As the biographies that begin on page 124 show, the world is full of fascinating billionaires. But relative to their populations, neither the U.S. nor Japan has created as many billionaires as has West Germany.

The long ascent from Stunde Null

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By Richard C. Morais

EVERY YEAR an intriguing pattern emerges from the hunt for billionaires. In 1987 what jumped out from the list was the large number of Japanese individuals who owned extraordinarily expensive land. In 1988 the list was heavy with Europeans who had amassed fortunes in postwar Europe's growth industries: retailing and distribution.

What pattern stands out this year? The number of billionaires West Germany has created.

With the considerable assistance of our new German sister publication, *!Forbes von Burda,* we have identified 38 billionaire families in West Germany (their profiles begin on page 221). For Japan the number is 40; for the U.S., 99. But remember: West Germany has half as many people as Japan, and one-quarter as many as the U.S. Per capita, West Germany has created far more billionaires than either Japan or the U.S. And has done so with remarkable speed.

Consider Germany's *Stunde Null,* the Zero Hour, when in the summer of 1945 the country took stock: 3 million homes destroyed; 8 million refugees from the East in makeshift shanties in the rubble; a daily ration of just 700 calories per person; meals of boiled turnip and potato; a bankrupt Reichsmark; a black market economy running on barter.

Today the 38 wealthiest German families could, if they were so inclined, gold-plate every square meter of Germany's extensive autobahns—including the gas stations and off ramps.

The country's economic recipe is well documented. The basic ingredients were the Marshall Plan, economic liberalization under Ludwig Erhard in 1948, monetary and political stability, a strong work ethic.

But there is a lesser-known yet equally important reason for Germany's success at creating billionaires. It's called *Der Generations Vertrag*—the contract between generations.

At the root of this intense wealth creation is the German's near religious reverence for the family business. If German children are expected to take care of their parents in old age, the parents are under even more pressure to leave an inheritance.

It's the law. Germans must leave the bulk of their wealth—even against their will—to immediate family. The industrialist who leaves $1 billion to three sons, disinheriting black sheep son number four, knows the black sheep can take the estate to

AP/Wide World

Frankfurt, West Germany, March 1949
Just after Erhard's great liberalization, a breeding ground for billionaires.

court and almost certainly win a $125 million share.

West Germany's inheritance tax system, too, encourages the passage of family wealth from spouse to spouse and from parents to children. The children and wife must pay, at most, just 35%; the nephew or girlfriend is taxed at up to 70%. Inherited land gets an even better break: The son or daughter will pay maybe $5 million on real estate with a market value of $100 million.

For estate planning reasons alone, then, it made perfect sense for Max Grundig, who died last year at 81, both to marry Chantal, now 41, and to father another child—Maria Alexandra, now 10—by her *(see p. 221)*. Young Maria and her descendants are the principal beneficiaries of a foundation set up solely to sustain Grundig offspring.

Or consider 86-year-old Erich Brost *(see p. 234)*. A Socialist Party lawyer, Erich Schumann, 59, is running Brost's WAZ media group. In 1985 Brost legally adopted Schumann, who was 54 at the time of his adoption. The legal paperwork will cut in half estate taxes on Schumann's share.

In the U.S., the crowning glory of a career may be listing the family-built company on the New York Stock Exchange. In the $1.3 trillion German economy, there are just 492 publicly traded companies. In large part, that reflects the clannish desire to maintain family control. "The families want the continuity," says Heidemarie Sherman, senior economist at the IFO Institute for Economic Research. "They want to groom a member to take over the family business."

Even many of Germany's self-made billionaires inherited their start in life. Publishing magnate Reinhard Mohn *(see p. 234)* built his Bertelsmann empire out of the tiny Bible publisher he inherited. The Albrechts *(p. 228)* and Leibbrands *(p. 232)* built their supermarket chains out of mom-and-pop stores they were bequeathed.

"If you do not take over the family business, there probably is something wrong with you," says Rolf Dienst, president of Matuschka Group, a Munich-based investment bank. "Your father was probably not happy with you. It's a big disaster if the family does not have a successor."

How different from the U.S., where most parents are usually careful not to pressure their children into the family business—for the good not only of the children but of the business (and other relatives) as well.

There is a less salubrious aspect of the German way of creating billionaires. While helping to keep a business in the family, deciding not to sell equity to the public cuts the business off from what can be very attractively priced capital.

