

3 From the Banks to Karg. The Hertie Waren- und Kaufhaus GmbH 1935 to 1937/40

The Next Crisis

When the settlement agreement came into force on December 31, 1934, Hertie Kaufhaus-Beteiligungs GmbH became the sole owner of Hermann Tietz & Co. At the same time, it took over the former Tietz family company with all assets and liabilities. A corresponding new version of the statute was decided on at the advisory board meeting on January 24, 1935 and entered into the partnership agreement. Since a type of creditors' committee had become a corporation, Hertie could no longer operate under its previous name. The advisory board, which now met as the advisory board of Hermann Tietz & Co., decided to change the name to Hertie Waren- und Kaufhaus GmbH. Karg had advocated for the advisory board to stick to the name "Hertie" because, as already mentioned, it was firmly established as a product designation.¹ Until then, "Hertie" had apparently not been viewed as a future company name, only as a label for the company, needed to indicate the "Aryanization" of the group. After Hertie took over the entire business, Hermann Tietz & Co. remained a shell for a short time, and then the name "Hermann Tietz" disappeared from the commercial register, as agreed upon in the settlement agreement.

With the takeover of Hermann Tietz & Co., an increase in Hertie's share capital also became unavoidable. Until now, this capital had only consisted of the contributions of the two shareholders Karg and Friedel of 50,000 RM each. The management had already announced a capital requirement of 2.5 million RM in the motivation report of October 1934, which they cleverly agreed to, based on the reduction in the company's assets due to the "severance payment" for the Tietz family.² A capital increase could only be carried out by the Dresdner Bank subsidiary Treuhand-Vereinigung AG, which, as trustee of the banking consortium, had also taken over the previous share capital raised by Karg and Friedel. The banks had no interest in raising additional capital for a stake in Hertie GmbH, but agreed to convert the company's bank debts amounting to 2.4 RM million into share capital. As part of the new version of the partnership agreement of January 24, 1935, Hertie's capital was increased from 2.4 million RM to 2.5 million RM through a further contribution from the Trust Association. The majority of this involved a loan claim from Deutsche Bank of around 1.14 million RM and a loan claim from Dresdner Bank of around 914,000 RM.³ The Treuhand Association – and thus the banking consortium – remained the sole owner of Hertie, and was now openly listed as

such. The fact that Hertie's share capital consisted almost entirely of claims from banks was soon to become extremely important.

The new version of the partnership agreement in January 1935, was accompanied by an expansion of the management level in the central administration. The managing directors Karg and von der Tann were given two deputies, Erich Laupenmühlen for finances and the Munich employee Max Friedland for the goods business. Nine managers were promoted to authorized signatories: Paul Dyckerhoff, Karl Fränkel, Helmut Friedel, Hans Heilemann, Wilhelm Hermsdorff, Hans Kröger, Karl Reuter, Wilhelm Seemann and Arnold Simon.⁴ The positions in the Group companies that had become vacant due to the dismissal of the veteran Tietz authorized representatives Adler, Birnbaum, Löwenberger and Müller were now filled. For example, Hermsdorff and Laupenmühlen were appointed managing directors of Kaufhaus des Westens GmbH and board members of Deutsche Boden AG, Handelsstätte Gera AG and Sächsische Grundwert AG.⁵ Several of the newly appointed authorized officers moved from this status in the course of 1935 because they were given the management of a company branch.

Most of the new authorized representatives were probably Karg's confidants; this can be considered certain for Friedel, Hermsdorff, Kröger and Seemann. Von der Tann was unable to build up comparable internal power because, as a banker delegated to Hertie, he lacked the appropriate contacts within the administration and to the managers of the department stores. In order to compensate for this, at the beginning of 1934, von der Tann had pushed for two more managing directors to be appointed and suggested his secretary Laupenmühlen for one of these positions.⁶ With the decision to appoint deputy managing directors, the advisory board complied with this request, and at the same time promoted managers from Karg's circle of contacts to authorized signatories. The most serious gap in Hertie's management still remained. Hartung had already complained in August 1933 that "the real financier was still missing" and asked the banks to make suggestions.⁷ But neither the Dresdner Bank nor the Deutsche Bank managed to find a suitable candidate who would be willing to participate in changing the Hertie management structure.⁸ So Hertie remained a company in a banking consortium without a "financier." Despite his professional background as a banker, von der Tann was unable to fill this gap in the management due to other demands, and his protégé Laupenmühlen had to resign in July 1936 for embezzlement. A special audit by Treuverkehr Deutsche Treuhand AG had revealed a deficit of around 50,000 RM in its secret "administrative accounting."⁹

Overall, after converting into a department store group, Hertie retained the provisional form of a "creditors' committee" in which it was created at its founding. There was no plan for restructuring and therefore no concept for the future structure of the group. Until the partition agreement was resolved, the advisory

board and management were completely focused on this goal. It had been suppressed that the high level of debt, the liquidity problems and the unfavorable market situation would remain after the Tietz family left. On August 28, 1934, immediately after the settlement agreement was signed, the advisory board began to address these questions. Hartung and the managing directors advocated increasing the share capital to ten million RM by converting the claims of the banks and group companies, but it turned out that the creditors were not ready to take this step. The Akzeptbank declined, the mortgage banks and Victoria Insurance also strongly refused, and Mendelssohn and Warburg were again not interested because their loans were well secured.¹⁰ The banks' attention was not on the development of the company, but on future repayment to Hermann Tietz/Hertie of borrowed money. After the tour de force of the syndicated loan in July 1933, in which the mortgage banks did not want to participate, neither the Dresdner Bank Group nor Deutsche Bank were prepared to invest further capital in the group, which was on shaky ground and carried a political risk. It was now becoming a growing burden for the company that its owners did not see themselves as investors, but as creditors.

Since the share capital, even after the increase to 2.5 million RM, was set far too low – Karstadt had share capital of 28.85 million RM at the time – Hertie continued to operate with constant liquidity problems.¹¹ The management addressed this problem by selling “non-department store” real estate belonging to the group companies. Immediately after signing the partition agreement, von der Tann suggested such a deal to Kurt Hamann, who, as a board member of Victoria Insurance, represented the mortgage creditors on the Hertie advisory board. Deutsche Boden AG had taken out a mortgage loan of five million RM from Victoria in 1929/30 on the commercial and residential buildings in the “Kurfürstendamm-Block.” These were some of the most valuable properties that Betty Tietz had given to Hertie.

