CHAPTER 1

Business, Political Risk, and Historians in the Twentieth Century

Christopher Kobrak, Per H. Hansen, and Christopher Kopper

> I sympathise, therefore, with those who would minimize, rather than those who would maximize, economic entanglement between nations. Ideas, knowledge, art, hospitality, travel – these are the things that should of their nature be international. But let goods be homespun whenever it is reasonably and conveniently possible; and, above all, let finance be primarily national.
>
> John Maynard Keynes, "National Self-Sufficiency" (1933), quoted in Harold James, *The End of Globalization*, 197.

"Political Risk"[1] is for many reasons an unusual subject for historians. Whereas political risk pervades all discussions of business in the interwar period, this may be the first time historians have systematically addressed the subject, in a comparative manner that may even help to redefine or, at least refocus, this economic concept. As the chapters in this book illustrate, historians tend to understand intuitively and integrate into their work how much political risk is really political uncertainty. For them, describing decision-making in business and other domains requires helping the reader understand that, unlike the reader, historical actors do not know what is going to happen. Those actors have neither a statistical roadmap from which

1 Though not strictly identical, "country risk" or "sovereign risk" will be used here as synonyms for the "political risk." "Country risk" usually refers to the general characteristics of a host country, for example, financial conditions, attitudes of people, infrastructure, etc.; whereas "sovereign risk," strictly speaking, refers the risk of governments defaulting on their debts. "Political risk" sits between the two, focusing on all political actions and governmental decisions, not just the question of repaying of sovereign debt. These distinctions, while sometimes important, are not significant for our discussion.

to guess at the future probabilities of outcomes nor often, almost by definition, an inkling of "unforeseen" paradigm changes. In this spirit, the book represents a conscious attempt to repair a rupture that has for too long permeated business and historical studies. It is a collection of case studies of business and political uncertainty during traumatic times.

Despite a recent spurt of interest in business history and interdisciplinary studies, much of our work on commercial institutions remains unfortunately rather isolated from mainstream economics and even history. There are still a great many differences between what historians, business people and economists view as important, and how they address questions about the development of commercial institutions. Uncomfortable with historians' emphasis on the particular, "historical specificity," and lured by the prospect of general theory, like many social scientists, economists often neglect history in their work.[2] Moreover, sitting between other historians' discomfort with what Alfred Chandler called business's "prime mover status" in the modern world and economic historians' focus on aggregated data, business historians often find themselves in a kind of no-man's-land. Or as Volker Berghahn concluded, "One of the more regrettable developments in history as a scholarly discipline has been the institutional separation of economic and business historians from the rest of the profession."[3]

Political risk is a tricky concept for economists, too. In spite of its recent and tragic resurrection as a business issue, political risk during the past few decades has held only sporadic interests for economists and business people alike. Though the risk that government actions will affect business, the usual definition of political risk, has been discussed for at least two hundred years, it did not receive a name until well into the twentieth century. Some authors define "political risk" as the unforeseen consequences of government action, but most analyses of political risk emphasize the negative effects of governments. The concept is very broad – perhaps too broad, a defect which historians might help remedy. As politics can have far-reaching consequences and our expectations for governments vary considerably, political risk overlaps a host of normal business and financial risks. In our world of specialization, some analysts prefer to break political risk into many of its component parts, for example: foreign-exchange; interest-rate; liquidity; logistical; personnel; and even demand risk.

This book is predicated on the view that for many reasons political risk is a concept that suffers from its lack of historical treatment. First, as historians we have a special role in helping our audiences – other historians, economists, business people, or the general public – to "expand the present," or as some business writers might put it, "thinking outside the box," by con-

2 For an excellent discussion of the problems, see Geoffrey M. Hodgson. *How Economics Forgot History* (London: Routledge, 2001), 5.

3 Jürgen Kocka, Introduction to *Industrial Culture & Bourgeois Society: Business, Labor, and Bureaucracy in Modern Germany*, (New York: Berghahn Books, 1999).

tributing a historical perspective on their activities, a clearer idea of what is unique and what is commonplace in what we are experiencing today. Until very recently, some optimists during the boom of the 1990s began to regard political risk as an aberration of a more primitive economic paradigm, with little relevance to the New Economy. Although many business investments take decades to recoup, attitudes about political risk, moreover, tend to shift or be discarded like yesterday's newspaper. Political risk is an evolving concept. In the 1970s expropriation dominated discussions; in the 1980s the debt crisis moved to center stage; in the late 1990s the meltdown of developing-country capital markets was the predominant theme. Since September 11, 2001 and America's pursuit of what it perceives as menacing rogue nations, the "clash of civilizations" and economic retaliation among once friendly nations are the "new horsemen" of a "political-risk apocalypse." Even doing business with dictatorships, our topic, which was for many years a negligible risk for companies, is rearing its ugly head in countries like Nigeria and Iraq. In short, the treatment of political risk has suffered from a somewhat narrow view of its causes and implications, reflecting received opinion about current conditions, and, therefore, offering little insight about potential, "unforeseen" shocks to a firm's political and macro-economic environment, which are often the most destabilizing for companies. As historians, we may be able to enlarge businessmen's imagination about what is possible and, thereby, reduce the realm of the "unforeseen."

