauer: Eine politische Biographie* (Frankfurt, 1994), 251-264.

It is easily forgotten that the depression also offered opportunities for speculation. For many Americans (and no doubt their speculating brethren in Europe), the question was when to get back "into the market" and how to raise the money to do so.[20] But the opportunities were particularly there for "big money." The economic difficulties of individual countries and even more so the disintegration of the international Gold Standard led to a wave of speculative moves primarily by institutional investors, who could reap very high profits indeed. Attacks on currencies by international *capitaux migratoires* or "hot money" caused a great deal of public concern and prompted much talk about possible drastic legal action. Well-known are the words used by of President Franklin D. Roosevelt in his first inaugural speech of March 1933 in which he criticized the "moneychangers" who had mislead the American people and needed to be driven out of the temple.[21] This was amid an acute banking crisis in the United States that featured strong speculative attacks against the dollar. For Roosevelt and many other politicians in similar situations during the 1930s, this crisis posed an acute state of emergency that called for unprecedented measures by the executive.

III.

Almost everywhere banks were hit hardest by the crisis. When national income fell within a very few years by a fifth, a third, or — as happened in Germany — by about 40 percent, each of the countless bank failures and company bankruptcies could be considered as examples of bad speculation. Due to the drastic fall of the price of stocks and bonds every form of credit turned out to be problematic; such securities were an important part of the collateral for the loans that had been issued. Thus Bankers became the *Prügelknaben* (scapegoats) for nearly everything that had gone wrong.[22] Contemporary observers registered the fall from economic stardom of businessmen and particularly bankers, who lost trust and credibility.

This process was also nurtured by the discovery that there were more than just a few black sheep operating in the economy, something that should not astonished us.[23] Thus the crash ruined the reputations of seemingly upright men like Paul Dumcke, the director general of the Frankfurter Allgemeine Versicherungs AG (Favag), an insurance corporation whose financial failure in 1929 heralded the bankruptcy wave in Germany, or that of the Lahusen family, owners of the Norddeutsche Wollkämmerei- und Kammgarnspinnerei AG, the so-called

20 Benjamin Roth, *The Great Depression: A Diary*, ed. James Ledbetter and Daniel B. Roth (New York, 2009).

21 Franklin Delano Roosevelt, *Great Speeches*, ed. John Crafton (Mineola, N.Y., 1999), 28-22, 30.

22 Erich W. Abraham, *Konzernkrach: Hintergründe, Entwicklung und Folgen der deutschen Konzernkrisen (*Berlin, 1933), 144, 148, 153.

23 See also Harald Wixforth, "Finanzkrisen in Deutschland — Vergleichsperspektiven und Ursachenforschung," *Jahrbuch für Wirtschaftsgeschichte* 52 (2011): 193-211.

Nordwolle, who ranked among the best names in Germany, associated closely for generations with high church positions, the Imperial Court of Justice, and the world of business.[24] The Favag bankruptcy caused financial difficulties for many other companies and helped trigger the first wave of foreign loan terminations. The failure of the Nordwolle, in conjuncture with similar events in Austria involving the Austrian Credit-Anstalt, not only brought about serious problems for the largest and most dynamically growing bank, the so-called Danat-Bank under its owner Jakob Goldschmidt, but also caused the near collapse of all German finance in the summer of 1931.[25] Suspicions of grave irregularities and fraud turned out to be well founded, not just in the cases of Favag and Nordwolle; the banking crisis of the summer of 1931 revealed many dubious business deals and practices, which prompted public prosecutors to conduct drawn out investigations, some of which actually ended up in court.

One of the most spectacular trials involved the general director of the large Berlin Schultheiss-Patzenkofer brewing company, Ludwig Katzenellenbogen, a successful venture capitalist married to the glamourous actress Tilla Durieux; his business deals with Deutsche Bank, among others, turned out to be a great embarrassment for the bank. Like the banker Goldschmidt, Katzenellenbogen had shared the optimism that the crisis of the economy was only a fleeting phenomenon that would soon come to an end and that the "psychosis of pessimism" (*Pessimismus-Psychose*) had to be disspelled.[26]

All these cases revealed a series of grave misdeeds, some of which went well back into the 1920s. The most prominent of these were, first, the use of false or manipulated opening Goldmark balances following the inflation; second, the intermingling of personal and economic interests — meaning business corruption — particularly in awarding loans (as had happened in the Schultheiss-Patzenkofer case); third, a lack of business supervision, particularly within banks, which raised the question of cognizance; fourth, more or less blatant ways of manipulating balance sheets, in which companies registered in the nearby tax paradises of the Netherlands and Belgium appeared with some regularity (as in the case of Nordwolle, which had manipulated its balance sheets by way of its branch in the Netherlands); fifth, the manipulation of the stock-market by banks through the practice of buying their own stocks; and not to be forgotten, sixth, the more or less sensational forms of risky speculation on the stock market with the help of and by bank officials themselves by way of credits

24 Gerald D. Feldman, *Allianz and the Insurance Business: 1933-1945* (Cambridge, Mass., 2001), 40-43. Dietmar von Reeken, *Lahusen: Eine Bremer Unternehmerdynastie 1816-1933* (Bremen, 1996), 96-100.

25 Gerald D. Feldman, "Jakob Goldschmidt, the History of the Banking Crisis of 1931, and the Problem of Freedom of Manoeuvre in the Weimar Economy," in *Zerissene Zwischenkriegszeit: Wirtschaftshistorische Beiträge. Knut Borchardt zum 65. Geburtstag*, ed. Christoph Buchheim, et al. (Baden-Baden, 1994), 307-327.

26 Fiedler, *Netzwerke*, 102.

they had received from their own banks. By 1931/32, it was quite clear that these charges did not just pertain to big banks and industries in the industrial centers but that the agricultural credit institutions, particularly in Prussia, were also seriously involved. In fact, the latter demonstrated some of the worst forms of mismanagement, personal failure, and even serious corruption. This had to do also with the co-operative, that is, the semi-public form in which many of these regional agrarian credit institutions were organized.