Von der Tann offered this area to Victoria for purchase, less to repay the loan, which was covered by the standstill agreement, than to obtain liquidity for Hertie. It was a lucrative offer for Victoria; the mortgage loan would be paid off in full, which was not required at that point, and a building complex in such an attractive location would not otherwise come onto the market. In any case, the insurance group did not pass up the opportunity and on October 11, 1934, acquired the properties at Joachimsthalerstraße 5–7/8, Kantstraße 158–160, and Kurfürstendamm 18/19–23, referred to in their files as the “Tietz-Block,” for 8.4 million RM. Deutsche Boden needed the majority of the proceeds to pay off the mortgage, but still had 3.4 million RM left.¹² Since other creditors waived their claims in connection with this transaction, the real estate company received a further 1.8 million RM.¹³ In a statement from 1950, Hamann stated that the houses were in need of

renovation and had not produced any returns. He was only interested in making a contribution to improving Hertie's liquidity, and he also obtained the consent of the Tietz family for the purchase.¹⁴ In October 1934, Victoria would have seen it differently, because the purchase price that it paid for this piece of property was around 74 percent above the standard value of 1935.¹⁵

While the sales at German department stores in the fall of 1934 seemed to indicate a recovery, a downturn occurred again in the spring of 1935, and by August sales were already around ten percent below the previous year.¹⁶ Again there was talk of a "department store crisis."¹⁷ The slump stood in stark contrast to the growth of the German economy at the time, which was on the verge of an arms boom after recovering from the global economic crisis. In 1935, industrial production returned to the level of 1929, and the number of registered unemployed fell to an annual average of 2.15 million, after it had been around five million in 1933.¹⁸

There was, nevertheless, no sign of a "German economic miracle" – the title of a book by the émigré business journalist Hans Erich Priester – in the department stores at the time.¹⁹ Overall consumption suffered because the purchasing power of private households did not correspond to the growth of the economy, but department store sales remained significantly lower than other retail sectors. Between 1934 and 1935, department store sales fell from 83.6 to 79.1 percent of 1932 levels, while overall retail sales increased from 109.6 to 113.9 percent of 1932 levels over the same period.²⁰ It was therefore a department store crisis that can only be explained by specific factors related to this type of retail business.

First and foremost are the campaigns of National Socialist hostility against the department stores, which experienced a revival in 1935. They had never come to a standstill, but now seemed to be the right time for many department store opponents to remember the implementation of Article 16 of the first party program and to no longer align themselves with the ban on boycotts issued in July 1933, which was generally never seen as a lasting measure. At the spring fair in the cathedral city, the Cologne Gauleiter Josef Grohé called for people to avoid department stores: "It would be a betrayal of the German economy if purchases were still made in a department store today."²¹ Banners above the most important ones in Cologne shopping streets then read: "Anyone who buys from a Jew is a traitor."²² The Reich Association of German Civil Servants (Reichsbund der Deutschen Beamten) issued a decree for their members as early as February 1935 in the form of a general shopping ban against department stores and uniform price stores. The fact that the NSDAP party leadership declared the ban to be "inadmissible" did not seem to have any effect on it.²³ When department stores were legally banned from having dining

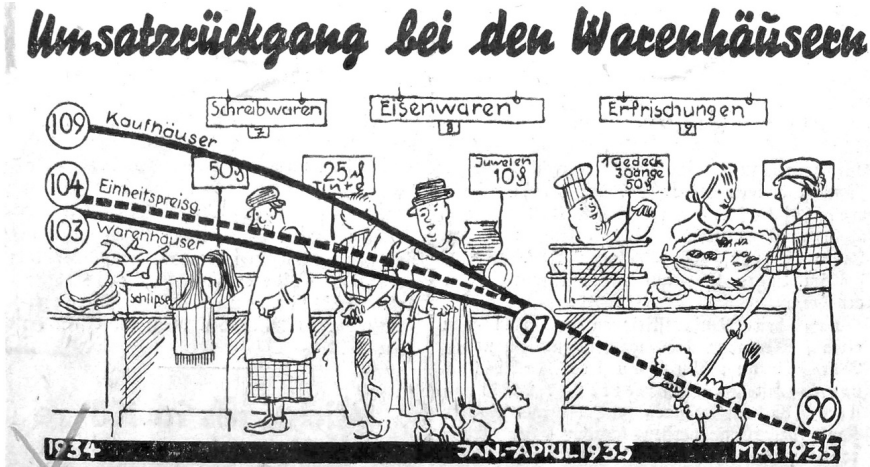


Fig. 18: Graphic illustration from the Berlin NSDAP organ *Der Angriff*, July 3, 1935.

establishments (“refreshment rooms”) in May 1935, political directives had to change course on the “department store question.”²⁴

Inspired by the Nuremberg racial laws, another wave of terror against department stores followed in the fall of 1935. Shop windows were defaced, boycott posts were set up, and there were violent attacks against staff and customers in the Karstadt department store in Hanover.²⁵ The radical activists of the National Socialist craft, trade and business organizations (NS Hago), into which the Kampf-bund had merged, could not be stopped by the signs proclaiming “German business.” Despite the numerous “Aryanizations”, “department stores” and “Jews” remained synonymous, and not just in the perception of these groups.

In addition to propaganda and intimidation, patterns of consumer behavior that could be explained in social psychological terms also had an impact on department store sales. Since consumers tend to imitate the behavior of other consumers (“bandwagon effect”), the public turned away from department stores in a way that had followed the similar trend in the mid-1920s. While department stores had previously received much admiration as a symbol of a new consumer world, they were now seen as a relic of a bygone era. In his memoirs, “mail order king” Josef Neckermann reports on the “general animosity against the department store business model” at the time and also on the dismay of his mother when he had his inheritance paid out in October 1935 in order to take over the Würzburg department store Siegmund Ruschkewitz, whose Jewish owner had been blocked by the Dresdner Bank from obtaining the purchasing credit (“Department stores, I beg you!”).²⁶

Hertie had already registered five branches in the commercial registry under other names in March 1935 to disguise their affiliation with a department store group. Names that spoke of local culture and ethnicity seemed particularly suitable for this strategy. The luxury department store in Hamburg was given the name “Alsterhaus” and the branch in Stuttgart was named “Haus Schwaben,” each with the addition “Branch office of the Hertie Waren- und Kaufhaus GmbH.” The “Haus Badenia” (Karlsruhe), the “Haus Osterland” (Gera) and the “Haus Vogtland” (Plauen) were also entered as branches. A branch without a brand name was set up only in Munich.²⁷ Unlike the renaming of the department store in Weimar in December 1933, the aim was not to suppress the name Tietz, which had been ostracized by the National Socialists. The new names would not have been necessary for this, as the group had already been renamed Hertie two months earlier. At least in Hamburg, this is how the new name was perceived by the public. The luxurious consumer temple on Jungfernstieg had until then probably been called Tietz and the connection with the “Aryanization” of the company was quite obvious. “Only the Nazis said ‘Alsterhaus’,” a contemporary witness reports, and everyone else continued to call the renowned department store “Tietz.”²⁸

It was actually not permissible under commercial law for branch operations to be run under a different name than the parent company. This practice had not been objected to in Weimar, but in Gera the East Thuringian Chamber of Industry and Commerce had now lodged a complaint with the registry court against the registration of the new name: It is likely to “cause confusion about the nature or scope of the business.”²⁹ In Gera, not only retailers were outraged by the renaming campaign, the city council also protested: the name “Osterland” was “sacred to the National Socialists,” must be reserved for the SA standard and must not be misused for business purposes.³⁰ Hertie finally had to give in and had the entry “Haus Osterland” deleted from the commercial register in October 1935.³¹

The new names did not last in Stuttgart and Karlsruhe either, as the branch stores could not be registered as branches of Hertie under these names. The department stores there and in Gera were then assigned to the new Hertie affiliated company Union Vereinigte Kaufstätten GmbH.³² “Alsterhaus” turned out to be the only permanent name introduced by the Hertie management in March 1935. In Hamburg, this name has been retained to this day, although it is attributed to the Hermann Tietz “Aryanization”. Even though the name was only introduced after the renaming of the group and was intended to replace Hertie, not Hermann Tietz, it is rightly considered to be tainted by the Nazis.³³ The renaming on Jungfernstieg could only remain in place because the authorities and party offices of

the Hanseatic city were behind it. Unlike in Gera, Stuttgart and Karlsruhe, there were no objections in Hamburg.