Second, the evaluation of many business risks, including political risk, does not lend itself to the methods of economics, which are often based on statistical analysis derived from numerous observations of standardized goods.[4] Services such as those run by Business Environment Risk Intelligence (BERI), *The Economist*, and *Risque Politique* rank countries, in contrast, according to their degree of political risk based on a series of social, economic, and political criteria, which are supposed to indicate how much of a threat those governments pose to business interests. On the positive side, these criteria include many elements of liberal democracy, for example: well-functioning legal and tax systems; mechanisms for the smooth transfer of political power; fiscal responsibility, and an economic system with relatively few political controls. On the negative side, the existence of oppressed minorities and other social conflicts, a controlled foreign-exchange system, wasteful government spending, and potential military adversaries are

4 For an excellent readable discussion of development and basis of finance's approach to risk, see Peter Bernstein, *Against the Gods* (New York: Wiley & Sons, 1996). Bernstein points out, for example, that many of the mathematicians who first tackled probability theory were avid gamblers, looking for methods of improving their performance at the roulette wheel. As he notes, the statistical analysis of risk requires assumptions about the uniformity of assets and volatility of their values that are more compatible with betting at Las Vegas than investing in many real assets.

regarded as risk factors. These criteria for judging what social and political configurations serve to undermine or enhance business interests are imbued with nineteenth-century liberal ideology and grew out of what some economic historians have called the British model for quelling investor fears of political risk.[5] Although a complete discussion of the origins of the concept of political risk is beyond the scope of this work, these principles might be better applied when tested more systematically against historical experience.[6]

Lastly, virtually all the literature on political risk focuses on the risk of host countries, that is, the political risk of investing in the United States, for example, by a company whose home country is say Germany. Home country risk, the risks posed to a company by the politics of the country in which it is incorporated, is nearly always ignored, as is the interaction of home country with host-country and industry-specific risk. That is to say, a German company may have investment risk in the United States that a French company does not and this risk may be greater in some industries than others, due to the politics of the country in which the companies are incorporated, a fact that is born out for companies from all three countries mentioned above. We as historians can provide many examples of home country follies and virtues, and their effects on business, which illustrate that the greatest and longest lasting risk to companies comes from their countries of incorporation. Closely connected with home-country political risk is the degree to which business shapes its own country's and host country's political environments. Moreover, whereas it is often assumed that liberal democracy is good for business, historians of the interwar period know of many examples of businesses that profited from authoritarian regimes and even encouraged their formation.[7] No country's businesses serve as a better illustration of home-country risk and the temptations of authoritarian regimes for commercial activities than Germany's during our period.

5 See Niall Ferguson's *The Cash Nexus* (New York: Basic Books, 2001); Niall Ferguson's *The World's Banker: The History of the House of Rothschild* (London: Viking, 1998). The Rothschilds were particularly influential in promoting a "world order," in which democratic values, free exchange of goods and services, convertible and stable currencies, and limited government were identified with low risk countries. Whereas these principles were not universally applied – notably by the United States, which flouted many liberal tenets, and by many European countries, which tried to control political risk by colonizing, as *The Economist* put it, "uncivilized countries" – they formed the basis of thinking about political risk in the nineteenth and much of the twentieth centuries. See *The Economist*, 17 October 1857, for a good description of early views on the subject.

6 See Alan Shapiro, *Management Multinational Financial* (Boston: Allyn and Bacon, 1998), 503–530, for a summary of the standard political risk criteria. Shapiro's text is considered one of the leading books on international financial management.

7 In addition to the large body of historical works, such as those by Peter Hayes, Gerald Feldman, and Harold James, the issue plays a role in some economics texts. See the late Raymond Vernon's *In the Hurricane's Eye* (Cambridge, Mass.: Harvard University Press, 1998) and his earlier *Sovereignty at Bay* (New York:

Discussions of how Europe moved from limited government to dictatorship and from minimal to extensive political risk must begin with Germany. While many countries turned toward dictatorial political and economic policies after World War I, seven of the ten chapters that follow our introductory chapters deal with investment into or from Germany. The case of Germany strongly argues that businessmen are not passive observers, when it comes to many of the most important political risks that they face, and that authoritarian political regimes had many economic consequences. According to many historians, moreover, some aspects of authoritarianism in Germany in the twentieth century had their roots in the nineteenth. Although this particular work deals with political risk in many dictatorships, some of the most democratic-capitalist governments were notable for their backsliding than their vigorous defense of liberal principles. But Germany, even before the advent of National Socialism, is pivotal to our story. First, of the many dictatorial countries discussed here, it was by far the most industrialized. Second, despite it industrialization, Germany developed economically and politically later than Britain, for example, and preserved many more feudal institutions and attitudes.

The paradox of German business is its dependence on international commercial ties and its willingness to accept extensive control of markets, which requires strong national governmental authority. Before World War I, many of its crucial economic sectors, such as chemicals and electronics, were world leaders and leaders in exporting and establishing foreign subsidiaries in non-colonial regions of the world. Many companies were exporting approximately half of their production. After World War I, Germany became a huge recipient of foreign capital, a dependency that exacerbated anger over its losses and the Versailles Treaty. Moreover, unlike some of the other dictatorships we will discuss, the Nazis kept many of the trappings of

Basic Books, 1971) and *Storm over Multinationals* (Cambridge, Mass.: Harvard University Press, 1977). We have tried to track down when the terms "political, country, and sovereign risk" came to be used in economic literature, but the best that we can come up with at present is the following. A 1969 textbook on international finance by two Columbia University professors, *International Financial Management*, makes no mention of any of the three terms. Nevertheless, the authors, David Zenoff and Jack Zwick devote much of the book to the determination and management of what they call "adversities in international business," a concept which comprises most of the elements of political risk already discussed above in this text. According to some of our colleagues, there were several professors at the University of Indiana in the 1960s, who were using the term then. The earliest reference using the term "political risk" that we have found is an article by Franklin Root, "U.S. Business Abroad and the Political Risks," *MSU Business Topics* (Winter 1968), in which he argued, among other things, that U.S. companies were not systematically analyzing political risk. By the early 1970s, the term was being used relatively frequently in works by Stefan Robock, Kenneth Simmonds, Lee Nehrt, as well as in many other international economic and financial texts.