Promises of prosperity had been closely linked to the "new heroes" in business, the heralds of a new age. It was foreseeable that trouble would first arrive at the doorstep of those companies and corporations that were considered to be extremely dynamic and expansive — which was another way of saying that they operated on a very "speculative" basis; in fact, many had laid the foundation of their fortune during the inflation. In addition to many names long-forgotten, this group included men like Friedrich Flick, Otto Wolff, Ludwig Katzenellenbogen, and Jakob Goldschmidt (to name just a few).[27]

The Frankfurt businessman Jakob Michael belonged to this group of new self-made men. He was one of the boldest and most important financiers and entrepreneurs of the Weimar Republic (although he is nearly unknown in the literature, even in Jewish history). Like many other entrepreneurs in the war economy, he built a corporation during the First World War when he started to mine the scarce metal Wolfram from previously excavated material, an enterprise which expanded in many directions during the inflation years. Moreover, in 1924/25, he bet correctly and cleverly on the stabilization of the currency, quite unlike many others, including Hugo Stinnes, who went bust. Instead of being stuck with tangibles that had been so precious during the inflation, Michael liquidated a great deal of his assets at the very end of the inflation. This extremely risky strategy allowed him to make use of the extreme shortage of capital after the currency was stabilized — leading to charges of *Wucher* (usury) — and to redirect his business by acquiring, amongst other assets, share holdings in big German insurance companies that were in dire straits. At the time, his was a well-known story: Michael was thought of as the archetype of the "*Großspekulant*" (Heinrich Brüning), the big-time speculator, who had profiteered from war, inflation, *and* stabilization.[28] In the mid-1920s, Jakob Michael ranked among the richest people in Germany, and in 1925 he even made it into *Time Magazine*, which heralded him as "Stinnes the Second." Yet unlike the sturdy

27 Felix Pinner, *Deutsche Wirtschaftsführer* (Charlottenburg, 1925).

28 Der Generalstaatsanwalt beim Landgericht I, Erster Bericht in Sachen Michael & Co, 12.3.1925, Geheimes Staatsarchiv Preußischer Kulturbesitz, Berlin, I HA Rep. 84a, Nr. 56587; Heinrich Brüning, *Memoiren, 1918-1934* (Stuttgart, 1970), 85.

old man Stinnes, Michael was a "suave, handsome, crafty" Jew and an American type of self-made man who seemed to fit the new times.[29] He built an extremely complex corporation — it was estimated that by the 1930 he and his wife Erna controlled 116 interlocked companies under various organizational umbrellas — that operated not only in Europe but also in North and South America. The new cornerstone of his empire consisted of department stores that introduced new forms of American-type consumer loans, real estate, and strategically selected shareholdings in big German companies. The latter earned him a lot of enemies in the banking and insurance industries where he was known for the ruthless pursuit of his own financial interests by using the leverage provided by his shares.[30] To make a long story short: After some ingenious moves that got him through the year 1929 — such as selling his Favag and Induna Insurance shares (the latter to the American company Paine Webber) on time — Michael's fortune changed during the Great Depression. With the huge drop in the value of real estate and stocks, he was unable to liquidate not only his share holdings but also his highly mortgaged real estate holdings, with which he had financed his expansion. Despite huge assets, many of his highly indebted German ventures became insolvent, which led by the end of 1932 to formal declarations of bankruptcy. This included also his house bank, the Industrie- und Privatbank, which got caught up in the turmoil of the banking crash in 1931. In 1932 Michael and his wife also declared personal bankruptcy.

Although the career of Jakob Michael and his sprawling enterprise was quite exceptional, he was just one of many other "war and inflation profiteers," who had risked much and gained much. They had all built fast-growing enterprises during the inflation and thus earned reputations as "speculators." They had survived the stabilization crisis at the end of the inflation and continued their path of expansion in close cooperation with the big banks, which funneled huge amounts of foreign credit, borrowed on a short-time basis, into these ventures. It is debatable whether these men should be subsumed under the rubric of "speculators"; they were certainly betting on an American type of prosperity, the gains of which were alluring to many (including Konrad Adenauer). At any rate, the post-1929 years demonstrated how risky these economic activities had been.[31] The onset of the depression became a time of reckoning. The *gewiegteste Inflationstechniker* (the most cunning technicians of inflation) lose in time of deflation — if not in 1923/24, then since 1929.[32] The sudden eruption of talk about the "future of capitalism," starting in 1929/30,

29 "Germany: Stinnes the Second," *Time Magazine*, 5. Jan. 1925. For the following, see also Susanne Willems, *Gutachten zur Frage der Vermögensverluste von Juden in Deutschland ab 1933, Teil 2: Jakob Michael — das Vermögen eines Auszubürgernden im Zugriff deutscher Behörden ab 1933* (Berlin, 2002), copy in Archiv des Zentrums für Antisemitismusforschung, Berlin.

30 "Michael-Bank insolvent," *Vossische Zeitung*, no. 142 (24 March 1932); "Neue Konkursanträge gegen den Michael-Konzern," *Vossische Zeitung*, no. 427 (6 September 1932).

31 For a critical evaluation, see Harold James, *The German Slump* (New York and Oxford, 1987), 110-161.

32 Richard Lewinsohn and Franz Pick, *Sinn und Unsinn der Börse* (Berlin, 1933), 74 with reference to Michael.

should not blind us to the fact that the problem actually boiled down to the question: what kind of capitalism in what kind of state? And the abstract formulation (already of contemporaries) should not blind us to the fact that what was really up for debate was the question: which "capitalists"?

IV.

The swift and dramatic rescue of the German banking system by the Reich in the wake of the banking crisis of 1931 has often been described. The partial if not complete takeover of the big German banks by the Reich was as stunning as the sums that were involved. The rescue was accompanied by an acrimonious row, between banking representatives and the Brüning government, over the question whether the banking industry could have managed the crisis on its own from the start. When the Danat Bank failed, it appeared to Brüning that its biggest competitors, the Deutsche Bank and the Dresdner Bank, were not unhappy to be rid of their rival, although the Danat Bank disaster made it necessary for the Reich to save the two other banks as well. This was the context in which Ernst Trendelenburg, an undersecretary at the Ministry of Economics, argued, as many others did, that the private economic system could only be maintained "if it is protected from the capitalists who seek profits only and want the state to shoulder the losses."[33] For Reich Finance Minister Hermann Dietrich, the prerequisite for a return to a "healthy" state of affairs was to purge capitalism of its "speculative elements" and to re-introduce the "service functions" that banks were supposed to perform for the economy. "The struggle for and against high finance has ended with the influence of the Reich on the big banks," maintained Dietrich in his defense of the take-over of parts of Friedrich Flick's corporation by the Reich. He stressed that the aim was to use new personnel "to liquidate the Babylonian tower-building, which had become unhealthy and unsustainable within establishments, in a way that would least harm the Reich and the German economy." According to Dietrich, the alternative, namely not intervening, would have meant a "gigantic crash" of the economy that would have cost hundreds of thousands of people their jobs.[34]

It is important to keep in mind that the Reich did not just intervene in the business of the big banks, banks that, as we would say today, were of "systemic" importance to the economic system. Taking over the banks was tantamount to making fast decisions about

33 "Chefbesprechung über die Bankensanierung, 15 February 1932," in *Akten der Reichskanzlei, Kabinett Brüning I and II, 2 vol.*, ed. Karl Dietrich Erdmann, et. al. (Boppard, 1982), doc. 675, p. 2297.