The formation of the Union Vereinigte Kaufstätten GmbH and the renaming of the department stores in Hamburg and Weimar did little to help Hertie confront the “department store crisis” that began in the spring of 1935. The group was particularly vulnerable to fluctuations in the economy due to a lack of capital, high debt and the lack of restructuring measures to combat declining sales. The fact that the bookkeeping and accounting had now been reorganized did not change this. The management’s tough austerity measures and the associated job cuts also did not solve the problems as long as the banks resisted raising further capital. It did not make the group’s situation any easier that the standstill agreement between the creditors agreed upon in August 1933 expired on March 31, and could only be extended after a delay of a few months. Already in May, Hertie had to obtain a further loan in the amount of 750,000 RM from the creditor banks in order to strengthen its working capital.³⁴

Tab. 7: Number of Employees at Hertie Waren- und Kaufhaus GmbH by Sales Outlets 1934 to 1936 (as of August, each year).³⁵

	1934	1935	1936
KaDeWe	2,378	2,135	2,180
Leipziger Straße	1,576	1,460	1,475
Alexanderplatz	1,489	1,406	1,420
Frankfurter Allee	528	444	437
Belle-Alliance-Straße	649	610	598
Wilmsdorfer Straße	698	626	632
Chausseestraße	460	417	432
Brunnenstraße	349	293	290
Kottbusser Damm	353	307	314
Andreasstraße	256	249	243
Munich	997	938	864
Hamburg	885	736	705
Stuttgart	640	586	560
Karlsruhe	446	440	446
Gera	394	365	338
Plauen	381	359	322
Magdeburg	138	130	134
Weimar	96	81	83
Tempelhof and Head Office	430	358	353
<i>total</i>	<i>13,143</i>	<i>11,940</i>	<i>11,826</i>

Nevertheless, in June 1935 the company ran into liquidity problems that were not much different than before. There were overdue supplier receivables of around six million RM, and due to the unreliable method of payment, the group again had a poor reputation among suppliers; some had even stopped deliveries altogether, which led to the warehouse being “under supplied.”³⁶ In order to secure liquidity, the Akzeptbank considered a further loan of seven to 13 million RM necessary.³⁷ At the deadline for the extension due on June 30th, it then turned out that Hertie was not in a position to raise the interest, commission and discount amounts that were due.³⁸ At the Warburg bank, after two years of support for Hertie, a bitter conclusion was drawn: “Apart from the fact that they . . . Owners Georg and Martin Tietz and Dr. Zwillenberg were eliminated from their company, no restructuring work appears to have been accomplished.”³⁹

Hertie’s consortium of creditors was now forced to act. Under pressure from the banks, Hartung had to resign as chairman of the advisory board on June 30.⁴⁰ The fact that he would soon have to leave the management of Hardy & Co. because his status as a “half-Jew” under the Nuremberg racial laws may not have been a decisive factor. The banks made him a scapegoat for the company’s critical situation and the advisory board’s failures, for which they were partly responsible. Deutsche Bank managed to persuade the experienced restructuring expert Erich H. von Berger to take over as chairman.⁴¹

Berger, a former board member of the bank Disconto-Gesellschaft, had been a board member of the German Financing Institute AG (Defina) and the Redemption Fund for Commercial Credit (Tilka) since the end of 1932, two restructuring institutes to which ailing banks could sell claims against commercial companies. In 1929 he had already proven himself in the restructuring of the Berlin company Gebr. Simon Textil AG.⁴² With his election, the course was set for the long-overdue creation of a restructuring concept.

Berger tackled this task quickly and already on August 28 presented a report on the situation at Hertie in 1933. By evaluating 25 reports from the Trust Association and the Treuverkehr Deutsche Treuhand AG, he had come to the conclusion “that in terms of liquidity the group is in practical terms exactly where it was two years ago.”⁴³ A reconstruction would be necessary, but could be limited to a “capital reconstruction” to capitalize and secure liquidity, since the group would in other respects still be viable. Berger calculated that the loans totaling 17.75 million RM provided by the banks since July 1933 had largely been used up by the repayments totaling 16.25 million RM. Citing the audit report of the trust companies for the annual accounts of January 31, 1935, he considered an increase in the company capital to 25 million RM necessary to keep the firm afloat.⁴⁴

Berger tried in vain to get the banks to grant another million-dollar loan to the Hertie Group. He also asked suppliers for loans and only received rejections,

especially since most of them did not have the necessary capital.⁴⁵ In order to gain time, Berger now wanted to obtain an extension for the standstill agreement between Hertie's creditors, which was expiring at the end of September. In a banking meeting with the Reich Commissioner for the Credit Industry on September 13, 1935, a standstill until March 31, 1936 was agreed upon.⁴⁶ The non-party Reich Commissioner Friedrich Ernst, who had been in office since 1931, was, as described above, already involved in the regulation of the Hertie Group's debts, because of the special directive for the participation of the mortgage banks in the syndicated loan. Ernst, for his part, now pushed for a restructuring of Hertie in order to overcome the obvious disproportion between the bank and mortgage debts of 96 million RM and the equity capital of 2.5 million RM.⁴⁷

At Hertie, Berger set up planning offices in September 1935 in order to accurately evaluate the available statistical material and, among other things, to determine the profitability of the individual departments. He sought advice from the former Schocken board member Georg Manasse and the former Leonhard Tietz board member Franz Levy, who apparently had some experience in this area, and then suggested that Irene Witte, the most qualified rationalization expert in Berlin's wholesale retail sector, be given the management of the planning office at Hertie. There were strong reservations in the advisory board about filling such an influential and well-paid position with a woman, but ultimately the more important factor was that Witte was not Jewish and no non-Jewish expert could otherwise be found for this task.⁴⁸ Witte, who until then had headed the exemplary planning office of the Nathan Israel department store, moved to Hertie at the end of 1935 and continued to work for her former employer at the same time.⁴⁹

Since Hertie did not receive any further credit or share capital from the banks during the crisis of 1935, the department store group had to get by with a standstill, an even more rigid cost reduction and the sale of further properties. The goods debts were reduced from around 7.8 to around 2.6 million RM by the end of the year, mainly through the sale of real estate and investments, which brought in a total of 5.78 million RM.⁵⁰

On January 18, 1936, Berger presented his long-awaited "Proposal for the Capital Reconstruction of the Hertie Group." Essentially, his plan envisaged converting bank claims into liable equity capital of 25 million RM, preferably within the framework of a stock corporation under the name "Deutsche Waren- und Kaufhaus Aktiengesellschaft," into which the real estate companies for the department store properties would also be transferred. Berger suggested classifying the creditors into four classes and using the second, third and fourth tier loans according to a certain key, with a capital waiver of 20 percent for the third tier (not fully secured) and 50 percent for the fourth-tier (unsecured) claims.⁵¹ Berger specifically demanded that Akzeptbank waive part of the three million RM loan it had

granted to Hertie. As the Reich's own financial institution, it was supposed to ensure that "the damage suffered by the Hertie Group was mainly caused by public intervention" – a remarkable justification that the Reich Ministry of Finance termed "not valid."⁵²

At the same time, Berger admitted in his proposal that the restructuring could not be tackled quickly because there were still major political uncertainties and time was needed to classify the creditors. A further extension of the standstill agreement for the subordinated claims was therefore urgent. A complete deferment had to end, according to the agreements reached in September 1935. In his final remark, Berger emphatically pointed out that all plans for the renovation of Hertie depended crucially on political imponderables: "The success of any reconstruction will depend on the way in which the 'department store question' finds its legal regulation, and how the party will finally respond to it."⁵³