capitalism during their era. Businessmen played an integral role in the implementation of many of the regime's most heinous projects. Indeed, the importance of this period for business studies is augmented precisely because many of Germany's worst crimes against humanity were acted out with the tacit and at times active cooperation of business leaders. Lastly, for many reasons business's role in bringing a dictatorial regime to power and helping that regime to coalesce its power may have been more extensive, or at least better documented, in Germany than in other countries.

Although its colonial empire was small by comparison to Britain and France, Germany, perhaps unfairly, is probably most associated with the rejection of liberal tenets and, more importantly for this chapter, the imposition of many economic controls which helped define dictatorship. Despite their economy's heavy dependence on exports and the widespread rejection of formal German colonialism, even before World War I, many German businessmen, especially those in heavy industry, turned away from some key elements of nineteenth century liberalism and the international approach to political risk, advocating a *Sonderweg* (Special Way) for Germany. By the last decade of the nineteenth century, much of German business supported cartelization of industry, and high tariffs for industrial and agricultural products, which insured control of domestic markets. With that control of domestic markets came higher prices at home, which helped German firms' cash flows, facilitating in turn investment in foreign markets. As Wolfgang Mommsen wrote of the German case:

> [T]he system of high protective tariffs for both industrial goods and agricultural products ensured that German industry was pre-eminent in the domestic market, which in turn gave firms a base from which to compete successfully in markets abroad.[8]

No less an economic historian than Alexander Gerschenkron was convinced that "no autarkic regime pure and simple was initiated in Germany after the reforms of the seventies (1870s, our note). But it cannot be gainsaid that from then on the mind of a large fraction of the German people was increasingly affected by the elements of an autarkic Weltanschauung."[9] It is very clear that he meant to include in the term "German people" large segments of German business. Germany embraced "liberal imperialism" to help offset its late industrial start. Its attachment to unfettered markets was weaker and perhaps more realistic than that of most of its economic rivals. As one historian wrote:

> The intellectual justification was provided by the theorists of the Historical School: the earth was about to be divided up among rival empires, and

8 Wolfgang Mommsen, *Imperial Germany, 1867–1918: Politics, Culture, and Society in an Authoritarian State*, trans. Richard Deveson (New York: Arnold, 1995), 85.

9 Alexander Gerschenkron, *Bread and Democracy in Germany* (Ithica: Cornell University Press, 1989), footnote, 45.

> Germany must not be left out. To the classical liberal thesis that the world market was capable of indefinite expansion, there was now a counter-argument: the world's total economic resources might be unlimited, but unless action were taken in time, the great empires would shut out their rivals.[10]

All of this poses an interesting general challenge for historians to better understand the preconditions and effects of dictatorship on business. This book is intended to be part of the ongoing debate among historians and other social commentators about the role played by capitalism, especially international firms, in the health of democratic institutions, and, conversely, in the formation and maintenance of totalitarian regimes. The book will address the particular experiences of companies that invested in countries with dictatorial regimes or whose own home country was a dictatorial regime. It is designed to shed light on the extent to which those companies perceived the risk, and, if so, how they manage that risk, and, in the end, whether dictatorial regimes helped or hindered their businesses. For business people, business analysts, and historians, it should contribute to a better understanding of how government actions affect business outcomes, and the long-term risks and advantages of doing businesses in or with non-democratic regimes.

But the concept of dictatorship is hard to define. It is perhaps a term whose definition can best be understood in a historically specific context. Although the original term comes from ancient Rome, its current use bears little relationship to the republican officials elected for a limited period and invested with special powers to solve specific problems or crises. In the twentieth century, dictatorships shared several characteristics. They significantly departed from basic liberal political and economic principles such as free elections, the rule of law, respect for private property, and free movement of goods and services. Plenty of states in the eighteenth and nineteenth centuries, conformed to this conception of dictatorship, but we generally refer to them as authoritarian. In the twentieth century, as peoples in many parts of the world had gotten used to a different standard for the relationship between the individual and the state, and as society became more complex both in the activities to be controlled and the technology available to control them, the term authoritarian became insufficient to describe what had developed. The shock of having lost what once seemed secure may have contributed to the advent of a new vocabulary like totalitarian, fascist and dictatorial. For our purposes here, the regimes of Nazi Germany, Fascist Italy, Militarist Japan, and Communist Soviet Union represent dictatorial governments, because of the state's changed role vis-à-vis the individual. All these states during our period placed severe limits on what had been before

10 George Lichtheim, *Imperialism* (New York: Praeger, 1971), 67. Lichtheim's discussion of the German reaction to liberalism and the role played by German social thinkers like List, Schmoller, and Sombart, as well as the conversion of Keynes, a favorite of Germans, is fascinating.

World War I the extent to which citizens' and institutions' could express themselves through elections, free speech, and commerce.

