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The American crisis

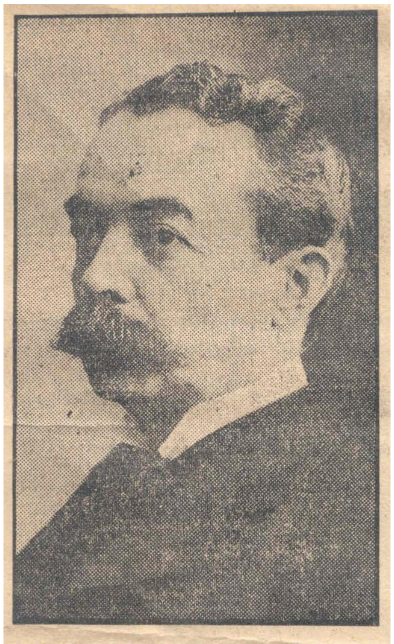
"During the thirty-eighth business year of the Deutsche Bank, covered by this report, a serious economic crisis occurred that affected the whole world," were the introductory words of the bank's 1907 annual report, and it continued in the same frank tenor: "During the first half year the feeling was gaining ground that the tide of industrial prosperity had turned, but prospects of a fair harvest brought about a turn for the better in the third quarter. [...] All hopes for improvement in economic affairs were suddenly blasted, however, by the credit crisis that broke out in the United States in the month of October. [...] The acute crisis continued almost until the close of the year. A number of weak financial institutions failed, while others were so seriously embarrassed that failures are still occurring in various parts of the world, and especially in the United States."

The Reichsbank lifted the bank rate to 7½ percent – the highest since its establishment. The effects were clear. The newspaper "Frankfurter Zeitung" wrote: "Anyone working with credit (and who isn't reliant on it nowadays?) now has to pay a rate that Germany has not seen in times of peace for more than thirty years. And they can count themselves lucky if they even get the credit [...] – that explains the unfinished buildings on the outskirts of the big cities that only extend to the first floor and vainly await their completion owing to the construction money having been frozen and second mortgages being unobtainable."

It was a consequence of the significantly closer global economic interconnection that came about as part of industrialisation. 1907 began with a blossoming of the entire global economy, but ended in a crisis. At the end of 1906 the U.S. economy had reached a peak. New York banks had to move huge positions of bank bills to Europe, and "the industrial spirit of enterprise as well as speculation on the goods and stock markets had reached simmering point, which inevitably forced a slowing-down of the marching speed eventually. That did not stop the managers of the New York finance scene from predicting a new "boom" for 1907: a new stock exchange boom would give them the opportunity to offload their positions of untaken securities to the public for maximum prices, opening up an era of new gigantic transactions," the "Frankfurter Zeitung" ascertained in its annual review. The liberal newspaper, which even believed to have spotted an "unscrupulous greed for money" in American business life, diagnosed "shameless mismanagement in the large, impersonal enterprises" as being one of the major causes of the crisis in 1907.

Run on a bank in Chicago in 1904

What was notable was the downright preposterous discrepancy between cause and effect – one speculator's bankruptcy here, global economic downfall there. The crisis was triggered by the financial collapse of a copper speculator on October 17, 1907. This led to a run on a bank with close links to said speculator on the following day. The crisis of confidence affected more and more banks in New York, with ten falling at the hands of their depositors. The fact that the United States of America did not yet have a central bank had a fatal effect. The Federal Reserve System was not founded until 1913, one reason being the experience of the 1907 crisis. Everywhere, cash was being hoarded as savers no longer felt that their money was safe at any bank.



Edward D. Adams.

Although the acute crisis was over after a few weeks thanks – among other things – to the bank J. P. Morgan & Co. and the American Treasury, the panic left a major mark for some time. In the USA, 89 banks were forced to discontinue payments in 1907 – double the figure of the previous year. At a total of 206 million dollars, though, obligations of the insolvent banks were nine times the amount in 1906. In particular, the crisis exposed how antiquated the U.S. banking system was. Anyone looking a little closer found even more points of criticism: “At least the banks have achieved some quite great things,” the German journal “Die Bank” reported. “Some of the now insolvent banks have, for instance, erred for representative reasons, investing a major part of their capital in magnificent bank buildings all in the name of marketing.”