Berger's proposal led to extensive consultations between the banks. Since lengthy disputes were to be expected over the classification, a commission was set up to draft guidelines for this procedure at a meeting with representatives of 13 credit and mortgage banks at the Reich Commissioner for Credit on March 25, 1936.⁵⁴ Ultimately, the banks only agreed to extend the standstill agreement and postpone the reconstruction until a later date. None of the creditors wanted to waive their claims, least of all the Akzeptbank, which categorically rejected the proposed waiver of claims amounting to three million RM.⁵⁵ The Dresdner Bank advocated a postponement of the reconstruction and readily took up Berger's point that the department store question was politically unresolved.⁵⁶ Berger's suggestion was also misused by the banks to refuse loans to Hertie: after Hertie had received a special loan of one million RM for its Christmas business in 1935, the Dresdner Bank and Hardy & Co. were no longer willing to take part in a new loan of 500,000 RM as long as the questions of reconstruction and deferral were not clarified.⁵⁷

Tab. 8: Data on the debt of the Hermann Tietz/Hertie Group 1933 to 1937 (in RM).⁵⁸

	June 30, 1933	January 31, 1935	August 1, 1935	April 30, 1937
Bank debts	50,000,000	43,252,000	49,800,000	42,083,000
Mortgages payable	52,000,000	44,580,000	40,500,000	34,809,000

On January 13, 1936, Hertie had already asked the Reich Ministry of Economics in a petition to support a waiver by the tax authorities for the taxes due upon conversion of the company into a stock corporation.⁵⁹ Three months later, on April 21, 1936, the in-house Hertie lawyer Steffani informed the Berlin State Tax Office that

the application for tax relief would no longer be pursued until further notice.⁶⁰ Hertie was now considering whether to obtain the necessary capital by selling KaDeWe to Deutsche Bank and Dresdner Bank and the Munich department store to Hardy & Co. and Bayerische Vereinsbank.⁶¹ From Berger's ambitious restructuring plan, only the proposal to extend the standstill agreement remained, the terms of which were negotiated through to the fall of 1936. Berger himself resigned from Hertie's Advisory Board in November. The new standstill agreement he initiated was of utmost importance for the company, as it could hardly survive without a deferral, but Hertie Waren- und Kaufhaus GmbH still had no real perspective for the future.

How Georg Karg Took Over the Hertie Group

In June 1936, in a two-and-a-half-page exposé entitled "Draft," Karg suggested selling the majority of Hertie to himself. In the files of the Dresdner Bank there is a copy of this "Draft," which he – against the will of, or possibly simply bypassing the Hertie Advisory Board – handed over to the chairman of the Dresdner Bank Supervisory Board, Carl Goetz, on June 16, 1936, "with reference" to our verbal consultation."⁶² Karg brought himself into the conversation as a buyer with great self-confidence but also understandable arguments. The "draft" is divided into two parts. On the first page, Karg critically examines the existing form of the company and then presents his proposal in eight points in the second part.

Karg initially justified his proposal by linking a crucial inventory of the firm with the model that corresponded to his ideas:

The current administrative structure of the Hertie Group is hindering its economic development in many respects. [...] even today the structure is similar to that of a company that is governed by a committee of creditors in settlement or bankruptcy proceedings. This hinders the individual activity that is absolutely necessary today. In my opinion, it is necessary for the management of the group to be in the hands of a responsible entrepreneur who, due to his expertise and experience, has the trust of the shareholders and all creditors.⁶³

The advisory board chairman Berger had already complained a year earlier in his "Report on the Current Situation of the Hertie Group" that Hertie had not made any progress under the banking regime. Nobody who was familiar with the matter would have contradicted this. But Karg drew different conclusions than Berger. Since the time of the Empire, for a large company with more than 10,000 employees, the stock corporation was considered the most efficient form of company structure because of its advantages in covering high capital requirements and the limitation of liability on the company's assets. The Leonhard Tietz com-

pany was therefore converted into a stock corporation in 1905, Wertheim in 1909 and Karstadt in 1920. Accordingly, in his proposal for the “capital reconstruction” of Hertie, Berger had recommended the conversion into a stock corporation in conjunction with a significant capital increase. According to the status of the stock corporation law reform discussion at the time, which was incorporated into the Stock Corporation Act of January 30, 1937, Hertie would have lost the features of a “committee of creditors” even with just this solution. The powers of the advisory board (supervisory board) would have been limited to the control function, and the management or board of directors would have been given the right to manage the company under their own responsibility.⁶⁴

Karg’s proposal was aimed not only at emancipating management from the shackles that the banks had placed on it in the Hertie statute. He argued that the department store group needed a responsible, entrepreneurial owner, which seemed plausible given the experience with the “creditors’ committee,” and an owner who was not called into question by the banks. Ultimately, it was about turning Hertie back into an owner-operated company, an archaic corporate form for a company of this size. As Karg’s further plans would show, he was driven by a personal mission to become sole ruler of a large department store group, which he could pass on to his children as a family business. In this respect he was similar to Oscar Tietz, who had vehemently refused to convert his company into a stock corporation. The fact that the Tietz family had had bitter experiences stemming from the personal liability of owners in a general partnership did not stop Karg from pursuing a similar model. It appears that this type of entrepreneur remained more common in large retail than in other industries, since similar entrepreneurs are also found at Horten, Neckermann, and others, whose careers were based on the “Aryanization” of department stores.⁶⁵

With the phrase “the individual activity that is absolutely necessary today” Karg’s suggestion alluded at the same time to the National Socialist corporate model, in which ownership and responsibility were not separated as in a stock corporation, and the company was managed by the owner according to the leader principle.

The fact that a consortium under the direction of large joint-stock companies of finance capital ran a department store group in the “Third Reich” must have appeared to National Socialist ideologists as a kind of fall from grace. This affinity did not make Karg’s arguments into National Socialist ideas, but he knew that his proposal would be viewed with favor in the party and in the ministries, and the banks knew this too.

In the second part of his “draft,” Karg detailed the implementation of his suggestion. Apparently for tax reasons, he wanted to settle for 51 percent of Hertie’s shares and buy these shares “at par”, i.e. at their nominal value, with a five-year

option. He would give the sellers a ten percent share of the net profit attributable to these shares for a few years.

The highlight of his plan, however, was the proposal to obtain a loan from Dresdner Bank of one million RM for the purchase of the shares, which would initially be available to Hertie as a loan and then be offset against the purchase price. According to this model, shares in Hertie with a nominal value of up to one million RM could be acquired by repaying a loan, which provided Hertie with liquidity and earned Dresdner Bank interest.

