Banks on a Darkling Plain

An invader occupies the enemy’s capital. It kills or arrests most of the enemy’s political and economic leadership. Massive plundering and destruction of vital records are performed. The occupier has made little or no advance planning, makes serious blunders early in the occupation, and earns the enmity of the occupied. In May 1945, the troops of the Soviet Union stood in the ruins of Berlin. Their only goal was to squeeze all Germany as hard as possible to gain reparation for the terrible damage done to their homeland.

Sebastian Pollems has written a valuable account of a very complex subject that constitutes one aspect of this situation: the reconstruction of the Berlin banking system after World War II. It draws primarily from the archives of the Berliner Bank, the Landesbank Berlin, and the Bundesbank as well as the archives of parties and mass organizations of the former German Democratic Republic. Pollems has organized the work chronologically and topically. He starts with the revival of banks by the Soviet occupiers and moves to the period of four-power government. He then describes the splitting of the bank system in 1948 and 1949 and the history of the banks in East and West Berlin through 1953. The chapters are generally divided by institutions and banks. This organization makes it hard at times to understand connections and historical developments. On pages 200 to 211, Pollems discusses the flight of several prominent bankers to the West at the end of 1948. On page 229, we read of the pressure put on the eastern bankers by the authorities; only then does the reason for the exodus become clear. The organization thus tends to minimize the impact of the Berlin blockade of 1948-49. The author has, however, provided a very helpful chronology to keep events in order. He has also included mini-biographies of the important figures and a glossary of the institutions.

After the Soviets took control of Berlin, they closed all the banks and arrested some of the leading bankers of Berlin. They established a city government and filled the key positions. They then set up three new institutions. The Berliner Stadtkontor took over the damaged Reichsbank building on Kurstrasse and functioned as a central bank under the control of the government. It provided credit, mostly to the government of Berlin. The Sparkasse opened as a savings bank. After January 1946 the authorities allowed it to make loans up to RM 10,000. Loans for residential construction took up most of the Sparkasse’s available credit. The Berliner Volksbank also opened in January 1946. This institution was rather like a credit union that drew capital assets from the dormant Zentralkasse Norddeutscher Volksbanken. The Volksbank’s loans were initially limited to three-month terms. Pollems suggests that the Soviets opened the banks to take care of the occupied population and start the reconstruction process that would yield reparations.

To be sure, the Soviets made blunders as this pro-
cess went on; even so, the author somewhat underestimates the Soviet understanding of finance. He writes, “under the influence and with the help of German specialists, the Soviet Union began to understand complicated and specialized German banking” (p. 384). But either on their own or with help, the Soviets had been engaged in financial deals since the 1920s. After World War II they made some financial innovations through their Foreign Trade Bank, notably the eurodollar. Admittedly, there is not enough scholarship on the Soviet role in global and European finance from 1945 to 1970 to challenge Pollems’s conclusions. My own hypothesis would suggest that things went wrong for the communist bloc after 1970 in part because that generation of Soviet financial experts retired without successors. This possibility is supported by some recent research: for instance, Jonathan Zatlin’s book, The Currency of Socialism (2007), suggests that the Leninists of the 1980s fundamentally misunderstood the economic role of money.

Pollems’s story continues with the arrival of the Americans, British, and French in Berlin in July 1945. They did not change the Soviet banking decrees; indeed, of the occupiers, only the British had prepared any kind of coherent economic program. For their part, the Soviets were prepared to compromise on a great deal to maintain access to western German resources. Following the scholarship of Wilfried Loth, Pollems finds no evidence of a master plan from the beginning to separate the Soviet zone. The Soviets and their allies pursued a restrictive credit policy. They believed that the war had created a huge overhang of consumer demand, and that an excessive money supply would create price inflation. This policy choked reconstruction and development in eastern Berlin and caused understandable resentment.