For many reasons, we also have a geographic focus here. The Industrial Revolution began in Europe and many of the institutional changes that served as the basis of the development of our modern corporation were first introduced here. Moreover, already in the nineteenth century, European firms led the way in foreign direct investment, which gives rise to much of what we understand as political risk. It was in Europe, too, that some of the first thinking about political risk occurred, and, sadly, where in 1914 the greatest shock to a faith in the possibility of a world with minimal political risk was dramatically shattered. In our view World War I represents a watershed in business affairs that is too often ignored in business literature. Our time focus is the two decades that followed the armistice in 1918 as they represent businesses first confrontation with its new reality, but by necessity many of the chapters in this book contain some "slippage" into the periods just prior to and just after the interwar period in order to place their stories in their proper context or to follow up on some aspect of their significance.

The rise of dictatorships added a new dimension to political risk. With the Russian Revolution, Fascist governments in Italy, Spain, and much of Central Europe, and above all Hitler's Germany, business was faced with a degree of government intervention and control of private activities undreamed of in the decades just preceding World War I. As Mira Wilkins points out in the following chapter, this period not only witnessed a continuation of foreign investment, it also increased and took new forms, some of which were more costly and many of which were designed to ward off the effects of political risk. To fully understand the concept of political risk and what changed about it after August 1914, it is helpful to remember the origins of the concept and how it evolved in the nineteenth century, as discussed above. For the 40 years that preceded the outbreak of hostilities in 1914, expropriation, inflation, foreign-exchange rate fluctuations, and blocked funds – regular features of the interwar economic landscape – were almost unimaginable for businessmen working in Western Europe.

Although World War I is seen as a watershed in human affairs, especially for the peoples of Europe, the degree to which it produced a sharp break in the political environment for commerce is less well recognized in business literature. Political risk was at the forefront of corporate concerns all over the world. In addition to the direct physical and human destruction, and the general disruption of normal domestic and international business caused by World War I, numerous other social and economic changes contributed to making political risk a vastly more important issue for business people during the interwar period. As *The Economist* noted, with wisdom and helpless dismay, during the first week of World War I:

> We have watched the increasing rivalry of armaments with consternation, we have implored our Government to convene the nations of Europe, and seek to arrest the mischief before it was too late. The explosion has come. Look where you may you can see no ray of comfort. Central Europe will be deluged with blood, and whether the war ends through economic exhaustion or not, commercial prostration is certain for the combatants, and the longer the war lasts the more acute will be the distress and the longer the process of recovery. In the opinion of many shrewd judges, a social upheaval, a tremendous revolution, is the certain consequence.[11]

Whereas political entities declared and conducted the war, ironically, an undeniable part of that "social upheaval" was the willingness of governments and the peoples they represented to use political power to harness economic activities for national projects. In nearly every developed country, within a few years of the end of hostilities, the State increased its role in economic and social life; in some countries, political regimes with virtually no respect for private property and individual rights seized power. The greater role of the state may have increased the potential for political risk, but clearly all government intervention did not have an adverse impact for business, especially in the short-run. Some government activities increased social and economic stability; other projects added to demand and the quality of their respective countries infrastructure, also an aspect of political risk.

The war and its aftermath witnessed the growth of three other commonplace characteristics of our political and economic landscape. First, as countries seemed less capable of working together to preserve the international order, much of the responsibility for the control of the international system was passed on to transnational organizations like the League of Nations and Bank for International Settlements, whose legitimacy and power were even then minimal at best. Second, despite or perhaps because of the seizure of private property by several belligerents, there was an extraordinary increase in the amount of foreign direct investment (FDI). The number of foreign-owned manufacturing subsidiaries, for example, grew fourfold from 1914 to 1938.[12] Third, several aspects of the prewar economic stability, which had facilitated international trade and reduced risk, disappeared or were severely hampered. Foreign-exchange transactions between most countries in the industrial and non-industrial world were virtually costless and riskless, because currencies were simultaneously convertible and rates were stable, a circumstance that has not been repeated for more than a few years in a row since 1914. The volatility and difficulty in acquiring foreign currency created vast new problems for companies, especially Central European

11 Quoted in, Ruth Dudley Edwards, *The Pursuit of Reason: The Economist* 1843–1993 (London: Hamish Hamilton, 1993), 540.

12 Alice Teichova, et al. eds. *Multinational Enterprises in Historical Perspective* (Cambridge: University Press, 1986), 364. Between 1959–1967, approximately 5100 new subsidiaries were established.

companies, during the interwar period.[13] Finally, the number of States increased enormously, along with the pressures to liberate colonized regions of the world, and the power of Western States to guarantee commercial advantages for their own and other companies began its steady diminution. In short, the conditions created by the long, brutal, and surprisingly expensive war established the conditions that made political risk an integral part of business's calculations about cost and benefits of investment. By shattering the pre-war "liberal consensus" – respect for private property, limited government, and with it a credible focus on maintaining macroeconomic discipline and free movement of economic inputs and outputs – and Europe's economic hegemony, the war simultaneously led to an increase in FDI, a weakening of control of developing countries, more direct and indirect impediments to trade, more national attention to social projects and autarky, an increase in the number of countries, and conflicting ideological views of how the world should be organized.