Deutsche Bank’s New York representative Edward D. Adams was a good source of information. Adams had a remarkable instinct for the way the market would develop. One month before panic broke out, he predicted that the depression would reach its lowest point within the next six months and that securities would be available for purchase during this time at most favourable prices. Adams had no doubt that the United States would prosper in the long term – an opinion shared by the management of Deutsche Bank. “Your prediction has proved to be wonderfully true,” member of the Management Board Arthur Gwinner wrote to him later.

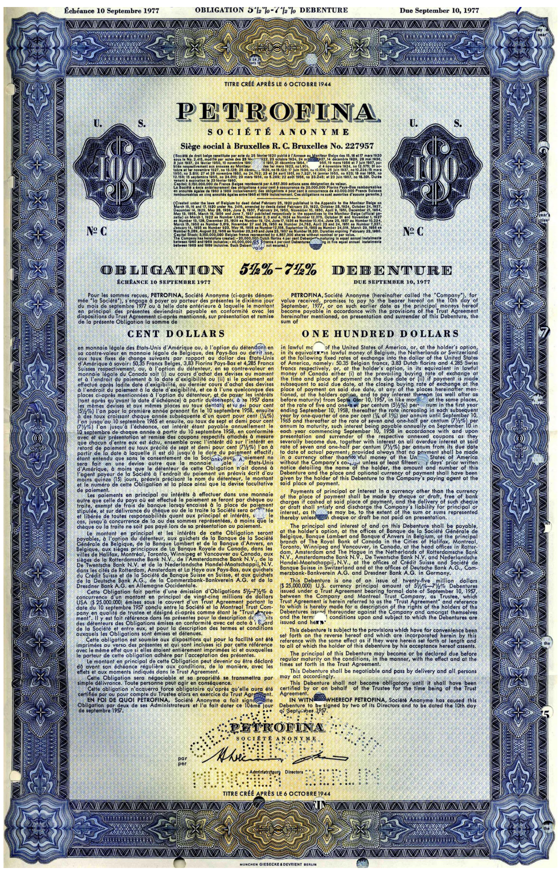
During the crisis, Adams predicted a speedy recovery owing, he said, to the banking system being solid at heart. He spoke of the New York banks having displayed great strength, especially compared to other banks. In Adams’ opinion it was the popularity of the telephone and the rapid dissemination of news that were responsible for the speed at which the crisis had spread across New York. Conversely, he said, prosperity would also gain ground quickly. Adams’ opinions are echoed in Deutsche Bank's 1907 annual report: “In our electrical age economic crises run their course more quickly than formerly.”

With the crisis over, Gwinner turned to Adams with words not intended for the annual report: “We are in the state of a man that [sic] has drunken too much champagne and is suffering the next day from seasickness. First he puts himself or is put by his doctor to a severe régime, next he begins to take food of easy digestion until again he will return to beef and burgundy and ultimately again commit excesses.”

1957: Return to the international capital markets

Fifty years ago, on September 10, 1957, the first foreign currency bond since 1930 was issued on the German capital market. Deutsche Bank played a leading role in its placement. Its 1957 annual report described this premiere as a result of “the progressive dovetailung of international capital relationships.”

During the Weimar Republic, many public and private issuers had used bonds of this kind to draw foreign capital to Germany, especially from the United States. The German Reich, its states, cities, banks and major industrial companies had taken out 10.7 billion Reichsmarks with the help of such bonds. In 1929, at the beginning of the world economic crisis, the capital flow dried up. International creditors withdrew short-term money. In 1931, the German government issued strict foreign currency regulations to prevent a further draining of capital. These also affected the interest and redemption payments on foreign bonds, which made the issuing of new such bonds impossible. What was originally intended as a short-term emergency measure lasted for more than a quarter of a century. Only in the fifties were the foreign currency regulations gradually relaxed. And it was 1956 before Germans could acquire foreign currency bonds, whereby the foundation was laid for being able to issue foreign bonds on the German capital market once again.