The Allies agreed to purge the National Socialist influence from finance and felt that the traditional relationship of German businesses to private banks was unhealthy. They seized identifiable property of the government or Nazi Party members. Many banks were technically insolvent, as their assets contained billions of reichsmarks of German government debt. The Allies agreed that complex banking activity would not be necessary for the reduced economy of occupied Berlin. The United States protested when unauthorized Soviet officials continued to loot these banks. In October 1946, the Allies established a trust to administer the property of the closed banks. In April 1947 they established the Inkassokommission to inventory and evaluate the credits. Finally, a Bankkommission inventoried bank securities in the Soviet Zone. The Bankkommission drew the ire of the western Allies because they feared that it was simply refined plunder. The Soviet Union could potentially use the commission to take approximately RM 1 billion in foreign bonds held by the Reichsbank. The western Allies agreed that the great banks should be broken up. Despite restrictions, the large private banks reestablished themselves in the western zones using rents and interest on loans. As relations among the Allies worsened, the Soviets complained in November 1947 that some private banks were operating covertly in Berlin.

On March 1, 1948, the western Allies established the Bank deutscher Länder. In Berlin, reconstruction had gone slowly. The Stadtkontor provided limited loans to business and businesses in turn distrusted this Soviet-dominated bank. The United States openly called the Stadtkontor a Soviet puppet, although Pollems’s analysis suggests loan decisions followed (capitalist) banking and market principles. The Sparkasse consistently lost money and only loans from the city and the Stadtkontor sustained it. Even in 1947, the Volksbank could provide RM 50,000 at most to a firm. In response, the Soviets created the Deutsche Emissions- und Girobank in May 1948 and then the Notenbank to serve as the central bank in the East. Both sides carried out currency reforms in June 1948 that greatly reduced the nominal value of bank accounts. Policy in the East sought to reduce the money supply and redistribute income, which helped maintain a black market there. As the Soviets cracked down on credit, the head of the Stadtkontor and the head of the Sparkasse fled to West Berlin. The West set up its own Stadtkontor, Sparkasse, and Volksbank. Soon the West openly invited private banks back to Berlin, some under assumed names. Agricultural loans and then the European Recovery Program gave ample liquidity to the West Berlin banks from 1950 to 1952. In comparison, in East Berlin from May 1949, the Soviets nationalized the closed banks and seized their property. After the founding of the GDR, its finance ministry assumed control over banking affairs in Berlin and the Notenbank became the Staatsbank der DDR.

Pollems concludes his work with a restatement of his main points. First, the Soviet closing of Berlin banks was not the first step in a strategic plan to transform the Soviet zone of occupation. Second, the Soviet occupation authority avoided measures that would have split off eastern Berlin or the Soviet zone from the rest. Third, banks played no outstanding role in the transformation of the eastern German economic system. Fourth, the initiative for the reconstruction of banks in the West came from the banks and their customers. This impulse
was supported by the western Allies and opposed by the Berlin magistrate. Reading this work makes it seem clear that a chasm has developed between the mainstreams of German and United States historiography on postwar Europe. Many American historians of foreign policy still put all the blame for the financial fate of Soviet-occupied territories on Stalin and hunt down archival fragments to shore up their arguments. In comparison, German historians, such as Loth and Pollems, claim that division was the last thing the Soviets wanted and that they offered any number of compromises to maintain their access to the West.

Research can build on this study in several directions. A financial history of Europe in the late Stalin era that fully integrates the Soviet Union needs to be written. Secondly, while Pollems admirably narrates the incredibly complex turns of Berlin banking, he does not provide detail on how eastern policy was made. Another line of inquiry might consider the conflicts among the Soviets and between the Soviets and the German Communists. Pollems provides tantalizing hints that the Soviets were financially pragmatic, while the Germans insisted on following Marxist-Leninist dogma. A final question: an appendix mentions an official of Deutsche Bank named Pollems who was arrested by the Soviets (p. 427). Was he related to the author?

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