The “draft” contained further suggestions that resulted from the transaction. Karg would have to be appointed as the sole managing director of Hertie, and the advisory board would lose its authority to appoint the managing directors and subject them to an approval requirement. Last but not least, Karg made his proposal dependent on the banks concluding a new standstill agreement for a period of five years.⁶⁶

Karg’s suggestion was welcomed at Dresdner Bank. In the relevant file there is a note inserted into his “draft” with the handwritten note “Idea is not unappealing,” which may have come from Goetz, who had replaced Andreae as chairman of the supervisory board, but in this position still acted as the top manager of the business of Dresdner Bank.⁶⁷ In the coming weeks, Karg’s plan was checked and altered at Dresdner Bank and Deutsche Bank. Karg, for his part, proceeded to revise the “draft.” He must have learned that Hertie’s shares in the books were not valued “at par” but at 50 percent “below par,” because they were converted bank debts that could not be considered secured. Karg now wanted to purchase the Hertie shares at a price of 20 percent of the nominal value, but the banks insisted on the book value of 50 percent.⁶⁸ However you calculate it, the estimated purchase price was exceptionally low. Karg took advantage of the fact that the share capital of Hertie GmbH remained at an extremely low level. The creditor banks had only made deposits worth a total of 2.5 million RM through the Trust Association, while the share capital of Karstadt AG and of Westdeutsche Kaufhof AG (formerly Leonhard Tietz AG) was at that time roughly 29 million RM each.⁶⁹ If the capital increase to 25 million RM proposed by Berger had been carried out at Hertie in 1935, Karg would have had no chance of acquiring the majority of the company. With a share capital of 2.5 million RM, however, and a purchase price of 50 percent of the nominal value, it was possible to obtain 51 percent of the shares for 637,000 RM.

The business deal was not that inexpensive after all, since Karg expanded his proposal to a reorganization plan for Hertie, which also provided for an increase in the share capital to 7.5 million RM and was tied to a new four-year standstill agreement. When he presented his reorganization plan to the Reich Commissioner in a meeting with bankers of the main creditors on August 27, 1936, the

participants unanimously agreed. As Karding (Deutsche Centralbodenkredit AG) noted in a note about this meeting, it was expressly welcomed that “Karg, as the main expert, was entering into the matter with the largest part of his assets.” Reich Commissioner Ernst estimated that Karg would have to raise cash capital of 7–800,000 RM for this move.⁷⁰

It was also agreed that this was “a first step towards restructuring.”⁷¹ With Karg’s reorganization plan, which basically just consisted of converting part of the bank debt into equity, the sale of a further part to the managing director and a further deferral of the major part of the debt, but did not provide for a waiver of claims, it was believed that they had found the key to the restructuring of Hertie GmbH.

In the fall, Karg succeeded in obtaining approval from the large number of Hertie creditors for a new standstill agreement for the period from May 31, 1937 to April 30, 1941. This fulfilled an essential condition for the implementation of his plan. In a banking meeting with Reich Commissioner Ernst on November 12, 1936, the agreement was approved by the creditors, and the agreed upon loan from the Dresdner Bank to Karg and Hertie for one million RM was included in the agreement.⁷² Four days later in a formal letter to Hardy & Co., Karg made commitments regarding the composition of the board of directors on the condition that he “immediately after the conclusion of the shareholders’ meeting to be called in accordance with the standstill agreement, can acquire 51 % of the shares in the share capital increased to 7.5 RM million under the conditions agreed upon between you, Dresdner Bank and me.”⁷³

The shareholders’ meeting took place on November 30th in the rooms of Hardy & Co., and the partnership agreement of Hertie GmbH was amended and redrafted in accordance with the restructuring plan. The share capital was increased by five million to 7.5 million RM by converting bank debts; Dresdner Bank contributed three million RM and Hardy & Co. contributed two million RM; the new shares, like the previous ones, were held by Treuhand-Vereinigung AG. A new composition of the advisory board and the expanded powers of the management, which Karg had requested, were also decided upon.⁷⁴

The old advisory board had collectively resigned to give Karg a free hand. Heinrich Lippert, the general manager of the Reich Insurance Association, became the new chairman, meaning that the banks gave up this position. Additional members were added based on an agreement between Karg and the shareholders Ernst Karding (Deutsche Centralbodenkredit AG), Karl Rasche (Dresdner Bank), Hugo Ratzmann (Hardy & Co.), Fritz Wintermantel (Deutsche Bank) and Trabart von der Tann.⁷⁵ Wintermantel was the only member of the first advisory board of July 1933, who continued to be a member of the committee. In contrast to the first years, there were no longer any bankers of Jewish origin represented on the

advisory board, but instead two bankers, Rasche and Ratzmann, who were extremely close to the regime.⁷⁶

There were also personnel changes in the management. Wilhelm Hermsdorff, who had been one of Karg's confidants for a long time and had already become deputy managing director after Laupenmühlen left, was appointed second managing director. Max Friedland left because he had become an entrepreneur himself in the course of the "Aryanization" of the H. Joseph & Co. department store in Berlin-Neukölln, and Trabart von der Tann left the management to rejoin the advisory board, which he had only left in 1935.⁷⁷ Karg had stipulated that the baron would receive three voting rights on the advisory board "as his representative." Von der Tann was now subordinate to Karg and, in reversal of his previous role, was supposed to act as the managing director's confidant on the advisory board. At the same time, Karg had promised that later, when he would own the majority of the company, von der Tann would always vote with the representatives of the banks until the standstill agreement expired.⁷⁸

Around the turn of the year 1936/37, the agreed upon transaction between Dresdner Bank and Karg was concluded. In a letter dated January 2, 1937, Gustav Overbeck, the head of the lending business at Dresdner Bank, promised Karg the transfer of Hertie shares worth 1.8 million RM and confirmed the loan of 900,000 RM that had already been offered, with which Karg was able to purchase shares at the book price of 900,000 RM that was due upon conclusion of the contract. In return, Karg agreed to allow Dresdner Bank to share in Hertie's profits attributable to his shares in an amount of up to 900,000 RM during the term of the accepted standstill agreement. The bank could expect that the purchase price would rise through this clause up to the nominal value of the shares sold.⁷⁹

Excerpt from the letter from Gustav Overbeck to Georg Karg dated January 2, 1937

On the occasion of the capital increase carried out at the above company, it has been agreed that you or a company to be named by you will acquire 51 % of the share capital of Hertie Waren- und Kaufhaus G.m.b.H. In order to make this possible for you, we agree to transfer to you or a company named by you

nom. RM 1,800,000 – Shares

The purchase price would have to be documented as follows:

- 1) RM 900,000. – must be paid in cash upon conclusion of the notarial purchase contract. To obtain this RM 900,000. – We have offered you a loan for the same amount according to our letter of December 31, 1936, to which – including its security – the conditions to be specified would apply.

- 2) Up to an additional amount of 900,000 RM – you undertake to make an additional payment on the purchase price in such a way that 10 % of the profit attributable to the shares sold is to be paid to us annually. For the duration of the standstill, this 10 % profit share would of course only be paid out to us once this amount has been distributed to you by Hertie.⁸⁰

Not all banks in the consortium of creditors agreed with this transaction, but no one wanted to stand in the way and jeopardize the standstill agreement. At Deutsche Bank people are said to have been very critical.⁸¹ The head of the Warburg Bank Berlin branch Ernst Spiegelberg even stated that “the whole plan was difficult to understand from the point of view of those primarily involved.” When he was personally informed about the planned agreements with Karg by the Reich Commissioner for Credit at the end of August, Spiegelberg was utterly stunned:

Of course, Karg is a capable department store manager, but he has not yet demonstrated that he is so capable that they could give him all power over the company with just a 51 % share, by only making a very small contribution – if any at all. If the company’s foundation is sound and there is a prospect of recovery, the banks could not sacrifice all their opportunities after all these years. In any case, if we were somehow significantly involved in Hertie, we probably wouldn’t take this path [. . .].⁸²

It actually seems incomprehensible that Dresdner Bank and Hardy & Co. were prepared to sell the Hertie Group to Karg at a bargain price and also make the purchase easier for him with a loan and a multi-year option. If one looks for explanations, then it is important to remember that Hertie GmbH’s share capital consisted almost entirely of converted bank debts. For the creditors, Karg’s plan was to buy claims from them that had to be considered dubiously secured.