34 Quote by Dietrich from the *Kölnische Zeitung* (26 June 1932) as cited in *Akten der Reichskanzlei, Weimarer Republik, Das Kabinett von Papen, vol. 1*, ed. Karl-Heinz Minuth (Bonn, 1989), 163, no. 163.

who should be saved and who should not. The author of the 1933 book *Konzernkrach* mentioned an "eminent banker" and adviser to the Brüning government of whom it was said that before falling asleep each night his last thought was about which debtor should receive the order to clear his debit balance the next morning".[35] In his memoirs, Brüning vividly describes, with a trace of anger, the appeals for help by former business heroes such as Friedrich Flick and Otto Wolff, but also the doggedness of the representatives of farmers, both churches, and the center-right political parties. Despite striking cases of mismanagement and, as it turned out, sometimes outright fraud, people ceaselessly approached the Reich Chancellery in pursuit of bail-out loans. Among them was the *Volksverein für das katholische Deutschland* (People's Association for Catholic Germany), an important organization associated with Brüning's own Catholic Center Party. The association had overextended its finances by vastly expanding not only its printing plant in Mönchen-Gladbach but its entire media business (with the involvement a banker by the name of Brüning, an unrelated namesake of the chancellor, whose activities became an embarrassment for the politician because his name kept being mentioned in the context of criminal prosecutions). The otherwise staunch defender of market liberalism, the *Wirtschaftspartei*, asked for help for the Berliner Handelsbank, to which the party was closely connected. The financial troubles of the large home-loan bank Devaheim, a bank associated with the Protestant Church, endangered funds that had been donated to support the church's missions and ended in a well-publicized trial, which revealed serious fraud. No doubt the demands that were most vexing for Brüning were those made by the agricultural interests close to the Conservatives and to his own Center Party, with their incessant call for public monies to bail out their indebted landed properties and their ailing agricultural credit institutions, some of which were in scandalous shape.[36]

These public efforts to rescue companies were problematic not only for economic and fiscal reasons, but also because they raised serious concerns with respect to the morality of political behavior. Who was to be bailed out with taxpayers' money directly by the Reich or indirectly, by way of the newly state-controlled banks? For that matter: who was to make that decision? It is striking how willing Brüning was to incriminate himself and his government after the war; for he must have known that his own description of the disbursement of public funds to certain groups and individuals left him and the Republic vulnerable to accusations of political corruption. No doubt Brüning

35 Abraham, *Konzernkrach,* 163.

36 Brüning, *Memoiren*, 310-314, 362-371, 404-410; Irmfried Garbe, "Kirche und Kredit. Eine Beziehung am Beispiel der Davaheim-Korruptionsfaffäre 1931/32," in *Kirche im Profanen. Studien zum Verhältnis von Profanität und Kirche im 20. Jahrhundert,* ed. Garbe (Frankfurt/Main, 2009), 189-219; Jan Körnert and Klemens Grube, "Die Deutsche Evangelische Heimstättengesellschaft (Devaheim). Aufstieg und Fall einer kirchlichen Bausparkasse," *Zeitschrift für Unternehmensgeschichte* 56 (2011): 3-28; neither author mentions this story. Gotthard Klein, *Der Volksverein für das katholische Deutschland 1890-1933: Geschichte, Bedeutung, Untergang* (Paderborn, 1996), 338-86; Bähr/Rudolph, *1931 Finanzkrisen* (2008), 106.

wanted to hold a mirror up to those who had accused the Republic of corruption: His revelations were aimed not only at agrarian groups but even at the Reich President Hindenburg's entourage, whom he connected to dubious financial transactions. This included rumors about the head of the Commerz- und Privatbank, Curt Sobernheim, who had lost a fortune in the stock market crash and had allegedly "taken down" with him the wives of men connected to Hindenburg, as a result of highly speculative deals. According to Brüning, there was pressure on the bank to absorb the losses incurred by the speculation accounts of these individuals out of consideration for the upcoming presidential election. This was problematic — just as it had been in the case of Adenauer when he was bailed out by the Deutsche Bank — because the Commerzbank had also been partially been taken over by the Reich. Similarly problematic was a secret campaign fund for the 1932 presidential election to support the republican parties (but also the NSDAP), financed in great part by Friedrich Flick. Flick, whom the historian Georg Hallgarten called a "daredevil speculator," had been bailed out by the Reich when it bought his financially troubled iron and steel conglomerate, the Charlottenhütte, for what everybody considered an exorbitantly high price.[37] In the end, one might read Brüning's account not only as a story about the selfishness and political and economic opportunism of the times, but more importantly, as a story illustrating how the speculative spirit bred political corruption and eventually threatened to engulf even those, like Brüning, who otherwise had nothing to do with political corruption.

V.

As early as 1927, the U.S. Federal Reserve talked about taking the wind out of the sails of "speculative excesses" that had led to a misallocation of financial resources, heated up the stock market and undoubtedly caused real "excesses." For a long time, it has been argued that the Federal Reserve was greatly responsible not only for the crash in 1929 but also the Great Depression. There has also been much debate on the question of whether the American happy-go-lucky stock market boom actually had a solid foundation, as some American economists would argue today. Most contemporaries would have disagreed, and this is certainly true of most politicians. President Hoover's Treasury Secretary Andrew Mellon alluded to past excesses when he said: "I will purge the rottenness of the system."[38] His German counterpart, Reich Finance Minister Hermann Dietrich,

37 Brüning, *Memoiren*, 522; for Sobernheim's losses, see Detlef Krause, "Curt Joseph Sobernheim," in *Deutsche Bankiers des 20. Jahrhunderts*, ed. Hans Pohl (Stuttgart 2008), 387-402, 395 ff.; Johannes Bähr, et al., eds., *Der Flick-Konzern im Dritten Reich* (München, 2008), 44-53; Georg W.F. Hallgarten, *Hitler, Reichswehr und Industrie: Zur Geschichte der Jahre 1918-1933* (Frankfurt, 1955), 109.

38 Herbert Hoover, *Memoirs*, vol. 3 (New York, 1952), 50.

and many in the Brüning administration would have agreed, although for different reasons. In Germany the stock market boom had already burst in 1927, although there was a upsurge in 1929 that misled many.[39] As Brüning wrote in his memoirs, in 1931 his ministers and the state bureaucracy were confronted with "an abyss of corruption and imprudence in business that not only surpassed all imagination but [evoked] a measure of change in the temperament and eagerness to work among all of the cabinet members." With bitterness he recalled the "cold-bloodedness" with which he, members of his government, and high-ranking civil servants were frequently "lied" to. According to Brüning, during one of the many meetings after the bank crash of 1931 the president of the Reichsbank, Hans Luther, got enraged and claimed that "all the people sitting across from us here are crooks. They were all broke back in 1926. I said the very same thing to them already in 1926."[40] Here Luther was referring to the situation after the hyperinflation when the books had not been properly adjusted. "The healing process within the German economy is not yet completed," wrote one business journalist in his book *Konzernkrach* (The Company Crash), published in early 1933. In the period following World War I, particularly after the stabilization of the currency in 1923/24, he argued, both well-known "Inflationsgrößen" ("great men of the inflation," an ironic circumscription of ruthless profiteers and speculators) — the author mentioned Jakob Michael and Hugo Stinnes, among others — and "old-school businessmen," who ran firms like Nordwolle, Favag, Karstadt and the Burbach ironworks, "did not have the right feeling for numbers after the stabilization of the currency. The lack of a proper sense of proportion in a stable currency did not always lead to the demise of a company. But it put most businesses in very dangerous situations and it always ended with the final financial ruin and ultimate downfall of their power-hungry and short-sighted directors general."[41]

The subtext of such contemporary commentaries is that something had been going wrong since the stabilization of the currency in 1923/24; they also convey the notion of a "sick economy." Since the important work of Knut Borchardt, we associate this notion with "high" wages, taxes, and social welfare costs, an "overstaffed" banking apparatus, and the wrong uses of foreign credit, such as their use by German cities to build parks and swimming pools. No doubt, this perspective was shared by Brüning and many others, especially economists and businessmen. However, for the Brüning government the problem ran deeper and came to the fore during the recession: the

39 Albrecht Ritschl, *Deutschlands Krise und Konjunktur 1924-1934: Binnenkonjunktur, Auslandsverschuldung und Reparationsproblem zwischen Dawes-Plan und Transfersperre* (Berlin, 2002), 115.