The impact of the war on commercial affairs in general and political risk in particular was probably greatest in Germany. The relationship of German business to the demise of the Weimar Republic and the consolidation of Nazi power is one of the most controversial areas of modern historiography. Nevertheless, a discussion of Germany's transition from democracy to dictatorship and the relationship of that transformation to commerce must begin with the political attitudes and activities of German business. Although there is a clear distinction between Nazi politics and economics and those of the Weimar Republic – as well as those that predated World War I as discussed above – studying the many overlapping elements reveals many insights about German business attitudes and institutions that help explain the transition to dictatorship.[14] The overwhelming focus of the political fears, which stimulated political activity, of German businessmen during the interwar period, for example, was toward the dangers posed by left-wing political parties and the related demands of labor. The intensity of these concerns coupled with the economic crisis of the early thirties, for which industrial leaders refused to share responsibility, made those businessmen more amenable to right-wing authoritarianism, or at the very least, insufficiently attuned to its consequences. Ironically, despite the loss of foreign property during and after the war, there is much evidence that German businessmen were more focused on political risk in their own country than that in others. As economic conditions worsened, their craving for stability and secure markets brought them ever closer to open acceptance of authoritarianism. What made them ideologically predisposed to accept dictatorship, was neither

13 See Christopher Kobrak, "Foreign-currency transactions and the recovery of German industry in the aftermath of the First World War: the case of Schering AG," *Accounting, Business & Financial History*, 12, no. 1 (March 2002): 25–42.
14 See Harold James, *The German Slump* (Oxford: Clarendon Press, 1986).

their materialism nor their idealism, but rather their discomfort with and unwillingness to adapt to their new political and economic realities. Although most historians of the Weimar Period accept that most of big business was neither enthusiastic about Hitler's taking over the reigns of power nor large financial backers of the party before early 1933, big business's role in establishing the framework which made National Socialism a credible alternative is still in doubt.[15]

Despite some early successes at working out an effective means of establishing industrial relationships based on mutual recognition, wage negotiation and cooperation, the shaky loyalty of business to the new social order became evident within a few years of the birth of the new republic. The representatives of heavy industries especially remained rather pessimistic about their companies' future in the context of a political system, in which workers had a large voice. But business did not speak with one voice. There were conflicting interests among large companies and sectors. Nevertheless, the relationship between much of big business and labor – and the government, which according to most businessmen supported the interests of labor over capital during the Weimar period – shifted from cautious tolerance to open conflict. Neither big business nor labor could be said at any time to be comfortable with the fundamental beliefs of the other about how society should be organized. Using labor and social changes as a convenient scapegoat, even during the best years of Weimar, much of business tried to ward off significant change by restoring pre-revolutionary authoritarian and paternalistic industrial relations. Many company structures remained needlessly complicated, small companies and old products were propped up with cartel arrangements, and whole sectors were spared from international competition, which would have lowered end-user prices in Germany. German business was not alone in taking this course, but Germany's desperate need for capital, profits, and export earnings, made it particular sensitive to this commercial folly, which ultimately only authoritarian measures could hope to preserve.

Indeed, many of the most profound changes business did make were forced on managers, first by bankers and other investors, and later by a dictatorial regime preparing for war. In many sectors, with or without high profitability or the promise of profits, it appeared that new investments were made and diversification strategies undertaken with little hope of synergies. Important stream-

15 See debates surrounding David Abraham, *The Collapse of the Weimar Republic: Political Economy and Crisis* (New York: Holmes & Meier, 1986); Henry A. Turner, "Großunternehmertum und Nationalsozialismus 1930–1933," Historische Zeitschrift 221 (1975), 18–68; Henry A. Turner, *German Business and the Rise of Hitler* (New York/Oxford, Oxford University Press, 1985); Dirk Stegmann, "Zum Verhältnis von Großindustrie und Nationalozialismus 1930–1933," *Archiv für Sozialgeschichte* 13 (1973), 399–482; Dirk Stegmann, "Antiquierte Personalisierung oder sozioökonomische Faschismus-Analyse? Eine Antwort auf H.A. Turners Kritik an meinen Thesen zum verständnis von Nationalsozialismus und Großindustrie vor 1933," *Archiv für Sozialgeschichte* 17 (1977), 275–296.

lining of management organizations was put off. Sometimes keeping companies out of foreign hands seemed to be the only reason for a German company's purchase of another German firm. The period from 1918 to the end of the hyperinflation in 1924, for example, presented a mixture of opportunities and challenges for German big business, but Germany's commercial elites hardly exploited them. As Gerald Feldman argued in *The Great Disorder*, to a large extent, German businessmen in the 1920s preferred to deceive themselves and others by inflation profits and later baseless Goldmark balance sheets.[16]

Perhaps even more to the point, many observers hold German industry, not the trade unions, responsible for over investment and overcapacity before 1929. Although it is beyond the scope of this introduction to reopen the long-standing debate about wages in Weimar, it is clear that the focus of business concern was unwaveringly on labor costs and government spending, although there were a host of real economic factors that made "business as usual" untenable.[17] The heavy industries extended their productive capacities way beyond any realistic perspectives of domestic demand, while attempting to prevent a market-oriented readjustment of prices through cartelization, control of demand, and even protective tariffs. Thus, many managers seemed to plunge into a self-generated problem of high fixed capital costs. Even in a sector like chemicals, in which Germany still held a leading position, returns on assets and equity remained below their prewar levels, in large part because of over investment and an unwillingness to get out of marginal or unprofitable businesses, despite persistently high real interest rates.[18]

While big business was by and large skeptical about the Weimar "social contract" during the 1920s, after 1930, many openly expressed their disloyalty to the constitution.[19] In the spring of 1930, the German entrepre-

16 Gerald D. Feldman, *The Great Disorder* (Oxford: Oxford University Press, 1993), 841.

17 Carl-Ludwig Holtfrerich, "Alternativen zu Brünings Wirtschaftspolitik in der Weltwirtschaftskrise?", *Historische Zeitschrift* 235 (1982), 605–631; Knut Borchardt, "Zwangslagen und Handlungsspielräume" in "der großen Weltwirtschaftskrise der frühen dreißiger Jahre. Zur Revision des überlieferten Geschichtsbildes," in: ibid., *Wachstum, Krisen, Handlungsspielräume. Studien zur Wirtschaftsgeschichte des 19. und 20. Jahrhunderts* (Göttingen: Vandenhoeck & Ruprecht, 1982), 28–41, 165–182.