At this time, Hertie had debts to the Dresdner Bank totaling around ten million RM, 7.46 million directly and 2.6 million RM as part of the syndicated loan (Loan II) from July 1933.⁸³ The prospect of not having to write off this amount was more important to the bank than maintaining control over Hertie. The resulting strategy is documented in a report by Wilhelm Schaeffler, who at the time was working as an auditor at the Dresdner Bank, and later took over an “Aryanized” carpet factory and, after the war, rose to fame with a group of companies manufacturing industrial equipment.⁸⁴ In a report dated August 18th, including an overview of the results of the audit reports on the Hertie balance sheets as of January 31, 1936, Schaeffler came to this conclusion:

We ourselves can only have one interest in postponing all restructuring issues, since within the context of the overall group we and Hardy have to make the first sacrifices based on the developments in the restructuring discussions so far. But if a new structure is to take shape, the following line of action seems appropriate for us:

- a) no discount under any circumstances (depreciation unnecessary – the balance sheet covers all debts);
- b) Rather, conversion into shares, the realization of which may appear to be possible more quickly than bank claims, and is certainly easier to realize than the majority of mortgage and bank creditors believe, so that larger interest and standstill commitments can be achieved from them at the same time.⁸⁵

The package for the restructuring of Hertie put together at the end of August 1936 corresponded almost exactly to the Dresdner Bank's intentions. Due to the new standstill agreement, the restructuring was postponed until the spring of 1941. With the capital increase, claims of the Dresdner Bank and the Hardy & Co. bank on Hertie amounting to five million RM were converted into company shares, and they already had one buyer in the person of Karg, and his loan allowed him to earn interest beyond the standstill agreements.

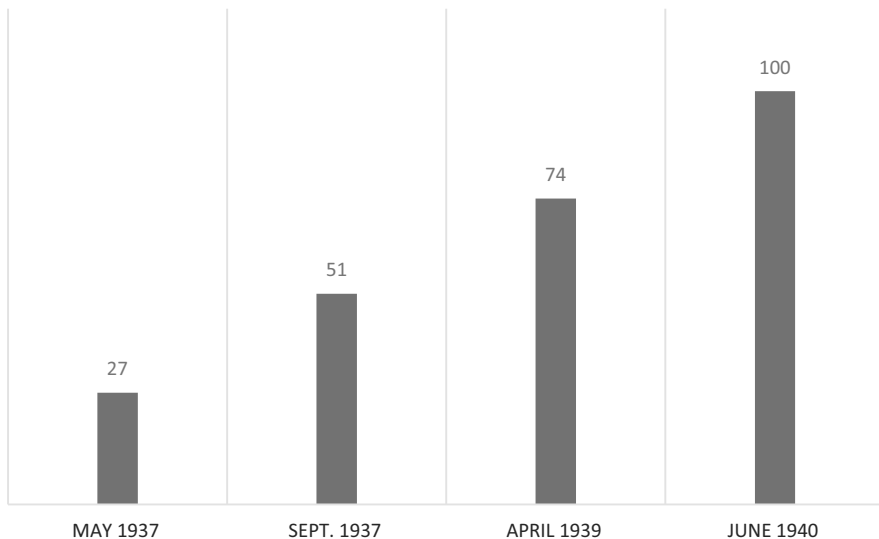
At Dresdner Bank, Schaeffler was also able to report favorable developments at Hertie. After an operating loss of 1.47 million RM in the 1935/36 financial year, the result improved significantly in the first half of 1936/37; the income was one million RM above the previous year's level, and wage costs fell by nine percent.⁸⁶ According to the trust companies' assessment, "the situation at Hertie is excellent;" in August 1936 alone, sales increased by 25 percent, and it was expected that Hertie would meet all obligations at the next payment date at the end of January 1937.⁸⁷ According to the unanimous verdict of observers, the "department store crisis" of the previous year had been overcome and a strong economic recovery was beginning to emerge. The *Gauzeitung* of the Berlin NSDAP had to report in October 1936 that there was a mood of alarm in specialist retail stores because sales in department stores and large retail stores had been rising continuously since the beginning of the year.⁸⁸ Although the department stores were still not able to expand the sale of food, which was particularly criticized by their opponents, they were able to achieve significant increases in sales of textiles, clothing and "other goods." A peak in this division was recorded in August 1936 with an increase in department store sales of 22 to 23 percent. In the press, the boom was attributed to the "Olympic business," in which small items and textiles were in particular demand.⁸⁹ The Olympic tourists had apparently flocked to the Berlin department stores, which were able to offer a broader range of items for sport fans than the specialist shops, and the NS Hago did not even try to stop them. From the signs of an upswing in department stores sales, the Dresdner Bank was able to draw hope that the Hertie Group would one day pay off its debts if it was given enough time to do so and was left in the hands of a capable specialist.

There were other reasons for the Dresdner Bank to rely on Karg's plan. The bank had been on the verge of collapse in the banking crisis of July 1931 and was saved by

a bailout from the Reich. After the merger with the failed Darmstadt and National Bank (Danat Bank), which had been forced by the Reich government, the Reich and the Reichsbank subsidiary Deutsche Golddiskontbank held 91 percent of the share capital of the Dresdner Bank. When the banking business began to make profits again for the first time in 1936, the long-planned re-privatization of the shares taken over by the Reich moved closer. The Commerzbank, in which the Reich and the Reichsbank had also taken over the majority holdings in 1931, was able to begin selling blocks of shares to private investors through a banking consortium in October 1936. The Dresdner Bank followed suit in September 1937.⁹⁰ Reprivatization was facilitated by removing loans with a risk of default from the books and a commitment of 10 million RM to one loss-making department store group had to be one of them. Dresdner Bank was also already heavily involved with Westdeutsche Kaufhof AG and the Karstadt consortium. Since 1931, Dresdner Bank had held a stake in the former Karstadt subsidiary Epa, now called Kepa, worth around 6.3 million RM (37.54 percent), which was sold back to Karstadt AG in November 1937, reducing the loan amount by 2 million RM.⁹¹ The Hertie loans were a far greater burden for Hardy & Co. than for Dresdner Bank. In 1936, the supervisory board ordered the bank to undergo a rigorous restructuring by consolidating its capital from 15 to 3 million RM. Of the loans granted, which amounted to four and a half times the equity, the loans to Hertie, including bills of exchange and bills of exchange liabilities, amounted to 4.6 RM million and were the largest single item among the loans for which collateral was completely or partially missing.⁹² Loan provisions amounting to 250,000 RM had to be set aside for the investment in Hertie GmbH, which amounted to 352,070 RM. After sales negotiations with Karg began, the auditors did not consider any further value adjustments to be necessary.⁹³