40 Heinrich Brüning, *Memoiren*, 309, 449, 522.

41 Abraham, *Konzernkrach*, 15ff. (quote), 192.

monetary stabilization had not put the economy on a sound footing; although the earlier "excesses of the inflation" might have vanished from sight, they were not altogether purged. Underlying this was a strong feeling of disillusionment because for a while things had looked different: in 1927/28, it looked like the courts had dealt with the big cases of real or alleged mismanagement, speculation, and political corruption during the inflation. There had been a widespread feeling at that time that the past craze had caused practices that were characteristic of the inflation period and that these were now being abandoned. It was believed that the return to economic normalcy would quite naturally weed out the relicts of former excesses, which also had such a disastrous impact on the moral order of society. The vexing issue was that the depression brought to the surface all sorts of *Luftgeschäfte*[42] that had been associated with the speculative fervor of the inflation period: devastating forms of speculation by seemingly reasonable individuals; forms of cheating; and, not to be forgotten, the corruption of business ethics that had become associated with the *Grenzgänger* of capitalism.

The politics of deflation, pursued by both the Brüning government and the Hoover administration, served many purposes, both economically and politically. But there can be no doubt that deflation was, among other things, a strategy designed to rid the system of past speculation and its ill effects. Some economists studying this period, such as Barry Eichengreen, have stressed the "golden fetters" of the gold standard, which led the defenders of the gold standard to argue for the crushing regiment of deflation. It is more just than a side note to mention the derogatory remarks of R. H. Mottram, the proponent of "Speculation" mentioned earlier. At the height of the speculation frenzy he argued that, thanks to new forms of credit, the gold standard was now not much more than an outmoded "curiosity," which "perpetuat[ed] the peasant mentality that is never really sure of itself unless it can handle tangible metal." The idea that "the million individual bargains upon which all Speculation, as well as ordinary trade, is founded, could be liquidated in gold, may seem to the modern mind a trifle cumbrous."[43] Such utterances illustrate that the "rules" of the gold standard, namely deflationary policies, made it possible to liquidate speculative ventures — and with it the phantasms of speculation of the likes of Mottram. In our own day, Timothy Geithner, the former U.S. Secretary of the Treasury, has characterized the current German position as a "moral-hazard fundamentalism," that is, the conviction that those responsible for

42 On the semantics of this topic, see Nicolas Berg, *Luftmenschen: Zur Geschichte einer Metapher* (Göttingen, 2008).

43 Mottram, *History*, 305ff.

the crisis should not get away without repercussions. At least with respect to what happened in the early 1930s, Geithner's words definitely capture a widespread "Old Testament sort of revenge" directed against banks, bankers, and businessmen that had allowed things to develop as they did.[44]

VI.

It should not come as a surprise that Germany's economic crisis inaugurated an intense debate about the future of capitalism and the role of the state. Although the debate was polyphonic, most voices agreed that the state was to play a new role in the economy. In Germany, a jurist like Carl Schmitt set the agenda. In 1931, Schmitt diagnosed a "Wendung zum totalen Staat" (a turn toward the total state) that had been going on since the war. He was convinced that this was not a positive sign because what was happening was that since the war "society was organizing itself as the state." In other words, social interests were taking over the state, a development that Schmitt saw reflected in the newly prevalent ideas of a *Wirtschaftsstaat*, *Sozialstaat* and *Kulturstaat*. This development posed a threat because it made "all social and economic problems immediately become problems of the state." For Schmitt, who liked paradoxical formulations, this state was "total because of [its] weakness and inability to resist, because of its inability to withstand the onslaught of political parties and organized interests." Schmitt's alternative total state would be different; for it would not be "undermined by any catchwords like liberalism, constitutional state, or however one wants to call it." The strong Italian fascist state offered such options. In 1931/32, Schmitt, who later welcomed Hitler, still argued for other options: Reich President, bureaucracy and army were to function as "custodians of the constitution" (*Hüter der Verfassung*). At a time when many experts argued that the Reich's fiscal policies already amounted to a "military dictatorship" or that the worsening of the economic crisis necessitated declaring a "state of siege" (*Belagerungszustand*), Schmitt argued that the emergency powers under Article 48 of the Weimar constitution, which included possible economic intervention, were to play an important part in restoring the authority of the state.[45]

Restoring "order" was the slogan of the day and became one of the key concepts that pervaded a wide variety of public and academic debates. Unlike most modern economists, contemporary economists had still been trained in history, government, and public policy, and

44 "Geithner wettert gegen deutsches Stabilitätsdenken," *Frankfurter Allgemeine Zeitung*, no. 116 (20 May 2014).

45 Carl Schmitt, "Die Wendung zum totalen Staat (1931)," in *Positionen und Begriffe*, 3rd ed. (Berlin, 1994), 166ff; Carl Schmitt, *Weiterentwicklung des totalen Staates in Deutschland (1933)*, ibid, 186, 212. Institut für Zeitgeschichte (hereafter: IfZ), ED 93/15 and 16, Tagebuch Hans Schäffer 26 November 1931, p. 1089 (Hans Schäffer); p. 1104 (Otto Wolff).

Schmitt's odd but sharp thinking raised many questions that had been asked in other academic fields.[46] Restoring the authority of the state was not just a matter of theory. It pertained foremost to the constitutional reorganization of the institutional arrangements for nearly everything: the constitutional relationship between Reich and *Länder*; social, economic and fiscal policies; or the future of parliamentarianism, for that matter. Equally important were the efforts to prevent future economic crisis and to safeguard for fiscal solidity. The execution of this task was delegated to the state bureaucracies, which were empowered legally and, equally important, "idealistically" by official emergency decrees and constant public appeals to a state of economic and political emergency. Given the malfunctioning of the parliamentary system, this emergency was broadly discussed as a general *Staatsnotstand*. It implied a constant appeal to idealized forms of state and bureaucratic rule, which, so it was argued, had been subverted by the parliament and special private interests. With respect to a revitalized state, this ideology shaped the mentalities of all actors, trickled down into bureaucratic practices, and shaped new institutional set-ups. The flight into the executive state was tantamount to opening a Pandora's box, at least in Germany. In no other country did revisions of the economic order become so entangled with ideas and initiatives for what turned out to be open-ended revisions of the political order. Yet in all European countries, the efforts to fight the effects of the Great Depression changed the rules of the political and economic game. For the sake of brevity, the remainder of this article will focus on several regulatory solutions that were implemented at the time and eventually led to the new economic order of National Socialism in different, yet curiously interconnected ways.