18 See, for example, James, *The German Slump* and Christopher Kobrak, *National Cultures and International Competition: The Experience of Schering AG, 1851–1950* (Cambridge: Cambridge University Press, 2002).

19 Bernd Weisbrod, *Schwerindustrie in der Weimarer Republik. Interessenpolitik zwischen Stabilisierung und Krise* (Wuppertal: Peter Hammer Verlag, 1978). Even earlier, big business had established a firm grip on the German Peoples" Party by means of moral suasion and huge financial contributions. To the detriment of the German Peoples" Party, industrial interference had undermined the party's standing with its middle-class electoral base and alienated a growing part of its traditional constituency. The ill-fated attempts to "hijack" the party drove a substantial part of the protestant middle class electorate away to short-lived special interest parties of small business entrepreneurs (*Wirtschaftspartei*) and apartment house owners (*Hausbesitzerlisten*). In 1932, the protestant part of self-employed middle-class electorate ended up in the Nazi Party.

neurial elite exerted considerable pressure on the still moderately conservative German Peoples' Party (DVP), for example, to break up the Great Coalition with the Social Democrats. To be sure, big business was not the German elite most favorable to authoritarianism, but by pressing the German Peoples' Party to pull out of the coalition, parts of the business elite tragically toppled the last Weimar government that was based on the support of an active majority in parliament.[20]

Many German business leaders were at best politically naïve. German industrialists hoped that their party machinations would insure an upswing in conservative power. They did not foresee the National Socialist triumph in the September 1930 elections. Even after the first Nazi successes in the state election of Thuringia in December 1929 and the erosion of the traditional right-wing business parties, which made a potential electoral shift to the extreme right well within the realm of possibility, few business leaders awoke to the dangers. The risk of a National Socialist takeover did not stop German heavy industry in particular from opting for an authoritarian revision of the Weimar constitution in 1932.[21]

Nevertheless, business or big business cannot be described as ideologically comfortable with National Socialism. Despite the ominous turn toward authoritarianism in 1932, most German businessmen did not welcome Hitler's appointment as Chancellor in January 1933. But the new regime's promises of labor and political stability insured business's silence while the National Socialists solidified their power. Once again, business's focus was more on the threats posed to firms by recalcitrant workers and a left-leaning government, rather than an authoritarian regime of the right. By the time the regime embarked on measures that were clearly less favorable to its interests, big business had lost the means of expressing its opposition. Confused by the National Socialists' vague and incalculable economic agenda, which oscillated between the praise of free entrepreneurship and anti-capitalist rhetoric, like the members of the military and the administrative elite, industrial leaders believed in the idea of "taming" Hitler through government responsibility and the constraints imposed by putting him at the helm of a rightist coalition government. Soon after Hitler's inauguration, the industrial elites started to give him credit for his general political plan. In particular, they endorsed his commitment to crush the unions and the left-wing parties, to restore their "boss in his own house" position, to overcome parliamentary inertia and to suspend parliamentary powers for an indefinite period. In spite of the radicalism of the Nazi rank and file and their anti big-business propaganda, the entrepreneurial elite was willing to trust Hitler's promise to

20 Peter Fritzsche, *Rehearsals for Fascism: Populism and Political Mobilization in Weimar Germany* (New York: Oxford University Press, 1990).

21 Hans Mommsen, *Die verspielte Freiheit: Der Weg der Republik von Weimar in den Untergang 1918–1932*, Frankfurt/M. 1989, in English, *The Rise and Fall of the Weimar Democracy* (Chapel Hill: University of North Carolina Press, 1996).

respect and even to strengthen property rights. Only a few companies protested openly against the negative effects of anti-Semitism on their human resource policies, even though research-oriented and export-dependent enterprises such as IG Farben soon realized that the anti-Semitic purge of research institutes, universities and corporate research departments put their worldwide competitiveness in jeopardy.[22]

Although the new economic policy of import substitution hurt the strategic interests of export-oriented enterprises, big corporations, especially those with a high technological potential for product diversification, soon adapted to the rising demand for ersatz products. Even those firms least attracted to National Socialism before 1933 and those which tried to keep their international orientation, became increasingly entangled in a web of technological and economic path dependencies. From 1934 on, the managers of IG Farben embarked on higher capital investments in synthetic fiber and synthetic fuel production, areas in which the company had already invested before 1933 with disastrous results and which would have been rendered truly unprofitable by a sudden return to the world market.[23] A new generation of senior executives not only supported the policy of autarchy because of its ideological dedication to the politics of "Lebensraum," but also because the new division of synthetic fuel and rubber opened new career tracks for advancement. Ironically, too, some managers from heavy industry were far more reluctant to invest in new and seemingly unprofitable steel capacities, although they generally agreed with National Socialist policies. This was the main reason why Hermann Göring established in 1937 a national steel trust and coerced the steel industry into a minority partnership of the newly established Reichswerke AG Hermann Göring.[24]

Whereas the details of National Socialist economic policies were never very coherent – as Gerald Feldman put it, the Nazis were "anti-capitalist enough to be threatening to private enterprise and property but flexible enough to take advantage of the efficiencies of capitalist enterprises"[25] – one common theme runs through the treatment of business in the Nazi period: the steady erosion of the distinction between private and public good, politics triumphed over economics, "common good" over private. Accordingly, entrepreneurs were supposed to invest for the benefit of the community of the German people (*Volksgemeinschaft*) and to support Germany's war policy and not in order to maximize profits.