Akzeptbank AG was facing liquidation in the fall of 1936 because the Reichsbank and Reich government no longer considered such a “bad bank” necessary after the financial sector had been stabilized. As a Reich-owned financial institution, Akzeptbank was not involved in the standstill agreement between Hertie’s creditors – the Reich had taken over the majority of the capital in June 1934. The processing of some large loans now caused considerable difficulties, including, first and foremost, the Hertie loans, which accounted for the largest commitment at 12.9 million RM.⁹⁴ Karg did not take over 51 percent of the Hertie shares immediately after the agreement with Dresdner Bank. The promised acquisition of the majority stake was a framework that he could exploit in installments, but which was also linked to the standstill agreement that came into force on May 31, 1937. First of all, Karg had the Dresdner Bank loan for the purchase of shares amounting to 900,000 RM transferred to Paul Held Nachf. GmbH in which – unlike Hertie – he already held 51 percent of the shares and could make decisions on his own terms.⁹⁵ When the standstill agreement came into force in May 1937, he acquired Hertie shares with a nominal

value of 2,025,000 RM from Hardy & Co. through the Trust Association AG. These were the shares that Hardy & Co. had contributed from converted debts as part of the capital increase in November 1936.⁹⁶ In September 1937, Paul Held Nachf. GmbH bought Hertie shares with a nominal value of 1,800,000 RM from Hardy & Co., using the loan from Dresdner Bank.⁹⁷ Karg now held direct and indirect shares through Paul Held Nachf., amounting to a 51 percent majority in Hertie. He could have financed the purchase of the shares acquired from Hardy & Co., for which a loan would have been difficult, by selling other “non-department store” properties. This is exactly what he did: on December 7th, 1936, Wohnungs AG Beußelturm sold a piece of land in Berlin-Moabit and Grundwert AG Kaiserdamm sold four pieces of land in Berlin-Charlottenburg to Victoria Insurance on January 26th, 1937.⁹⁸



Graphic 1: Georg Karg’s shareholding in percent of the share capital of Hertie GmbH from 1937 to 1940.⁹⁹

Karg was, however, not satisfied with 51 percent. He bought additional shares through Paul Held Nachf. GmbH during 1938 and in March 1939. At the beginning of April 1939 shares valuing only 1,950,000 (26 percent of Hertie’s share capital) were apportioned to the consortium of creditors managed by Hardy & Co.¹⁰⁰ On the 14th of June 1940, these shares were finally sold by the Treuhand Association to Deutsche Boden AG for a price of 2.5 million RM.¹⁰¹ Hertie was now 100 percent in the hands of Karg. In his plan from June 1936, Karg had relied on the supposition that the department stores would recover from the hostilities and crises they were experiencing, and that Hertie could regain its good reputation. He turned out to be right;

there was a lot of good fortune involved, but also a profound knowledge of the potential of this form of business. At the beginning of March 1936, Hertie carried an excessive indebtedness of around 10.5 million RM; by the beginning of February 1938, it had a net worth of 10.97 million RM.¹⁰²

Since Hertie was now making considerable profits, in which Karg had held a 51 percent stake since September 1937, he was able to easily finance the purchase of the additional 49 percent of Hertie shares from this income. However, the purchase of Hertie shares became more expensive over time, because their valuation in Hardy & Co.'s books was based on the group's earnings situation. Karg came in as a buyer in 1937 at a book price of 50 percent of the nominal value, and in June 1940 he and Deutsche Boden AG paid a price of 2.5 million RM for shares with a nominal value of 1,950,000 RM.¹⁰³

Tab. 9: Sales of Hertie Waren- und Kaufhaus GmbH 1932 to 1938/39.¹⁰⁴

Year	Sales in RM
1932	200,630,000
1935/36	140,152,000
1936/37	152,661,000
1937/38	162,714,000
1938/39	187,000,000

As early as April 1939, when Karg owned “only” 74 percent of Hertie's share capital, he took the next step in his personal program: converting the company into a sole proprietorship that would form an economic entity with himself. At that time, Hertie's legal department, presumably through counsel Steffani, informed the responsible officer at the office of the Berlin Finance President that the company and its subsidiaries should be dissolved in such a way that all of their assets would be transferred to Karg. According to this source, upon dissolution, Karg would receive the group's net assets of 6,963,373.13 RM, which would roughly correspond to the amount that he had spent on purchasing the shares he had previously acquired and that he would still have to spend on purchasing the remaining shares.¹⁰⁵ However, after lengthy negotiations, Karg had to back out of this plan because the Reich Ministry of Finance did not respond to the requested amount of allowed tax reductions. The conversion would then have been too expensive with an estimated corporate tax of 3.9 RM million and a property transfer tax of three million RM.¹⁰⁶

Consequently, Hertie remained a GmbH that formally and presumably for tax reasons had three shareholders: Georg Karg, Paul Held Nachf. GmbH and Deutsche Boden AG. The shares of Paul Held Nachf. GmbH were owned 100 per-

Tab. 10: Shareholders of Hertie Waren- und Kaufhaus GmbH, 1937 to 1940.¹⁰⁷

January 1937	Holding in RM	Holding in percent	December 1940	Holding in RM	Holding in percent
Dresdner Bank	3,945,400	52	Georg Karg	2,020,000	27
Hardy & Co.	2,378,000	32	Paul Held Nachf.	1,800,000	24
Deutsche Bank	1,176,000	16	Deutsche Boden	3,675,000	49
<i>total</i>	<i>7,500,000</i>	<i>100</i>		<i>7,500,000</i>	<i>100</i>

cent by Karg, Deutsche Boden AG was owned almost 100 percent by Hertie GmbH,¹⁰⁸ and the shareholdings of both companies in Hertie GmbH, together with Karg's personal shareholding, resulted in a total of 100 percent.

**Fig. 19:** Georg Karg at the Hertie Christmas party in 1938.



Fig. 20 and 21: Hertie's Christmas party in 1938 in the Deutschlandhalle in Berlin.

Karg, Neckermann and the Zentrallagergemeinschaft für Bekleidung, ZLG (1942–1944): A Digression

The development of Hertie Waren- und Kaufhaus GmbH during the war is not documented in the archives. However, it has long been known that the group was involved in the Zentrallagergemeinschaft für Bekleidung (ZLG, Central Storehouse Association for Clothing), founded at the beginning of 1942, which developed into a monopoly for the supply of official clothing for special campaigns. Since this commitment is the only one that can be recorded for the Hertie Group in the context of the Nazi war and plundering economy, it will be discussed in summary in the following excursus based on the little information available. To classify it, it is essential to take into account the changing role of department stores in the war economy and the development of the ZLG.

The start of the war resulted in a drop in sales and profound changes in the retail business, as private consumption was restricted by rationing. The department stores were particularly affected by the introduction of textile management; after all, around 60 percent of their sales still came from fabrics and clothing. Customers could now only purchase these by presenting ration vouchers or the Reich clothing card introduced in November 1939.¹⁰⁹ At the same time, the staffing level became thinner due to Wehrmacht call-ups and transfers to companies that were important to the war effort. The department store companies were nevertheless able to cope with the transition to the war economy better than small retail stores. Parallel with sales, the costs for wages, salaries, packaging and advertising also fell. The department store companies were also no longer under attack; they were now seen as indispensable pillars of supply; furthermore, the department store tax was abolished on April 1, 1940.¹¹⁰

During the war, no information on sales and number of employees in department store companies was published. According to press reports, sales remained quite stable after the decline at the start of the war. According to one estimate, sales at the Westdeutsche Kaufhof AG in 1940 were around 15 percent below the level in 1939.¹¹¹ In keeping with the logic of a scarcity economy, the department stores resorted to hoarding. Inventories increased because regular deliveries were not guaranteed; “shortage goods” were no longer placed on the display tables because otherwise they would have “disappeared” immediately.¹¹²

The longer the war lasted, the clearer the advantages of department stores over specialist shops became, as the *Neues Wiener Tagblatt* described them in June 1943: “The buyers, especially the working woman and the often overworked housewife, are able to shop at the department store and to make several purchases at the same time on one shopping day and thus save time.”¹¹³ Nevertheless, department stores were still closed down as a result of the wartime economic rationalization.