There is no scarcity of studies that detail the series of far-reaching state interventions, mostly by ad hoc emergency decrees, right after the banking crisis in the summer of 1931. These interventions created the basis of an altogether new regulatory framework for banking, which eventually became codified in the Reich Banking Act of 5 December 1934 (and which continued to be applied in West Germany after the war). It regulated not only the government supervision of banks but also lending, minimum capital provisions, cash reserves, bank licensing, and rules about making loans to members of the bank (which had been one source of speculation before the war). It was within this new legal framework that the re-privatization of the banks took place in the mid-1930s in Germany. Economic historians generally characterize it as an "overdue modernization" of the

46 See Abelshauser, *Ordnungspolitische Epochenbedeutung*.

banking system.[47] Analogous laws and regulatory frameworks can be found in many other countries, such as in the United States under President Roosevelt. These laws aimed at fencing in and reorganizing the banking system — which despite many regulatory efforts was still firmly rooted in the age of economic liberalism — in order to rid it of the ills that had come to the fore in the previous years and to create a new framework.

As studies of German banks by Harold James, Dieter Ziegler, Johannes Bähr, and others have demonstrated in detail, the government also exerted great pressure on the banks with regard to personnel decisions. Identifying those who were to blame for past failure was most important, so it is not astonishing that it was a common sport to pass on the blame to others. By emergency decree it was possible to radically reduce the number of supervisory board members in companies, a step that went hand in hand with strong pressure from the government to get rid of executive board members and other men in leading positions in the newly state-controlled banks and to appoint fiduciaries, especially to key positions.[48] The directives issued by the Brüning government were quite specific: the new credo was clearly to "eliminate speculators in the banks." Brüning stated that "[u]nder no circumstances are individuals allowed in top management who are in debt to their own bank by way of "speculation accounts." He made the same point even more pressingly elsewhere: "The people who are burdened with the odium of mistakes should be eliminated as far as consideration for continuity of general technical operations allows."[49] Despite the many studies on bank history, we know very little about the "golden age" of speculative dealing among bank employees and board members. From the perspective of those involved, the line between what was and what was not considered "speculative" with regard to business financing was by no means obvious. The way the failure of Deutsche Bank was handled in the Katzenellenbogen case, for example, makes it clear that those responsible were usually able to maneuver their way out of taking responsibility.[50]

Still, the outside pressure exerted by the new men at the big banks who had the backing of the Reich, by the pending judicial investigations, and, last but not least, by public opinion should not be underestimated, any more than the new pressure exerted within organizations. Georg Solmssen, the spokesman for the managing board of Deutsche Bank is a good example. On the one hand, he defended the autonomy of banks and criticized those who did not want

47 Christopher Kopper, *Zwischen Marktwirtschaft und Dirigismus. Bankenpolitik und "Drittes Reich", 1933-1939* (Bonn, 1995), 125.

48 Johannes Bähr and Dieter Ziegler, "Vorstand und Aufsichtsrat 1931-1945," in *Die Dresdner Bank im Dritten Reich,* Bd. 1: *Die Dresdner Bank in der Wirtschaft des Dritten Reichs*, ed. Johannes Bähr (München, 2006), 75-100; Dieter Ziegler, "Strukturwandel und Elitewechsel im Bankwesen 1900-1957," in *Die Deutsche Wirtschaftselite im 20. Jahrhundert: Kontinuität und Mentalität*, ed. Volker Berghahn, et. al. (Essen, 2003), 187-218, esp. 197-218.

49 "Chefbesprechung über Bankensanierung vom 16. Feb. 1932," in *Akten der Reichskanzlei, Kabinett Brüning I u. II,* Dok. Nr. 676, 2298; "Vermerk des Ministerialrats Feßler über Bankensanierung vom 16. Feb. 1932," ibd., Dok. 677, 2301.

50 Krause, *Sobernheim*, 398; Gerald D. Feldman, "The Deutsche Bank from World War to World Economic Crisis 1914-1933," in *Die Deutsche Bank 1870-1995*, ed. Lothar Gall, et. al. (London, 1995), 130-276, 273.

to acknowledge the political origins of the present economic crisis. On the other hand, he adopted the criticism of banks made by men like Brüning and Dittrich by blaming the "speculators" within the ranks of business: "For periods at a time, the German economy kneeled before people whose knowledge and talent amounted to nothing more than speculation with stocks." Like many others, he also argued that, in order to stay autonomous from governmental interventions in the future, the private sector of the economy (*Privatwirtschaft*) had to cleanse itself of "Schädlinge" (parasites or vermin). He combined his call for a renewed code of honor with his own endorsement of a "clean capitalism," which would include the rule that members of banks could not mingle private and bank business.[51] This said, it is worth noting that Reichsbank President Hans Luther, who had more than one confrontation with Solmssen after the banking crisis of 1931, included a joke circulating about Solmssen in his otherwise sober and factual autobiography: A fairy offers to grant Solmssen one wish. And what does the man who was happily living a life of luxury on Berlin's island of Schwanenwerder wish for? To know at least once the stock market quotes of the day after tomorrow.[52]

Combating *Schädlinge* was of paramount importance in government policy. This implied making decisions about which enterprises were to survive. Albert Hackelsberger, one of Brüning's economic advisors, argued that this meant implementing not only "reforms of a tangible nature," like the above-mentioned Reich Banking Act, but also "a reform of attitude, of business ethics" that was particularly necessary "if the moral principles in our economies are to gain ground, if we truly want to experience a healthy economy once again." The rhetoric included catchwords like the "dienende Funktion der Banken" (the service function of banks), and especially after 1933, slogans like "Gemeinnutz geht vor Eigennutz" (public interest before self-interest). At first sight, such utterances might appear to be empty and meaningless rhetorical formulas. But they implied important strategies of "othering," of making speculation and speculative behavior something outside acceptable "normal" — bourgeois or decent business — behavior. Unfortunately we know next to nothing about changing forms of business ethic and habitus (in the sense of Pierre Bourdieu) in the banking community. What was decent and ethical business behavior is difficult to decide to begin with; this is even more the case after the political regime change in 1933 when the rules of the game changed fundamentally. As Harold James had argued, the "internal dynamics of bank bureaucracy," namely the prevailing opportunism

51 Georg Solmssen, *Die Zukunft des Kapitalismus: Vortrag gehalten im Institut für Wirtschaftswissenschaft der Universität Frankfurt a.M. am 25. November 1932* (Berlin, 1933), 27, 32, 34.