In July 1957, Banque Lambert in Brussels offered Deutsche Bank an interest in an international bond for 25 million U.S. dollars scheduled to be issued by the Belgian company Petrofina, one of the few multinational holding groups of the time. Founded in 1920 as Compagnie Financière Belge des Pétroles, it soon changed its name to Petrofina, as its telegramme address showed. The original aim was a majority holding in some former German petroleum companies in Romania. Petrofina soon engaged in business in all areas of the petroleum industry, including production, processing, transport and sale of the raw material. Its own products were offered under the brand name “Fina” in Europe, North America and Africa. After World War II, the company expanded further. Through mergers – with Total in 1999 and with Elf Aquitaine in 2000 – it became one of the largest oil groups in the world. Since 2003 it has been operated under the name Total.

Subject to the condition that it would be sole manager in Germany and able to offer the bond for public subscription, Deutsche Bank accepted the invitation to issue. In addition to Germany, the bond was also sold in Belgium, Holland, Canada and Switzerland. Although originally a share of only 2 million U.S. dollars was planned for Germany, this was ultimately increased to 5 million. Deutsche Bank acquired 2.8 million of this. Given the size of this tranche, the German underwriting syndicate was expanded to include Commerzbank-Bankverein and Dresdner Bank. The whole bond was launched on the Amsterdam Stock Exchange. At the Frankfurt Stock Exchange, the debentures were traded over the counter. The Petrofina bond was a great success in Germany, although the 5½ percent interest rate was hardly attractive given the considerably higher interest for Deutschmark bonds. Nevertheless, all U.S. dollar debentures were placed within a few hours on September 10, 1957. Compared with today's Jumbo bonds, the issue volume back then may seem modest, but for the re-integration of the Federal Republic and its leading bank in international financial relations, the first foreign currency bond after a quarter of a century was a milestone.

A stubborn Westphalian

Anyone taking a closer look at the Deutsche Bank annual reports from the 1950s and 60s will notice something curious in these publications produced with such perfection. In the 1959 report, for instance, the list of Managing Board members and directors has academic doctorate titles abbreviated to “Dr”, while in the list of Supervisory Board members the full stop traditional in German is included after the abbreviation. In the 1960 report, this punctuation is almost the same – with one important exception: Clemens Plassmann, who was elected to the Supervisory Board in 1960, is the only one without a full stop after his title.

This indicates who was behind the seemingly curious deviation. Plassmann had convinced his colleagues on the Management Board of the Rheinisch-Westfälische Bank of his opinion; after the three successor banks were re-unified to form Deutsche Bank, this rule was adopted for the whole bank, although the Frankfurt headquarters – unlike Düsseldorf and Hamburg – never really enforced it.

This curious usage did not escape the magazine "Der Spiegel", which used it as the basis for a true-to-life report it published in 1962. The report made much of proofs on which the ink was not yet dry and several proofreading stages being required for the annual report.
Plassmann himself argued that, for historical reasons, abbreviations consisting of the first and last letter of the word in question did not require a full stop. "I am not pursuing some sort of Messianic idea in terms of punctuation," he was known to say. "However, I am Westphalian and my stubbornness won't let me swim with the tide against my better knowledge."
In 1967, Plassmann retired from the Supervisory Board; that year's annual report was the last to contain a doctor title without a full stop. The Management Board consequently decided to forego the titles of its members in the report henceforth – a tradition which remains intact today. In doing so, it also followed the example of its spokesman over many years, Hermann J. Abs, who in 1956 in response to a letter congratulating him on becoming an honorary doctor of the University of Göttingen, replied: "I welcome your suggestion of putting titles after the name as in England. Until that has been decided, I would rather not use a title at all."

Lost & Found

Considerate behaviour

"All lifts in the new building can be called by selecting a particular direction, like the system you are familiar with from the old building. Top button to go up; bottom button to go down. In the new building, especially in the tower, the lifts will usually cover larger distances than in the old building, which means that travel in the wrong direction can cause more of a delay than in the Junghofstrasse/Rossmarkt complex. Please only press the button for the direction you require and only enter the lift when it shows that direction! This will take you to your destination more quickly, and your colleagues will be grateful for your considerate behaviour."
(Leaflet for Deutsche Bank employees about moving to the new building in Frankfurt, Grosse Gallusstrasse, July 1971)

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