According to a decree issued by the Reich Ministry of Economics at the end of January 1943, retail outlets could be merged and shut down by official orders. In June 1943, 20 percent of the approximately 740 department stores and uniform price stores were already affected by closures.¹¹⁴

The Reich Office for Clothing and Related Products, an authority subordinate to the Reich Ministry of Economic Affairs, was responsible for controlling and directing the civilian textile supply. Under the leadership of the former ministerial director Werner Hagemann, the Reichsstelle hired Josef Neckermann, owner of a textile mail order company, as a volunteer consultant at the beginning of 1941, since their management system, which had come under much criticism, required the expertise of practitioners from the retail sector. In a dual position as entrepreneur and civil servant, Neckermann was able to establish a key position within the economic system, from which his own company benefited.¹¹⁵ The founder of this company, Karl Amson Joel, was forced to sell his successful textile mail order company far below its value in 1938 because of his Jewish origins, and to hand it over to Neckermann.¹¹⁶

As the work activity in the occupied territories in the East increased sharply after the attack on the Soviet Union, disputes over the supply of clothing to these workers arose. With the support of the influential head of the Reich Trade Group Franz Hayler, an “old fighter of the NSDAP” and high-ranking SS officer, the Reich Clothing Office was able to assert itself against the desires of the German Labor Front and the Reich Labor Service. At the Reichsstelle, it fell to Neckermann to set up a private company, with the participation of his company, to handle these orders. To avoid leaving him with a monopoly, he was required to participate in the founding of another company.¹¹⁷

In his memoirs, which must be viewed as a problematic source, Neckermann describes how Georg Karg’s involvement in the ZLG came about.¹¹⁸ According to his account, Neckermann initially looked in vain for partners in the mail order business. His competitors lacked capital, and the project overall was considered inauspicious in the industry.¹¹⁹ Finally, the Hertie Group was persuaded to invest one million RM in the share capital of the ZLG. This commitment probably did not come about entirely by chance, because Hertie, like no other private company, could offer something that Neckermann did not have: a larger number of professionally equipped warehouses in the Reich capital.

Karg was not enthusiastic about Neckermann’s plans. “All right, we’ll give a million, but otherwise leave me alone,” he is said to have replied to him.¹²⁰ Karg probably did not like the fact that the ZLG would have access to the warehouses of the Hertie department stores, but he will also have known that Hertie’s participation in the ZLG offered great advantages within the field of textile management and protected the group against attacks by the authorities. According to Necker-

mann's *Erinnerungen*, the deciding factor for Karg could have been "the fact that shortly beforehand he had succeeded only with great difficulty in averting the threat of confiscation of some of his department stores by the state."¹²¹

On January 12, 1942, the ZLG was founded as a company under civil law, with share capital of two million RM, divided equally by the Josef Neckermann Textil-Versandhaus laundry and clothing factory and the Hertie subsidiary Bekleidungs-Handels AG.¹²² Neckermann financed his investment with bank loans; the Hertie Group no doubt proceeded similarly.¹²³ The fact that both partners took on a considerable risk by founding ZLG in the form of a partnership without limitation of liability can only be explained by the support from the Reichsstelle, which amounted to guaranteed liability. Bekleidungs-Handels AG, a company of the Hertie Group founded in 1923 for "purchasing, selling and manufacturing all kinds of clothing items," had a share capital of only 100,000 RM.¹²⁴

The few surviving files on the ZLG confirm what Neckermann wrote in his memoirs about Karg's role: "He remained reserved the whole time." It was a stroke of luck if we managed to meet him or at least have a telephone conversation with him.¹²⁵ Neckermann readily respected his partner's wish to leave him "in peace." The board of directors, led by Hagemann and later by the manufacturer Herbert Tengemann, a multi-function official in the Nazi textile industry, also gave him a free hand. As the sole managing director of the ZLG and special representative of the Reichsstelle, Neckermann was able to expand this company unhindered into a monopoly company with public-private status, a "Neckermann central storehouse association," which he controlled completely. The ZLG had its office at the Josef Neckermann laundry and clothing factory at Utrechter Straße 25–27 in Berlin-Wedding. The Reich Office passed on the requests from the users of the service to this office, and Neckermann then awarded the orders to the manufacturers. The profits of the ZLG are said to have gone to the Reichsstelle.

Under Neckermann's direction, the ZLG was soon entrusted with the task of carrying out further large-scale orders, for which delivery points were set up throughout the Reich and "purchasing offices" were established in occupied countries. The ZLG was commissioned by the general representative for labor deployment to supply foreign forced laborers with workwear from old clothing collections.¹²⁶ The Wehrmacht was supplied by the ZLG with winter-proof uniforms for the Eastern Front, and bombed-out persons in German cities were supplied with linen and outer clothing.¹²⁷

At the same time, Neckermann moved to have a laundry and clothing factory constructed on a large scale in the Łódź ghetto (then Litzmannstadt) in Poland. With around 30,000 Jewish inmates who had to work to survive, what was probably the largest clothing factory in Europe was established there.¹²⁸ Unlike Neckermann, Karstadt and Tengemann's company Heinrich Leineweber, Hertie did not

give any orders to the ghetto's textile department, especially since the corporation did not have much relevant production in this sector. The Hertie department stores did, however, order outerwear from that source. This has been documented for the Alsterhaus, and it was certainly not an isolated case.¹²⁹

In the summer of 1943, ZLG's business had reached a size that made it necessary to limit the shareholders' liability. ZLG GbR, a civil law partnership, was taken over by ZLG GmbH, a limited liability company, which was founded on August 13th by the previous shareholders. The company's managing directors, Wilhelm Hermsdorff and Hans Heilemann, signed the articles of association for *Bekleidungs-Handels AG*.¹³⁰ Two months later, ZLG received a loan of 60 million RM from a consortium led by Dresdner Bank, with which it was able to cover the costs of warehousing and advance payments to the manufacturers.¹³¹ As its business became increasingly difficult due to the damage caused by allied bombing and transport problems, the ZLG received further loans totaling 95 million RM by the end of the war.¹³² Hertie and her *Bekleidungs-Handels AG* were not involved in the management of ZLG. But the company was not a silent partner either. Reports and notes on bombing damage show that the warehouses of the Berlin Hertie department stores on Chausseestraße and Frankfurter Allee were used by the ZLG.¹³³ Such warehouses were also of utmost importance to the ZLG as security for the bank loans it received. As Neckermann reports in his memoirs, Karg had the Hertie Group's shares in ZLG transferred to himself personally in September 1944.¹³⁴ There is, obviously, no contemporary evidence of this.

As a final note, Karg did not expose himself to the Nazi war economy and showed a restraint that does not seem to fit with his behavior between 1933 and 1939. However, it should be taken into account that, as already described, he had failed in his efforts to take over "Aryanized" department stores in Prague, Moravian Ostrava and Amsterdam.¹³⁵ His plans to profit from the expansion of the Hertie Group under occupation rule were also not realized. Karg was not interested in the business of Reich offices and the activities of economic groups. Although he had not sought a stake in ZLG, as a co-owner with a share of 50 percent, he also shared responsibility for this company's morally reprehensible business activities.