52 Hans Luther, *Vor dem Abgrund 1930-1933: Reichsbankpräsident in Krisenzeiten* (Berlin, 1964), 51ff.

to conform to the new regime also for the sake of newly available jobs, helped "to permeate National Socialist ideology through the bank."[53] As Georg Solmssen wrote in a moving letter in April 1933, there existed a pervasive atmosphere of a "manifest lack of any feeling of solidarity" on the part of those who had formerly worked "side by side with Jewish colleagues." There was not only an "ever-clearer readiness to take personal advantage of the fact that jobs are now falling vacant"; but "the dead silence that greets the ignominy and shame irremediably inflicted on those who, albeit innocent, find the foundations of their honor and livelihood undermined from one day to the next" was conspicuous.[54] By 1933, speculative activity could easily be subsumed under the rubric of "Jewish behavior." How these resentments against "Jewish speculators" came to influence decision making even before 1933 is hard to say. Recruiting patterns might be one clue: the men Brüning trusted for economic advice and the majority of the new fiduciaries appointed by the Reich were not Jewish.[55]

Even before 1933, more often than not the plea for rejuvenation called for draconian measures to punish those guilty of misdeeds. The above-mentioned Hackelsberger called for martial courts (*Standgerichte*), which was quite typical of this line of state-of-emergency thinking and in tune with popular, and populist, pleas across party lines not to treat profiteers and ruthless speculators with the proverbial "velvet gloves" (see figure 2). Mocking the lengthy indictments and court verdicts of up to a thousand pages, he argued that martial courts offered a chance to "try such cases in the fastest way possible in a type of pretrial and at least bring the individuals concerned behind bars."[56] It is not without bitter irony that Hackelsberger, who was to collaborate very closely with the Nazis, ended up dying in pretrial detention on charges of allegedly violating the foreign-currency regulations.

VII.

Nowhere is this peculiar mixture of resentment against speculation, anti-Semitism, state-of-emergency exigencies, prevailing technocratic ideas for solving "acute problems," and the logic of punishment more apparent than in the new regime of capital controls designed to control transnational capital movements. Given the lack of trust in the German Mark, the flight of not only foreign, especially American, capital but also of German capital to nearby safe havens like the Netherlands and Switzerland was a real issue.[57] Ever since

53 Harold James, *The Deutsche Bank and the Nazi Economic War against Jews: The Expropriation of Jewish-Owned Property* (Cambridge, MA, 2001), 35.

54 Quoted in James, *Deutsche Bank*, 34.

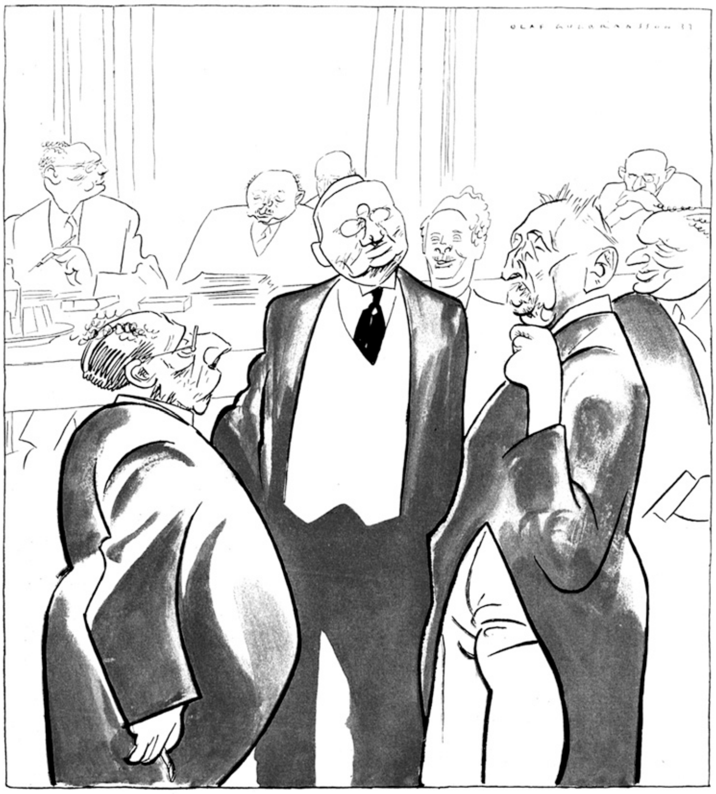
55 Bähr and Ziegler, *Vorstand*, 86. The composition of the expert committee charged with the study of banking was characteristic of the new politics. Born, *Bankenkrise*, 155, mentions that Brüning proposed Friedrich Reinhart and "not Solmssen, Ritscher, Melchior, Mendelssohn or Frisch." Within the banks, things were different, at least before 1933: the ratio between Jews and non-Jews remained the same across 1931; it is impossible to discern a pattern that Jews were specifically excluded.

56 "Vortrag, without date (ca. 1931/32), 28, 29f., Bundesarchiv Koblenz, NL 005 (Hans Luther), 122-152.

57 James, *Slump*, 297-314. Ralf Banken, "Das nationalsozialistische Devisenrecht als Steuerungs- und Diskriminierungsinstrument 1933-1945," in *Wirtschaftssteuerung durch Recht im Nationalsozialismus. Studien zur Entwicklung des Wirtschaftsrechts im Interventionsstaat des "Dritten Reichs"*, ed. Johannes Bähr and Ralf Banken (Frankfurt, 2006), 121-236.

the inflation period, there was an innuendo that currency speculation betting on the decline of the Mark implied treason, and there had been legions of more or less unsuccessful efforts to introduce capital controls. The financial and economic purposes were obvious. Politically, the control of capital movements was one of many efforts to strengthen the principle of territoriality and the sovereignty of the state, which in the past had proven to be weak vis-à-vis "selfish" economic interest. Such efforts also thrived on anti-Semitism, on the assumption that much of this money was "Jewish money".[58]

Nordwolle, Favag, Schultheiß usw. *(Olaf Gulbransson)*



„Nichts dagegen zu sagen: Deutschland ist wirklich das freieste Land der Welt. — In England säßen wir alle schon längst im Zuchthaus."

Figure 2. "There can be no argument: Germany really is the freest country in the world. In England we would have been locked up in prison a long time ago." ***Simplicissimus*** **36 (1931), no. 34 (23 November 1931), p. 405. Reprinted with permission.**

One of the more drastic, although originally quite peripheral measures in this new effort to control the flight of capital was the so-called *Reichsfluchtsteuer* (tax on those who flee the country), which was introduced along with a large number of other fiscal, economic, and political measures by emergency decree on 8 December 1931.[59] German citizens who gave up their domestic residency and settled abroad were charged a one-time tax amounting to 25 percent of their taxable assets and income. Not only was the rate of this tax exorbitant, the sanctions were drastic. Wanted posters (*Steuersteckbriefe*)

58 Oddly enough, it was the Oscar Wassermann from Deutsche Bank who communicated this point to the Jewish Secretary of Finance Hans Schäffer and combined this with the idea of including the Nazis in the government coalition, IfZ, ED 93/9 Tagebücher Hans Schäffer 14.10.1930, 253.