As bad if not worse, the pressure to groom a bloodline heir can easily crimp the flow of the best managerial talent into the business. Sometimes the heirs are extremely capable. Direct mailer Michael Otto *(p. 226)* has enriched the family enterprise. But they can also be disasters—Friedrich Karl Flick *(p. 238)* was for years criticized for his neglect of day-to-day business.

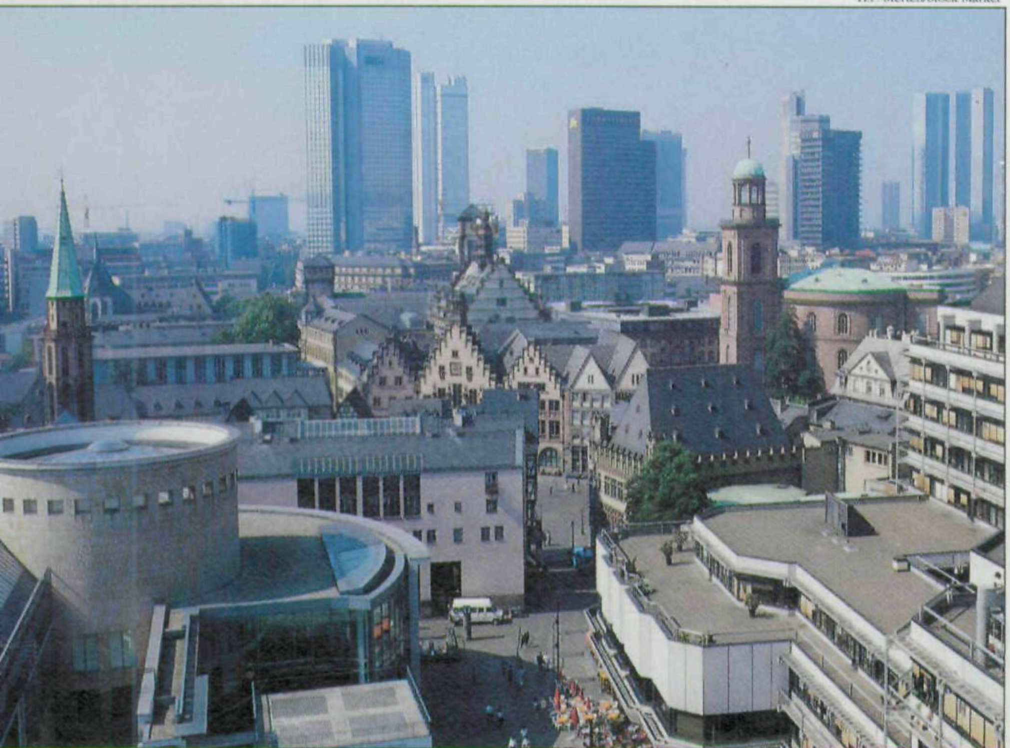
Some West Germans believe that concentrated individual wealth in their country is a transitory phenomenon. Before the recent influx of penniless East Germans, West Germany's population had been declining. Observes Meinhard Miegel, director of IWG, a Bonn-based think tank: "The first phase of a declining population is a very fast increase in material wealth." Imagine two households with one child and one house each. The children marry and build their own house. When their parents die, they wind up with three houses—a trend that cannot go on very long.

"If you go through downtown Munich, you will see sitting in cafes what we call the *Schickeria*," says Sherman at the IFO institute. "These are the young people who inherited two apartment buildings in Munich. They never worked. They graduated from high school, maybe, and now they are collecting rent, living very nicely. It's a new phenomenon in Germany."

Miegel adds: "As soon as someone starts enjoying his wealth, that's it, he's finished. The first generation is hungry, the second preserving, the third easygoing, the fourth is wasting. We are entering the easygoing stage; we're not yet into wasting. Which means we are programming stagnation, not today or tomorrow, but in the foreseeable future."

To date, FORBES has identified 271 businessmen and families on this increasingly prosperous planet who have made and/or kept $1 billion or more. The billionaires profiled in this issue are all from outside the U.S. The American billionaires, listed briefly on page 189, will be described more fully in the annual Forbes Four Hundred special issue, to be published in October. ■

H.P. Merten/Stock Market



The same scene (note triangular façades, center) 40 years later

To the forces behind the economic miracle, add "Der Generations Vertrag."