22 Peter Hayes, *Industry and Ideology. IG Farben in the Nazi Era* (New York: Cambridge University Press, 1987).

23 Ibid.

24 Gerhard Th. Mollin, Montankonzerne und "Drittes Reich". Der Gegensatz zwischen *Monopolindustrie und Befehlswirtschaft in der deutschen Rüstung und Expansion 1936–1944*, (Göttingen, 1988); John R. Gillingham, *Industry and Politics in the Third Reich. Ruhr Coal, Hitler and Europe* (London, 1985).

25 "Economic Origins of European Fascism," in Harold James and Jakob Tanner, eds., *Enterprise in the Period of Fascism in Europe* (Aldershot: Ashgate, 2002), 5.

The new government had developed many means of applying pressure on business; some of the measures were welcomed by business, others not. Nazi economic policy interfered with corporate decisions by exerting moral suasion and pressure to invest into autarchy oriented and armament-related production lines. In some cases, public ownership (such as with Reichswerke Hermann Göring and Volkswagen) simply substituted private investments, which from a profit-oriented perspective, were seemingly unprofitable and overly risky businesses.[26]

Among the "carrots" thrown to business were most of the measures used to control labor. German big business did certainly profit from the suppression of trade unions and the labor movement. By mid 1933, collective bargaining was replaced by wage regulation through the "Trustees of Labor" which the Reich Ministry of Labor appointed. Particularly in the boom years from 1936 to 1939, wages remained below the level they would have reached in a process of free negotiation. Although corporations had to accept direct interference from the Nazi Labor Front (DAF) into company affairs, the interference of the DAF was limited to non-monetary benefits such as the improvement of lavatories, provision of cafeteria food, construction of sports facilities and the preferential employment of active National Socialists. Incorporating the idea of the *Volksgemeinschaft* at the shop floor level did not mean the recognition of DAF functionaries as industrial relations partners, but rather the implementation of anti-Semitic human resource policies to the detriment of the Jewish employees.

The industrial elite did not consider the introduction of the *Volksgemeinschaft* idea on the shop floor level as a revolutionary or even a pseudo-revolutionary break with the traditions of industrial relations. In the Weimar Republic (and even before), the big industrial corporations had already established a tradition of corporate social policies. Despite the propagandist claims of the DAF, corporate expenditures for social benefits did not rise significantly after 1933. In this respect, the Labor Front's pressure for additional social benefits merely compelled management to adopt a new ideological framework and label for its traditional "human relations" policies.

Of a less welcome nature was the strict control over capital markets, which prevented the non-military-related industries from enlarging their capital base and crowded out politically unwanted investments for the sake of rearmament, especially after 1936. By forcing corporations to limit dividends and invest all excess cash into temporary state bond funds, corporations found themselves improving their equity capital base and augmenting their hidden reserves. Around this time, too, foreign exchange regulations were tightened so as to make even the most international companies extraordinarily

26 Hans Mommsen and Manfred Grieger, *Das Volkswagenwerk und seine Arbeiter im Dritten Reich* (Düsseldorf: Econ, 1996).

dependent on state bureaucrats.[27] In the short run, these restrictions obviously violated the shareholders" rights to reap the benefits of their capital investment. But in the long run, shareholders potentially profited from untaxed hidden reserves, provided they were invested into profit-yielding capital goods, which could be retooled for civilian production. Ironically, despite the devastation of World War II, from 1935 to 1945, many German companies enlarged considerably their capacities and built valuable assets for the post-war reconstruction.[28]

The lessons of the interwar period and these case studies are important for historians and business people. Many of the questions regarding what responsibility businesses must take when working with unsavory regimes are still with us. Despite a resurgence of internationalism, companies may still have an enormous amount of political risk. As Harold James has recently argued, our era may have more in common with the pre-World War I and interwar periods than we would like to think.[29] As in our own age, in the late nineteenth century, internationalism and nationalism seemed to be simultaneously on the ascent and fears of the consequences of political risk relatively subdued.[30] As in the pre-World War I period, too, the greatest risk facing companies today may arise from the political agendas of their own countries that emanate out of the desire to protect national interests against the adverse effects of internationalism and modernism. Like the interwar period, moreover, our internationalism is particularly challenged by the absence of an international consensus around a global agenda and a suitable method for regulating international economic issues. Although most nations want to reap the benefits of stability and growth of international trade, like that enjoyed before World War I, much of their behavior suggests an unwillingness to submit individually to the draconian discipline of the nineteenth century and to transfer sovereignty for regulation to international organizations, which in the eyes of governments and the people still lack democratic legitimacy and sufficient concern for non-commercial values.

27 Christopher Kobrak, "The Foreign-Exchange Dimension of Corporate Control in the Third Reich," *Contemporary European History*, 12, no.1 (2003): 33–46.
28 Neil Gregor, *Daimler-Benz in the Third Reich* (New Haven: Yale University Press, 1998)
29 In addition to James, *The End of Globalization*, see also Christopher Kobrak, "Zwischen Nationalismus und und Internatlismus: Globalisierung und Unternehmenskultur aus historischer Sicht," *Deutsche Unternehmer in der Welt* (Frankfurt: Frankfurter Allegemeine and Gesellschaft für Unternehmensgeschichte, 2000).
30 Consider, by way of comparison, a recent article from the front page of the *International Herald Tribune*. Despite all of the rancor about globalization and the willingness of some to commit acts of terror to forestall some aspects of internationalization, it reported that "seattle now looks like the high-water mark for the anti-globalization movement."