59 Dorothee Mußgnug, *Die Reichsfluchtsteuer 1931-1953* (Berlin, 1993), 17-9; Martin Friedenberger, *Fiskalische Ausplünderung: Die Berliner Steuer- und Finanzverwaltung und die jüdische Bevölkerung 1933-1945* (Berlin, 2008), 67-128.

were issued for delinquent taxpayers and posted publicly alongside those of common criminals. Moreover, they were required to pay an additional five-percent penalty fee for each commenced half-month that they had failed to pay the original tax. Mathematically, this meant that a person's entire property could be confiscated within a short period. The official justification of this particular section of the emergency decree read that "wealthy Germans who resettle abroad not in order to leave the country permanently but to avoid the high tax burden" had committed "treason against the German people." The aim of this provision of the emergency degree was to have the "tax refugees" resettle in Germany. No doubt, this decree was motivated not only by fiscal reasons. After all, cracking down on tax-evaders, especially those who "fled" the country, was popular among all political parties, left and right. And the underlying sentiments of retribution are more than apparent, as can be seen in some very odd paragraphs of the first drafts of the *Reichsfluchtsteuer* decree, which were deleted from the final version: upon returning to Germany, persons were to be imprisoned; one had even thought about a clause that would have allowed every citizen to detain individuals under suspicion.[60]

The history of the *Reichsfluchtsteuer* brings me back to Jakob und Erna Michael, who were among the first to be targeted. In 1931, Jakob Michael settled in the Netherlands, to be followed the next year by his wife. In the summer of 1932, Berlin tax authorities issued the Michaels their first tax bill, as stipulated by this new legislation, of more than 8 million RM which by itself was ruinous to the credit-worthiness of Michael's enterprises. In January and July 1933, assets valued in the millions were confiscated in advance of criminal proceedings. The confiscations in early January alone were enough to plunge the company into dire financial straits because the debt, consisting of tax obligations and preliminary fines, was growing constantly. At the beginning of 1935, tax authorities calculated that the Michaels currently owed 14 million RM, of which 12 million RM were for the *Reichsfluchtsteuer* (which at that point was still not legally binding because Michael was contesting it). When we consider that in 1931/32 and 1932/33 totals of 1.9 million and 1 million RM, respectively, were collected through the *Reichsfluchtsteuer,* it becomes clear that the Michaels were not the proverbial "little fish" to be caught in the tax net, but the really big ones.[61] In fact, it seems quite likely that the business enterprises of the Michaels actually prompted the introduction of the *Reichsfluchtsteuer* to begin with. But there is no tangible proof of this, although Finance Minister Hermann Dietrich,

60 IfZ ED 93/16 Tagebücher Hans Schäffer 3.12.1931, 1115 and 5. 12. 1931, 1141.

61 Mußgnug, *Reichsfluchtsteuer*, 31; Willems, *Gutachten*, 141ff., 158.

who had notorious resentments against Jews, argued in November 1931 that "Der Handelsjude, der uns so hohe Zinsen abgenommen hat, kann jetzt auch einmal ordentlich etwas hergeben." (The Jewish trader who charged us such high interest should now fork over a substantial sum.)[62] Michael's name did surface in the context of important revisions to this tax law in 1934, after the highest German tax court had in fact decided in Michael's favour because he still maintained a residence in Germany. The revisions of the law that were made in response to the court's verdict were very important insofar as they granted tax authorities an arbitrary right to access the assets of all those citizens who dared not return to Germany after the Nazi seizure of power on 30 January 1933 and who would — sooner or later — be driven from Germany or would flee to avoid persecution.[63]

The German tax and customs authorities suspected that the Michaels systematically transferred capital and firm stock out of Germany; and Brüning's reference in his memoirs to a supposed "Mantelkorporation," that is, a holding company, in Connecticut shows that Michael's was a notorious and widely discussed case at the time. The authorities also suspected that he had broken foreign currency and capital control regulations, justifying other penalties of several million Reichsmark. No doubt, these radical efforts must also be seen in the context of past frustrations. The extreme complexity of Michael's corporate organization was a vexing issue for tax officials (although we do not know if it was any more vexing than, for instance, the setup of the mega-rich Thyssen family); in 1925/26 the financier had been on the radar of state prosecutors, whose clutches he escaped by leaving the country for a while."Speculation" was not an explicit argument for prosecution, but this charge lurked in the background. A good illustration for this is a letter from March 1932 written by the president of the Landesfinanzamt Kassel. He pleaded strongly in favor of the criminal prosecution of the Michael Corporation. It was generally known, he argued, that the corporation had exhibited "behavior damaging to the German economy"; some of the business consisted of "purely theatrical accounting maneuvers" and the "focus of business operations does not lie in commodity transactions but in speculation. The head of the firm pursues only one aim, to transfer every bit of profit possible abroad." The company management, he argued, acted "according to principles that fortunately are foreign to German business life in this manner . . . I consider it absolutely necessary to carry out the proceedings. Such elements have to be excluded from German business. *To tolerate them in order to cover*

62 His Staatssekretär, Schäffer, noted this utterance, which was not further debated. The article in "*Der* Handelsjude" is unspecific although it should be noted that Jakob Michael had been blamed for "usury" in 1924; IfZ ED 93/15, Tagebücher Hans Schäffer, 17.11.1931, 1028; 4.12.1931, 1131.

63 Referat Zülow, 17.1.1934, letter with the enclosed draft, p. 2, Bundesarchiv Berlin, R 2/57129; Friedenberger, *Fiskalische Ausplünderung*, 78.

the misjudgments of the credit banks and other creditors [who ran the risk of losing their money if Michael's property was confiscated for the Reich — MHG] *may be very dangerous*."[64]

After 1933, any scruples about making such remarks had disappeared, especially among National Socialists. In connection with the debates that started in 1933/34 about the expatriation of the Michaels, the mayor of Berlin intervened and emphasized that, in reference to the non-collectible tax debt, there existed "great interest in the expedited implementation of the initiated expatriation proceedings and especially in the confiscation of all domestic property." The "thoroughly labyrinthine and unproductive Michael Corporation," with its multitude of companies, had to be "made to disappear from the tax lists." The city referred to reports from the Netherlands, where Michael was said to surround himself "exclusively with Jews" who had fled or emigrated from Germany and whom he also supported. [65]

The way in which the language of exclusion became radicalized and was adapted to new conventions is clearly illustrated by the case of a young public prosecutor in Berlin. In 1933, this prosecutor had investigated charges of "currency profiteering" (*Devisenschiebungen*) and initially came to the conclusion that the charges levelled by the Frankfurt customs authorities in connection with the tax bill of over 4 million Marks could not be upheld. Only later did he apparently realize that his assessment of the case was not at all opportune. He not only back-tracked, attempted to erase his earlier derogatory marginalia on the statement submitted by the customs authorities, and charged the corporation with violating the foreign currency law; in an article in the journal *Juristische Wochenschrift* he tried to demonstrate that his personal convictions were on the right side: "Since the beginning of the currency controls, but primarily since the National Socialist revolution, it can be seen increasingly that Jews living or having emigrated abroad and other economic parasites — that is, primarily those circles who nearly trip over themselves in the most boundless denigration of the German people and its new national leadership — band together for commercial currency graft. Entire bands of such profit-seekers without homeland and conscience appear on the scene in Germany and help each other in the prohibited currency and *Sperrmark* business with the aim not only of carrying off the wealth of our people and endangering the German currency, but also of raking in the sometimes very high profit linked to it at our expense."[66]

64 Präsident des Landesfinanzamtes Kassel an Reichsminister der Finanzen, betr. Devisenstrafsache gegen Jakob Michael und Genossen, 2.3.1933, p. 20, 59, Landesarchiv Berlin A Rep. 058-02/94732, 171-229 (emphasis in the original).

65 Der Oberbürgermeister der Reichshauptstadt Berlin, gez. Mackensen, an den Reichminister des Inneren 01. März 1934, Betr.: Ausbürgerung Michael, Politisches Archiv, Auswärtiges Amt Abt. Deutschland, Inland II A/B: Akten zu Ausbürgerungsverfahren, R 100023; see also Willems, *Gutachten*, 229-232.

66 Werner Ranke, "Kampf gegen Wirtschaftssabotage," *Deutsche Justiz* 97 (1933): 297-99, 298.

In practice, the case of Michael's expropriation and expatriation (deprivation of citizenship) dragged out until the end of the 1930s. It was utterly Kafkaesque, first because of endless infighting between German tax and custom agencies, and hence between the Ministry of Finance and the Ministry of Economics, over whose claims were to take priority and which regulations applied at which time. In addition, there were independent efforts, especially by the NSDAP, to deprive the Michaels of German citizenship on the basis of new legislation, which, incidentally, was also the easiest way to confiscate their property.[67] Stuck somewhere in between were Michael's private German creditors, who feared that they would go empty-handed if the Reich fiscal authorities got their way. The case of the Michaels was also Kafkaesque — and probably singular — for the simple reason that Michael outsmarted the German bureaucrats. After 1933 he sold the Köster AG, which ran highly successful department stores, and whose stock he had transferred to the Netherlands and later from there onto an account in England and thus placed out of the reach of German claims, to a sham owner from New York. This owner not only operated and even expanded this successful business in an alliance of convenience with leading Nazi and SS functionaries. He even repurchased company property, including the real estate of the Michaelschen Hackeschen Hof Gmbh, which had previously been sold off at a foreclosure auction. As if all of this was not strange enough, in 1940 the Auswärtige Amt, which handled revocation of German citizenship, had to rescind Michael's expatriation of 1938 because of new information it had received, from unclear sources. It became known that, already in 1931, the Michaels had acquired Lichtenstein citizenship.

Clearly, the "speculator" Michael, who had been a continuous object of attack and slander, had apparently already bet in 1931 on Germany's declining future and his own and his family's survival outside of Germany. With respect to the Köster AG, he also might have speculated in the 1930s on a German future without the Nazis. In the 1950s he sold his department stores to Horten, who ran department-stores and with whom he had cooperated earlier. However, his valuable properties in the Soviet Zone, especially in Berlin-Mitte, were confiscated as assets belonging to "war criminals and Nazi activists," which made this an important and complicated case of restitution in the 1990s.[68]

VIII.

The case of the Michaels demonstrates that the popular call to rid Germany of speculation must be seen with some ambivalence, all

67 Hans Georg Lehmann, "Acht und Ächtung politischer Gegner im Dritten Reich. Die Ausbürgerung deutsche Emigranten 1933-45," in *Die Ausbürgerung deutscher Staatsangehöriger 1933-45 nach den im Reichsanzeiger veröffentlichten Listen,* Bd. 1: *Listen in chronologischer Reihenfolge*, ed. Michael Hepp (München, 1985), IX-XXIII.

68 See, in some (confusing) detail, Willems, *Gutachten*; Peter Schubert, "Zwischen Nachtrag und Liquidation — im Labyrinth des Jakob Michael," in *Die Hackeschen Höfe*, ed. Gesellschaft Hackesche Höfe (Berlin, 1993), 59-66, esp. 63ff.

the more so if one wants to frame this history in terms of success or failure. The emergency legislation of the late Weimar Republic brought about a new institutional framework that helped to contain certain excesses that were blamed for the crisis. At the same time, this initiative went astray, as the case of *Reichsfluchtsteuer* illustrates. The prevalent mentality, a form of state-of-emergency thinking with Schmittian subtones, no doubt facilitated this.[69] After the Nazi seizure of power this thinking rapidly became radicalized and associated Jews with speculation, which was a convenient way of "othering" speculation and speculators. Like many Germans, the majority of the Nazis did not like banks, and they liked Jewish bankers — known in their jargon as Jewish *Börsenfürsten* (stock market princes) — even less.[70] At the time, almost everybody considered the rhetoric of expropriating and expatriating these *Börsenfürsten* lunatic and absurd; but by the late 1930s the Nazi agenda had, by and large, translated it into reality.

Equally interesting and a matter for future research is another question, namely what implications all of this had for ideas about and actual practices of speculation among those Germans who were deemed worthy of being *Volksgenossen*. First of all, one should keep in mind that the "cleansing campaign" of the spring of 1933 was also directed against many people who had been charged with speculation, corruption, and illicit behavior. Despite a few show trials (such as the ones of the Volksverein and the leadership of the Center party) and a good number of individual convictions, not much came out of this except that it left a considerable number of people frightened for their lives and property. There is evidence that the new Reich Economics Minister, Hermann Göring, held his protective hands over some of these "black sheep" — only to extort money for whitewashing them.[71] Unfortunately, we know little about the long-term implications of these developments for general attitudes toward speculation, specifically how they might have affected individual participation in the stock market or how they helped to shape a new alliance between banks and industry, based on a new consensus on a "producing" and "productive" economy. After 1945, there were strong voices within the Deutsche Bank and the Dresdner Bank that distanced themselves from the "system of [Jakob] Goldschmidt." The "Hasadeur," that is the "player", and the "Bankrotteur," who "should never have been allowed to become Großbankdirektor," had become the scapegoat responsible for everything that had gone wrong.[72]

69 Geyer, Grenzüberschreitungen, 372-375.

70 I will pursue this topic in some other context.

71 Tino Jacobs, *Rauch und Macht: Das Unternehmen Reemtsma 1920 bis 1961* (Göttingen, 2008), 116-122; Frank Bajohr, *Parvenüs und Profiteure: Korruption in der NS-Zeit* (Frankfurt, 2001), 137-140.

72 Quoted in Michael Jurk, *Deutsche Bankiers des 20. Jahrhunderts* (Stuttgart, 2008), 153-162.

Did the aversion to speculation lay the foundation for the "tamed capitalism" of the postwar period? In the United States, Wall Street and brokerage firms had become "dull places" to work by the 1930s.[73] Anyone interested in the issue of speculation in the postwar period looked back at the late 1920s; the speculation and the big players of the time appeared to be nothing but curious phenomena of a long-gone era. The lessons of speculation seemed to have been learned. However, as John Kenneth Galbraith has reminded us, "financial memory" lasts no longer than twenty years.[74]

73 Robert Sobel, *Dangerous Dreamers: The Financial Innovators from Charles Merril to Michael Milken* (New York, 1993), 23.

74 John Kenneth Galbraith, *A Short History of Financial Euphoria* (New York, 1993), 87.

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