Like the pre-World War I period, complacency may be our greatest enemy. Optimists would be wise to remember that not only was faith in the efficacy of internationalism extremely strong before World War I, but also that Germany's willingness, for example, to risk international adventurism and even world war was predicated on its national elites' desire to avoid social conflicts, which arose in large part from economic integration. While the spread of democratic institutions is a welcome development over the last few decades, introducing or reintroducing dictatorial control over economic activity in many countries struggling with effects of globalization is far from unimaginable – witness Argentina, Venezuela, and China to name a few. Some would even include Europe and the United States, especially as the "War on Terrorism" promotes a resurgence of Cold War methods to insure discipline among America's allies.

As economic imperatives drive them toward further interdependencies, businessmen are caught between two powerful conceptions of world economic organization: one a global and the other a more national. For the most part, financial institutions and commercial companies are running their businesses as if national borders no longer existed, but national governments, the peoples they represent, and international public interest groups are understandably concerned about the power of transnational firms and international regulatory bodies, whose power seems to transcend elected, national political institutions.

Despite extraordinary economic prosperity in much of the developed world during the last two decades, a lot of the international cooperation, which seems necessary to make our global economy work, is not politically popular. Consider that in much of Europe a new currency has been created that will have many of the effects of the Gold Standard while most Europeans are unwilling to turn over governmental authority to European bodies and that the U.S. still practices many aspects of *l'exception Americaine*, which so terrified European investors in the mid nineteenth century. In France, roughly a third of French voters cast their ballots in the first of France's last presidential race for candidates of the right and left who were opposed to further European integration. In short, the greatest political risk to business in the twenty-first century may be from further resistance to globalization, or better put, from the absence of a workable consensus about what should be controlled internationally and what nationally.

Worse still, the political mistakes of the interwar period, which gave us beggar-thy-neighbor tariffs, aggressive militarism, enforced zones of international economic "cooperation" and extensive national controls of domestic markets, could easily be repeated in our own time if any one of a number of easily imagined crises – for example, a meltdown of the Japanese banking system, defaults in derivative markets, or extensive loss of faith in corporate financial controls – gave rise to an extended economic downturn. The consequence of such a crisis would in all likelihood lead to further erosion of confidence in international economic interdependencies, a reaction to which even Keynes in 1934 was not immune (see quote on page 3). Harold James' words about how an age of nationalism replaced one of capitalism in the 1930s bear repeating:

> It is easy to sum up the conventional wisdom that quickly emerged in response to the problems of the global economy. Everything was moving across national boundaries – whether capital, goods, or people – really had no business to be doing that and should be stopped. If it could not be stopped, it should be controlled, in accordance with a definition of national interest. Trade was to be regulated so as to maximize domestic employment. Central banks began to redefine their job of monetary management in accordance with national priorities.[31]

Sadly, as we know, those fears of globalization and national frustrations with governmental failure to soften its effects during the interwar period contributed in many countries to autarky and dictatorship, in large part the subject of this book.

In some respects, the risks for international corporations may have even increased in our era of globalization. The propensity of transnational firms to demand of national governments the right to treat their assets as interchangeable components in a network designed to optimize the economic value of the whole, rather than the parts, puts those companies at risk. As Raymond Vernon succinctly characterized competition in many industries, multinational behavior, and the potential conflicts, globalisation has its risks:

> When mature multinationals are at war [in competition, our note], those who shape the strategy of the enterprise usually see it as a global war, with share-of-global-market as the telling measure of success. From their viewpoint, every unit in the enterprise is involved in the global face-off, irrespective of its location. Decisions to open or close plants, to introduce new products or retire old ones, to raise prices in a market or lower them, are likely to be framed by their effects on the global position of the firm. Those decisions can be expected at times to vary from the decisions of a stand-alone firm confined to a single market. Sensing that possibility, government officials, labor representatives, and other nation-bound interests are frequently wary of the durability of the multinational's presence and uncertain how it is likely to behave in the national economy.[32]

Multinational firms have in one sense more freedom because of their transnational orientation – by their ability to move from one source of labor, raw material, technical, and financial input to another, as well as their wide range of national distribution capabilities – but the economic value of many of their production processes and marketing advantages depend on operating

31 James, *The End of Globalization*, 187.

32 Raymond Vernon, *In the Hurricane's Eye* (Cambridge, Mass.: Harvard University Press, 1998), 14.

in a borderless world, in which political risk among countries has no more significance than the risk of doing business between New Jersey and California in the United States.

Though hopefully part of our past, the interwar world with its nationalism, authoritarian regimes, and autarkic economic policies provides an important lesson, an alternative reality that business leaders and historians forget at their own peril. We have no intention here to argue that history repeats itself. We recognize that dwelling on the past can paralyze action in the present, but contemporary business leaders have much to learn from the experiences of their colleagues of the past, most importantly, a sense for the uncertainty with which they go about defining strategies and an appreciation of the rich variety of expected and unexpected possible future outcomes. The case studies presented here are a useful reminder of the diversity of business experience, and that business risks, political or otherwise, follow no laws and, whether in authoritarian or liberal-democratic environments, past or present, resist reduction to neat mathematical formulas.